

To: Professor Ross Garnaut  
cc: The Hon K Rudd, Prime Minister  
cc: The Hon W Swan, Treasurer  
cc: Senator the Hon P Wong, Minister for Climate Change and Water  
cc: The Hon. Steven Smith, Minister for Foreign Affairs  
cc: The Hon. Tony Burke, Minister for Agriculture, Forestry and Fisheries.

18<sup>th</sup> April 2008

Dear Professor Garnaut,

**Greenpeace submission to the Emission Trading Scheme Discussion Paper regarding international linkages and REDD.**

Thank you for the opportunity to make a submission to the Emission Trading Scheme Discussion Paper.

The ETS Discussion paper refers to international linkages to PNG and Indonesia and other Southwest Pacific developing countries with large opportunities to reduce land-use change and forestry emissions.

Greenpeace would like to make the following recommendations on the Discussion Paper with respect to such international linkages and reducing emissions from deforestation and degradation (REDD) in tropical developing countries in the region.

**1. Australia must continue to assist Asia Pacific neighbours to reduce emissions from deforestation and degradation (REDD), but must not trade REDD credits that would allow Australia to avoid reducing domestic emissions by at least 40% below 1990 levels by the year 2020.**

Tropical destruction is a major source of greenhouse gas emissions, threatens biological diversity, and has devastating impacts upon forest dependent people.

Human induced climate change is projected to cause significant adverse effects on tropical forests where there is a decline in precipitation. As a consequence it is vital that means are found to provide incentives to reward reduced forest destruction in order to assist in the task of preventing dangerous climate change and thus achieve the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC).

Ultimately, a mechanism is required that would raise sufficient funds to bring about substantial reductions in forest destruction and related emissions, which would be additional to the deep emission reduction targets required to limit average global warming to below 2<sup>o</sup> C above pre-industrial levels.

Many of Australia's nearest neighbours have high levels of greenhouse emissions as a consequence of forest destruction. Australia has a responsibility to assist developing countries in the region reduce emissions from forest destruction. In fulfilling our regional responsibilities in this regard, Australia must be mindful of the need to avoid perverse incentives that may lead to an increase in the rates of forest destruction before the system starts.

Australia must also be conscious of the need to address the drivers of forest destruction and assist developing countries to implement national policies and measures to ensure effective governance for forest protection. Australia is a significant importer of illegally logged tropical timber. It would be a sad irony if on one hand Australia moved to reduce forest destruction in the region through REDD while failing to put in place measures that reduce the export of illegal and destructive timber from the region. Australia needs to protect against this outcome by passing legislation that stops the importation into Australia of illegal and destructive timber.

In order for a REDD mechanism to be successful its design and operation will need to take account of and resolve a number complex scientific, technological, and methodological and equity issues. These issues include the potential scale affects of deforestation on the carbon market. Directly connecting efforts to reduce forest destruction to an Australian emission trading system carries with it a large risk that high volumes of low cost deforestation credits enter the market, increasing supply and lowering the price of the permits, and thereby posing a substantial risk of destabilising the carbon market.

A threshold issue for a successful regional Forest Carbon Partnership is Australia's commitment to reducing its own greenhouse emissions. Australians has one of the highest per capita rates of greenhouse emissions globally. Given the significant global emission reductions required to prevent dangerous climate change, and the difficulty anticipated in meeting those reductions, Australia should not offset domestic emissions through funding forest protection in the region. Rather any emission reductions achieved through preventing deforestation should be additional. In order to demonstrate international leadership, Australia must set an ambitious target for domestic emissions reductions, while continuing to engage at a regional level to facilitate forest protection.

***Australia should not use its regional responsibility in relation to REDD to avoid its responsibility to set a strong domestic emission reduction target.***

## **2. The transfer of carbon finance to REDD must be conditional upon measurable, reportable, verifiable and permanent greenhouse gas emission reductions.**

Uncertainty in deforestation and degradation emission estimates substantially exceeds uncertainty in measuring industrial emissions. Such uncertainty is magnified by the intrinsic problems with the establishment of baselines and hence in estimating 'real' reductions. Establishing credible historical emission baselines from which to estimate reductions in deforestation rates will likely be difficult, due to the poor quality of data and the lack of comprehensive monitoring in many countries.

