

**TITLE: The CCA's forestry fumble**

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The Climate Change Authority's final report on the renewable energy target, which was released yesterday, contains a number of controversial conclusions and recommendations.

A standout amongst these is the recommendation that the federal government explore whether making native forest wood waste eligible to participate in the large-scale RET (LRET) would increase the rate of harvesting in native forests and, if not, to reinstate it 'subject to appropriate accreditation processes designed to ensure that no additional logging occurs as a result'.

This finding is based on the Authority's view that:

*"If a forest would have been logged in any event, then burning the wood waste in a power station is a better environmental outcome – in greenhouse gas emission terms – than burning the waste alone or allowing it to decompose."*

At a distance, this appears to be a statement of the patently obvious. Surely, if wood waste from harvesting is used to generate electricity, it will displace fossil fuel-based generation and thereby reduce greenhouse gas emissions?

Although logically appealing, this is incorrect.

While Australia has a national emissions target, nothing that affects emissions within the sectors that count towards the target should have any influence on the total national (or global) emissions outcome. All it will achieve is to change the distribution of emissions between sectors, countries and/or time. Hence, if the burning of native forest wood waste did, for arguments sake, displace fossil fuel-based electricity generation, it would not lower greenhouse gas emissions. Rather the reductions associated with the displacement of fossil fuel-based generation would be offset by increases in emissions elsewhere and/or in another time period.

This is the natural consequence of having an international regime for developed countries that is based on targets and timetables; provided countries comply with their obligations, the environmental outcome should be fixed.

When the carbon pricing scheme becomes a standard emissions trading scheme on July 1 2015, the Authority's argument becomes even more unsustainable. From then on, reductions in emissions in the electricity sector will not even reduce the net emissions outcome for the sectors covered by the carbon pricing scheme. All it will do is reduce demand for eligible international emissions units (i.e. it will reduce imports).

The defects in the Authority's rationale do not end there; it has also overlooked how the LRET works.

The LRET scheme sets a mandatory amount of renewable electricity that must be generated each year. Because of this, the only thing allowing native forest wood waste into the scheme will achieve is to displace other forms of renewable generation. The wind, hydro, solar or bagasse that would have generated the electricity and received the renewable energy certificates (RECs) will be replaced by native forest wood waste.

Due to this, if native forest wood waste generators receive RECs, the electricity they generate will not displace fossil fuel-based electricity generation, nor will it reduce greenhouse gas emissions from the electricity sector. The outcome will be the same amount of 'renewable' electricity generation and the same emissions from the electricity sector; the only difference is that there will be a switch in the type of generation.

The Authority's fumbling of the wood waste issue highlights the weakness in the underlying policy rationale for the RET. In seeking to establish the case for the RET, the Authority considered and largely dismissed several of the standard arguments used to support it, including that it reduces long-term mitigation costs by promoting 'learning-by-doing' benefits, improves energy security and public health outcomes, promotes retail competition and creates 'green jobs'.

To justify its continuation, the Authority relied almost exclusively on two issues. First, the RET is a transitional measure that is necessary to promote the uptake of new technologies in the electricity sector while the future of the carbon pricing scheme is uncertain. Secondly, scrapping it would be unfair and create additional regulatory uncertainty (i.e. sovereign risk).

The first of these is about reducing long-run mitigation costs. If the level of global ambition increases significantly, resulting in a sharp rise in the global carbon price, the RET could dampen the shock and enable a smoother, and less costly, transition. In this sense, the RET is a form of insurance.

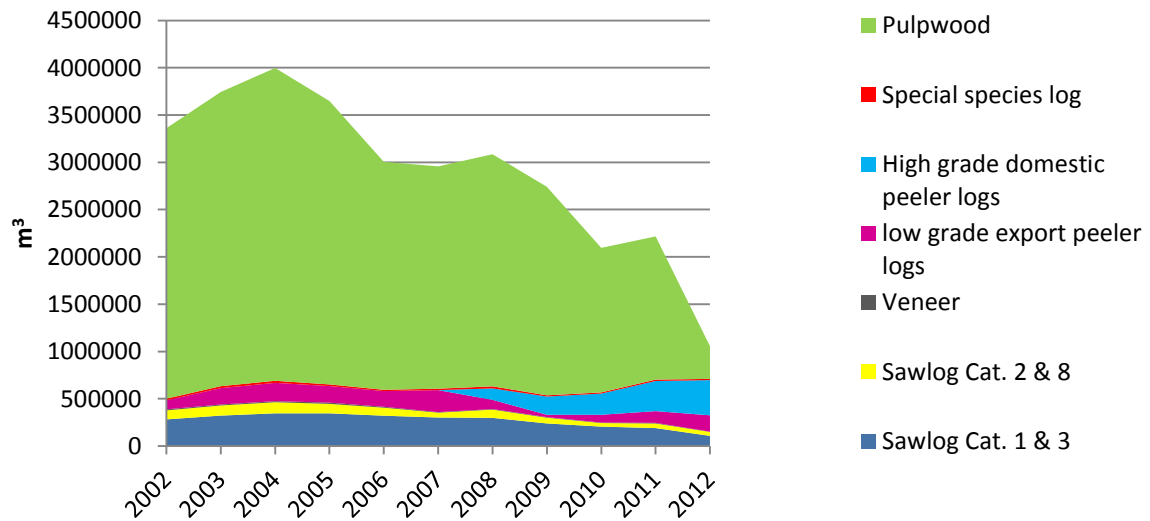
Including native forest wood waste in the RET would not advance or improve its capacity to perform this insurance function. It would also not create additional sovereign risk. In fact, if anything, including wood waste is likely to increase sovereign risk by creating the perception of ongoing instability in the design of the scheme.

