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NEG Draft Detailed Design – Commonwealth Elements

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**AFPA submission on the National Energy Guarantee (NEG) Draft Detailed Design – Commonwealth Elements.**

The Australian Forest Products Association (AFPA) welcomes the opportunity to make a submission on the National Energy Guarantee (NEG) Draft Detailed Design – Commonwealth Elements.

AFPA is the peak national body for Australia’s forest, wood and paper products industry. We represent the industry’s interests to governments, the public and other stakeholders on the sustainable development and use of Australia’s forest, wood and paper products.

The forest products industry is one of Australia’s largest manufacturing industries with an annual turnover over \$23 billion. It contributes around 0.5% to Australia's gross domestic product and 6.6% of manufacturing output. Around 120,000 people are directly employed along the industry value chain with a further 200,000 jobs supported through flow-on economic activity.

AFPA actively promotes the important role the forest products industry can play in storing carbon, reducing greenhouse gas emissions, and assisting ambitious national and regional climate change policies to transition to a carbon constrained future.

Processors and manufacturers of wood, paper and engineered wood products are significant energy users. These industries, like much of the manufacturing sector, have experienced minimal price movements for their products for many years, and increasing quality and performance demands. While the industry has been able to contain costs through increased efficiency and scale and competitive sourcing of raw material inputs, it is unable to control the costs of inputs, including energy and energy distribution.

Delivering policy reforms which address energy security and affordability, the transition to low emission energy, and reducing emissions is a ‘wicked’ problem, and one that will need balanced and effective reform of energy, climate change and industry policy.

## Forest Industries and Climate Change/Energy/Industry Policy

The significant potential for the forest products industry to contribute to climate change mitigation was acknowledged in the 4th assessment report of the International Panel on Climate Change (IPCC), which stated:

*A sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit.*

The major pathways for emissions abatement from the forest products industry include:

- the carbon sequestered in growing forests;
- the carbon stored in durable wood and paper products;
- the substitution of high emissions materials (e.g. steel, concrete) with wood and other fibre-based products that have low embodied energy; and
- the use of woody biomass for renewable energy (including for renewable heat and biofuels), thereby displacing fossil fuels.

In a perfect market, a price (or cost) on carbon emissions should encourage substitution for low emissions products such as timber, paper, bio-products and renewable energy.

However, the design of climate policies can be difficult given the existence of ‘imperfect markets’ with carbon leakage – that is, a decrease in domestic competitiveness, and an increase in imports and emissions from overseas products without a comparable carbon cost.

### Australia’s ongoing energy crisis and impact on manufacturing

Australia’s forest products industry continues to face an energy crisis of rapidly increasing costs and uncertainty yet could still make a significant contribution to delivering secure, reliable and affordable energy and lower emissions, through the recognition of the huge potential of renewable bioenergy and renewable heat energy. It would also help sustain existing manufacturing operations, providing much needed regional investment and jobs.

### National Energy Guarantee (NEG)

The proposed NEG will be made up of two parts that will place requirements on energy retailers across the National Electricity Market (NEM): a **reliability guarantee** to ensure that energy is always available; and an **emissions guarantee** to contribute to Australia’s international emissions reduction commitments.

AFPA recognizes that a well-designed NEG is Australia’s best plan yet to balance the key objectives of energy affordability, energy reliability and the transition to a renewable energy and lower carbon future, in line with Australia’s international climate change commitments.

***AFPA appreciates the main purpose of the NEG is to give certainty to investors and encourage investment in energy generation with the intent to secure an affordable, reliable and environmentally responsible energy sector.***

### **Australia's Emissions Reduction Target**

The Government's national emissions reduction target (under the Paris Agreement) is to reduce Australia's emissions by 26-28% from 2005 levels by 2030.

The forecast electricity asset investment profile indicates that the trajectory of emissions reduction in the electricity sector will already be greater than its 26% share of overall emissions reduction by 2020. It is also understood the proposed NEG framework is designed to be flexible to accommodate changes in national emissions reduction target. Given the current trajectory of emissions reduction, opportunities for further cost-effective emissions reduction in the electricity sector are possible and preferable, provided they continue to meet the NEG's reliability and affordability principles.

This flexibility needs to be balanced with the fact, that with more certainty on targets and the further out they are set, the more certainty there is for cost-effective investment by industry.

Climate change policies with their associated costs and/or incentives must be complementary and not overlap. Complementarity of, and equity between, existing National and State government policies must also be addressed when any new policy or policy reforms are considered.

