

**SPEECH**



**THE HON JOSH FRYDENBERG MP**

Minister for the Environment and Energy

*Keynote Address to the Australian Forest Products Association Industry Dinner*

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***East Hotel, Kingston, ACT***

## Introduction

It's great to join you for your annual industry dinner, my first since being appointed Minister for the Environment and Energy in July last year. I would like to thank the Australian Forest Products Association for hosting me and Minister Ruston for the work she does with the industry.

Australia's forests and forest products are valued in Australia and overseas. Our forests are places where families and communities come together to enjoy their natural beauty and they provide important habitat for Australia's wildlife.

Our strong forestry industries are an important part of the Australian economy and are significant jobs creators across the full value chain.

Our industry upholds the highest standards and is recognised and accredited for their sustainable practices. As my colleague Minister Ruston has put it, Australia has:

*"a strong, sustainable forestry industry that operates at the highest ecological, social and ethical standards and is an important contributor to the Australian economy."*

I believe the importance of forestry and forest products will only grow over time as we move towards a lower carbon future.

Forestry has a long tradition in Australia. For example, the Woods and Forests Department of South Australia established in 1882 is believed to be the first forestry service in the British Commonwealth.

Today we are the world's 7th most forested nation and the industry is backbone of many communities in regional Australia.

There is over \$20 billion per year in turnover for the industry and an estimated 120,000 Australians who work in the full value chain of forestry. From growing, harvesting and managing the natural, renewable resource; to processing and manufacturing pulp and paper products; and all the logistics in between.

I am pleased to say that there is a great deal of bi-partisanship in our nation's Parliament around forestry.

As you know, the Parliamentary Friendship Group for Forestry, co-convened by Tony Pasin MP and Joel Fitzgibbon MP, enjoys strong support. Joel Fitzgibbon summed it up nicely when he said in the Great Hall:

*The friendship group is determined to ensure the forest and forest products industries are given the best chance of making the most of the opportunities ahead*

This is a bi-partisanship that AFPA have helped to build over the years and a credit to their work.

There are a number of intersections with your industry and my ministerial responsibilities.

Tonight I would like to cover three topics:

- Firstly, energy policy, knowing how important it is to forest product industries.
- Secondly, renewable energy and climate change policy as it is the other side of the energy policy coin.
- Thirdly, the forestry plantation method, which I know there is keen interest in.

## **1. Energy**

Energy is a major focus for the Government this year. It is also is an area where there are major policy differences with the opposition. As Prime Minister Turnbull has made clear, the battle lines have been drawn.

I do not need to tell you the importance of a secure and affordable energy supply to business. I know a number of Australian Forest Products Association members are large energy users.

## **1.1. Recent events**

Let me start by commenting on recent events. The state-wide blackout in South Australia on 28 September was a seismic event and a wake-up call to the nation. It was the first time an entire state has lost its power.

The event had a major impact on the community. It also had a major impact on business. Peak body Business SA estimated the state's loss of power cost businesses \$367 million. BHP alone had a loss greater than US\$100 million.

We've also seen significant price rises in South Australia. When the Northern coal-fired power station closed in South Australia last May, contract prices in the state jumped.

For large industrial users in South Australia, in June 2015, a contract covering supply in the first quarter of 2017 cost about \$62. By June 2016, within weeks of Northern's closure, the same contract cost about \$93 – a 50 per cent increase.

Looking ahead, the Australian Energy Market Commission forecasts Hazelwood's closure in Victoria will see wholesale electricity costs increase in 2017-18 by around 35 per cent for Victoria, South Australia and Tasmania.

## **1.2. What we are doing**

These events underscore why energy security and affordability are a priority of the Government.

It also underscores why we will continue to prosecute the case against Labor's 50% renewable energy target and unilateral renewable targets by state Labor governments, which will increase prices and undermine energy security.

### Energy security

The primacy of energy security is why, in the aftermath of the South Australia blackout, the COAG Energy Council which I chair, commissioned Dr Alan Finkel, Australia's Chief Scientist, to develop a blueprint for energy security and reliability in the National Electricity Market.

It is also why we have emphasized the need to maintain baseload generation.

The importance of baseload power has been acknowledged by Dr Finkel, where he noted that there are security and reliability issues resulting from an increasing penetration of renewables in the grid.

We have also set out a non-ideological, technology neutral approach to technologies and fuels with the goal of providing sufficient baseload power to maintain energy security.

We should not dismiss the new technologies that can maintain coal and gas as a key part of our energy mix while at the same time substantially reducing emissions.

