

Carbon Pollution Reduction Scheme Green Paper Submission
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10th September 2008

SUBMISSION ON CARBON POLLUTION REDUCTION SCHEME

GREEN PAPER

The potential loss of viability of Australia's pulp & paper manufacturing industry under the Carbon Pollution Reduction Scheme is the focus of this paper. Any impact on the pulp & paper sector will be magnified through flow on impacts to the plantation growing and sawmilling sectors and to the service industries and communities that surround them. A number of options to improve the proposed treatment of emissions-intensive, trade-exposed industries are proposed.

SUMMARY

The pulp and paper sector's importance is comprised not just of the employment, investment and value adding that it represents directly but also in its role as a driver for employment, investment and value-adding in other parts of the forest and recycling industry.

The imposition of a carbon cost on Australian pulp & paper facilities in the absence of a carbon cost on other Asian competitors will materially impact Australian operations. In the absence of any ability to pass those costs on to customers, the viability of Australian mills will be critically threatened.

The activities in the pulp and paper industry broadly consist of three stages (pulping, paper-making and converting) and four paper types. The manufacture of newsprint is a contiguous activity in its own right.

The emissions-intensive, trade-exposed measures proposed in the Green Paper may leave critical activities in the pulp & paper sector exposed due to three factors:

- The emissions come late in the production process after an initial emissions-neutral stage.
- The pulp & paper sector is highly trade exposed with no (not merely *limited*) ability to pass through increased costs.
- The arbitrary cap imposed by Government on EITE permit allocation.

A3P makes the following specific comments on the Green Paper

- The EITE test must adequately and fairly deal with processes where the emissions occur late in the process, such as paper manufacturing. Utilising gross value-add as the denominator may achieve this outcome (if based on revenue minus consumables) but there must be time to evaluate and comment on the thresholds and likely outcome before the test is finalised.

- Just as the proposal to assess emissions intensity incorporates two levels of a less-than-perfect metric, the Government should adequately address trade exposure by incorporating at least two levels of trade exposure (trade exposed and highly trade-exposed) to acknowledge the differing levels of threat and ability to pass on increased costs
- The Government should clearly state that assessment against emissions intensity thresholds will incorporate the full expected electricity price increases (not current electricity emission factors).
- The measures to maintain the competitiveness of emissions-intensive, trade-exposed industries should be co-ordinated across the CPRS and RET. Adequate solutions may include exclusion of EITEs from RET or consideration of all increased costs in assessing levels of permit allocation.
- The electricity factor to be applied to Tasmanian electricity should reflect the real price rise in Tasmanian electricity.
- The electricity factor should be applied to all electricity supplied from a separate activity when assessing emissions-intensity and allocating permits.
- The Government should use some form of proxy for low-emission thermal energy utilised in an activity to reflect the expected increase in value of thermal energy rather than its actual emissions intensity.
- The quantity of permits allocated to EITEs should be the number required to ameliorate material impact on trade-exposed industries and prevent carbon leakage.
- The level of permit allocation to trade-exposed activities should match the level required to mitigate impact and prevent carbon leakage not an arbitrary decay over time.
- The Government should include harvested wood products in the Carbon Pollution Reduction Scheme from scheme commencement as a means of continuing international leadership on this issue and demonstrating the simple and robust methodology that can be implemented. In a separate paper A3P will outline some options for the simple and robust methodology for inclusion.
- A3P notes that the Government has released a consultation paper on Reforestation and has conducted a workshop. We will be providing a detailed response to that paper and wish to be involved in further developments in this area.



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BACKGROUND AND INTRODUCTION

This submission on the Green Paper: *Carbon Pollution Reduction Scheme* is made on behalf of the plantation products and paper industry by A3P. A3P welcomes the opportunity to make a submission and congratulates the Government and its officials on the quality of the design produced this far and the open manner in which the process is being conducted.

A3P is the national representative body for the Australian plantation products and paper industry. A3P's 30 member companies have sales revenues of more than \$4 billion per annum and directly employ 13,500 people predominantly in rural and regional Australia in centres such as Mt Gambier, Morwell, Tumut, Albury, Oberon and Gympie.

A3P agrees with many of the issues, and proposed approaches, outlined in the Green Paper. It presents a robust starting point for further development of the Carbon Pollution Reduction Scheme.

A3P is a signatory to the joint Forestry, Wood and Paper Industry position on the Green Paper – Capturing Carbon Reduction Opportunities – at Attachment A. The detail in this submission is consistent with that joint statement.

A3P is a member of the Australian Industry Greenhouse Network (AIGN) and supports AIGN's submission as it relates to many aspects of the proposed scheme that have application across all industries, such as banking and borrowing. These issues are appropriately dealt with across the whole economy rather than developed to meet specific needs of individual industries.

This submission focuses on issues which have particularly impact on the plantation products and paper industry.

It unashamedly identifies one issue as the highest priority – the ongoing viability of the pulp & paper sector under a carbon cost, particularly how it may be treated under the Government's proposed emissions-intensive, trade-exposed measure. As will be outlined this has implications for all parts of the integrated forestry industry, beyond the obvious and immediate impacts on pulp & paper companies.

AN INTEGRATED INDUSTRY

The pulp and paper sector's importance is comprised not just of the employment, investment and value adding that it represents directly but also in its role as a driver for employment, investment and value-adding in other parts of the forest and recycling industry. This results from the level of integration within the industry.

First, the pulp & paper sector is the major market for small diameter logs that are thinned from the plantation estate in early harvest events. These thinnings are essential to maintain tree form and vigour required to produce sawlogs for processing into structural timber in later harvest events. The sale of pulplogs represents approximately half of the total volume produced from a conventional long rotation plantation and only a slightly lower proportion of the gross income.

Second, the pulp & paper sector is also the major market for defective and small logs from later harvest events that are not of sufficient quality to produce sawn timber. The ability to sell these logs for a commercial use is critical to the economic viability of later harvesting events.



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Third, and as a combination of the factors described above, the pulp and paper sector provides a large proportion of the markets and commercial returns that drive investment in plantations – both new plantations and replanting of existing plantations following harvest.

Fourth, as noted above, the availability of markets for pulplogs is critical to the production of sawlogs that are the basis of wood supply to the sawmilling sector. Without a market for pulplogs, there would either be lower production of sawlogs and/or production at a much higher cost.

Fifth, the residues generated in a sawmill - as a round, variable log is converted into consistent, squared pieces of timber - are sold to sectors that can utilise wood in fibre form. The pulp & paper sector is such a market and is crucial to the financial health of most plantation-based sawmilling operations.

Sixth, the activity in the pulp & paper sector and the support for activities in other sectors as described above is pivotal to the viability, size and profit of many contractor, support and service businesses including harvesting, transport, mechanics, fuel supplies and trades.

Virtually all the business activities described above occur in rural and regional areas of Australia and provide not just a significant part of local economic activity but also relatively highly paid, highly skilled and challenging career paths in these areas.

