



Submission by the  
Forest Industries Association of Tasmania

to

Australian Competition and Consumer Commission  
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on

Issues Paper: The Trade Practices Act and carbon  
offset claims

15 February 2008



Forest Industries Association  
of Tasmania



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## 1. Overview

FIAT supports a carbon offset scheme that recognises the true credentials of forestry, wood and wood-based products including biomass-based energy systems, and welcomes the development of such a scheme.

The sensible and sustainable management of Australia's forests provides the only proven method of capturing and storing atmospheric carbon that we have at our disposal. Forests, wood and wood products are composed of stored atmospheric carbon held together by stored solar energy, and we must encourage greater and more prolonged use of wood products which will have the dual abatement advantages of storing more atmospheric carbon whilst replacing the use of alternative, more-emissions-intensive products such as metals, masonry and plastics. When wood-products reach the end of their serviceable life they should be segregated, collected and burned as biofuel to recover their inherent stored carbon-neutral solar-energy.

FIAT contends that carbon offsets should reflect either actual carbon captured and stored or an actual reduction in carbon released.

FIAT holds concerns that a standard for carbon offsets based upon the Australian Greenhouse Offices' *Greenhouse Friendly* program would disadvantage traditional forest growers who would have difficulty demonstrating the financial and business-as-usual additionality required by program for abatement projects. We strongly contend that any additionality requirement be that of "environmental" additionality, i.e. "*that it (the project) reduces emissions beyond a plausible baseline*" (after page 68, National Emission Trading Taskforce 2006).

FIAT would like to see standards for product labelling that clearly reflect true associated emission levels so that the market can be more emissions-discerning in its demand for products.





## 2. About FIAT

The Forest Industries Association of Tasmania (FIAT) is an industry association formed in 1983 to represent the interests of processors of Tasmanian forest products. FIAT was formed out of a predecessor Association, the Tasmanian Timber Association (TTA). FIAT and TTA collectively have provided representational services to the Tasmanian timber industry for in excess of 60 years. Our members' activities are diverse and include:

- the production of veneers, hardwood and softwood timber, pulp and paper;
- woodchip production and export; and
- plantation and native forest management.

FIAT's 18 member businesses include all of the State's larger processors of forest products. They utilise a significant proportion of the crown sawlog output as well as all of the high quality decorative veneer produced in the State. FIAT Members' activities account for more than 75% of the gross value of production in the forest and wood products industry in Tasmania.

Included within the FIAT membership are the State's largest industrial forestry Companies that account for the vast bulk of plantation development and management enterprises on private land in Tasmania and the largest native forest management enterprises in the private sector in this State.

As such FIAT and its members have a significant interest in the development and implementation of a sensible Australian Emissions Trading Scheme including the recognition of real carbon offset programs such as the growing of trees and the greater use of wood-based products including bioenergy.

FIAT's role is described in our Annual Report as follows: -



**Role:**

*In addressing its first objective, FIAT's role is characterised by helping to create the right external environment within which industry has to operate. This has two main dimensions - the policy environment and the public image of the industry in the eyes of the community.*

*The policy environment centres on government legislation and regulations which determine the limits to what industry can do. The policy environment must be tackled at both the Federal and State Level.*

*Industry's public image rests on public opinion and the various factors which influence that opinion. This is important because public opinion has a strong bearing on the development of Government policy.*

*In addressing its second objective, FIAT's role is to facilitate discussion and joint action among its membership, to project the membership position in wider forums as appropriate and to encourage other bodies to participate positively in the public debate to ensure that the industry retains a public license to operate.*





### **3. FIAT comments**

#### ***3.1 General comments***

Whilst not certain, there is general scientific consensus that the mankind-induced release of carbon dioxide, methane and other defined “greenhouse gases” are resulting in an increase of the temperature of the earth’s biosphere.

The bulk of current greenhouse gas emissions are the result of burning fossil fuels with the subsequent release of carbon which has been stored outside the biosphere (underground) for between 50 and 200 million years.

Trees and all plant matter are composed of carbon derived from captured atmospheric carbon dioxide through the action of photosynthesis - trees are thus stored atmospheric carbon held together with stored solar energy. Deforestation - harvesting or clearing forests without then regenerating or reforesting the land - releases the carbon stored in forests (in the wood, bark, branches, leaves, roots and soil) back into the atmosphere from where it came.

