

CLIMATE CHANGE: LAND USE – AGRICULTURE AND FORESTRY

- a Submission by TreeSmart Australia

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1 INTRODUCTION

As part of the process for the design of Australia's emissions trading scheme, the Garnaut Climate Change Review was commissioned by Australia's State and Territory Governments on 30 April 2007. As part of this Review, a number of Public Forums have been held and Issues Papers released. The Review has called for submissions on Issues Paper 1, which highlighted issues raised at the first of the Public Forums, on the topic of Agriculture and Forestry.

This submission is made by TreeSmart Australia, a private company established in 2005 for the purposes of offsetting greenhouse gas emissions from the transport sector, using carbon sequestered in farm forestry plantations. These plantations are destined for eventual harvesting, with the carbon continuing to be sequestered in two ways. This ongoing sequestration can be in long-lived timber products or in fossil fuels that are not used because the harvest residue has been used for bioenergy production.

2 ISSUES

The Issues Paper raises many important points concerned with Climate Change and the Agriculture and Forestry sectors, but, given TreeSmart's primary interests, this submission concentrates only on those relevant to the creation and sale of offset credits through the forestry sector. In particular, this submission addresses the following issues:

- covered and uncovered sectors
- criteria for eligible offsets
- starting date for eligible offsets
- Greenhouse Friendly standards
- Inclusion of carbon sequestered in harvested wood products
- establishment of national registry

'Covered' and 'uncovered' sectors

It has been proposed that all activities other than agricultural production, forestry and land use be included as covered sectors from the commencement of the trading scheme, and that agriculture and forestry be included in stages at a later date.

One of the reasons given for the initial non-coverage of agricultural production, forestry and land use activities is the difficulty of measuring their emissions, and the lack of established procedures for that measurement. While this may be a valid practical reason for this decision, it is submitted that the development of these procedures should be a high priority, so that all sectors of the economy can be covered by the trading scheme, thereby putting all sectors on an equal footing. The forestry sector, if covered, would be expected to be a net sink of carbon emissions, and could still generate emission credits that could be sold to other sectors of the economy under the trading scheme. However, the inclusion of forestry in the covered sector would ensure that the same rules are applied to the forestry sector as to all other sectors of the economy.

Criteria for eligible offsets

The question is raised in the Issues Paper as to “what types of carbon sink and mitigation measures should be included as offsets” within the ETS. It is submitted that offset credits only be provided for activities that represent abatement that has actually occurred, is additional, permanent, measurable, and verifiable. TreeSmart Australia offers the following specific comments on these points:

abatement that has actually occurred

- it is submitted that forward borrowing of offset credits should not be allowed, given the high risk involved in estimation of the magnitude of those credits (particularly in the forestry industry), and the high risk in realisation of the sequestration. The current practice of some offsetters of counting abatement that might occur over the next 100 years from tree-planting should not be permitted. Only sequestration that has occurred since the defined start of the trading scheme (see comments below) should be counted (including the current year).

additional abatement

- in the international accreditation schemes, there are several definitions of additionality (e.g. environmental additionality, financial additionality and regulatory additionality). It is submitted that environmental and regulatory additionality are the most important forms of additionality. This is particularly important in the farm forestry sector. The *Greenhouse Friendly* program requires that project proponents must be able to show that in the absence of *Greenhouse Friendly* carbon offsets, the project would not have gone ahead. However, in the farm forestry sector, trees are usually planted for multiple purposes, including:
 - o sawlogs
 - o carbon credits
 - o bioenergy from harvest residues
 - o salinity control
 - o stock protection
 - o pasture improvement
 - o biodiversity and habitat creation

None of the above reasons, by themselves, provide sufficient financial return to justify the considerable and long-term investment in the farm forestry plantation. A combination of several of these reasons (and the financial returns received therefrom) are required to make farm forestry a viable proposition. Providing that the farm forestry plantation has indeed delivered the additional abatement (compared to not having undertaken the development of the plantation), then it should be eligible for payment of carbon credits, along with salinity credits, biodiversity credits and the income from sawlogs and bioenergy production. All of these sources of income are required to enable the project to go ahead.