Seventh, Australia's pulp & paper industry has invested in and maintains the infrastructure that has achieved high rates of paper recycling (approximately 50%). The pulp & paper facilities are also the major market for domestically collected waste paper. In the absence of a vibrant local pulp & paper industry the only market available for collected waste paper would be export to processing facilities in countries such as China. While this may be a viable option at the peak of the market cycles it is unlikely to be financially viable at other times. This, in turn, would lead to a lack of investment in the recycling infrastructure and supply chains, leading to lower rates and viability of recycling.

For all the reasons described above the future viability and competitiveness of the pulp & paper sector is of critical concern not just to the businesses, employees, families and communities directly engaged in pulp & paper manufacturing but also to other parts of the forest and recycling industry and the trades and service industries that support it.

A3P, as an organisation, is structured to address issues of concern to the plantation products and paper industry supply chain. The impact of the Carbon Pollution Reduction Scheme on the future viability and investment in Australia's pulp & paper industry is the policy issue of highest priority, not just for pulp & paper companies and their employees, but to all parts of the plantations products and paper industry supply chain including plantation growers and sawn timber manufacturers.

The integration of the industry and the importance of the pulp & paper sector to the forestry and sawmilling parts of the industry was the topic of a speech by Ms Linda Sewell, Chief Executive, HVP Plantations, Australia's largest private plantation manager to the Asia Pacific Forest Industries Climate Change Conference in Sydney on Tuesday 19th August. This speech is at Attachment B.



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CURRENT COMPETITIVENESS OF AUSTRALIA'S PULP & PAPER INDUSTRY

Pulp and paper are highly traded commodities in international markets. The industry is increasingly dominated by multinational companies that pursue investments in the countries where the highest returns can be achieved. The majority of recent large scale investments in pulp and paper manufacturing are occurring in countries with low labour costs, low environmental standards and no likelihood of imposing a carbon cost in the foreseeable future – such as China, Indonesia and Brazil. Additionally, for China and Indonesia, the Australian market represents an important nearby market with high living standards, high per capita consumption and where local producers face higher costs for many key inputs.

A number of large Asian pulp and paper companies have made significant strategic investments in marketing and supply chains focussed on the Australian market. Specific examples include Asia Pulp & Paper who supply printing and writing paper through Australian paper merchants and toilet and tissue paper through Woolworths supermarkets, and Double A Paper who have established merchants and supply chains into Australia for photocopy paper.

Australia's pulp & paper industry is already highly trade exposed; more than half Australia's consumption of printing and writing paper is supplied by imports. It is not an exaggeration to suggest that Australian producers can not pass on any increased costs. Australian producers already only sell into the market if they match import parity price. An increase in domestic production costs will have no impact on market price.

The scale of production and expansion in Asia is significant. The Chinese pulp and paper industry is planning to expand capacity by more than the entire size of the Australian pulp and paper industry annually. While much of this expansion is premised on the basis of local economic growth, the Australian market is a key strategic market while local demand develops, for excess capacity, and any slowing in local economic growth.

Up until now a key comparative advantage held by Australian manufacturers has been the low cost of energy. Many activities within the pulp and papermaking sector are energy (electricity) intensive, including mechanical pulping and all forms of paper-making. Australia's low cost energy, combined with the availability of high quality forest fibre, have enabled the development of world class pulp and paper facilities that are strategic components of the global operations of market leaders such as Kimberly-Clark and SCA in toilet and tissue paper and Norske-Skog in newsprint.

Clearly the imposition of a carbon cost on Australian facilities in the absence of a carbon cost on other Asian competitors will materially impact Australian operations. In the absence of any ability to pass those costs on to customers, the viability of Australian mills will be critically threatened.

THE PROPOSED EMISSIONS-INTENSIVE, TRADE-EXPOSED TEST

The Green Paper rightly identifies the potential impact of a carbon cost on Australian businesses that will suffer a significant increase in costs and will be unable to recover those increased costs from customers or other parts of the supply chain. In this area it has contributed to a more rigorous understanding of the economic impacts of an emissions trading scheme, as have the Garnaut Review, the



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(previous) Prime Minister's Task Group on Emissions Trading, and the State Government's National Emissions Trading Taskforce.

Before exploring the potential impact of the proposed treatment of emissions-intensive, trade-exposed (EITE) industries under the Green Paper, A3P would like to confirm the objective of the measure and the definition of industries to which it is directed.

Prior to the last Federal election Labor's Five Tests for an effective emissions trading scheme included:

"In taking the lead before an effective international agreement is in place, it is also vitally important that a domestic scheme does not undermine Australia's competitiveness and provides mechanisms to ensure that Australian operations of energy-intensive trade-exposed firms are not disadvantaged."

Labor's Plan for a Stronger Resources Sector, released by Senator Chris Evans, Shadow Minister for National Development, Resources and Energy, during the election campaign stated that:

"A Rudd Labor Government will:

- Ensure that Australia's international competitiveness is not compromised by the introduction of emissions trading.
- Consult with industry about the potential impact of emissions trading on their operations to ensure they are not disadvantaged.
- Establish specific mechanisms to ensure that Australian operations of emissions intensive trade exposed firms are not disadvantaged by emissions trading."

Senator the Hon Penny Wong, Minister for Climate Change and Water, in a speech to the AI Group Luncheon, on 6th February 2008, stated:"

"the design will address the competitive challenges facing emission-intensive trade exposed industries in Australia. The introduction of a carbon price ahead of effective international action can lead to perverse incentives for such industries to relocate or source production offshore. There is no point in imposing a carbon price domestically which results in emissions and production transferring internationally for no environmental gain. Therefore, we need to assess carefully the impact of the scheme on industries for which this might pose a real risk. In addressing competitiveness concerns during this phase, attention will also need to be paid to ensuring that incentives remain for these industries to adjust their emissions profiles consistent with an emerging global carbon constraint.

A3P understands that the objective of the measure is to reduce the impact of domestic carbon costs on trade-exposed industries and particularly to ensure that current production capacity, and potential future investment, is not shifted offshore as a result of the local carbon cost (carbon leakage).

The Government's Green Paper, like others before, has identified that there are two dimensions to identifying industries, businesses or activities that may be vulnerable to carbon leakage – a material increase in costs and an inability to pass these costs on to customers.

The first dimension – a material increase in costs – is most commonly talked about as emissions-intensity. That is, the quantity of emissions associated with the production process as a proportion of some measure that enables comparison across all industries. The emissions are a proxy for the extra costs as it is the quantity of emissions that will attract the increased costs, though there are also indirect impacts in energy markets as a result of supply-demand factors.



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The denominator, over which to measure emissions-intensity has been the source of much debate. The Government's Green Paper proposes using revenue and subsequent discussion has also explored the use of gross value-add.

The second dimension – an inability to pass costs on – is often proposed to be measured through trade-exposure. Trade-exposure is considered a measure of inability to pass costs through as the more production that is exported, and the more domestic consumption that is met through imports, the less ability Australian producers have to influence price and therefore pass through increased costs where those costs are not borne by other suppliers to the market.

The Government's Green Paper proposes that all but a few strictly defined parts of the economy are trade exposed. A3P does not contest this interpretation at the broad level.

