

Timber recycles carbon



Moving Queensland's forest and timber industries towards a carbon constrained economy.

An introduction to Australia's carbon pollution reduction scheme

7 August 2008, Surveyors' Room, Conrad Treasury Hotel

Key Learnings for Queensland's Forest and Timber Industries

Change is here

Emissions trading and a carbon constrained economy are with us. There is sound science demonstrating that human induced global warming is occurring. The response will be moving to a carbon constrained economy under the Commonwealth's Emissions Trading Scheme (ETS), titled the Carbon Pollution Reduction Scheme (CPRS). The Queensland forest and timber industries need to identify how they will engage in development of that scheme, and how businesses will respond to the carbon constrained economy.

Participation is difficult

The CPRS has been designed to allow for voluntary coverage of reforestation, a position that has strong support from the forest and timber industry. This will provide opportunities for the industry to receive recognition for the carbon sequestered in new plantations.

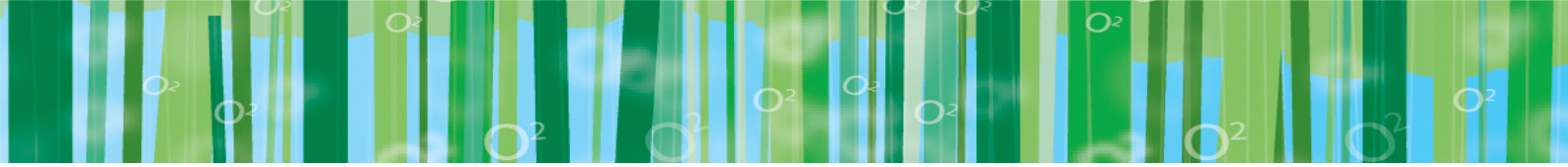
Despite the opportunities of the CPRS, there will be barriers to participation; with the potential liabilities being a major consideration. Carbon credits are generated early in a rotation when carbon prices are likely to be lowest, and liabilities encountered later in a rotation, when carbon prices are likely to be higher.

Single rotation plantations are effectively a zero sum gain with limited opportunity to benefit from participation. There are a range of issues associated with the investment structure and equity that will limit the participation of MIS plantations. Larger growers that permanently increase the forest estate will be most able to benefit from participation. Whilst these growers will still need to consider risk and liabilities, scheme rules will be important determinant of compliance costs.

Harvested wood products must be included

Positive impacts of the scheme as it stands are likely to be marginal for the forest and timber industry. These arise from the liabilities associated with participation and the accounting rules that deem carbon to be lost to the atmosphere upon harvest.

The inclusion of harvested wood products in the CPRS is essential to improving the benefits of participation, and to maintaining wood resource to industry. The current carbon



accounting rules assume all forest carbon is released to the atmosphere upon harvesting do not reflect the actual flow of carbon. The result is an excessive carbon liability at harvest that precludes many parties from participating and benefiting from the CPRS.

Without recognition of carbon stored in wood products, there is a potential for the carbon value of plantations to outweigh their value for wood products, and thus be retained as carbon-only plantings. In addition to this, the demand for carbon neutral energy sources will raise the level of competition for lower value residue products, potentially displacing longer-lived reconstituted wood products such as MDF and particle board.

Uncertainty will constrain investment

Uncertainty surrounding future rules, and the impacts of the CPRS on things such as resource availability, is likely to constrain investment in the industry. Without certainty about the future, industry is reluctant to invest, and finance is difficult to raise. Lack of investment in high cost capital works as the CPRS is introduced will impact on the efficiency of the forest and timber industry and ultimately its viability.

Rules are critical

Final rules of the CPRS will significantly impact the outcomes for all affected parties. Issues such as eligibility, compliance requirements, thresholds, and compensation arrangements arising from the scheme design will determine how each party fares from the CPRS.

The Commonwealth Government will soon be releasing a discussion paper on design aspects associated with forestry that will help shed light on design considerations for these rules.

EITE support is not looking good

Poorly designed support for Emissions Intensive Trade Exposed (EITE) industries could give competitors to timber a free kick, whilst not addressing significant impacts in our own pulp and paper sector.

With steel, concrete and aluminium all likely to receive free allocation of permits due to their very high emissions (per \$ value), the timber industry stands to lose because it will be subject to the full cost of its emissions.

The pulp and paper sector is likely to fare even worse, because it is extremely trade exposed, and has emissions that are close to the proposed thresholds for support under the CPRS. Hence this sector is likely to have a significant increase in costs associated with its high energy requirements, yet still have to compete in an international market where competitors do not have to bear any carbon costs.

Bioenergy should benefit

Bioenergy derived from residue that is currently low value should offer significant opportunities for the forest industry by providing markets for unused residue, and to the processing industry by providing an opportunity for insulating against excessive energy costs.

The increasing use of residue for bioenergy will compete directly with those businesses that currently rely on this resource.