



## Submission Template

### Emissions Reduction Fund draft determination

*Draft Carbon Credits (Carbon Farming Initiative – Plantation forestry) Methodology Determination 2016*

#### Overview

This submission template should be used to provide comments on a draft Emissions Reduction Fund determination

#### Contact Details

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#### Confidentiality

All submissions will be treated as public documents, unless the author of the submission has requested that the submission not be published on the grounds that its publication could reasonably be expected to substantially prejudice the commercial interests of the author or another person. Public submissions will be published in full on the Department of the Environment's website, including any personal information of authors and/or other third parties contained in the submission. Confidential submissions will not be published but will be provided to the:

- Department of the Environment and Energy;
- Emissions Reduction Assurance Committee; and
- Clean Energy Regulator.

If any part of the submission should be treated as confidential then please provide two versions of the submission, one with the confidential information removed for publication.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

**Do you want this submission to be treated as confidential?**     Yes     No

#### Submission Instructions

Submissions should be made by **close of business** on the day the public consultation period closes for the determination. This date will be specified on the website. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address – [EmissionsReductionSubmissions@environment.gov.au](mailto:EmissionsReductionSubmissions@environment.gov.au)  
Submissions may alternatively be sent to the postal address below to arrive by the due date.

ERF Governance, ERF Division  
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GPO Box 787  
CANBERRA ACT 2601

**Name of draft determination:** *Draft Carbon Credits (Carbon Farming Initiative – Plantation Forestry) Methodology Determination 2016*

## General/overall comments

The Institute of Foresters of Australia (IFA) is a professional body with over 1,100 members engaged in all branches of forest management and conservation in Australia. The Institute is committed to the principles of sustainable forest management and the processes and practices which translate these principles into outcomes. The IFA has clear policies in support of plantations, plantations in rural landscapes and the role of forests in climate change mitigation. Copies of the Institute's policies can be found on our website: <https://www.forestry.org.au/ifa-policies>

The membership of the IFA represents all segments of the forestry profession, including public and private practitioners engaged in many aspects of forestry, nature conservation, resource and land management, research, administration and education. The IFA is Australia's only professional body for foresters and other forestry professionals and is well placed to provide a balanced review of forestry initiatives such as this plantation method determination.

The IFA has a keen interest in seeing new forestry plantations established within Australia to meet the country's growing demand for wood fibre and to contribute meaningfully to its carbon emission reduction targets through low cost abatement.

There has been minimal investment in new long-rotation softwood plantations since 2000. The previous Plantations 2020 Vision, developed with bipartisan support, had a target of 3 million hectares of plantations by 2020. Historically investment in long rotation plantations was mostly by state agencies with financial support from the Federal Government (mostly prior to the 1970s) and there has been limited private sector interest. Private sector investment supported the establishment of over 1 million hectares of new hardwood plantations during the 1990s and 2000s with over 90% of these hectares in short rotation.

The drivers of new investment have all but disappeared with changing financial conditions and the demise of Managed Investment Schemes (MIS) since 2008, and no new investment by state agencies. Many areas of hardwood plantations are being converted to agriculture, with major implications for greenhouse gas emissions. Most of the nation's plantation forests are now under private ownership (state-owned plantations in WA and NSW being the exceptions).

New plantations, particularly longer rotation plantations, are required to meet future wood demand and provide additional timber resources to support reinvestment in the domestic timber processing sector generating economic and social benefits, boosting regional economies and providing greater economic diversity and resilience to regional communities. When planted in the right locations these plantations can provide significant environmental benefits. Revenue from carbon abatement projects can potentially make new plantations more financially attractive to investors and support the development of regional timber industries. The draft ERF Plantation Forestry methodology is a mechanism that can provide such an opportunity, providing it is appropriately structured.

The draft methodology has been many years in the making, through the recent development process under the ERF Plantation technical working group and extensive research supported by Commonwealth, State and Industry organisations. Being such an important and long awaited initiative makes it essential that the methodology is scientifically sound, fair and workable.

We note the methodology caters for both long and short rotation plantations. The IFA considers that investors in plantations should be free to choose the plantation model that meets their purpose. In some regions, longer rotation plantations will be preferred while in others short rotation plantations will provide greater economic benefit.