When considering the application of the proposed EITE test to the pulp and paper industry, A3P wishes to remind Government that the test is a proxy to identify firms – those that will suffer a material increase in costs and cannot pass those costs on to customers – that may lead to carbon leakage – a shift in current capacity or future investment offshore as a result of a less-than-global carbon cost. Before the test is finalised, the Government must be sure that it is correctly identifying those firms or activities and that the proposed measure will effectively prevent carbon leakage.

A3P is concerned that the current Green Paper Proposal does not do this and that the pulp and paper industry contains examples of where the proposal is deficient.

ACTIVITIES WITHIN THE PULP AND PAPER INDUSTRY

The Green Paper proposes that the EITE test will be applied using industry averages at an activity level. An initial step is to identify activities within the industry.

In identifying activities within the pulp & paper industry, A3P has been guided by the objective of the policy and by discussion with Government. We propose activities that:

- Could be feasibly done (or are done) in separate locations;
- Could be replaced by purchasing a substitute product;
- Start with, and/or end with, a tradable product
- Assist to confine the parts of the overall process that may be seen as emissions-intensive.

The pulp and paper process consists of three major stages: pulping, paper-making and converting. Pulping is the creation of fibres in a liquid slurry. This may be done by, in simplistic terms, grinding (mechanical pulping), chemical processes (chemical pulping), or by recycling recovered paper.

Paper-making consists of applying the pulp slurry to a mat and then pressing and drying the fibres to form paper. It finishes with the paper in the form of bulk or jumbo rolls.

Converting takes the bulk rolls and converts them to a final product such as toilet rolls, tissue paper, reams of photocopy paper, etc. Some products such as newsprint are sold to the user as a bulk roll.



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Running as parallel processes through these stages are the different types of paper, of which there are four broad groups: newsprint, packaging & industrial, printing & writing, tissue & toilet paper. Each paper type has specific requirements in terms of fibre size, colour, strength, etc. This, in turn, defines the type of pulp that can be utilised. There is relatively little transfer of pulp from one stream to another and no ability for a paper machine that has been constructed for one type of paper to produce a different type of paper.

A key question in defining the activities is the differentiation into different paper types.

The four broad groups listed above are clearly different, separate and may have different emissions intensities. However it may also be appropriate to differentiate further where emissions intensities and process differ markedly. However even when these processes are run on separate machines it may be difficult to identify separate costs for each process. An important consideration is therefore what may be lost by averaging across these types and what improvement is made by splitting them.

In the case of newsprint manufacturing there are technical and process reasons that mean the pulping and paper-making are almost always conducted at the same facility. Hence newsprint manufacture is considered an activity in its own right.

For other paper types, fibre, pulp and paper are heavily traded commodities at the start and completion of each of these stages, including to and from Australia. Logs, woodchips, recovered paper, chemical pulp, bulk rolls and finished products are highly traded products. Hence the pulping, paper-making and converting stages are considered separate activities.

The activities in the pulp and paper industry therefore fit into a table with three stages (pulping, paper-making and converting) and (probably) four paper types, as follows:

	Pulping	Paper-making	Converting
Newsprint	<i>Mechanical & Chemi-mechanical Pulping, Recycled fibre & Newsprint Manufacture</i>		N/A
Packaging & Industrial	Recycled fibre	<i>Packaging manufacture*</i>	Converting – P&I
	Chemical Pulp		
Printing & Writing	Chemical Pulp	<i>Printing & Writing Manufacture</i>	Converting – P&W
Tissue & Toilet	Semi-chemical Pulp	<i>Tissue & Toilet Manufacture</i>	Converting – T&T
	Chemical Pulp		

***Note: Cartonboard manufacture may require a further sub-division of Packaging manufacture**

Only the activities in italics and shaded in the above table are considered by the industry to be emissions-intensive and trade-exposed.



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It should be noted that three of the activities identified above as emissions-intensive and trade exposed occur late in the production process. In each case, they are preceded by an activity that is relatively low in emissions while the second activity involves the majority of emissions. Using a metric such as revenue to assess emissions-intensity tends to lump these two activities together as the revenue incorporates the inputs and profit from both activities. The resultant apparent emissions-intensity is actually a blurring of the two activities rather than a genuine measure of the second activity.

Obviously splitting any process into consecutive activities is only logical if a denominator such as gross value add is used. If a denominator such as revenue is used, splitting the process merely biases permit allocation against the second (in this case the emissions-intensive) activity.

A3P would also like to note that within the plantation products industry there are other activities that may qualify as (and indeed, are) emissions-intensive and trade exposed. These include the manufacture of particleboard and medium density fibreboard (MDF). In each case the activity is similar to papermaking in that wood is broken down into smaller components (chips or fibre) and reconstituted into a board. The process uses electricity and energy to break the wood down and requires further energy and heat to dry and finish the board. The manufacture of each of these products could be treated as an “activity”.

APPLICATION OF THE PROPOSED GREEN PAPER EITE TEST TO PULP & PAPER

As noted above, there are five activities within the pulp & paper industry that are considered to be emissions-intensive and trade-exposed. Preliminary data analysis following the release of the Green Paper suggests that Newsprint is likely to exceed the proposed EITE thresholds (at the 90% level). The remaining four activities – Packaging, Containerboard, Printing & Writing and Tissue & Toilet Paper Manufacture – appear to fall in the band between 60% & 90% permit allocation thresholds, or perhaps just above the 90% threshold. However the numbers are sufficiently close to require much more careful definition of the metrics before any conclusions could be drawn.

As most of the emissions are related to electricity consumption, the definition and application of the electricity factor (see below) will be crucial.

There is little question that if any of the activities listed above did not receive 90% permit allocation there would be material impact and it is likely to be sufficient to reduce returns below critical investment thresholds. An obvious question to follow from this is: why will activities that suffer critical and material impact not receive sufficient permits under the Government proposal. Again it is noted that newsprint manufacturing is likely to exceed the 90% permit allocation threshold.

A3P postulates that there are three factors leading to this unintended outcome:

- The emissions come late in the production process after an initial emissions-neutral stage.
- The pulp & paper sector is highly trade exposed with no (not merely *limited*) ability to pass through increased costs
- The arbitrary cap imposed by Government on EITE permit allocation

Of these three factors the third – the arbitrary cap on EITE permit allocation - is dealt with later in this submission.



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The first – emissions coming late in the process – is identified in the Green Paper as a deficiency in using revenue as the denominator for assessing emissions-intensity: “The main disadvantage of the use of revenue as the common measure is that this would result in lower measured emissions intensities for activities that have more significant input costs (such as those further down the supply chain)”.

A3P understands and agrees with the need to find a practical, simple and transparent measure of emissions-intensity that cannot be ‘gamed’. This is likely to result in a less-than-perfect metric that has some kind of unintended consequence. However key activities in our industry seem to fall into exactly the situation where the Government’s proposal would have unintended consequences yet no remedial measure is proposed.