Not only would the inclusion of wood waste run counter to the Authority's rationale for the scheme but it would almost inevitably increase native forest harvesting. Native forest harvesting is typically described by the industry as being 'sawlog driven'. By this, it means that its primary target when harvesting is sawlogs. Pulplogs (i.e. those used to make wood chips and eventually paper products) are supposed to be merely an unavoidable by-product and, reflecting this, are often called 'arisings'.

In truth, the industry is dependent on the arisings (the tail wags the dog). This has been demonstrated in Tasmania. Figure 1 below shows native forest log production by log type from Tasmania's multiple use public native forests (i.e. public forests used for commercial

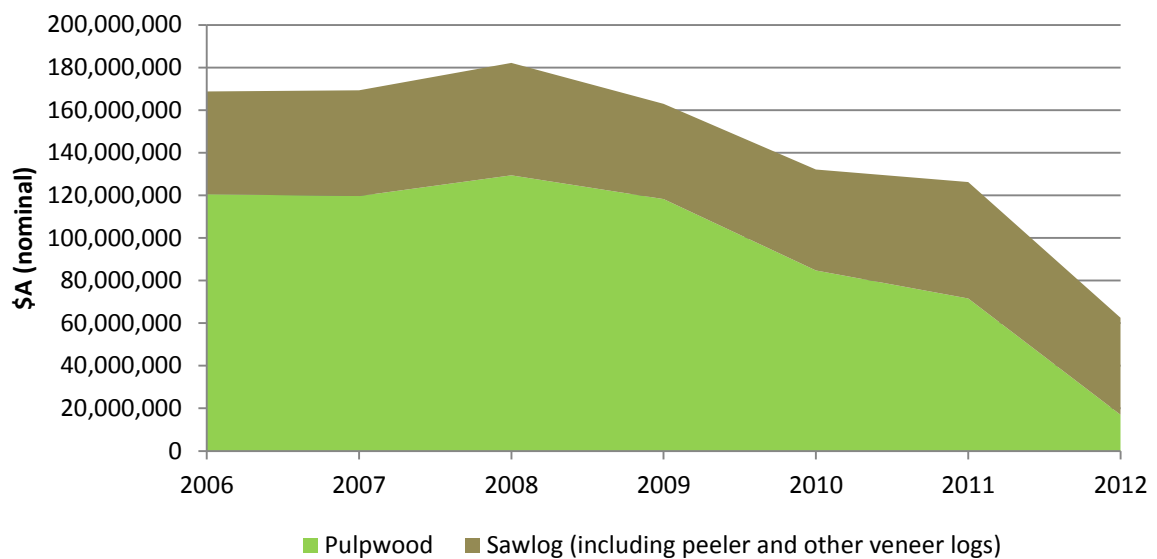
forestry) over the period 2002-2012. Figure 2 shows the estimated value of these logs for the period 2006-2012 (reliable data were not available back to 2002).

**Figure 1: Log removals from Tasmania's public native forests**



Source: Forestry Tasmania, Annual Reports (2002-2012).

**Figure 2: Value of native forest logs (mill door landed value)**



Source: Forestry Tasmania, Annual Reports (2009-2012).

Together, the two figures tell the story. Most of the removals are pulplogs and most of the revenue comes from the pulplogs. When the market for exported wood chips dried up and then the major chip mill at Triabunna shut down, the industry collapsed and it is now teetering on the edge of the financial abyss.

Biomass burning using native forest products is one of the planned substitutes for the woodchip market. When the federal environmental minister recently announced an additional \$25 million would be provided for the Tasmanian Forest Agreement for 'sustainable residue

solutions', this is what he was talking about — a subsidy to help fund a new native forest biomass burner.

There is no need for an inquiry into whether native forest harvesting would increase if native forest wood waste was allowed into the RET. The recent history of the Tasmanian industry has demonstrated that it would be almost inevitable.

The end result of the increased harvesting would be an increase in emissions from the greenhouse accounting category called 'forest management'. Because of the presence of the national target and the fact that forest management now counts towards it, this would not increase Australia's net greenhouse gas emissions. However, the increase in harvest-related emissions would necessitate a relative reduction in the carbon pollution cap, which, in turn, would reduce carbon unit sales and Commonwealth carbon revenues.

The Australian taxpayer could end up paying three times for native forest biomass burners: once through direct subsidies, then through the LRET scheme, and finally through the lost carbon scheme revenues.

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