Natural Resources Advisory Council

Submission to Legislative Assembly Standing Committee on Natural Resource Management (Climate Change) Inquiry into Emissions Trading Schemes

May 2008

INTRODUCTION

The Natural Resources Advisory Council (NRAC) is an independent high-level forum established by the NSW Government in early 2004 as a single source of coordinated advice on future directions for natural resource management (NRM).

The groups represented on NRAC include regional and local NRM authorities, the rural community, farmers, irrigators, miners, the timber industry, unions, Aboriginal communities, conservationists, scientists and NSW Government departments.

The Council's deliberations focus on common ground and seek to identify the areas of agreement within the diverse perspectives of its member organisations. For this reason, the Council's advice does not always reflect the full and detailed range of views of its individual member organisations. It is desirable that the Council's member organisations also make their own submissions to the Inquiry.

PART 1

Background

On 12 December 2007 NRAC provided the Legislative Assembly Standing Committee on Natural Resource Management (Climate Change) with a submission that put forward the Council's views on questions from the inquiry on the impacts, options and approaches for mitigation and policy consequences for natural resource management (NRM) of human induced climate change.

On 4 April 2008, Phyllis Miller OAM, the NRAC Convenor, received a letter asking NRAC to consider a further submission to a new inquiry by the LASC NRM into the **impacts of emissions trading schemes (ETS) on natural resource management in NSW**.

In its earlier December submission the NRAC considered emissions trading schemes in response to a specific question e) *the likely consequences of national and international policies on climate change on natural resource management in New South Wales*.

The response was as follows:

> *"The consequences of national and international policies will be significant. Australia will be a participant in an international carbon accounting and trading system. It will have its own national trading scheme and become party to any number of new initiatives that will emerge as the global community grapples with mitigation and adaptation mechanisms.*
>
> *The specifics of the cap and trade system proposed for the National Emissions Trading Scheme (NETS) will have dramatic consequences for mitigation and adaptation strategies in NRM. The effectiveness of a carbon market to achieve abatement will depend on the starting level of the cap, the ongoing reduction in the target, the rate at which the Government lowers the cap, the nature and*

amount of the penalty and proportion of permits given out to emitters.

There is a concern that, under present proposals farmers and smaller natural resource managers will not be given permits if they come under the cap. The ability of a NETS to allow credits to be created under productive farming systems will be critical to its effectiveness for NRM.

Because the effects of green house gas emissions will be with us for a long time, it is desirable that governments take the long term view. At the same time, there will be a need to fast-track regulatory decisions that will facilitate the required mitigation and adaptation outcomes.

Natural resource managers will be required to reduce carbon emissions associated with their NRM activities. They will also need (and want) to participate in carbon trading schemes and gain access to markets. In addition to access to carbon credits, systematic stewardship incentives are also needed, perhaps funded by a full cost pricing scheme, if research demonstrates this is practical.

A critical issue with 'carbon rights', is who owns the carbon? Local circumstances for ownership and trade may differ from those in international circumstances. There will be a need for a robust local carbon accounting system to link well with international rules. For example, more information is needed about the life cycle of carbon in wood products after harvesting.

Market instruments with rules of engagement that consider the risk profile for small-scale operators will be required – it will be important to engage the majority of natural resource managers in climate change mitigation.

The 80:20 rule (or Pareto Principle) says that most of the output comes from a few of the players. In the climate change mitigation and adaptation story we will need to reverse this rule to achieve policy targets and real world results."

This submission expands on NRAC's response to that question.

PART 2

Overview

NRAC stakeholder members share common ground that, whilst an ETS should be part of the overall greenhouse strategy, the **details of an ETS**, including its scope, mode of operation, timing, implementation and provisions, will affect NRM in NSW, specifically through the:

- Impact upon other climate change mitigation and adaptation strategies in natural resource management
- Affect on the ability of smaller players to participate
- Need to allow credits to be generated through land use practices

- Design effectiveness of a market for carbon to achieve emissions reduction, especially through: the starting level of the cap, the provision for and rate of ongoing reduction in the target, and the penalty and permit allocations to emitters

- Need to address the importance of carbon rights

- Need to be inclusive.

Whatever the ETS model, there will be points of detail that will potentially cause fierce debate and division among NRM stakeholders, even though there is broad agreement that an ETS is desirable.

This submission reprises and expands on these points.

PART 3

NRAC Stakeholder Comment

All NRAC stakeholders are aware of the Emissions Trading Scheme concept.

Varying Degrees of Knowledge

Some, such as the forest industry representatives and environmental groups, have a deep understanding of how such schemes might develop and have very specific opinions as to how the details will affect their members. Several of these informed members have made individual submissions to the inquiry.