Recent discussions on using gross value add as the denominator may address this deficiency; however a number of pertinent points warrant attention:

- The arbitrary cap on EITE permits makes the comparative emissions-intensity to other industries crucial. As information is not readily available on other industries and no thresholds have been proposed for gross value add, it is not possible to determine if activities within pulp & paper are better or worse off. The very fact that in four of the emissions-intensive activities in our sector the emissions come late in the process might suggest that they should be better off.
- There is a possibility that the structure of some industries, for example the use of contract labour, may create unusual outcomes in assessing gross value add. No doubt this was partly what led Government to avoid the measure initially. The fair application of a test like this must ensure that real comparisons would be made. Our understanding is that the intention is to be making comparisons using the margin plus labour costs for all industries.
- There is an inherent hazard in the Government proposing a test in one form in the Green Paper and then applying a different test in practice. Activities such as newsprint manufacturing would presumably be captured by the alternative test but there must be some time allowed for parties to assess their situation should the proposed test change.
- The Government has canvassed two options for calculating gross value-add. For companies within the pulp & paper industry the approach of determining gross value-add through “revenue minus consumables” is far preferable (and achievable) than attempting to calculate “EBIT plus labour” for activities where EBIT is not available and could not be calculated and where it will be difficult to track all attributable components of labour.

A3P proposes that the EITE test must adequately and fairly deal with processes where the emissions occur late in the process, such as paper manufacturing. Utilising gross value add as the denominator may achieve this outcome (if based on revenue minus consumables) but there must be time to evaluate and comment on the thresholds and likely outcome before the test is finalised.

As well as having emissions that occur late in the process, the four activities identified earlier also have very high levels of current trade exposure. An activity facing competition from imports that are currently at a low level is in a very different situation to one where imports (or exports) are currently high. In the latter situation the competitive supply chains emanating from other countries are established and



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active and can easily be significantly increased. In this context there is no ability for a domestic producer to pass on any increased costs.

While acknowledging the Green Paper's statement that virtually all parts of the Australian economy are trade exposed and it is difficult to define a criteria to measure trade-exposure, the current proposal underestimates the exposure of highly trade exposed activities that either fall just below the 90% permit allocation threshold or just below the 60% permit allocation threshold. In either case the activity will face a significant increase in costs and will rapidly lose market share to the existing importers (or other producers in export markets). The viability of current facilities would be threatened and potential future investment put on hold.

Just as the proposal to assess emissions intensity incorporates two levels of a less-than-perfect metric, the Government should adequately address trade exposure by incorporating at least two levels of trade exposure (trade exposed and highly trade-exposed) to acknowledge the differing levels of threat and ability to pass on increased costs



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ELECTRICITY FACTOR

Most of the emissions associated with pulp & paper manufacturing are the result of electricity use and are therefore Scope 2 emissions beyond the direct control of the facility. The Government's Green Paper acknowledges that facilities will still incur a significant increase in costs as the (non trade-exposed) electricity sector passes costs on to users. The Green Paper proposes that the electricity emissions for an activity will be calculated by applying an electricity factor (EF) that will reflect the expected electricity price rise. The Green Paper provides little detail on the EF beyond this simple statement. Unresolved questions include whether there will be a single EF for the National Electricity Market (NEM), separate EFs for each NEM region or some other method.

Clearly the precise application of the electricity factor is of interest to the pulp & paper industry, particularly given that preliminary analysis suggests that some of the activities fall close to the proposed thresholds.

The Green Paper is ambiguous (or silent) on whether the EF will be used when determining if activities exceed the emissions-intensity thresholds. The EF is mentioned only at the permit allocation stage. It would be illogical and perverse if the EF was used only at the permit allocation stage.

A3P asks the Government to clearly state that assessment against emissions intensity thresholds will incorporate the full expected electricity price increases (not current electricity emission factors).

Further, there is an acknowledged interaction between the Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target (RET) in terms of their objectives and, importantly, their impact on electricity costs. The policy intent of the EITE measure is to prevent carbon leakage resulting from increased costs in Australia. It is irrelevant whether those increased costs were imposed through the CPRS, RET, or some indeterminate combination of the two.

A3P calls for the measures to maintain the competitiveness of emissions-intensive, trade-exposed industries to be co-ordinated across the CPRS and RET. Adequate solutions may include exclusion of EITEs from RET or consideration of all increased costs in assessing levels of permit allocation.

A number of major pulp & paper facilities are located in Tasmania. Current reporting of greenhouse gas emissions uses the assumed emissions-intensity of Tasmania electricity for Scope 2 emissions. The Tasmanian emissions intensity is lower than elsewhere in the NEM due to the high proportion of hydro-electricity. However, as the Tasmanian electricity generation capacity is linked to the rest of the NEM through BassLink, the expected price rise for Tasmanian electricity from a carbon cost will be more closely linked to Victorian electricity emission factors.

A3P seeks assurance from Government that the electricity factor to be applied to Tasmanian electricity will reflect the real price rise in Tasmanian electricity.

A significant proportion of electricity used by the pulp & paper industry is generated from (renewable) processing residues of the chemical pulping process. Where chemical pulping and paper-making occur on the same site (integrated), the electricity generated from chemical pulping residues is used, logically, by the paper-making process. Further electricity inputs are also required. However these two activities (chemical pulping and paper-making) can be done in separate locations. A large proportion of global chemical pulp production is traded. Some Australian paper-makers import chemical pulp and the proposed Gunns pulp mill would produce chemical pulp for sale on global markets.

If the emissions-intensity of the paper-making activity of an integrated mill were assessed assuming the energy from pulping residues was emission-neutral then paper-making would probably fail to meet the emissions-intensity threshold. A perverse outcome of that would be that the company would logically close its paper-making operation in Australia (where much of the investment, value-add and employment is concentrated) and revert to producing pulp for global markets and renewable energy for sale into the grid.

The theoretically correct approach, and the approach which produces the desired policy outcome, is to apply the electricity factor to all the electricity used in paper-making regardless of how it is generated. This reflects that electricity is produced by a separate activity and could practically be sold to the grid and the paper-making 'leaked' offshore.

A3P seeks confirmation that the electricity factor will be applied to all electricity supplied from a separate activity when assessing emissions-intensity and allocating permits.

A similar situation exists where thermal energy produced from one activity is utilised by another activity. If the two activities can be separated then a perverse incentive may be created to close the activity that utilises the thermal energy, particularly if another user of the thermal energy can be found. It is more difficult to propose a simple solution in this instance as there is no readily available equivalent to the electricity factor; however, it is a real and significant issue for integrated pulp & paper facilities.



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A3P recommends that the Government use some form of proxy for low-emission thermal energy utilised in an activity to reflect the expected increase in value of thermal energy rather than its actual emissions intensity.

A final point on the application of the electricity factor is the modelling of the extent of cost pass-through. This is a critical factor and if the Government's modelling is incorrect it will be electricity users who bear the brunt of the impact. It is vital that the extent of cost pass through be effectively modelled over reasonable time frames and based on rational commercial behaviour by electricity generators. The European experience suggests that cost pass-through levels are very high.

