

Garnaut Review Secretariat  
[contactus@garnautreview.org.au](mailto:contactus@garnautreview.org.au)  
Level 2, 1 Treasury Place  
East Melbourne Victoria 3002

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**Forests in an Australian ETS - Submission in response to the Garnaut Climate Change Review:  
Emissions Trading Scheme Discussion Paper**

To Whom It May Concern,

Please find attached a submission by GHG Offset Services regarding the Emissions Trading Scheme Discussion Paper.

This submission addresses issues regarding reforestation and forest management activities.

Yours sincerely,



Penny Baalman

Managing Director



## Executive Summary

The Emissions Trading Scheme (ETS) Discussion Paper indicates a desire to include forestry as a covered sector as soon as possible. It is suggested that forestry is substantially different to all other sectors and does not necessarily lend itself to inclusion as a covered sector.

The aim of an emissions trading scheme is to provide incentive to undertake changes that will reduce the level of greenhouse gases accumulating in the atmosphere in the most cost effective manner. It is a further goal of most greenhouse gas mitigation programs to spread the cost of mitigation throughout the emitting sectors - so that no one sector is overly burdened and as a means of achieving mitigation at least cost.

However forestry is not a net emitting sector and it is believed that including forestry as a covered sector is not the best means of achieving mitigation at least cost. Only marginal additional greenhouse gas removals are feasible from existing managed forests, yet its inclusion as a covered sector will impose significant costs and will involve significant risks, not just to the liable entities potentially involved, but also to the functioning of the ETS.

Forest management or existing managed forests should only be considered for participation as an offset, not as a covered sector.

However there is potential for contribution to the mitigation effort from undertaking reforestation activities. The question then becomes how best to maximize the potential benefits from reforestation at least cost. It is believed that reforestation is most effectively included in the ETS as an offset.

Voluntary participation by those owners of lands that meet the definition of reforestation and other requirements and that are prepared to take on the obligations and responsibilities attached to gaining benefit from carbon sequestration projects will provide the most effective basis for increased activities at least cost.

The rules for inclusion of reforestation as offset activities are already reasonably well-developed. Reforestation should be included immediately as an offset option, at the start, if not before, of the Australian ETS.

## Forest Management and Reforestation Accounting Issues

### Forest Management

On page 27 3.4 *To whom will the ETS apply? - Coverage* the paper discusses that emissions are produced by various sectors, it goes on to say that in order to be covered there must be a reliable way to measure and verify emissions. This section states that there is '*considerable potential for sequestering carbon through change in land and forest management and agricultural practices*'. And further states that full inclusion of agriculture and forestry will require measurement issues to be resolved.

This statement implies that forestry and agriculture have similar issues regarding their inclusion. If by forestry this includes existing managed forests or forest management, the most pertinent point of difference is that unlike all other sectors forest management does not result in the release of net anthropogenic emissions to the atmosphere where sustainable forest management is practiced.

Managed forests will both emit and remove carbon dioxide to and from the atmosphere, but ultimately (spatially and temporally) will be in balance. As such there is little to be gained from their inclusion in the ETS, it would however be a costly undertaking to report data on the annual carbon stock changes at an entity level with any reasonable degree of accuracy.

It would perhaps be useful if two criteria were added when considering the inclusion of sub-sectors in the ETS, they being that in order to be covered the sector or sub-sector should i) be a net emitter of greenhouse gases and ii) there is reasonable potential for controlling entities to undertake changes that reduce the accumulation of greenhouse gases in the atmosphere.

It should be recognised that the Australian Government opted not to nominate Forest Management as a potential additional LULUCF activity under Article 3.4 of the Kyoto Protocol. This was despite the fact that forest management is predicted to remove some 21 Mt CO<sub>2</sub> in 2010<sup>1</sup>, representing an increase from 1990 levels of 9 Mt CO<sub>2</sub>.

One of the main reasons for this, as it is for most Annex I nations who have opted not to include forest management, is due to the significant risk that uncontrollable fires and their associated emissions represent. That is while it may be more likely that forest management would be a net sink, there is an appreciable chance that it could be a net source, and a

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<sup>1</sup> Australia's Fourth National Communication on Climate Change, a report under the United Nations Framework Convention on Climate Change, AGO, 2005

significant net source at that. This then poses a significant disincentive for its inclusion at the national level, while it would represent an even greater problem for participating forest management entities.

Including forest management is likely to be of marginal benefit as it will be difficult to find means of making meaningful improvements or removal enhancements that out-weight the cost of implementation of the activities and especially that of monitoring and verification requirements.

Another issue of complexity in regards to managed forests is how to establish an appropriate baseline scenario when the inter-annual variability of emissions and removals is so high and the appropriate timeframe of consideration is so long. It becomes especially problematic to factor fire events into the baseline scenario, particularly at sub-national scales.

Forest management should only be considered as a potential offset type, if forest owners can find means of enhancing removals meaningfully and take account of the increased risk of fire at reasonable implementation, monitoring and verification costs then they should be encouraged to do so.

However project inclusion should be considered alongside the wider implications of allowing forest management in a domestic ETS such as what are the implications for linking to other schemes and what are the implications for future international commitments? This aspect should be weighed against the potential benefits of encouraging forest management projects both as a means of creating additional abatement but also as a learning exercise in regards to effective potential activities and their related costs that would aid in the consideration of its inclusion in future agreements.