Other stakeholders recognize the import of an ETS but their organizations do not have a formal opinion or are keeping a watching brief in the absence of the knowledge and expertise required to develop a formal position.

This distinction is significant because some stakeholders may not be fully aware of the implications of carbon trading through an ETS. Indeed even those stakeholders with access to expertise are grappling with the political, social and economic implications, given that details of the model to be chosen by the Australian Government remains unknown.

So, although the concept is understood, stakeholders in NSW have become aware that there is complexity in the details of what emissions trading schemes should look like, how to implement them, how to minimize their implementation cost and (even assuming that they will reduce emissions) what the full array of economic, social and environmental implications will be.

Consensus on the Importance of ETS for Emissions Reduction

The consensus from NRAC members (even though some stakeholders might prefer other emissions reduction instruments such as a carbon tax) is that **an ETS will be an important mechanism for emissions reduction** and that **there will be both positive and negative effects of such a scheme on NRM in NSW**.

The majority of NRAC stakeholders consider that an ETS should happen as part of the climate change strategy to reduce emissions; that it should be national; and that care should be taken in developing the model and provisions.

That said, there are differences in opinion on the specifics.

Some of these differences are philosophical and reflect the historical position of stakeholders – an example is the debate on whether there should be secure rights to emit. Other controversies are more technical, such as the effect of provisions in any ETS to constrain resource management activities.

PART 4

Some Issues for Resolution

Examples of ETS details that will require resolution or are potentially contentious include:

- The notion of a carbon right – some see the right to emit as a secure property right being central to the success of an ETS, others see a right allocated to carbon as a weakness in any ETS.

- The potential for incentives to result in the conversion of mature forest (that is carbon neutral) to fast growing plantation (that can generate carbon credit) – conservation organizations, in particular, do not want to see any incentives for conversion of mature vegetation.

- The import of forest carbon storage as an inclusion in any ETS.

- Consideration of the carbon stored in timber products during use and after disposal.

- The significance of soil carbon as an offset option.

- How offset schemes might affect ecosystems – although more carbon in production systems is likely to help maintain production there are implications for native plants and animals evolved to tolerate low carbon conditions; and more carbon may affect the movement and storage of water across the landscape.

- Whether offsets should be separated from the national reduction target – the idea that vegetation based offsets should be in the scheme but not part of the cap.

There is consensus that the details of an ETS - its makeup, regulation, administration, implementation, monitoring and reporting - are critical to its success; where success is not just the ability of an ETS to reduce emissions, but to have acceptable social, economic and environmental consequences that will result from that achievement.

PART 5

Inquiry points of emphasis

NRAC stakeholders believe that any ETS is likely to make natural resource management harder. There will be increased decisions, reporting and compliance to degrees dependent on the structure of the scheme.

This translates to concerns over current and future value of a carbon resource (including liability for that value), the level of flexibility in management of the resource on the paddock and implications of management decision for carbon.

There are potential costs of management decisions for carbon on wider environmental concerns, such as biodiversity value and ecosystem services. For example, silviculture for fast growing trees that are cropped for timber products may be the best management tactic to maximize carbon sequestration within an ETS, however, this tactic, in many cases, will

decrease overall environmental values. Equally a mature forest stand is likely to be carbon neutral and have little potential within a carbon market but has high environmental value.

These issues are contentious, must be considered within the local and landscape context and yet be compatible within a national scheme.

There is potential for significant barriers to entry into a carbon market for small operators.

One such barrier would be overly onerous assessment, monitoring and reporting of carbon stocks that for small operations could become more costly than the net financial return of the credit.

The makeup of a national scheme could disadvantage some sectors, especially in their international competitiveness and for those that are trade exposed such as pulp and paper.

The impact of a carbon market on the risk profile for natural resource managers, and the uncertainty around that risk, is a cost.

There will be uncertainty around the economic and social change that the injection of cash from a new market, and the associated financial sector interest, will have on rural communities. Expectations of new sources for financial return by rural producers (ie some may misinterpret and see as an opportunity for source of revenue), investment in habitat improvement by conservation groups and large commercial earning by the corporate sector, require management if they are to be balanced and realistic.

PART 6

Benefits
The major benefit of an ETS will be emissions reductions.

Other benefits include:

- Access to an alternative revenue stream for some rural producers.
- Financial incentives for improvements to resource management practices.
- Decreased local environmental impacts of production by increased offsets and greater carbon levels in the landscape.
- Increased local amenity value.
- Funds for habitat regeneration.

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