ARBITRARY CAP ON EITE PERMIT ALLOCATION

In the Green Paper, the Government proposes that there will be a cap on the allocation of permits to EITEs. This cap is proposed as 30% inclusive of agriculture or 20% for non-agricultural EITEs.

However no justification has been given as to why the cap is proposed other than an inferred limit to the number of permits 'needed' for other purposes. Further, there is nothing in the policy theory that suggests that such a measure should have either a minimum or maximum given its objective of preventing leakage.

A3P advocates that the quantity of permits allocated to EITEs should be the number required to ameliorate material impact on trade-exposed industries and prevent carbon leakage. If that resulted in 18%, 27% or any other number, of permits allocated to EITEs then that is the true allocation required to implement good policy. An arbitrary threshold serves only to concentrate the impact of the scheme on a subset of industries that fall just below the thresholds, not minimising the cost or spreading it fairly.

The need to make these industries bear "their share of the costs" is often given as justification of the arbitrary cap. However, an industry's "share of the costs" is a poor measure given the vast difference in each entity's ability to pass costs on. The result is that the cost is borne disproportionately by those industries unable to pass it on – trade exposed industries that receive insufficient permits. More importantly the cost will be borne by the shareholders, employees, and potential future employees, of those industries where capacity will be constrained and the communities in which they operate.

DECAY IN EITE PERMIT ALLOCATION

The Green Paper contains a proposal that the allocation of permits to emissions-intensive, trade-exposed activities would decay over time as the cap tightened and economic growth occurs (particularly in EITE sectors). Similar to the cap on EITE permit allocation, this proposal is at odds with the policy objective.

A3P calls for the level of permit allocation to trade-exposed activities to match the level required to mitigate impact and prevent carbon leakage not an arbitrary decay over time.

The Government's proposal will merely delay, at best, the time when emissions-intensive, trade-exposed activities will be rendered unviable. If partial free permit allocation is required, then it must be maintained for as long as the conditions remain – the lack of a carbon price on key competitors. A3P has always agreed that



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EITE permit allocation is a transitional measure but the corollary of the transitional nature is that it should be maintained until the transition to a global carbon price is complete.

The decay in permit allocation proposed in the Green Paper suggests that the transition being managed is a transition of these industries out of the Australian economy.



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HARVESTED WOOD PRODUCTS

The Government has signalled its intention to push for changes in the treatment of harvested wood products within international frameworks. This is a welcome commitment and continues the international leadership that the Australian Government and local researchers have demonstrated in this area.

The inclusion of the carbon stored in harvested wood products during use and after disposal in an emissions trading scheme is critical for a number of reasons:

- It is an accurate reflection of carbon flows and emissions;
- It would appropriately credit the carbon storage role of wood products; and
- It would (only) partly redress the distortions created in building markets as a result of free permit allocation to high-emissions alternatives to timber such as steel, concrete and aluminium;

A3P calls on the Government to include harvested wood products in the Carbon Pollution Reduction Scheme from scheme commencement as a means of continuing international leadership on this issue and demonstrating the simple and robust methodology that can be implemented. In a separate paper A3P will outline some options for the simple and robust methodology for inclusion.

REFORESTATION RULES

The Green Paper proposes that reforestation will be included in the Carbon Pollution Reduction Scheme on an opt-in basis. A3P welcomes this decision from Government and expresses an interest in working closely with Government to develop the rules.

The detailed methodology will be important in determining the magnitude of carbon abatement that will be animated by this measure. It will also be important in defining the financial incentives that managers of existing post-1990 plantations will face. These incentives could be to replant after harvest, convert back to agriculture, or abandon the plantation to establish a new plantation elsewhere. It would obviously be in the interest of the Government and the industry if the marginal financial incentive led towards replanting rather than the other options.

A3P notes that the Government has released a consultation paper on Reforestation and has conducted a workshop. We will be providing a detailed response to that paper and wish to be involved in further developments in this area. Our main issues of interest are:

- Reforestation rules should allow Managed Investment Scheme structures to participate in the Carbon Pollution Reduction Scheme in future through evolving investment models.

- There should be a carry-over of property rights from other schemes & measures that have resulted from investment premised on a carbon cost (especially the NSW GGAS).
- Forest managers should have the ability to repatriate forest credits for overseas markets, i.e. Joint Implementation. This is particularly important where previous investment (and continued investment) has been premised on this likelihood
- The most significant determining factor in uptake of reforestation will be the rule-set. Industry would like to be engaged & closely involved in design of rules to make sure real carbon flows are reflected and compliance costs are not too onerous.
- The accounting options for crediting carbon stored in forests (e.g., annual stock change, non-declining yield, etc)
- Permanent retention of sub-rule stating emissions cannot exceed sequestration. The market will not work as intended if there is the potential to pay for a product (carbon emission) you could not first earn an income from.
- Ensure the accounting rules credit the increase in minimum carbon stocks (debris) of successive rotations of plantations.



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Thank you for the opportunity of providing comment on the Green Paper. A3P would appreciate the opportunity to participate in processes that develop further detail. If you have any questions please contact Miles Prosser on 02 6273 8111 or miles.prosser@a3p.asn.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Miles Prosser', written in a cursive style.

MILES PROSSER
MANAGER – PULP & PAPER

Capturing Carbon Reduction Opportunities

In Australia's Forestry, Wood and Paper Industry

The signatories to this document, representing Australia's forestry, wood and paper industry, welcome the Carbon Pollution Reduction Scheme (CPRS) Green Paper, and its proposals to include Australia's forestry, wood and paper industries in the design of the scheme. The organisations' response to the major issues covered in the Green Paper are summarised below.

The Green Paper articulates the significant opportunities for Australia's forestry, wood and paper industry to contribute to carbon storage. In particular, we are pleased with the Green Paper's guiding principles that acknowledge the carbon abatement potential that can be provided by Australia's paper and wood products and the use of wood waste as a source of bioenergy. We welcome recognition that our native forest and plantation industries are Australia's only carbon positive industries and that policy measures need to provide a framework for the expansion of that role. In our view, those opportunities can be increased and enhanced by a more comprehensive inclusion of forestry, wood and paper products from the scheme's inception.

Importantly, more complete inclusion will not only ensure ongoing use of a renewable resource, thus expanding carbon emission management opportunities, but also significant flow-on benefits to the social and economic wellbeing of workers and communities in rural and regional Australia.

Just as the CPRS aims to provide the appropriate economic signals for emitting sectors to reduce their emissions, it should also provide appropriate signals for sectors to increase carbon abatement activities. For the forest industries this means providing appropriate rules to allow increases in the carbon stocks in our existing sustainably managed native forests and plantations, recognising the significant carbon stored in the wood and paper products produced from these forests, and also expanding the total area of our forests through plantation development.

In developing rules for emitting sectors, particularly EITE, the forest industry asks for the Government to carefully consider the impact on Australia's pulp and paper sector. This sector of the industry faces strong competition from overseas producers. Rules that do not recognise the characteristics of this sector and its important links to other parts of the forest industry could result in a significant reduction in competitiveness for the sector, leading to local job losses in paper manufacturing, forest contracting and forest management. This will also make Australia more reliant on imports of paper products sourced from forests that may not be sustainably managed, and will significantly impact on our \$2 billion trade deficit in forest products. In short, our industry's potential contribution to the economic, social and environmental future of Australia will be significantly devalued.