A high degree of uncertainty exists in relation to the actual rate of deforestation and the consequent emissions (Achard, Eva et al. 2002; DeFries, Houghton et al. 2002; Houghton and Hackler 2002; House, Prentice et al. 2003; Achard, Eva et al. 2004; Ramankutty, Gibbs et al. 2007). Detailed forest biomass studies have not been conducted in all tropical forest countries, which makes estimating different carbon pools (above-ground biomass, below-ground biomass, dead wood, litter, and soil organic matter) problematic.

Below ground biomass losses from forest destruction would need to be included in the estimates of emissions to ensure that all important emission sources are accounted. Technological and forest monitoring capacity, and capacity to govern forested areas vary significantly between countries with large forest tracts and/or high emissions from deforestation (DeFries, Achard et al. 2007).

The need for monitoring and verification of emissions and of changes in deforestation and degradation activities is therefore essential to the ultimate success of any incentivised REDD mechanism. Consistent monitoring systems that meet a set of internationally agreed standards will need to be established in developing countries to ensure the integrity of REDD.

The overall methodological approach should ensure that only the carbon losses from forest destruction activities are taken into account in the estimation of emissions and not any potential carbon gains resulting from subsequent land uses. Furthermore, the potential for impermanence of accounted emission reductions from forest destruction is high. Any mechanism developed to provide incentives to REDD needs to ensure that reductions are permanent and that where this is not the case, for whatever reason, corrections can be made.

## **3. Incentives to REDD must also provide tangible and prioritised incentives for biodiversity conservation consistent with international conventions and objectives**

Tropical forest destruction threatens a substantial portion of the Earth's biological diversity. The rate of species loss associated with this threat is estimated to be 100 to 1000 times greater than is considered normal in evolutionary time and, unless halted, will likely result in an unprecedented mass extinction (Myers, Mittermeier et al. 2000).

To date no attempts have succeeded in halting tropical destruction at the regional scale and hence there is a high urgency to find viable policy solutions.

It is important that the accounting system for deforestation emissions provides incentives to protect forest bio-diversity and to reduce emissions.

#### **4. Incentives to REDD must protect the rights of indigenous and forest peoples and ensure that these peoples receive an equitable and fair share of the incentives and rewards for reducing deforestation.**

The land and resource use rights of many indigenous peoples have frequently been usurped or grossly infringed in the past (May, Boyd et al. 2004; Coalition 2006; Griffiths 2007).<sup>1</sup>

There is a real risk that regional forest partnerships will follow this historical trend and do nothing to benefit indigenous and forest peoples. A concern is that by ascribing a carbon value to natural vegetation, the land and resource use rights of indigenous people may again be forfeited, even if the vegetation is conserved. At a minimum, indigenous and forest people may not receive an equitable share of the value of the carbon. Due regard needs to be given to rights, social and livelihood issues in order to avoid land conflicts, exclusionary models of forest conservation, violations of customary land and territorial rights. Clear provisions would need to be established that respect the UN Declaration on the Rights of Indigenous Peoples.<sup>2</sup>

In particular, land and resource use, and indigenous and forest peoples' ownership rights need to be recognised. Discussions on policies and future mechanisms must empower these people to directly engage in international and national processes on future mechanisms and approaches to reduce deforestation. Human rights, free prior and informed consent, equitable benefit sharing, respect for traditional knowledge, and land tenure security all need to be central components of policy discussions on REDD.

Mechanisms established to reduce emissions through preventing forest destruction must take into account the rights of forest and indigenous peoples both in principle and in its operation.

#### **5. A national approach must be taken to accounting for REDD, not a project based approach which suffers from the problem of "leakage"**

"Leakage" occurs where an activity stopped in one place moves to another, with overall emissions either unaffected or not reduced as much as in the absence of leakage. Project based and sub-national level activities (where activities are undertaken in states or provinces) are also prone to significant leakage effects.

Leakage may occur, and in many cases is likely to occur, across international boundaries. Where forest destruction has been stopped in one country, due to the dynamics of commodity markets for products, such as soybean, palm oil and beef, or shifting settlement patterns, it may occur in another country where such patterns cross national boundaries. Adopting a national-level approach to REDD will reduce leakage within a country, but is unlikely to address leakage that occurs at the international level.