***AFPA supports climate change policy mechanisms, so long as the following broad policy principles are adopted:***

- ***a consultative approach is adopted to the development of new policies;***
- ***there is full market recognition of the multiple emission abatement benefits from carbon sequestration, carbon storage and product substitution from the forest products value chain;***
- ***priority is given to addressing the lack of methodologies for wood plantations and naturally regenerating 'working forests' and their resulting products in the CFI or equivalent land sector crediting mechanism;***
- ***the design of any mechanism, including the NEG, should:***
  - ***be consistent with the strategic national approach;***
  - ***ensure and maintain the international competitiveness of Australian export and import competing industries;***
  - ***ensure that the burden of emissions reductions is borne equitably across the economy;***
  - ***be underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements;***

- ***deal responsibly with the adverse cost impacts on domestic producers pending a comparable carbon cost on competing imports (i.e. there needs to be commensurate carbon policies from overseas competitors);***
- ***ensure that there is appropriate transitional assistance for trade-exposed sectors pending a comparable carbon cost on imports;***
- ***establish stable and long-term climate policy settings to provide greater investment certainty; and***
- ***cap the use of international credits to allow for a reasonable balance between promoting domestic abatement and minimising overall carbon costs.***

### **Emissions Intensive and Trade Exposed (EITE) Industry Transition and Exemptions**

Previous energy policy reform has focused on electricity generators and distributors with little regard for energy users. ***More balanced policy requires both sides of the energy market to be given equal consideration.***

AFPA includes member organisations that are both emissions-intensive and trade-exposed (EITE) including: paper, wood and engineered wood products (e.g. fibreboard producers). In a global market, where many of our international trade competitors are either not subject to a carbon price or are in a slow transition towards a carbon price, effective transition and exemption from relevant climate change policy costs is critical to the ongoing viability of these sectors in Australia.

Taking measures to safeguard Australia’s industries’ trade competitiveness will be essential to ensure Australia is successful in reducing emissions, rather than simply transferring them offshore. The current policy model for EITE exemption applied under the existing Renewable Energy Target (RET) can achieve this for the NEG by providing EITE entities with a framework to address the direct impact of price increases associated with the emissions element of the NEG. Although, it is noted that companies are still likely to be subject to the indirect cost impact. Mirroring the current EITE approach is expected to effectively decrease the regulatory uncertainty and minimise the EITE administrative and compliance burden.

### **International and Domestic Credits and/or Offsets**

Following the Paris Agreement, the rules for trading international credits after 2020 are yet to be finalised – these Article 6 discussions continue. It is important to alleviate cost pressures on domestic industry while at the same time providing incentives for domestic action.

Renewable forest product industries in Australia have significant potential to store carbon and reduce emissions. The Government should recognise this potential by ensuring that offset settings and available domestic carbon credit methodologies facilitate efficient and full participation by our renewable forest industries.

There are a very limited number of methods (currently under the Emissions Reduction Fund (ERF) and the Carbon Farming Initiative (CFI)) available that are relevant to our forest industries, and those that are available have limitations that need to be removed to increase forest industry uptake (e.g. the existing 600mm rainfall zone restriction that applies to the new ERF plantation forestry method).

For domestic manufacturing facilities to plan investments and fully understand the net cost of abatement today and into the future, policy settings need to be stable and the price of credits needs to be relatively predictable over the long term.

***AFPA urges the Government and policy makers:***

- ***to continue active participation in international discussions on trading credible and high-quality credits under Article 6 of the Paris Agreement with an Australian industry focus;***
- ***that there should be an appropriate focus on domestic credits (including a cap on credible and high quality international credits) to allow for a reasonable balance between promoting domestic abatement and investment, and minimising overall carbon costs to industry; and***
- ***priority is given to addressing both the lack of crediting methodologies and limitations in existing methodologies for our forest industries.***

**Significant potential of bioenergy and renewable heat projects as offsets**

***AFPA's urges that the design of the NEG should recognise bioenergy and renewable heat projects, both directly and for their use as offsets against any emissions reduction target. Policy development and investment facilitation also needs to be flexible to support a potentially broad range of bioenergy-based opportunities from small co-generation facilities located in small regional areas to large facilities located in cities and other industrial centres.***

Bioenergy is a unique renewable source that is also reliable and can be used across all three energy sectors (transport, heat and electricity). Bioenergy can be both dispatchable and deliver baseload power 24 hours a day, 7 days a week. Biomass waste and residues can partially substitute for coal in coal fired power station units. Bioenergy is well suited to powering many existing rural and regional manufacturers and communities. Bioenergy assets located in those communities will reduce transmission losses and distribution costs.

A major impediment to the general uptake of bioenergy in Australia has been the sole emphasis on renewable electricity rather than energy (including renewable heat) in previous climate change/energy policies - such as the Renewable Energy Target (RET). This has constrained bioenergy investment in renewable heat and cogeneration opportunities. If the NEG incentivised renewable electricity **and** renewable heat many Australian companies would undertake bioenergy projects.

The use of renewable heat is actively promoted in Scandinavia and many other parts of the world as an effective means for reducing fossil fuel reliance. The lack of incentives for renewable heat in energy generation creates a serious imbalance in the renewable energy market and misses some of the lowest cost opportunities for carbon emissions abatement. Further initiatives that incentivise investment in renewable heat generation are essential to enable our manufacturing industry members to convert away from crippling energy cost increases and grasp the opportunities in the emerging bio-economy. Additionally, it will release significant volumes of gas back into the pipeline transmission network reducing pressure on gas demand and supply in eastern Australia.