However, provided with the appropriate economic signals through the CPRS and complementary policies, that recognise the unique carbon positive characteristics and the interrelated nature of the forest industry, it is estimated that the forest industry could contribute significantly to the Government's climate change and economic policy objectives and play a greater role in Australia's future including, according to some estimates:

- providing over 81 million tonnes a year or 20 percent of Australia's carbon abatement target by 2020

- generating over \$19 billion of new investment in plantation forests and manufacturing investment across Australia
- creating over 16,000 additional jobs in rural and regional Australia, associated with new investment
- reducing Australia's \$2 billion trade deficit in forest products.

The forest industry recognises the importance of linking Australia's CPRS with international schemes. We applaud the Government's intentions to continue its leadership in international negotiations on rules for the inclusion of forestry activities and carbon in harvested wood products in a post-Kyoto international emissions trading framework and through cooperation with other countries to capture the benefits of sustainable forest management as a major means of avoiding deforestation in developing countries.

While our industry will provide greater detail on these issues through the Green Paper's formal submission process, our areas of interest include the following.

Carbon in wood products – The amount of carbon stored in wood products has been estimated at around 5 Mt Co_{2e} a year. The industry continues to hold a strong position that carbon storage in harvested wood products should be recognised and included from scheme inception.

- The industry acknowledges the Australian Government's intention, as stated in the Green Paper, to influence international rules on carbon in wood products. However, there is an opportunity for Australia to show leadership in including carbon in wood products from scheme inception through the use of existing robust accounting methodology.

Emissions Intensive and Trade Exposed (EITE) – The industry, particularly the pulp and paper sector, has significant concerns with the proposed approach to EITE industries. The approach to emissions-intensive, trade-exposed industries outlined in the Green Paper would have a significant, negative affect on the competitiveness of Australia's pulp and paper manufacturing industry, the 19,000 people employed in the sector, and the communities that are sustained by it.

Reduced competitiveness of Australian pulp and paper manufacturing will result in significant carbon leakage, additional imports, and the prospect of:

- reduced domestic markets for Australia's sustainably derived forest resources resulting in their export with further carbon leakage associated with transportation;
- a reduction in the overall value of the industry and a change in its relative cost structures; and
- decreased direct investment and employment in the pulp and paper sector with decreases in regional and rural economic conditions.

The Industry firmly asserts that to avoid unintended impacts, the structure for EITE funding should be adjusted to:

- alter the proposed emissions-intensity denominator from 'revenue' to a more appropriate and equitable measure such as 'value added'. This would recognise that industries like pulp and paper manufacturing operate on relatively high revenues per tonne of emissions but on very low margins because they are at the end of the value chain; and

- address trade exposure by incorporating at least two levels of trade exposure (trade exposed and highly trade-exposed) to acknowledge the differing levels of threat and ability to pass on increased costs.

Article 3.3 forests (post 1990 reforestation) – These forests already make a considerable contribution (around 20 Mt CO₂e a year) to Australia meeting its Kyoto target. Provided with the appropriate rules, Article 3.3 forests could increase their contribution to Australia’s carbon pollution reduction task significantly. The industry endorses the Green Paper’s position on the inclusion of reforestation from scheme inception with participation on an ‘opt in’ basis.

Addressing the following issues will provide the appropriate signal for the area of Article 3.3 forests to sustainably grow, without perverse outcomes on the industry, other landuses, regional communities or the broader economy:

- recognition of the carbon created by these forests since 1990 to allow transitioning into the CPRS;
- appropriate treatment of future carbon flows in existing post-1989 plantations to ensure that perverse incentives are not created;
- a clear pathway for existing plantation funding models to adapt so they can participate in the scheme;
- efficient carbon accounting methodologies that send appropriate market signals and are adoptable across varying resource scales;
- the ability to incorporate or roll over property rights generated in other schemes such as NSW GGAS;
- option to sell credits generated from forests into overseas markets;
- capping carbon credit obligations at the levels of carbon credits issued for a specific forest; and
- eligibility of measureable carbon sequestered in root mass of coppiced (lignotuberous) tree crops.

The industry recognises the Government’s efforts to increase the practicality of Article 3.3 in the development of a post Kyoto policy framework.

Article 3.4 forests (pre 1990 forests) – Over nine million hectares of Australia’s native forests and over one million hectares of plantation forests could be classified as Article 3.4 forests. These forests presently provide the bulk of wood and wood fibre to Australia’s forest products industry and for export. Government research estimates that these forests are also increasing in carbon stock at over 20 Mt CO₂e a year.

The industry maintains its stated position that Article 3.4 forests (native forests and pre-1990 plantations) should be included from scheme inception, but treated initially as net neutral until finalisation of carbon accounting methodology.

- The development of rules for Article 3.4 forests and the recognition of specific forest management activities within this category should occur as part of the post-Kyoto negotiation process under the UNFCCC.
- The further development of NCAS will also be critical in providing robust carbon accounting and low compliance costs for forest growers.

- Inclusion of these forests would demonstrate Australia's strong leadership, particularly with developing countries, in comprehensively accounting for emissions and sequestration from all forests.

Bioenergy – The forestry, wood and paper products industry is already a significant generator of renewable energy from harvesting and sawmilling residues and the by-product of pulping processes. It has been estimated that utilisation of wood waste from existing forest harvesting activities could reduce the emissions from fossil fuel based electricity by around 3 Mt CO₂e a year. The industry supports the Green Paper's proposed treatment of bioenergy and biofuels in the CPRS, particularly given the significant potential for bioenergy production from forest industry residues.

- Maximising this potential will require a consistent national policy and regulatory framework that recognises and allows for the use of all forms of forest residues available for bioenergy.
- We also encourage the Government to make wood-derived bioenergy a priority area for research and deployment of new technology to contribute to energy and fuel security.

Deforestation – The industry endorses the approach contained in the Green paper to exclude deforestation from the CPRS, given Australia's comprehensive regulatory framework applying to land clearing.

Internationally, deforestation should be viewed as a failure to adequately support and integrate sustainable forest management. In that context, it is important that the CPRS signal to the world that the results of sustainable forest management can be recognised and have value.

Workers and communities – While the Green Paper provides extensive consideration of the potential impacts of the CPRS on various industries, the impacts on the workers and communities which rely on these industries, were not considered. It is imperative to understand the impacts on the industry workforce and related communities if we are to maximise the economic, social and environmental benefits of the CPRS.

The green paper does not adequately recognise that regional and rural communities generally will be less able to adjust to the impacts of the scheme than will urban communities and that a range of more widely applicable measures targeted at regional and rural communities generally are required.

- To address this, the forest industry seeks closer collaboration with the Australian Government to address the potential impacts of the CPRS on specific forestry regions, its workers and communities, as part of the economic modelling inputs into the process.