The political fallout of poorly located MIS projects still resonates within the agricultural sector. We are aware that this legacy of concern is reflected in the draft Plantation Forestry methodology and has contributed to its delayed release. The initial development of the draft ERF Plantation Forestry methodology was guided by a Plantation Forestry technical working group which included forest experts who are also members of the IFA. We understand that the version of the method agreed by the Plantation Forestry technical working group some 12 months ago has been substantially modified since that time.

We accept that matters involving land-use change will be controversial. However, we consider the workability of the modified draft methodology has become deeply compromised.

To be workable, all parts of the methodology must function effectively and not cause any undue obstruction to participation. Our submission will explain how the changes to the original draft methodology have made it unworkable and with significant sovereign risk for investors.

Unless these issues are addressed, there will be little investment in plantations for carbon sequestration, increasing the risk that the Government will fail to meet to its own stated policy objectives of low cost, high volume abatement. It will also fail to provide much needed stimulus to support jobs in a sustainable regional industry, to diversify regional economies and reduce Australia's reliance on imported wood and paper products.

Adoption of the Institute's recommendations will also bring the ERF into line with arrangements for investment in carbon sequestration under the New Zealand ETF. This will create a level playing field for investment in plantations in the two countries.

## **Do you consider that this determination may have any adverse environmental, economic or social impacts? What existing frameworks are in place to address any adverse impacts?**

If it takes place with proper planning, the proposed activities of plantation establishment or plantation rotation extension will have environmental, economic or social benefits.

However, the IFA considers that the determination in its current form will likely constrain industry and landowner interest in seeking to establish plantation forests under the ERF. Therefore, the adverse impact will be the lost opportunity for Australia to contribute to its emissions reduction targets by supporting an industry of high importance for rural and regional economies, and an industry that can provide substantial abatement while also achieving improved water quality and soil erosion mitigation objectives.

The primary concerns of the IFA are:

- 1. The requirement for proponents to submit projects to the Commonwealth Minister for Agriculture for unilateral review [Explanatory Statement p4].** Proposed amendments to the CFI Rule would establish a new approvals process that has the potential to block projects that have an 'undesirable impact on agricultural production or land values'. This new approval process would add another level of bureaucracy, as well as uncertainty, on top of the obligations to satisfy the eligibility requirements set out under the CFI Regulation (see point #3 below), which relate largely to addressing issues of water, food and agricultural security.

Furthermore, the introduction of this new unilateral approval process appears to overlook a central feature of the Plantation Forestry method - that, in a regional context, plantations make significant economic and social contributions that help to support and sustain rural Australia through production diversity. Diversity in regions dependent on primary production will be more resilient in the long term, including in response to climate change.

In the view of the IFA this will be a significant barrier to investment in the development of projects by private sector proponents and state-owned enterprises. It is counter to the principle of an open market for land.

- 2. Specific exclusion of State Government supported plantation programs [Explanatory Statement page 9].** Proposed amendments to the CFI Rule to be made in conjunction with the draft method would 'prevent projects involving certain government-funded plantation investments from participating'. The stated intent is to avoid the risk that the Government will 'pay twice'.

This exclusion is broadly drafted and applies to new plantation forests established by, or on behalf of, a State or Territory government or entity, where that government invests through providing funding or forgoing revenue.

This exclusion is not consistent with other activities that are supported financially through State or Federal funding programs such as the Savanna Fire Management and Human Induced

Regeneration methods. State government investments in plantations are made through state-owned enterprises that, like any private enterprise, are expected to provide a return on capital to their shareholders. They are governed by the same corporate principles and these enterprises should be entitled to participate in the same way as other private entities.

The additional revenue from abatement credits may be critical to the financial viability of proposed projects. The IFA is concerned this exclusion will unduly constrain State governments (largely through forest management agencies) from facilitating investment in new plantations in strategically located plantation regions (or 'hubs') for a range of economic, social and environmental benefits that include emission abatement and leveraging other sources of public and private funding where this investment would not otherwise have been forthcoming. The IFA recommends that state forestry enterprises be able to present plantation projects for abatement credits on the same basis as the private sector.

- 3. The 600 mm rainfall zone restriction on new plantation projects in the existing Carbon Credits (Carbon Farming Initiative) Regulation 2011.** The draft Determination specifies an important requirement for eligibility which is that any potential project is not an *excluded offsets project* under the terms of the *Carbon Credits (Carbon Farming Initiative) Regulations 2011* (CFI Regulation). Several regulations defining excluded offsets projects have potential application to projects that would otherwise be eligible as plantation forest projects.