When a forest is grown, either after harvesting or on ground previously non-forested, atmospheric carbon dioxide is captured from the air and the carbon atoms used as the basic building blocks of plant material, thus the grown forest becomes a store of atmospheric carbon.

There are two fundamental forms of forests from which wood is harvested:

- natural or native forest - regeneration after harvesting is via re-establishment of essentially the same forest structure as existed naturally, generally via techniques which mimic the natural regeneration processes of these forests; and





- plantation forests - established via planting of nursery-grown seedlings as monocultures, usually with intensive management to control competing plants - plantations generally produce around three times as much harvestable wood per hectare per year as native forests on the same site.

Whilst growing trees capture and store atmospheric carbon, even restoring all the forests cleared by mankind will not compensate for the carbon introduced to the biosphere from the burning of fossil fuel - it will only remove the carbon from the atmosphere that was contained in the forests prior to them being cleared. By far the greatest proportion of human-induced greenhouse gas emissions have been the result of burning fossil fuels.

When forests are harvested to produce wood products, the products thereby produced continue to store atmospheric carbon whilst in use - the stored carbon is only released back into the atmosphere when the wood products are burned or decay.

The sensible and sustainable management of Australia's forests provides the only proven method of capturing and storing atmospheric carbon that we have at our disposal. We must encourage greater and more prolonged use of wood products which will have the dual abatement advantages of storing more atmospheric carbon whilst replacing the use of alternative, more-emissions-intensive products such as metals, masonry and plastics. When wood-products reach the end of their serviceable life they should be segregated, collected and burned as biofuel to recover their inherent stored carbon-neutral solar-energy.

### ***3.2 The demand for offsets***

#### **The feel-good factor**

To-date the majority of carbon offsets have been purchased either for personal "feel-good" reasons or corporate "be-seen-to-be-good" reasons.



For example, an individual flying between Australian capital cities pays a bit more for their airline ticket to include the purchase of offsets to account for the greenhouse gas emissions calculated by the airline to be attributable to the passenger making the flight. The passenger feels good for this.

As further example, a multinational corporation with an estimated annual emissions load of 100 million tonnes of carbon-dioxide equivalents buys forest-based offsets equivalent to 0.2% of its total emissions. The corporation is seen to be good for this.

Thus carbon offsets have thus far been predominantly for wealthy individuals and corporations, and have arguably done little if anything to reduce net emissions.

### **As a component of an Australian Emissions Trading Scheme**

Australia is proposing to introduce an Emission Trading Scheme in 2010 as a mechanism to limit and reduce greenhouse gas emissions - a component of the scheme will be the use of carbon offsets to compensate for emissions (Appendix 2 summarises the operation of the proposed Australian Emissions Trading Scheme). Forestry and the use of forest products provide a real and verifiable avenue for both reducing net emissions and storing atmospheric carbon.

As identified in a recent report by McKinsey and Company (2008), forestry can provide one of the cheapest ways for Australia to offset its greenhouse emissions. McKinsey and Company (2008) estimated forestry could provide abatement equivalent to around 110 million tonnes of carbon dioxide equivalents per year by 2020 (equivalent to around 20% of Australia's current greenhouse gas emissions load).

In contrast with feel-good motivations for purchasing carbon offsets, the real and verifiable use of forest and wood-based emissions offsets will make a significant contribution to the national and global greenhouse amelioration effort.





### **3.3 On the requirements for carbon offsets**

As stated in a recent Federal Government publication:

*“No Australian standards for carbon credits currently exist. The Australian Government does, however, currently approve Greenhouse Friendly carbon credits under the Greenhouse Friendly initiative. The Australian Government has also committed to the development of Australian standards for offsets by the end of 2008.*

*In this context, the term ‘carbon credits’ for the purposes of the Act should be defined as carbon credits approved by the Australian Government. At this time, only Greenhouse Friendly carbon credits would meet this definition, however, it is anticipated that as development of the Australian offset standard is progressed other types of carbon credits that meet the standard could be approved by the Australian Government thereby expanding the list of eligible types of carbon credits recognized under the Act.” (p.52, DoCC 2008).*

The five core requirements for projects that can generate carbon offsets under the Australian Greenhouse Offices’ *Greenhouse Friendly* scheme are that the abatement is:

- real (abatement that has actually occurred);
- additional;
- permanent;
- measurable; and
- verifiable.