The industry is keen to ensure that consistent arrangements exist for contractors and businesses operating across the primary production and road transport sectors.

- To this end, the forest industry seeks clarification about the extent of the proposed fuel rebate and how it will apply for forest industry activities such that they are

treated equitably to businesses operating within the fishing and agricultural industries.

Industry is committed to ongoing work with the Government

The Industry remains committed to working with the Government to develop a comprehensive, consistent and minimal risk framework and rule-sets to maximise the carbon benefits from forestry, wood and paper products for Australia domestically and internationally.

We look forward to meeting with you and your officials to discuss these matters further, and welcome any opportunities to provide more information.

Yours sincerely

Signatory Organisations

- Australian Plantation Products and Paper Industry Council (A3P)
- Australian Forest Growers (AFG)
- National Association of Forest Industries (NAFI)
- Treefarm Investment Managers Association (TIMA)
- Timber Communities Australia (TCA)
- Engineered Wood Products Association of Australasia (EWPAA)
- Timber Queensland Ltd (TQ)
- NSW Forest Products Association (NSW FPA)
- Tasmanian Forest Contractors Association (TFCA)

**Speech by Ms Linda Sewell, Chief Executive, HVP Plantations, to the
Asia Pacific Forest Industries Climate Change Conference in Sydney
on Tuesday 19th August**

I'd like to thank Minister Wong for making the time to be with us today. Australian industries must undergo fundamental changes in the face of climate change and learn to live with the reality of emissions trading. The forest and forest products industry is no different.

Our industry provides for more than 80,000 full-time jobs. Investment in plantation expansion totals hundreds of millions of dollars annually, while expenditure on new or improved processing facilities amounts to several billion dollars. I could spend the next 10 minutes talking about why our industry is significant to the Australian economy. But I'm sure many other manufacturing industries can make that claim too.

What I'd like to emphasise instead, is why a strong forest and forest products industry is a critical component for Australia in a carbon-constrained environment.

The forest industry is unique. Yes, we emit carbon. But, unlike other industries, we also store carbon. In fact, we are the only carbon-positive sector of the economy.

The start of our supply chain is a tree. The tree stores carbon. The products made from the tree store carbon. The carbon from forest residues is a source of renewable energy. The carbon in timber residues is a source of industrial heat. And the carbon in paper-making residues is one of Australia's largest sources of renewable electricity.

Australians expect emissions trading to enhance industries that contribute to a reduction in greenhouse gases. As the only carbon-positive sector, our industry already makes a positive contribution.

A strong forest industry can increase its carbon storage, as well as employment and local investment. Conversely, a weak forest industry would compromise existing carbon stores. In other words, it would go against the very objectives of an emissions trading scheme.

Our industry's vibrancy is based on the health of the whole supply chain, from the forest, through manufacturing, to recycling. We are not a collection of sub-sectors with different issues and concerns. That's why the forest industry today presents a single message for Government on the issue of emissions trading.

We operate as one cohesive industry. What affects one part has ramifications to the entire supply chain.

A single forest, in fact a single tree, produces both sawlogs and pulplogs.

Sawlogs are made into sawn timber for housing construction, while pulplogs, sawmill residues and recycled fibre are used for paper manufacturing.

Finally, waste materials, such as black liquor from chemical pulping and sawmill residues, are burned to produce heat and power, reducing the use of electricity from the grid.

The health of the industry is the health of its parts. You need all sectors to thrive in order to create balance in the forest, and make it economically viable to replant the forest following harvest. This in turn secures the supply of sawlogs and pulpwood to manufacturers.

Furthermore, the economic significance of the forest industry should not be underestimated. As a regional employer, it provides jobs (and careers) that support regional economies and communities. As a net storer of carbon, it should be empowered through emissions trading.

The industry welcomes many elements of the Government's Green Paper on the *Carbon Pollution Reduction Scheme*.

Firstly, the proposed inclusion of reforestation on an opt-in basis is a potential incentive for future expansion of the forest estate. There is no downside – as a minimum, carbon stocks will be maintained; but if the rules are right, more forests will be established and carbon stocks could be significantly increased. We need an accounting framework that mirrors the physical flow of carbon within forests. The forest industry is looking forward to working with Government to develop this framework. With the right market signals, new commercial opportunities could be created.

The industry is in the forefront on research into the longevity of carbon in harvested wood products. We can demonstrate what happens to carbon in wood products, during use and after disposal. Therefore we welcome the Government's commitment to influencing an improvement in the international treatment of carbon in wood products.

Despite being a genuine carbon store, carbon in wood products has been excluded in international frameworks to date, only because of the perceived complexity of how to account for it. Domestically, through our research, we are now able to demonstrate that carbon in wood products can be credibly accounted for in an emissions trading scheme. Australia can lead by example. We have the knowledge and the ability to show the international community how this can be done.

We urge the Government to grasp this opportunity to lead, rather than sitting back and waiting for changes to be accomplished by others. We encourage Government to include carbon in wood products in the *Carbon Pollution Reduction Scheme* from the outset.

In the building market, populated by highly greenhouse gas intensive products like steel, concrete and aluminium, the natural alternative is timber. It requires far less energy to manufacture, and it also stores carbon. If this is recognised, it will provide appropriate market signals to encourage the use of timber in building and construction. More timber in use ultimately leads to a greater carbon store. Perversely, if steel, concrete and aluminium are admitted as emissions-intensive trade-exposed industries, the market effect would be the exact opposite of what it should be. Recognising carbon in wood products will be needed just to ensure a level playing field with emissions-intensive competitors.

The inclusion of reforestation and the proposed recognition of carbon in wood products are two positive factors of the Green Paper. Not only for the industry, but also for the environment in response to the anticipated market signals created.

However, these positive factors can be quickly and overwhelmingly negated if pulp and paper is not recognised as an emissions-intensive, trade-exposed industry.

Our most significant concern with the Green Paper is how the competitiveness and viability of pulp and paper would be affected under the current proposal. As mentioned before – what affects one sector of our industry has ramifications throughout the supply chain.

Pulp and paper has a high level of trade exposure and is unable to absorb further costs within already tight margins. Nor can such additional costs be passed on to consumers, given these products are internationally traded commodities.

If competitors in other countries are not exposed to this cost, manufacturing will move offshore. This will lead to a perverse outcome of Australians sourcing their future paper needs from forest operations with much lower environmental standards, leading to a far greater global environmental impact. A further unintended consequence would be the impact on the balance of the industry supply chain, and the lost potential of future carbon storage that our industry can provide to Australia.

Designed incorrectly, an emissions trading scheme will have a devastating impact on our industry, have a far-reaching impact on the environment, and will go against the very objectives the scheme is seeking to achieve.

Designed correctly, an emissions trading scheme will protect existing carbon stores, will treat all industries on an equal footing, and will create appropriate market signals which could ultimately grow our long-term carbon reserves.

Let me paint a picture of what those two extremes might look like.

In a flawed emissions trading scheme, Australian pulp and paper would be fully exposed to a carbon cost that is not borne by its competitors from countries such as China and Indonesia. That is the main problem – an extra cost that is absent on imported competing products.