Under the CFI Regulation, there are exclusions that are intended to ensure that ERF projects do not cause adverse impacts on specified environmental and social values. These exclusions also tend to give precedence to agricultural production over plantation forestry and restrict the use of plantations for emissions abatement to areas of relatively low rainfall.

The CFI Regulations have also introduced onerous obligations for plantation forestry project proponents to demonstrate their projects will not have an adverse impact on surface water and groundwater supply. The IFA recognises and supports the need for safeguards to ensure that ERF projects do not have adverse environmental impacts. However, currently there is no clear process for project proponents to step through to satisfy the obligations. For example, the CFI Regulation provides an exemption for tree plantation projects if the project area is 'in a region in relation to which the Water Department has determined that the commitments by the relevant State government under the National Water Initiative to manage water interception by plantations have been adequately implemented.' However, neither the CFI Regulation or the CFI Rule provide detailed guidance on the Commonwealth review and approval processes for checking this State Water Department determination; and the IFA understands these approval processes have not yet been developed.

These concerns, and others, are described in further detail under the section on 'Specific comments'.

<b>Specific comments – please insert your specific comments below, listed against the part of the draft determination to which they apply</b>	
<b>Determination reference:</b> <i>[insert name of relevant part of determination]</i>	<b>Comments</b>
<b>Proposed changes to Carbon Credits (CFI) Rule 2015 – Section 20B Excluded offsets project – certain new plantation forests</b>	<p>The Explanatory Statement notes that there are proposed amendments to the <i>Carbon Credits (CFI) Rule 2015</i>, which would, under Section 20B, restrict eligibility of new plantation projects where the Commonwealth Agriculture Minister has assessed that they would have an undesirable impact on agricultural production or land values in the region.</p> <p>The IFA understands that notification must be made to the Commonwealth Agriculture Minister [30/60] days prior to submitting the project application to CER and the Minister has [30/60] days to respond. Through this process, the Minister may reject a notification on the basis that a project is “undesirable” and presents a material risk of adverse impacts</p> <p>The IFA is concerned about these proposed amendments giving effect to this process of notification and review by the Commonwealth Agriculture Minister. There are two broad aspects of concern:</p> <ol style="list-style-type: none"> <li>1. The first concern relates to the unilateral power of consent or veto given to the Commonwealth Agriculture Minister, and the extent to which this process gives precedence to maintaining existing agricultural activities over plantation forestry. The proposed amendments reflect a public policy position that agricultural production cannot be compromised by emission abatement initiatives within the land sector, and also appears to overlook the capacity of plantation forestry sector to provide multiple economic, social and environmental benefits, whilst integrating with other, existing agricultural activities.</li> <li>2. The second concern relates to the lack of detail and clarity around the basis on which plantation forestry projects would be assessed under the legislative rule. For example, the parameters for “desirable” and “undesirable” impacts on agricultural production are not yet defined or described. The IFA understands these parameters will be defined or described in a legislative guidance document, under the direction of the Department of Agriculture. It remains unclear what consultation process will be followed and who will be involved (see c below).</li> </ol> <p>Other questions arising that are not addressed in the proposed amendments include:</p> <ol style="list-style-type: none"> <li>a. How long will the legislative/policy guidance take to be drafted?</li> <li>b. What are the criteria that will be used to assess projects?</li> <li>c. Will the Minister consult with other external stakeholders in the process of decision making, including those who may support plantation forestry development?</li> <li>d. Will the Minister’s ruling and reasons for this ruling be made public?</li> <li>e. What are the grounds and process for appeal against a negative ruling?</li> <li>f. Is this condition consistent with other ERF methods and public policy more broadly?</li> </ol> <p>The lack of detail and uncertainty around these aspects will result in a cautious approach and means additional risks for proponents, which will tend to constrain proponent interest and investment in preparing and submitting plantation forestry projects under the ERF.</p>