Another key requirement would be that abatement is:

- internationally recognised.

FIAT generally supports these requirements, however FIAT has serious concerns regarding their interpretations under the Australian Greenhouse Offices’ *Greenhouse Friendly* scheme (reproduced in Appendix 1), in particular the interpretations of “additionality” and “permanence” - FIAT’s concerns are elaborated below.





### **On additonality**

FIAT is particularly concerned that the additionality requirements for carbon offsets will be in line with the current requirements of forestry projects under the *Greenhouse Friendly* program, and in particular the requirements of *financial* and *business-as-usual* additionality (AGO 2007:Greenhouse Friendly™ Forest Sink Abatement Projects, p.8):

*“A project will be considered to achieve additional greenhouse gas abatement if the anticipated future revenue from greenhouse gas abatement generated is relied upon to ensure the financial viability of the project: that is, the project generates abatement that is beyond ‘business-as-usual’ investment.”*

The growing of trees, which are to be harvested for products such as wood for use in construction, is a solid and quantifiable method of capturing and holding carbon from the atmosphere.

The forest industries generally and FIAT membership specifically have long understood the role of forestry and wood products in sequestering and storing atmospheric carbon. To deny forest growers the right to claim the carbon sequestered through their efforts is unreasonable, particularly given the country will be counting the sequestered carbon as an offset for emissions in the internationally reported emissions accounts.

FIAT considers “environmental” additionality (being that greenhouse gas emissions reductions would not have occurred if the project had not been implemented) is an appropriate additionality criteria for abatement projects. FIAT understands that in the Unites States of America “environmental” additionality is a necessary criteria for greenhouse gas abatement projects, and that “financial” additionality is considered to be inappropriate in a free trading market and not an accepted requirement. Similarly, financial and business additionality are not required under the New Zealand Emissions Trading Scheme (New Zealand Government 2007), the structure of an Australian Emission Trading Scheme proposed by the National Emissions Trading Taskforce (2006), or the International Standard for greenhouse gas abatement projects: ISO 14064-2:2006.





Financial additionality will be impracticable to measure, and beyond being unworkable from an accounting standpoint, requiring financial additionality as a criteria would have a dampening affect on investments in forest projects, which are one of the few true options for sequestering atmospheric carbon. This in turn would reduce the size of the market for credits and drive up the costs of abatement project compliance.

FIAT also believe the “financial” additionality criteria will act to the detriment of industry participants whose normal business pursuits are the growing of trees, as they may be unable to trade credits whilst competitor growers for whom tree planting is not business-as-usual will be able to claim and trade credits. We regard this as an entirely unfair and unreasonable competitive disadvantage to FIAT members ordinarily engaged in tree planting.

This disadvantage does not appear to be rational and is not reflective in any way of the actual capture of carbon through sequestration, as that sequestration will occur no matter which corporation undertakes the planting and regardless of whether or not the test of “financial” additionality is met.

FIAT also believe that the AGO-originated “Greenhouse Friendly Additionality Factsheet” is in error in that it opines that:

*“additionality makes intuitive sense - why should someone purchasing offsets be paying for greenhouse savings from projects that would have happened anyway?”*

With respect to the AGO we say this observation entirely misses the key point that the project, whether meeting “financial” additionality requirements or not will be offsetting carbon emissions in fact and will therefore be contributing to reduction in greenhouse gasses in the atmosphere. As a country Australia recognises this through including this sequestration in its international reporting but then inexplicably removes it for the





purposes of carbon trading. We submit this whole question is in need of urgent and fundamental review.

