



SUBMISSION

Garnaut Climate Change Review: Issues Paper 2 – Financial Services for Managing Risk: Climate Change and Carbon Trading

February 2008

Introduction

The National Association of Forest Industries (NAFI) appreciates the opportunity to make a submission on the Garnaut Review's Paper, *Financial Services for Managing Risk: Climate Change and Carbon Trading*.

NAFI is Australia's peak forest industry body representing the interests of the industry to the public, governments and public authorities on matters relating to the national development and use of Australia's forests and wood products.

NAFI has previously made submissions to the Garnaut review, including a comprehensive submission on the Issues Paper regarding the treatment of agriculture and forestry under an emissions trading scheme.

Australia's forestry sector has the potential to make a significant contribution towards addressing climate change through carbon capture and storage in forests and wood products. In the context of this Issues Paper, the forestry sector can assist the insurance industry and governments to deal with the financial risks associated with the impacts of climate change.

For the forest industry to deliver on these benefits, the establishment of effective carbon trading markets, which encourage ongoing investment in the sector, will be a critical requirement. These are the key points highlighted in the following brief submission.

Dealing with risks associated with climate change

Australia's forest industry is mindful of the potential impacts of extreme climatic variations on a range of sectors, including forestry. As outlined in NAFI's submission to the Garnaut Review's paper on agriculture and forestry, Australia's forestry sector is well positioned to mitigate these risks and reduce financial burden on other sectors.

Building effective carbon trading markets for forestry

Ensuring that Australia's forestry sector has the ability to deliver on its potential to both offset and reduce Australia's carbon emission will depend heavily on the establishment of an effective carbon trading market.

As highlighted in NAFI's response to the Review's paper on agriculture and forestry, the forest industry's ability to effectively access carbon trading markets and receive due recognition for its carbon benefits will be critical in determining the sector's effectiveness in providing emissions reductions and offsets.

Banking and Borrowing of Permits

NAFI agrees that forward markets will play an important role in driving long term efficient investment decisions and emissions reductions.

The allowance of banking of permits under an ETS would be an important means of facilitating forward trading markets and is supported by NAFI. Given the long term nature of forestry, the ability to bank permits, will be useful particularly for vertically integrated forestry companies who may need to offset their emissions through the carbon sequestered in their trees.

NAFI also agrees that caution should be applied in the allowance of borrowing of permits as it may result in delays to emissions reductions and could create problems at a later date for emitters through the potential creation of barriers (i.e. price) to accessing permits.

Positioning Australia as a regional hub in the Asia Pacific Carbon Markets

NAFI agrees that Australia has significant potential to act as a regional hub in Asia Pacific Carbon Markets. From the perspective of forestry within the Asia Pacific region, Australia's forestry sector has the potential to bring significant benefit to the region's efforts to lower emissions and increase offsets from forestry.

As a leader in sustainable forest management in the Asia Pacific region, Australia's forestry sector can assist neighbouring countries in both offsetting their emissions and improving the sustainability and carbon offset potential from their forestry activities.

The ability of Australia's forest industry to deliver on these benefits will depend greatly on the design of a domestic ETS and due recognition of the carbon offset potential from forests and wood products. It will also depend on the Australian forest industry's compatibility with overseas countries' ETS and policy frameworks relating to forestry.

Australia's forest industry would seek not to be disadvantaged by any inequitable overseas rules on ETS or government policies relating to the sustainable development and use of forests and wood products.

Conclusion

As outlined in this submission, Australia's forestry sector has an important role to play in managing the financial risks associated with climate change.

NAFI appreciates the opportunity to comment on this important Issues Paper and would be willing to provide any additional information to the Garnaut Review as part of this process.