

In Focus Feature:

A whole plantations value chain perspective on a national emissions trading scheme

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Greenhouse gas emissions trading is fast becoming the number one topic for politics, media and weekend barbecues. Forest industry views on emissions trading have been varied and changeable. Optimism about the potential flow of funds for sequestration in plantations has been tempered by difficulties in defining the rules. Paper and board manufacturers, as significant users of energy (and therefore emitters of CO₂), have been concerned about impacts on energy costs and therefore international competitiveness.

As an industry we have long advocated the need to consider issues along the whole value chain. A3P, as a representative of plantation growers, sawmillers and paper manufacturers, is a practical demonstration of that belief. Similarly, climate change requires an integrated response, from our industry and from all sectors of the global economy.

The three sectors of the plantation products and paper industry are faced with different opportunities and threats by climate change and Governments' response including a possible emissions trading scheme.

The *pulp & paper sector* is a significant user of energy, particularly in mechanical pulping processes, and is faced with strong competition from imported product from countries such as China, Indonesia and Brazil. The sector is also a producer of renewable energy using processing waste such as black liquor from chemical pulping. This renewable energy may be used on-site or exported to the grid. The pulp & paper sector used more than 50 000 terrajoules of energy in 2003-04 with more than 12 000 terrajoules produced from renewable sources on-site.

The *solid wood sector* is an energy user and a potential producer of renewable energy. Sawntimber stores carbon and has a significantly lower global warming potential than competing building materials.

The *plantation growing sector* manages significant carbon sinks. Activity in this sector is contributing to Australia's performance against our Kyoto target and there is potential for increased activity through appropriate market responses to climate change.

The three sectors are strongly linked through supplier/customer relationships, corporate structures and market arrangements. Positive and negative impacts on one sector inevitably flow through to other sectors.

There are many decisions to be made by Governments in the design of an emissions trading scheme. The State Governments, through the National Emissions Trading Taskforce, have put significant work into this issue over the last twelve months and the Commonwealth Government, through the Prime Minister's Task Group is about to do the same.

So, what are the important design elements of emissions trading that will ensure the plantation products and paper industry can benefit, right along the value chain?

For *plantation growers*, the highest priority is the inclusion of forestry offsets within the scheme. Concerns about permanence (whether the carbon remains stored in the long term), additionality (whether more carbon is stored than "business-as-usual") and accounting methodology have all led some schemes to exclude forestry offsets.

If forestry offsets are included the next tier of issues centre on the rules and accounting methodology. There is a two-edged sword here, the rules need to be flexible and efficient to minimise the cost of monitoring and selling the stored carbon but rigorous enough that the stored carbon is perceived by the regulators and the market as "real". Plantation managers will not benefit if forestry offsets are viewed as second-rate compared to other abatement options.

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For the *solid wood sector*, the critical issue is an acknowledgement of the carbon that remains stored in timber while it is in use and for many decades after disposal. Most schemes currently use the default international assumption that all the carbon sequestered in a growing tree is emitted at the time of harvest. This is clearly not the case and both sawmillers and plantation growers will benefit if the accounting treatment acknowledges the carbon retained within timber.

Some world-leading research in recent years by Forests NSW and the Department of Primary Industries is showing that even after decades in landfill, most of the carbon is retained in the timber. In conjunction with the service life of most timber, this brings the carbon storage up to the 100-year threshold often used as a surrogate for permanence.

In addition the solid wood sector would benefit if competing building materials such as steel and concrete were made to pay the full carbon cost for the emissions caused by their manufacture.

The *pulp & paper* sector has the greatest exposure within the forest industry to a carbon cost. Pulp & paper manufacturing can be a significant user of energy, particularly when a mechanical pulping method is used. Where chemical methods are used for pulping, it is possible to produce renewable energy from the by-products of pulping – even to the extent of becoming a net energy exporter.

Most of the countries that Australian producers compete against in local and export markets are not likely to impose a carbon cost in the near future – e.g., China, Indonesia and Brazil. The pulp & paper sector is a classic example where imposing a carbon cost in Australia may lead over time to a loss of markets, production and investment to other countries - a shift that would damage the industry and economy in Australia but unlikely to reduce global emissions.

This issue of international competitiveness of energy-intensive, trade-exposed industry has been treated seriously in recent discussions on emissions trading, notably by the National Emissions Trading Taskforce. The taskforce proposed that these industries would receive a partial allocation of free permits, designed to offset the expected increase in costs, thereby maintaining competitiveness.

As always, there is devil in the detail, but it is a credible attempt to deal with probably the most difficult aspect of emissions trading for Australia. While the taskforce solution may address the competitiveness issue for the pulp & paper sector, it would also, unfortunately, immunise steel and concrete from extra costs compared to sawntimber.

There are two impacts on competitive forces potentially created. The first is an impact on international competition between countries that impose a carbon cost and countries that don't. This impact is unwanted as it does not fulfil the policy objective – reducing emissions – and damages the domestic economy. The second is between competing products with different emissions profiles. The impact on relative price of the products is exactly the type of price signal that emissions trading is intended to create to change behaviour and reduce emissions.

Our industry would be best served by a policy that maintained the international competitiveness of energy-using industries in Australia but changed the relative competitiveness of building products in favour of those with low emission profiles, such as timber.

These objectives suggest that some form of border control measure (a carbon tariff on imports and/or carbon refund for exports) would more be more effective than free permits in changing consumer behaviour. Though there will be many legal, definitional and operational issues around such a measure.

So the suite of design parameters in an emissions trading scheme that may suit the plantation products and paper industry includes:

- Inclusion of forestry offsets, with no artificial limits on the amount of abatement that can be met through forestry.
- Simple, rigorous, efficient accounting rules that minimise the cost of measurement and compliance.
- Credit for the carbon that remains in timber during use and after disposal.
- Competing building materials (steel and concrete) charged for the emissions associated with their manufacture.
- Measures that maintain the international competitiveness of energy-intensive, trade-exposed industries such as pulp & paper.



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Fortunately, these specific parameters fit within a framework of principles that not only meet the interests of the plantation products and paper industry but also underpin an effective and comprehensive emissions trading scheme. These principles include:

- The scheme should be as broad as possible, covering all emissions and all abatement and sequestration opportunities.
- There should be a minimum of rules that restrict the type of actions that are pursued. Allow the market freedom to find the least cost.
- Other Government programs that favour particular abatement opportunities should be removed, as should energy efficiency and greenhouse/energy reporting programs to reduce costs.
- Accounting methodology should reflect the true fate of carbon – emissions should be “charged” as and when they occur and sequestration should be “paid” as and when it occurs.
- The scheme should aim to expose producers and consumers to the true carbon cost of their decisions.
- The scheme should minimise the extent of distortions that do not fulfil the policy objective.

As the debate over emissions trading continues, and particularly as the Prime Minister’s Task Group considers its report in the next few months, the opportunity will arise for the plantation products and paper industry to argue its case.

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