	<p>Furthermore the additional time required by the Commonwealth Government to prepare the legislative guidance document may further extend the time before plantation forestry proponents will have any confidence of being able to present a compelling project. The IFA notes that there have been four auctions conducted under the ERF and most of the Commonwealth budget allocations to the ERF have already been allocated. Therefore, the opportunities for plantation forestry to play a role in the ERF appear to be diminishing, and will continue to do so for the duration of the development process.</p> <p>The onset of the ERF review, due to take place in 2017 will further constrain this opportunity.</p> <p>The IFA believes there is opportunity for the Commonwealth to modify section 20B in a way that would allow concerns about “undesirable” projects to be addressed without jeopardising those projects that are genuinely important for delivering long term regional socio-economic benefits. For example:</p> <ul style="list-style-type: none"> <li>• Approvals could be made on the basis of assessment criteria guided by a current, government-endorsed, public, landscape scale plan at the time of application to the CER. For other ERF methods and projects, demonstrated consistency with government endorsed Natural Resource Management Plans is a pre-requisite for project approval by the Clean Energy Regulator. A similar process should be applied to this method through which the planning frameworks developed by NRM bodies could be used to guide carbon farming investments. These will ensure that plantation investment occurs where it can have greatest environmental benefit.</li> <li>• New long rotation plantations should not be subject to Ministerial approval. This would remove uncertainty for an activity that has never been a major threat to agricultural land-use change, even during the height of investment in MIS.</li> <li>• If there is genuine concern about large-scale development of short rotations plantations, the Minister could retain the power to restrict new short rotation plantation an area based threshold could be applied through which only large-scale plantation development requires Ministerial approval.</li> </ul>
<p><b>Proposed changes to the Carbon Credits (CFI) Rule 2015: requirements in lieu of government program requirement</b></p>	<p>Proposed amendments to the <i>Carbon Credits (CFI) Rule 2015</i> may prevent “certain government funded new plantation investments” from participating in the ERF through the Plantation Forestry method. The stated intent is to avoid the risk that government will pay twice for the same projects.</p> <p>The IFA understands the Commonwealth Government’s concern about public funds being allocated twice to the same project. However, the IFA considers there is an important role for State forest management agencies to play in supporting the appropriate development of plantation forestry across the States. The way the proposed changes are described in the draft Determination will tend to “prevent” their involvement in supporting – directly or indirectly - plantation forestry development for purposes that include emissions reduction.</p> <p>In this context, the singular example of the exclusion of the WA Forest Products Commission’s (FPC) program to support softwood plantation expansion appears to be unduly specific. Like other State forest management agencies across Australia, the FPC has been grappling with how to stimulate new investment in plantation forests, particularly of long-rotation softwood, following the ongoing reductions and losses in the plantation estate in WA’s south-west. As noted earlier in this submission, the lack of new investment in plantation forests will ultimately limit the competitiveness of the plantation forestry industry in Australia, and among other impacts, result in increased imports of wood and paper-based products into Australia in the longer term.</p> <p>To address this challenge, the FPC has developed a softwood plantation expansion program to stimulate investment in plantation forest resources for timber</p>

	<p>production and leverage private sector investment. A plantation forestry method under the ERF is a potential complementary source of finance that could further leverage State based investment and supports a project's financial viability.</p> <p>The proposed changes to the <i>Carbon Credits (CFI) Rule 2015</i> effectively rule out this prospect.</p> <p>The IFA, as the professional body representing foresters and other forestry professionals in Australia, refers to this specific exclusion as an example of how the draft Determination will tend to constrain project proponents who may otherwise have an important role in promoting plantation forestry and processing industry development in appropriate locations for its multiple benefits, including emissions reduction.</p>
<p><b>Permanence Discount - Explanatory Statement page 11</b></p>	<p>The Explanatory Statement includes a question regarding the discount rate on abatement for projects that opt for a 25-year permanence requirement. The intent of this discount is "to cover the potential cost to the Government of replacing carbon stores after the project ends".</p> <p>The phrasing of this question within the Explanatory Statement infers that permanence of sequestration arising from plantation forestry project activities may be more risky than sequestration from other project activities because plantations are harvested and may or may not be replanted after harvesting.</p> <p>The IFA believes that the assumption that replanting would not occur is invalid for the reasons set out below and would not support any increase in the permanence discount.</p> <ul style="list-style-type: none"> <li>• Projects will have made substantial investments in land purchases, the development of infrastructure and understanding and managing for optimal silvicultural practices, aiming for multiple rotations to recoup that investment.</li> <li>• Plantation managers invest heavily in asset protection against fire, pests and diseases thereby reducing the likelihood of carbon losses arising from these agents. This investment is likely to be significantly greater than for environmental planting or avoided deforestation projects.</li> <li>• Abatement entitlement is inherently conservative based on the use of FullCAM and because crediting is based on a long-term average rather than total abatement.</li> <li>• Carbon storage in long-lived Harvested Wood Products, which is not fully accounted within the Plantation Forestry method, already makes abatement under the method highly conservative.</li> </ul>
<p><b>11 Forestry managed investment schemes that are excluded</b></p>	<p>The IFA supports the eligibility of a plantation that was once managed as part of a forestry management investment scheme, but which ceased to be so managed before becoming part of the project.</p>
<p><b>Division 3 (and FullCAM guidelines)</b></p>	<p>The inclusion of carbon storage within Harvested Wood Products (HWPs) in end use is a positive inclusion to the method. However, the omission of carbon in HWPs in landfill is potentially too conservative.</p> <p>The IFA would support future consideration of the inclusion of HWPs in landfill, through a method variation at a later stage. However, this determination should not be delayed to make that variation.</p>
<p><b>Schedule 3 Excluded national plantation</b></p>	<p>Eligible plantations are confined to NPI regions only. It is understood this limitation is intended to ensure that new plantations are additional however it also limits possible participation in areas of Australia in which new plantations could support regional development. For example the White Paper on Developing Northern Australia sets out key policies and initiatives to drive growth in the north through,</p>