### **On permanence**

The *Greenhouse Friendly* program requirement for permanence in respect of abatement projects is not an appropriate criteria. Permanence in respect of projects is specified as being 70 years - not very long when considering the bulk of the human-induced greenhouse gases have resulted from the burning of fossil-fuels that have been storing their carbon out of the atmosphere/biosphere for the last 50 to 200 million years. As an Annex 1 country, Australia is required under the Kyoto Protocol to report via annual stock inventories - this methodology should form the applicable framework for projects: that the stock of stored carbon is the carbon for which emissions credits can be issued, that is, if the carbon is stored the credits can be sold, and if it is released, the credits must be bought back.

Credits for carbon stored should reflect just that, stored carbon, and if, at some time in the future, the carbon is returned to the atmosphere (i.e. if the carbon-storing trees are burned or decay) then the credits must be relinquished or bought back to account for the released carbon.

The 70 year permanence rule ignores the reality that different species have different life-spans and optimal harvest times to recover and store carbon as “wood in service” are often significantly less than 70 years but may in fact produce the optimal result in terms of the best outcome for Australia’s carbon accounts.

### **3.4 On some existing offset schemes**

An existing supplier of carbon offsets, certified under the Australian Greenhouse Offices’ Greenhouse Friendly program, sells carbon offsets at a price of around \$16 per tonne of carbon dioxide sequestered. This scheme functions by promising to sequester the



purchased credits over the subsequent 30 or 50 years, then to guarantee the sequestered carbon remains stored for a further 100 years.

FIAT strongly believes that a carbon offset credit should represent carbon actually sequestered and stored, not carbon that is expected to be sequestered in the future. This would require a modification of the scheme mentioned to allow annual sales of credits equal to the actual amount of carbon sequestered in the growing trees during the preceding 12 months. The purchase of promised future carbon sequestered is rife with potential difficulties including the risks of tree death by wildfire or disease.

Further, a guarantee to keep the carbon stored for 100 years should not be considered permanent, particularly given the problem of a build up of atmospheric carbon dioxide is due to the release of carbon that has been stored outside the atmosphere/biosphere as coal or oil for the last 50 to 200 million years. As stated above, the requirement of permanence should be replaced by a requirement to hold the carbon or relinquish the credits.

The concept of offsetting the carbon dioxide released today by “locking up” land for the next 130+ years is contrary to the accepted philosophy of sustainable development, being “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*” (WECD 1987).

### **3.5 On transparency for consumers**

FIAT strongly supports transparency for consumers in respect of released, sequestered and stored green-house gases.

Firstly, the growing of trees represents a real removal of greenhouse gas from the atmosphere, and greater transparency with respect to forestry carbon credits can only direct consumers towards forest offsets which will be better for the forest sector and better for the planet.



Secondly, wood is far less greenhouse-gas intensive than alternative materials: an average-sized house, constructed using wood instead of alternative materials where possible, requires the emission of one seventh of the greenhouse gasses as the non-wood alternative for construction - see Table 1, (after the CRC for Greenhouse Accounting).

**Table 1: Wood-based house construction results in one seventh of the emissions compared to non-wood systems. Embodied greenhouse emissions by construction option for a single storey house in Sydney - in tonnes CO<sub>2</sub> equivalents for the house (source: CRC for Greenhouse Accounting - see references).**

Construction component	Option 1	Greenhouse gas emissions (CO <sub>2</sub> e)	Option 2	Greenhouse gas emissions (CO <sub>2</sub> e)
Floor structure	Timber sub-frame	1.9	Concrete slab	12
Floor covering	Hardwood T&G laid on particleboard	0.4	Ceramic tiles	5.2
Wall frame	Timber	0.4	Brick	6.8
Roof frame	Timber	1.2	Steel	5.3
Windows	Timber	0.8	Aluminium	2.2
	<b>Total</b>	<b>4.7</b>	<b>Total</b>	<b>31.5</b>

Wood is stored atmospheric carbon, and the total emissions required to produce a piece of finished wood (including burning or decay of forest residues, the manufacture and operation of harvesting, transport and milling machinery, and the emissions due to timber drying) are significantly less than the total emissions required for production of alternative materials. FIAT foresees a not distant future where products (and services) carry certification and labelling which reflect their true associated emission levels (e.g. Figure 1 below) so that the market can be more emissions-discerning in its demand for products.





Figure 1: FIAT foresees a not distant future where products (and services) carry certification and labelling which reflect their true associated emission levels so that the market can be more emissions-discerning in its demand for products.