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<sup>1</sup> <http://www.wrm.org.uy/GFC/CANNOTSAVEIT.pdf>

<sup>2</sup> <http://www.iwgia.org/sw248.asp>

Forest destruction is not reduced if protecting forests in one country merely leads to increased logging in another. As a consequence, a REDD mechanism requires widespread participation by countries with tropical forests in order to prevent as much leakage as possible.

There need to reduce leakage effects from REDD, also demands national-level accounting. A focus on capacity building for countries to develop a national emissions approach with effective monitoring and verification and institutional support is essential for any REDD mechanism.

We thank you for your consideration of the above issues. Should you require any further information, please do not hesitate to contact us. As you are aware, Greenpeace made a broader submission to your review last week, which we ask you to consider in conjunction with this submission.

Yours sincerely,



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# Key Tests for an Australian Emissions Trading Scheme



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## The Climate Challenge

Australia's greenhouse gas emissions are rising. Government, business and the public have committed to take action to stop this. The task now before us is turn down Australia's emissions trajectory as quickly as possible - and then to become global leaders in tackling climate change.

Australia's reduction targets must be based on the best available science and aim to avoid the worst impacts of climate change. This means that the (now inevitable) global warming must be kept as far below 2°C as possible. To give us the best chance of achieving this, greenhouse gas concentrations in the atmosphere must be stabilised at or below 400 parts per million of CO<sub>2</sub> equivalence.

Australia must do its fair share to achieve global stabilisation of the climate. The IPCC has identified that to keep warming between 2°C and 2.4°C developed countries emissions must peak by 2010 and then fall 25 to 40% below 1990 levels by 2020. This was recognised by the Australian Government at the United Nations' Climate Change Conference in Bali in December 2007. If we are to keep warming at a safe level, as far below 2°C as possible, then Australia must aim for at least the top end of this range, and we need the IPCC to identify new below 2°C pathways.

## Robust Scheme Design is Essential

A robust carbon price signal will place a cost on emissions and assist Australia's economy to move to a low emissions future. Australian business has signalled its preference for a carbon price signal to be provided through a cap and trade emissions trading scheme, rather than a carbon tax. The Australian Government has committed to introducing an emissions trading scheme by 2010, with the design to be finalised by the end of this year.

**We will support the introduction of an Australian emissions trading scheme, but only if it is designed to effectively, efficiently and equitably achieve significant reductions in greenhouse gas emissions.**

A number of key tests must be met to do this.

## Additional Measures will be Required

After over more than a decade of delay and rising emissions, Australia needs to show that it is serious about making significant near term emission reductions. An emissions trading scheme will not, in the short term, achieve the necessary emissions reductions on its own. It is a medium to long term measure because the price

signal will not be high enough to drive large-scale, short term reductions.

To achieve deep cuts rapidly, a suite of complementary measures are necessary including a strong renewable energy target, energy efficiency measures, deployment at commercial scale of low emission technologies, and direct regulation (e.g. to stop land clearing and improve appliance, equipment and building efficiencies). Every sector must assume responsibility for its fair share of reductions. If one sector is exempted, then other sectors will have to bear the costs of meeting the exempted sectors' shortfall.

## 1 Emissions Trading Scheme Target

- > The caps under the emissions trading scheme must be consistent with reducing national emissions by at least 25 to 40% cuts by 2020 (compared to 1990 levels) taking into account any exemptions for non-covered sectors.
- > There must be a long-term, science-based emissions reduction target with which short-term targets are consistent.
- > The legislation needs to ensure there are periodic reviews of the effectiveness of the scheme and that targets can be tightened in response to new evidence in climate science dictates. Periodic reviews should not allow targets to be weakened for financial or political reasons.
- > The implementing legislation must include the emissions trading scheme reduction targets.

## 2 Timing

- > The emissions trading scheme must start no later than 1 July 2010.
- > The emissions trading scheme legislation must be passed in the first parliamentary session of 2009.

## 3 Permit Allocation

- > The fairest, most economically efficient and transparent approach is for 100% of permits to be auctioned from the outset of the emissions trading scheme.
- > No permits should be given away for free.
- > Revenue from permit auctions should be used to support the deployment of climate change solutions and minimise the impact of climate change on those most affected. This should include:
  - < Renewable energy research, commercialisation and deployment.