Farm forestry is a classic example of a multi-attribute product (or service). Each of the attributes (e.g. sawlogs, carbon credits, bioenergy) operate in their own market, where the demand and supply characteristics determine the prices paid and the quantities supplied to the market. Buyers in each of these markets expect to pay the full price of the services supplied to that market. For example, buyers of sawlogs do not expect to pay less for the sawlog simply because the tree-grower was paid a salinity credit for the beneficial effects of lowering the level of the water table. So, buyers of the carbon credit should not expect to pay less (or nothing) for the carbon sequestered, simply because the tree-grower was paid something for the other services provided by their trees. Applying a strict financial

additionality criteria to carbon credits from farm forestry (where it is impossible to show that payments for carbon credits were the sole reason for proceeding with the plantation) would mean that the carbon sequestration benefits of farm forestry were valued at zero, and the farm forester would be supplying the carbon sequestration benefits to the wider community for nothing.

Applying the *Greenhouse Friendly* program financial additionality criteria to all services provided by farm forestry would mean that no-one should be expected to pay anything for any of the services, if the farm forester was receiving payment for any of the other services. If this argument is ridiculous at this extreme, then why is it considered appropriate only for the carbon credit sector?

Application of the *Greenhouse Friendly* program financial additionality criteria would also have a perverse incentive effect. If farm foresters were not paid for the carbon sequestration benefits of their plantings, then the financial incentive to plant more trees (to sequester more carbon) would be reduced. Not paying them for their sequestered carbon would mean that, in the long run, less carbon would be sequestered. This is hardly the intention of an emissions trading scheme.

Note that this discussion of additionality is primarily relevant to offsets generated within the uncovered sector. If forestry was a covered sector, then, as a net sink of carbon, it would generate abatement credits which could be sold without a detailed consideration of financial additionality.

permanent abatement

The *Greenhouse Friendly* program rules state that “all offset credits generated by a project must represent a permanent removal of greenhouse gases from the atmosphere” This submission agrees with this criteria, but does not agree with the way in which this criteria has been interpreted in the past, particularly in regard to forestry offsets. In most cases, “permanence of sequestration” has been interpreted as “permanence of trees”. This has been reinforced by the faulty assumption in the Kyoto Protocol that all sequestration in living trees is immediately lost upon harvesting of those trees. As will be discussed below, it is considered imperative that sequestration in timber products (and other post-harvest sinks) be recognised in any future emissions trading schemes. Permanence of the sequestration must be the major consideration, not permanence of the living trees. The trees are a means to an end, not the end in itself.

Starting date for eligible offsets

With respect to offset projects, it is important that a starting date for the recognition of offsets be designated. In a Discussion Paper published by the ex-Prime Minister’s Task Group, it was stated that “to be eligible, it is proposed that projects would need to be established after 3 June 2007”. The reason for this starting date seems to have been to ensure that there was not a glut of offsets on the market at the beginning of the scheme, from offset projects that commenced many years ago. However, imposition of such a starting date is potentially very unfair to those organizations who took the early initiative and commenced offset projects before the starting date, in anticipation of the overdue creation of an emissions trading scheme in Australia. While they would still be able to trade those offsets in other voluntary schemes (which have earlier starting dates), it would be expected that they would receive lower prices in a voluntary scheme than in a mandatory emissions trading scheme. If one objective of the ETS is not to create “perverse incentives to increase emissions” (or, vice versa, “perverse incentives to reduce mitigation”), then it is submitted that the definition of eligible offsets be extended to those offsets that were created in anticipation of the creation of the scheme.

TreeSmart Australia submits that there are two ways in which due credit can be given to early movers. Firstly, an earlier starting date could be adopted, such as that used by the NSW GGAS. This option has the problem, however, that there could be a glut of offsets available since many forestry schemes for carbon credits have been established in the past few years.