#### **4. Further information**

FIAT thanks the ACCC for the opportunity to submit comments on the carbon offsets issues paper and we look forward to further constructive dialogue in the future. Please do not hesitate to contact FIAT for clarification or further information at:

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## Appendix 1: Requirements under *Greenhouse Friendly*

Reproduced from DoPMC 2007 - Appendix B.

### GREENHOUSE FRIENDLY OFFSET STANDARD

Offsets approved under the Australian Government's *Greenhouse Friendly* initiative are consistent with the highest international standards. *Greenhouse Friendly* approved offsets must be:

Additional – projects must be demonstrably beyond business as usual activities.

- The *Greenhouse Friendly* guidelines require that all approved projects can demonstrate that the project activity is beyond business-as-usual activities. This means that project proponents must be able to show that in the absence of *Greenhouse Friendly* carbon offsets, the project would not have gone ahead. The additionality of all *Greenhouse Friendly* approved projects must also be independently verified.

Calculation – projects must use internationally accepted best practice methodologies for the calculation of their emissions reductions and/or sequestration

- *Greenhouse Friendly* approved projects must use the internationally accepted calculation methods contained in the AGO's Factors and Methods Workbook or alternative factors approved by the AGO. All calculations and methodologies must be independently verified.

Verification – projects must be *independently* verified to ensure that all offsets claimed are genuine and accurately measured.

- All approval documentation (including demonstration of additionality and project monitoring plans), all annual reports and *all* claims for approval of offset credits generated must be independently verified under *Greenhouse Friendly*.
- Independent verification under *Greenhouse Friendly* must be undertaken by a member of the Australian Greenhouse Office's approved panel of verifiers.

Permanence – all offset credits generated by a project must represent a permanent removal of greenhouse gases from the atmosphere.

- This is particularly important for reforestation projects. Australia is considered world-leading in the provision of legal arrangements and frameworks to ensure permanence. Under *Greenhouse Friendly* all approved projects must demonstrate that the emissions reductions they achieve will be permanent – this can be done through strict legal arrangements in the case of forestry projects.
- To ensure permanence, *Greenhouse Friendly* approved projects must also demonstrate that there will be no leakage of emissions to other sites as a result of the project – this must be independently verified as part of the approval process.

Monitoring – projects must be regularly monitored.

- *Greenhouse Friendly* approved projects must report annually and undertake regular monitoring in accordance with their approved project monitoring plan. Under the *Greenhouse Friendly* programme, project proponents are legally responsible for anything that may reduce the offsets generated by the project.
- In the case of forestry projects in particular, *Greenhouse Friendly* sets out a number of strict restoration requirements, should any event reduce the sequestration capacity of an approved forest sink. These legal arrangements are considered world-leading for the protection of carbon credit integrity in forestry-based offset projects.



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## **Appendix 2: An Australian Emissions Trading Scheme**

An emissions trading scheme is being developed for proposed commencement in Australia in 2010 as a primary measure to limit and reduce Australia's greenhouse gas emissions. Whilst the details of an Australian Emissions Trading Scheme are still being refined, it is proposed to be a cap-and-trade structure - that is, total emissions are capped, emissions permits are allocated under the cap, and trading of permits allowed.