- < Assistance for low-income households to improve energy efficiency and minimise the impact of any increase in energy costs.
- < Contributing to international adaptation financing for least developed countries.
- < Land stewardship payments to reduce land-based emissions.
- < Addressing other market failures in areas such as energy efficiency.
- < Providing adjustment measures to assist the most adversely affected communities and workers.

### 4 Adjustment Measures for Trade-Exposed Energy-Intensive Industries and Their Workers

- > The need for any adjustment assistance should be subject to a rigorous, transparent assessment process and take into account any existing subsidies or favourable tax treatment.
- > To avoid market distortions and “windfall gains”, free permits should not be given away or “grandfathered” to trade-exposed energy-intensive industries. Any adjustment assistance should be separated from the emissions trading scheme system.
- > Border tax adjustments are a more equitable, effective and transparent method of avoiding leakage of emissions internationally than free allocation of permits.
- > Any adjustment assistance should be conditional on the industry funding and participating in a long term, low carbon transition plan. Industries such as aluminium smelting must plan to move away from their reliance on coal-fired power in the near future.
- > Any adjustment assistance should only be available until international competitors face similar carbon constraints.
- > Non-trade-exposed industries should not receive any compensation for reduced profits or asset value due to carbon pricing, but we do believe that adjustment assistance for affected communities and workers is necessary.

### 5 Coverage

- > The emissions trading scheme should cover all major emissions sources for which it is practical to measure emissions with the accuracy needed to support a robust emissions trading scheme. At least 70% of Australia's emissions should be covered.
- > Currently only agriculture, land use and forestry should be excluded due to a lack of robust measurement. These sectors may be covered in the future, however complementary measures will be required urgently to begin reducing emissions from these sectors. Every sector must do its fair share to reach the national reduction target.
- > Complementary measures will be needed in both covered and non-covered sectors to maximise emission reduction efficiencies and the speed at which reductions are initiated.

### 6 Penalties and safety valves

- > The penalty rate must be set to encourage compliance, be well above the anticipated market price of permits and increase over

time. The EU emissions trading scheme rate of €100 per tonne CO<sub>2</sub>-e, with make good provisions, provides a benchmark.

- > The penalty rate should not be used as a safety valve. Inclusion of a safety valve would automatically exclude trade with the European ETS, the world's biggest ETS. To preserve the environmental integrity of the emissions trading scheme, a make-good provision is required in addition to a penalty for any emissions incurred without surrender of sufficient permits.
- > Banking of permits for future use should be allowed, but to prevent erosion of environmental effectiveness, borrowing must not be allowed (and to ensure we do our fair share of work now, and don't postpone action for future generations to deal with).

### 7 International Links and Offsets

- > The large majority of effort should be directed at reducing Australia's domestic emissions by at least the top end of the 25 to 40% target. There should be limits to the amount and type of credits allowed, or if more credits are to be allowed the targets should be increased commensurately.
- > The Australian scheme should allow linkage to Kyoto Protocol compliant carbon markets and the Protocol's flexibility mechanisms. Limits on the amount and type of these credits allowed into Australia's emissions trading market will need to be considered.
- > Rules are needed to ensure any credits accepted into the Australian emissions trading scheme from the Kyoto Protocol flexibility mechanisms are from high quality sources that achieve permanent and additional abatement. As a minimum Clean Development Mechanism credits must be required to meet the CDM Gold Standard, and the Australian emissions trading scheme must disallow “hot air”.
- > “Credits” should be limited to those generated by Kyoto Protocol flexibility mechanisms. Incentives for tree-planting and other forms of land-use based sequestration can be increased with alternative policies such as land stewardship payments outside of the emissions trading scheme.

### 8 Governance

- > There must be a separation of powers and governance arrangements between those who set the direction of the emissions trading scheme, make the rules, enforce the rules and assess whether they are working.
- > An independent regulator should be established with sufficient powers to ensure the emissions trading scheme rules are enforced, audits are conducted and penalties paid.
- > Greenhouse gas emissions data, permits surrendered and any shortfall should be made available to the public through a central registry. This provides transparency and will assist in engendering the market and public confidence fundamental for the effective operation of the emissions trading scheme. It will ensure that important information about facilities and emissions are available to potential purchasers and financiers.