<p><b>inventory regions for certain plantation types</b></p>	<p>inter alia, the better use of land and water resources and a welcoming investment environment. The limiting of the method to NPI regions, together with the 600 mm rainfall rule, constrains this opportunity including for indigenous Australians. Given the current focus of the Commonwealth Government on developing Northern Australia and previous initiatives such as the National Indigenous Forestry Strategy, it is important that consistent policy settings are set to encourage investment in non-NPI regions.</p> <p>Eligible plantation species are specified in the method and two species, African Mahogany in NT, and Indian Sandalwood nationwide, are ineligible. These two species are particularly significant in the context of the policies to develop the north and opportunities for Indigenous participation.</p> <p>Other species are defined in the Schedules but it is unclear whether these are exhaustive and what the process might be to propose new plantation species.</p> <p>The determination does not provide guidance for situations in which a new or existing plantation is part-inside and part-outside an NPI region.</p>
<p><b>FullCAM guidelines</b></p>	<p>FullCAM has been developed to support the application of the Plantation Forestry Method. It can support project-based accounting and is also used in the calculation of Australia’s national greenhouse gas inventory. The IFA understands that its use ensures consistency between ERF methods and the inventory, a requirement of the offsets integrity standards.</p> <p>In FullCAM, as applied to the Plantation Forestry Method, if the exact species or genus is not available for modelling, projects must use a “mixed species environmental planting” setting. FullCAM is inherently conservative<sup>1</sup> in its accounting approach and environmental plantings are particularly conservative. Application of this setting is unlikely to accurately reflect the plantation regimes of the species actually being planted by the project or their level of abatement.</p> <p>The IFA considers that project proponents should be able to provide data in the form of growth curves for any species not currently included in FullCAM, or other new plantation species not currently included in the Schedules. Data could be submitted for review by the FullCAM team within the Department of Environment and Energy. This would not only also benefit project proponents but would also contribute to the ongoing development of FullCAM.</p> <p>The IFA also considers that project proponents should be able to utilise data in FullCAM in the form of actual inventory data rather than FullCAM default yields, where this data meets required standards.</p> <p>The time periods being modelled under FullCAM are long (100 years). Over time, particularly with climate change, there will be significant differences between modelled estimates and actual sequestration. Re-modelling is required to make claims for credits that accommodate changes to the plantation management regimes and events. Remodelling with FullCAM should also be undertaken with current climate data for the relevant time period.</p>
<p><b>Part 3 - Project requirements</b></p>	<p>Part 3 of the draft Determination specifies a number of requirements that must be met in order for a project to be an eligible offsets project under the draft Determination. Part 3 requires project proponents to</p> <ul style="list-style-type: none"> <li>• use FullCAM,</li> <li>• test and report whether a proposed management action that differs from the proposed management regime will result in negative abatement, and</li> <li>• update the management regime if necessary, as specified in section 31.</li> </ul>

<sup>1</sup> <http://climatechangeauthority.gov.au/reviews/carbon-farming-initiative-review/chapter-2-performance-carbon-farming-initiative>

	<p>Changing a plantation management regime intended for optimal timber production, to avoid negative abatement is potentially commercially unrealistic. Alternatives should be considered that allow proponents to surrender permits to address negative abatement.</p>
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