

TITLE: Abbott's direct action lesson

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Tony Abbott's Direct Action Plan has been ridiculed by many as expensive and unworkable. One of the primary objections has been that the centrepiece of the policy, the Emissions Reduction Fund, is a baseline-and-credit scheme that will require counterfactual baselines to be set for every participating polluter.

The baseline for a given polluter will be an estimate of what its emissions would have been in the absence of the incentive provided through the scheme. Payments to polluters will then be made for any emission reductions below the baseline.

This type of scheme is not novel or untested. The Carr Labor government's Greenhouse Gas Abatement Scheme – the first emissions trading scheme in the world – was a baseline-and-credit scheme. Forest management accounting under the Kyoto Protocol uses a baseline-and-credit method, as does the Joint Implementation and Clean Development Mechanisms. The Gillard government's Carbon Farming Initiative (CFI), which the Opposition has pledged to retain, is also a baseline-and-credit scheme.

Although well established, with all baseline-and-credit schemes, there is a risk of credits being issued, or payments being made, for emission reductions that would have occurred anyway. This is known as additionality risk. The problem arises because of the difficulty in setting baselines; there is no fool proof way of determining what emissions would have been in the absence of the program incentive.

A vivid illustration of this problem is playing out in the Tasmanian Forests Intergovernmental Agreement (IGA) process, the final deal for which is currently being considered by the Tasmanian Upper House. Under the terms of the forest agreement, the Tasmanian government will transfer approximately 500,000 hectares of state forest to formal reserves, in return for which the Commonwealth has undertaken to provide around \$350 million to subsidise the restructuring of the forest industry, compensate displaced forest workers, payout forest contracts, and help establish and manage the new reserves.

Since early last year, there has been conjecture about whether the Tasmanian government might also receive carbon credits under the CFI (called Australian carbon credit units, or ACCUs) for protecting the forests.

Data released by Forestry Tasmania suggested that, in the absence of the agreement, log removals from public native forests over the period 2011-2030 would average 1.7 million cubic metres per annum. On this basis, we estimated that Tasmania could potentially earn around two million ACCUs each year over the period 2013-2030 by protecting 572,000 hectares of public forest (at the time of the analysis, this was the area being considering for inclusion in reserves). The net present value of these credits was estimated at roughly \$1 billion, with a range between \$500 million and \$2.2 billion.

In response to the release of this analysis, the Tasmanian government asked for clarification about whether it would be eligible to receive ACCUs for the forests protected through the IGA deal. After some toing and froing, the Australian government made it clear that it would be and that regulations would be passed to ensure it satisfied the statutory eligibility requirements.

Things took a turn in late February this year, when then regional Australia minister Simon Crean and federal environment minister Tony Burke released a government commissioned report that found that, if the forest agreement does not go ahead, log removals from Tasmania's public native forests could fall from 1.5 million cubic metres to 125,000 cubic metres per annum, leading to the loss of a further 678 jobs and \$263 million in output. In short, if the Tasmanian Upper House does not waive the deal through, and the associated Commonwealth subsidies do not arrive, the industry will all but collapse.

As if to emphasise this point, the report's authors, which include current Forestry Tasmania director Bob Smith, made it clear that the assumption of continued log production of 125,000 cubic metres per annum was highly optimistic and that, in fact, it was more likely the industry would fall over completely. In this regard, they commented that:

[The scenario involving continued production at 125,000 cubic metres] does not address the substantial challenges in establishing a commercially viable supply chain for all participants and the processing and marketing structures that would be necessary to successfully implement [the scenario]. It is the authors' judgment that meeting these challenges would require significant investment that is beyond the investment appetite of the current Tasmanian forest industry.

Put in the simplest terms, no Commonwealth subsidies, no native forest industry. Let there be no misunderstanding, the IGA is about industry assistance, not conservation.

The Australian government endorsed the report's findings and used them to pressure the Tasmanian Upper House to pass the deal. Simon Crean commented that:

The number of jobs in the Tasmanian forestry industry halved between 2006 and 2011 in response to market forces ... The modelling in this study predicts more of the same, in the absence of the long-term, durable solution to the forestry dispute offered by the Tasmanian Forests Agreement. ... Failure to pass the agreement will only ensure the continuing decline of the industry.

This fundamentally alters the analysis of whether Tasmania should receive ACCUs for protecting the forests. Like all baseline-and-credit schemes, CFI baselines are supposed to represent an estimate of net emissions in the absence of the incentive provided through the scheme. This is the rule that ensures that credits are only issued for emission reductions that would not have otherwise occurred.

Here, it is now clear that, if the IGA does not proceed, there will be no (or very little) native forest harvesting in state forests in Tasmania. As a matter of principle, this should be the baseline for determining the number of ACCUs Tasmania receives as a result of creating the new reserves; meaning it should not receive any ACCUs.

The creation of the reserves will change the formal tenure but will not change the environmental outcome. If anything, Tasmania should pay money to the Commonwealth to account for the lost forest management credits (and carbon revenues) that will arise as a result of propping up the native forest industry and ensuring ongoing native forest harvesting.

How the Australian and Tasmanian governments will resolve this issue is difficult to foresee. The principles pull one way, the politics another. The Australian government will be well aware that if they artificially inflate the baseline to ensure Tasmania receives ACCUs it will set a terrible precedent and undermine the credibility of the CFI.

Rarely are the problems of baseline setting played out more publicly than in this instance. It gives policy observers an insight into the problems that the Coalition's Direct Action Plan will face if they win the 2013 election and the types of pressures that could confront those charged with administering it.

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