As such it is suggested that forest management be considered very carefully, its inclusion as an offset should probably be delayed until after 2012.

In summary it is suggested that the following is considered:-

- Forest management is not a net emitting sub-sector
- In most instances it will be very costly to undertake monitoring on natural forest lands to a degree of reliability comparable to other sectors and sub-sectors
- The opportunities for improvement or additional enhancement of removals are limited
- The risk posed to meeting obligations under international commitments, to the functioning of a national (and/or linked) ETS and to forest management entities through the uncontrollable aspect of fire-related emissions

Production forest management in Australia essentially already represents an ideal resource use model from a greenhouse gas emissions perspective; the sustainable production of a raw material that is greenhouse gas neutral.

Of most importance is that the cost of inclusion of forest management as a covered sector is hard to justify in relation to the additional mitigation possible.

## Reforestation

The potential inclusion of reforestation as a covered sector is also questioned. Reforestation has, by its definition, a zero baseline so it should not be considered alongside emitting sectors of the economy.

There is a large diversity in the types of reforestation or tree planting activities that currently exist in Australia. Some have the potential to be quite effective long-term stores of carbon, while others will only be of a relatively marginal benefit. There are many current streams of tree planting activities for which there would be considerable complications attached to inclusion in an ETS.

The over-riding consideration should be how to maximize long-term storage of carbon through reforestation at least cost. It is believed this would best be accomplished by inclusion of reforestation as an offset where participation, and the benefits, costs and obligations that go with it are undertaken on a voluntary basis.

The obligations, risks and costs that go with the appropriate accounting for forest carbon sinks are substantial. As such there is potential for mandatory participation of anyone owning or managing land that meets the definition of reforestation to in fact act as a disincentive to further planting.

Unlike other sectors and sub-sectors reforestation must be of a net benefit, however also unlike other sectors inclusion in an ETS brings with it considerable long-term obligations and risks posed by the uncontrollable aspect of fire. Inclusion will significantly impact management flexibility and will not be seen as worthwhile by all potential participants and for all types of planting activities.

The greatest flexibility and positive incentive for continued planting will be allowed through a system of voluntary participation, those that do not opt to formally participate will still be making a positive contribution. The costs per participant will be the same regardless of the proportion of participation. In this way the same net benefit is accrued, full flexibility is

allowed to land managers, with no potentially perverse outcomes and at substantially reduced cost.

## Developed Systems of Accounting

Page 28 Box 3-1: *Addressing measurement issues for forestry* largely discusses the merits and potential use and planned improvements of Australia's National Carbon Accounting System (NCAS). However the majority of the discussion is essentially referring to the monitoring of deforestation and forest degradation in developing countries, which is not immediately relevant to measurement issues for forests in Australia and in the context of an Australian ETS.

It discusses the NCAS and refers to it as an advanced system suited for accounting under a national ETS. The NCAS is a system developed for accounting national-level emissions and removals from the land based sectors, not at the project or entity-level as would be required within an ETS. The Australian Government has also produced a National Carbon Accounting Toolbox (NCAT) for the purpose of project-level accounting.

One of the reasons for the low uptake of reforestation projects within the Greenhouse Friendly Initiative has been due to the required mandatory use of NCAT, which incorporates the transfer of intellectual property. The NCAT is a good option for those potential reforestation participants with limited capacity to develop carbon accounting systems, but should not be forced upon participants who already have (or wish to move to) a higher capacity for carbon accounting and monitoring reliability provided by their own forest resource assessment systems.

## Offset Rules

Page 29 discusses *Domestic Offsets*. Within this section the term forestry is used to refer to what must be reforestation. Are the only offsets being considered from reforestation?

The section deals mainly with additionality but describes a scenario where a later '*eligibility date*' could lead to a perverse incentive to log and replace established forest with new forest. This section seems to be discussing the issue regarding the eligibility of lands in respect of the definition for reforestation and its limitations. That is the discussion seems to be merging the three quite separate issues of eligible start date for reforestation projects, the issues regarding

the current definition of reforestation under the Kyoto Protocol for the first commitment period and the date from which credits can first be generated.

*Box 3-2 International Approaches to Offsets* is a little unclear, it indicates that CDM has CERs but does not discuss the tCERs and ICERs that come from A/R projects under the CDM. While within the section on JI it discusses the undertaking of project activities that ‘*reduce emissions or create forest sinks*’, not from A/R or the other four LULUCF activities potentially allowed, including agricultural land uses.

## **The EU ETS and Forestry**

On page 35 under *3.6 International links* there is discussion on linking to other schemes. In one section it discusses the problem with linking to the EU ETS which excludes the use of forestry projects.

Australian GHG programs have been leaders in addressing both non-permanence (including the establishment of long term administration arrangements to ensure compliance) and concerns around the estimation uncertainty of reforestation projects. The two reasons most commonly cited by the EU ETS for their continued reluctance to include land-based mitigation options. When in Australia there are no proposals to create temporary credits from reforestation or assigning liability to the holder of the credits, this should not be a valid point of exclusion.

## **Assumptions about Forestry Mitigation**

Page 66 *Appendix 2 – International trade and linkages: issues and options – International linkage choices* discusses the use of trading revenue for, among others, compensating losers of mitigation actions and then provides an example of ‘*to substitute for forestry revenue*’. Is this indicating that the review is considering allowing mitigation actions that reduce the production of wood?