A second, and preferred, option could be based on a definition of “establishment” of an offset scheme. Already, there is uncertainty as to what constitutes “establishment” with respect to forestry projects. Is the project established when a decision is made to proceed, when the land is bought for the plantation, when preparatory earthworks are commenced, when the first tree is planted or when the last tree is planted? To avoid these particular definitional issues, and to provide due recognition for early movers, it is submitted that sequestration be seen as a continuous process, and that “establishment” be based on when sequestration actually occurs. Thus, only sequestration that occurs after the designated starting date of the ETS should be eligible for inclusion in the emissions trading scheme as an offset (or abatement credit). Thus a plantation may be established before this date, but only the sequestration that occurs after the date is eligible for inclusion. Sequestration that occurred before the starting date cannot be “banked” and used in the scheme (but can be sold in the voluntary market). Sequestration that occurs after the starting date can however be “banked” and used in the scheme at any time thereafter. This option has the advantages that the market will not be swamped with “old” offsets, but due recognition will be given to early movers for the sequestration they will create after the starting date.

Greenhouse Friendly standards

It will be necessary to develop, adopt or adapt a set of guidelines for the accreditation of offsets. In some quarters, it has been proposed that the Australian Government’s Greenhouse Friendly programme provide the initial administrative mechanism for approving offsets for use in the emissions trading scheme.

TreeSmart Australia agrees that the Greenhouse Friendly programme provides a reasonable and practical starting point, given the need for an immediate set of standards, but considers that the programme standards are far from being the best in the long term. Some of the existing standards are open to debate (e.g. the use of the financial additionality principle), while the specifics of some standards (e.g. not including a Radiative Forcing Index in the calculation of aircraft emissions) lead to a possible underestimation of emissions. The protocol for forest offsets also relies on the old Kyoto Protocol procedures, and does not reflect where these procedures might be headed in the future. For example, as noted below, the Greenhouse Friendly programme does not currently recognise sequestration in timber products.

Thus, while the Greenhouse Friendly guidelines might be adopted in the short-term, there is an urgent need for a review of the Greenhouse Friendly programme standards, and it is submitted that offset organizations such as TreeSmart Australia should be actively involved in the review of these standards in 2008.

Inclusion of carbon sequestered in harvested wood products

The Issues Paper has asked whether eligible offsets should “be limited to those that satisfy international carbon accounting protocols”. While, in theory, TreeSmart Australia agrees that international compatibility is an important issue, it should be recognised that post-Kyoto international protocols are also in a state of flux. It is submitted that Australia has a legitimate interest in exploring the crediting of new abatement activities provided they can meet rigorous and credible standards for abatement. For example, the Government should examine options, in consultation with stakeholders, for measuring abatement from activities not yet internationally recognised, including carbon sequestered in harvested wood products (HWP). It is further submitted that the Government should

investigate the development of robust methodologies for developing offsets from these activities for use in its domestic scheme and internationally.

TreeSmart Australia strongly supports the recognition of carbon sequestration in Harvested Wood Products, and has been arguing this case for several years (see attached paper presented to the Greenhouse 2005 Conference). A critical early activity should be the development of a Carbon Accounting process for sequestration in post-harvest products, which is relatively simple yet highly verifiable. This will enable harvested wood products to be counted at the earliest opportunity, and will provide additional incentives for the establishment of new farm forestry plantations for sequestration purposes. Given that there is international interest in recognising carbon sequestration in Harvested Wood Products, early action on this front by Australia could well establish it as a world leader in this field.

Establishment of national registry

As part of an offset mechanism that is credible and verifiable, it is submitted that the Government should develop, as soon as practical, a national offset register to track offsets that could be recognised under the emissions trading scheme, and in parallel voluntary schemes.

TreeSmart Australia submits that the development of a national registry of offsets is an essential early component of a national emissions trading scheme. In addition, it is submitted that this registry should be integrated with, or replace, the registration of carbon rights on the Land Title. The Land Title system is different in the different states, and is a relatively expensive and cumbersome process for registering carbon rights for relatively small properties such as would be involved in farm forestry. The development of a national registry of offsets also provides an opportunity for the development of a national register of carbon rights on Land Titles.

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