Put simply, this would make Australian paper products more expensive. It would cause our pulp and paper manufacturers to quickly lose markets at the margin, threatening the critical scale required for mills to operate viably.

Australian mills would lose the ability to attract investment within their global company structures. Therefore mills would only operate for as long as they were not running at a loss. Without upgrades and investment in new, more energy efficient technologies, these mills would inevitably close in the medium term.

Australia would also lose the ability to attract green-fields investment in pulp and paper, causing the industry to stagnate.

Obviously all of these factors would have significant regional economic impacts. But there would be serious consequences in the rest of the forestry supply chain as well.

Forest growers would begin to lose markets for small logs as pulp and paper lost marginal spot contracts. This would create immediate cash flow problems, and future sawlog supply problems. At the very least if pulp and paper mills start to close and growers lose a market for their low quality logs, forest growing would become unprofitable.

As a result, forest growers would not take up the potential reforestation opportunities offered in the *Carbon Pollution Reduction Scheme*, taking away a valuable abatement option for the Australian economy.

Sawmillers would also feel the pain. They would firstly lose markets for their residues. As growers tried to manage the absence of a pulpwood market in the medium term, sawlogs would either become more expensive or more scarce.

As a result, sawmillers would not be in a position to take up harvested wood products opportunities that may exist under a developing international framework, and the pool of carbon in wood products would diminish.

As you can see, in this scenario the overall viability of the forest industry would be critically threatened.

But, perversely, it would also lead to behaviour in the market that goes against the objectives of emissions trading. We could expect to see a greater use of greenhouse gas intensive products like concrete and steel in the construction market, because of the scarcity and high price of timber. More forest fibre would be sourced offshore at a higher environmental cost, from countries with lower forest management standards. Less carbon would be stored in forests and wood products. Finally, the closure of pulp and paper mills would result in a significant reduction in the generation and use of renewable energy.

It is difficult to see why the Government would establish a carbon market that would lead to outcomes so contrary to its purpose. A carbon market is meant to lead to reduced emissions and increased carbon storage. With the right rules, this can be achieved.

In a sound emissions trading scheme, Australian pulp and paper would be exposed to a carbon price signal, but interim measures would be implemented to maintain its competitiveness against imports.

As a country that had an emissions trading scheme but was maintaining the competitiveness of manufacturing industries, Australia would remain an attractive destination for upgrades and new facilities. Investment in pulp and paper would maintain current regional economic advantages, as well as reducing the emissions intensity of pulp and paper over time through new technology.

Well-maintained pulp and paper manufacturing would have many auxiliary advantages throughout the forestry supply chain.

Forest growers would continue to benefit from vibrant markets and demand for both high and low grade logs. As a result of a healthy market, forest growers would be encouraged to take up the potential reforestation opportunities offered in the *Carbon Pollution Reduction Scheme*. Carbon price signals would be balanced with other market signals and other land uses, resulting in the potential for modest growth in plantation forestry. This would provide a valuable abatement option for the Australian economy.

Sawmillers would have access to a healthy supply of sawlogs from forest growers. In response to a carbon price, sawn timber production would be able to increase, leading to more carbon storage in wood products. Sawmill residues would also continue to be in demand from pulp and paper mills.

This well-designed emissions trading scheme would truly achieve its objectives. The balance in the forest would be maintained, allowing for moderate increases in the national forest estate. Therefore more of Australia's forest product needs could be met by domestic production, which has a lower greenhouse footprint than imports due to reduced transportation. Vibrant sawmills and pulp and paper mills would lead to increasing generation and use of bioenergy. Less forest fibre would be sourced from potential deforestation and degradation in developing countries. By using

more fibre from Australia the market would be encouraging sustainable forest management here, with positive effects on our ability to influence changes internationally in sustainable practices.

A well-designed scheme would enable timber to develop its true competitiveness against products such as steel and concrete in the construction market, leading to an increasing store of carbon in forests and wood products. Similarly, local paper would be competitive against imports.

Measures to maintain the competitiveness of pulp and paper are only needed as long as there is a disparity in the market caused by the absence of a carbon price signal in competitor countries. Once a global agreement has been reached, or at least once pulp and paper's competitors also have to factor in a carbon price, the disparity will be gone and the status quo restored, reversing the need for any such measure.

As an industry, we want to see the more positive of these scenarios come to pass. We want a carbon price to result in real reductions in emissions, and genuine abatement opportunities. The forest industry can make decisive contributions to bring about this outcome.

The following is the next stage in our single forest industry position on emissions trading. Our position provides clear detail on key components of the industry.

1. Government measures are needed to maintain our vital and currently strong **pulp & paper** sector, to prevent the introduction of a carbon cost from damaging the whole industry. These measures must take account of the level of trade exposure and the inability to absorb further costs, and allow pulp and paper to remain viable against imported competition. This will enable Australians to source their paper needs from domestic forest operations with high environmental standards.
2. The industry welcomes the Government's proposed treatment of **reforestation**. We are committed to assisting the development of workable methods that capture the potential contribution of new forests.
3. On **harvested wood products**, our strongly held view is that Australia should seize the opportunity to lead. Crediting carbon in wood products in our domestic scheme would benefit Australia by giving us influence internationally and increasing our carbon store in wood products.
4. Australia can demonstrate sustainable **forest management** with increasing carbon stocks; we should distribute this knowledge in our region through commercial forces and skills development. Helping our near neighbours to address deforestation and forest degradation would yield an immediate and significant reduction in carbon emissions.

5. Finally, we encourage Government to make wood-derived **bioenergy** a priority area for research and deployment of new technology to contribute to Australia's energy security.

With the right rules, the forest industry is of the view that the emissions trading scheme is a sensible policy.

Pulp and paper can continue its crucial role in the industry supply chain within a framework that recognises the threat it is facing from international competition, and that supports its competitiveness.

The Australian forest industry is leading the world in sustainable timber and paper production, we have world-leading standards of high quality forest management, and we have the ability to lead the rigorous accounting of carbon in the forest products supply chain.

While other industries may be calling for a slowing down, or a soft-start approach to emissions trading, our industry is prepared and willing to take on the challenges and opportunities ahead.

The forest industry is a valuable part of the Australian economy, and a central building block of the regional landscape. We support and rely on regional economies and communities, and we have maintained a healthy, sustainable, environmentally conscious industry for many years.

The forest industry is not like other industries. The start of our supply chain is a tree, and we are the only carbon-positive sector of the Australian economy. An emissions trading scheme should enhance the industry's position, not cause its deterioration.

The forest industry has long ensured its own prosperity, and we want to continue to do so. We're not asking for assistance to ensure our profitability. We don't need propping up. However, we don't want insurmountable hurdles placed on our competitiveness. Environmentally sustainable industries are better kept onshore.

Provided our long-term viability is not threatened, and provided the Government ensures that unintended and devastating consequences to the forest industry are avoided, there is absolutely no reason why, in our carbon-aware future, we should not continue to be a vibrant, growing, sustainable and important part of the Australian economy.

Thank you.