### **Defining the “cap”**

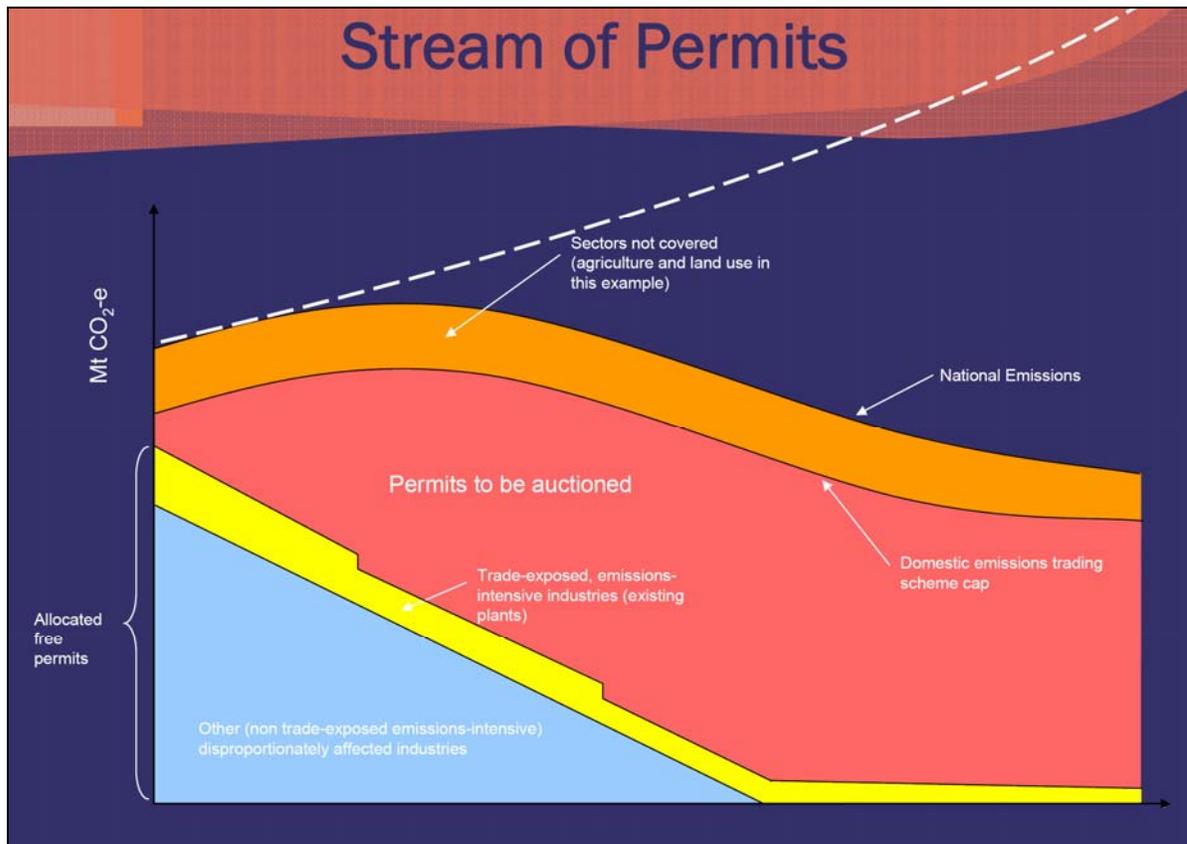
Initially, Australia's emissions cap will be the agreed Kyoto target of 596 million tonnes of CO<sub>2</sub> equivalents, and that the cap will be reduced each year so that by 2050 the cap will be at 60% of 2008 levels, or a total of 240 million tonnes of CO<sub>2</sub> equivalents.

### **Allocating permits**

Permits to emit, called “Assigned Amount Units” under International Panel on Climate Change (IPCC) definitions, represent the right to emit one tonne of carbon dioxide or the agreed equivalent mass of another greenhouse gas. Permits will be allocated to Australia by the IPCC in the first commitment period under the Kyoto Protocol, the Australian Government will then allocate permits to organisations within Australia.

It is proposed that initially most emissions permits will be allocated freely, with the remaining permits being auctioned. In subsequent years, less permits will be given freely, and more will be auctioned. The Australian Government is yet to determine how the income derived from auctioning emission permits will be spent.





**The allocation of free emissions-permits will decline with each year of operation of a trading scheme until only emission-intensive-trade-exposed industries might receive free permits - diagram reproduced from Prosser 2007 after PMC 2007**

### **Carbon offset credits from greenhouse gas projects**

Under the proposed Australian Emissions Trading Scheme structured activities that effectively reduce emissions can be defined as abatement projects. The abatement pool will be made up of:

- Carbon that can be demonstrated to have been captured from the atmosphere via:
  - photosynthesis and biomass accumulation
  - geosequestration and ocean sequestration (IPCC defined options for carbon capture and storage)
- Emissions reduction under a defined baseline - that is, a facility makes a change in its operating methodology that results in reduced emissions.





An organisation can generate its own abatement offsets or purchase abatement offsets generated by someone else to either allow for greater emissions or to reduce the need to purchase emission permits.

