

Guest commentary: Forest sinks - an important part of the CPRS design

By Dr. Chris Mitchell, Executive Director - Corporate Development, CO2 Group Ltd., chris.mitchell@co2australia.com.au

Traders, commentators and others in the market often seek to draw on experience from the European Union trading scheme to produce lessons relevant to the commencement of Australia's carbon pollution reduction scheme. However elements of Australia's trading system will be quite different from Europe's.

Contrary to the EU's predisposed hostility to carbon abatement related to land management, the Australian government will embrace opportunities related to forestry. The reason is that unlike Europe, land clearing in Australia is recent; peaking in the 1970s. Furthermore, Australia has a large land-base in need of remediation.

As a result, the Australian scheme will enable forest carbon sinks to create permits for surrender to meet Scheme liabilities. The forest sinks will conform to the requirements laid out under Kyoto article 3.3.

The scientific proposition underpinning forest sinks is simple and robust: when land has been previously cleared of forest, much of the carbon stored in the landscape was emitted to the atmosphere contributing to the build-up of greenhouse gases. New forest sinks partly reverse that process.

In many cases Australian entities are planting carbon sink forests on the premise that they will never be harvested for fibre or wood. The permanence of carbon sinks therefore relates to human management and is best addressed through a robust system of property rights. Most jurisdictions in Australia have already passed legislation that adequately secures carbon rights.

The scheme requires a 'forest entity' to be accredited and it is the regulator that issues the created permit. From a purchaser's perspective this system of accreditation and regulator issuance makes due diligence straightforward, obviates the requirement to separately engage third-party forest service providers to audit the process, and provides significant surety to the transaction.

The capacity to both *create* and trade permits from forest carbon sinks adds important flexibility to the scheme generally, and if included as part of a company's portfolio approach to managing its carbon risk, can significantly

reduce the risk of the company being caught short of carbon in the market.

From the liable party's perspective, forest sinks also enable the prospect of securing a known carbon price to meet a known future liability. Such liabilities generally arise where a company owns a long-lived emission producing asset such as a power station, cement plant, gas processing facility or chemical plant.

Even though companies will be able to forward-purchase permits for future vintages at auction, the government has indicated that these will only roll forward four years ahead. Furthermore, the price of permits is unknown, being set by the ascending clock auctions.

Forest sinks are scalable in terms of both size (i.e. the amount emissions off-set) and timing. Timing can be managed through either the planting sequence or through banking the created permits.

Maximum permit creation from a forest sink occurs five to 15 years from the date of planting enabling companies to secure a longer term carbon reduction position than appears feasible within the permit market. This is particularly useful considering the purpose of the scheme is to construct a long-run shortage of permits.

Today, there is experience in the creation of forest carbon sinks and a pool of highly skilled foresters competent to manage the resource. From the national perspective, the contribution of forest sinks is significant. The government forecasts abatement due to forest sinks to be 30 million tonnes of CO₂e through to 2012, and more beyond.

Australia's diversity of landscapes means there is scope for a variety of cost-effective solutions related to reforestation. The range of possibilities means that carbon from reforestation will remain about four- to five-fold cheaper than carbon from carbon capture and storage. The pricing of carbon from reforestation shows a considerable spread related to many factors including scale of the proposed project, the claimed ancillary environmental benefits, site factors and subsequent management.