This is why the Government is investing heavily in storage technologies, with over \$220 million committed to date, a further \$20 million set aside by ARENA and the Prime Minister announcing that ARENA and the Clean Energy Finance Corporation have made large scale energy storage a focus.

### Power prices

We are also pursuing a number of reforms to reduce pressure on power prices. The COAG Energy Council has agreed to significant reforms to stop energy businesses gaming the system by appealing how much they can re-coup from customers.

These significant reforms are important as network costs can make up around 50 per cent of energy costs. Under the new regime network businesses would no longer be able to appeal certain decisions of the Australian Energy Regulator through the Limited Merits Review process.

In the current round of appeals, network businesses sought to add \$7.3 billion to energy bills by using the LMR process. COAG is committed to delivering these reforms in the first half of this year.

### Gas

Lowering energy costs will also require more gas supplies and more gas suppliers in the market.

The growth in gas production for LNG export, coupled with high exploration and development costs, has put pressure on domestic gas prices. High gas contract prices are placing pressures on large gas users in Eastern Australia, including businesses in this room.

The Government is also working to reform gas markets to make gas more affordable.

Transportation accounts for up to 15 per cent of the price of gas. Last year, the Energy Council commissioned Dr Michael Vertigan to investigate the bargaining relationship around the transport of gas and he found there is an uneven bargaining relationship in the transport of gas.

At the COAG Energy Council meeting last month, Ministers agreed on the introduction of national legislation that will lower costs by mandating greater disclosure and transparency for pipeline services and pricing.

We have also agreed that there should be mandatory commercial arbitration in the regulated gas pipeline sector. These are important reforms and will help put downward pressure on gas prices.

## **2. Renewable energy and climate change**

Turning to renewable energy and climate change. The Government has a comprehensive strategy to reduce Australia's emissions and meet our international commitments, while keeping our economy strong and maintaining energy security and affordability.

### **2.1. International targets and forests**

Australia has a strong record on its international emission reduction commitments. We beat the first Kyoto commitment by 128 million tonnes and we are currently on track to beat our 2020 emissions target by 224 million tonnes.

Our 2030 target is strong and responsible: 26 to 28 per cent below 2005 levels by 2030. We ratified the Paris Agreement at the first available opportunity in the new

Parliament. We are moving in step with other countries and at a pace appropriate for our economy.

Forests have a role in reducing Australia's emissions. To illustrate, my Department tells me that in 2014, planted forests together with native forests managed for harvest and harvested wood products provided a net carbon sink equivalent to 28 million tonnes, or about five per cent of total national greenhouse gas emissions.

The importance of forests was also underlined at the UNFCCC's COP 22 in Marrakech late last year, where my colleague Minister Bishop and I represented Australia.

There I met with other nations on the forest initiatives that Australia is participating in, and spoke at the Global Landscapes Forum about the positive actions Australia is taking both at home and abroad.

## **2.2. 2017 Review**

The Government is reviewing its climate change policies this year to ensure they remain effective in achieving our 2030 target and Paris Agreement commitments.

The Government committed to this review in August 2015 when we set Australia's 2030 target. The review will build on parallel processes, including the Finkel review.

What we have made clear is our current policies will remain central to our approach to tackling climate change. We have also been clear about our commitment to the 23.5 per cent Renewable Energy Target.

We are consulting broadly as part of the review. To date, the Department of the Environment and Energy has met with more than 50 groups and will continue meetings throughout the review process. I encourage you to contribute to the 2017 Review and ensure your views and ideas are heard as part of the process.

## **2.3. The Renewable Energy Target and native forest wood waste**

Unlike Labor's 50% RET, the Government's Renewable Energy Target aims to ensure 23.5 per cent of our electricity is generated by renewable sources.

This target was legislated in June 2015 with bipartisan support. I have always said that the 23.5 per cent target is achievable but challenging.

There are positive signs that investment is steadily flowing after the government restored certainty to the industry. Last year the Clean Energy Regulator estimated there needed to be 6,000 MW of investment in large scale projects to meet the 2020 target. According to the Clean Energy Council, 2,250 MW of that investment will be under construction in 2017.

As you know, the Coalition has taken steps to support the forestry industry participate in the Renewable Energy Target.

When the Howard Government first established the Mandatory Renewable Energy Target in 2001, native forest wood waste was included as an eligible source of renewable energy. However, it was removed from the scheme in November 2011 by the then Labor Government.

The Coalition recognises that generating energy from wood waste that would be otherwise left to rot on the forest floor can displace fossil fuels and reduce emissions.

This is why in 2013, the Coalition made an election commitment to reverse this exclusion and in June 2015 we were able to deliver this change as part of the RET negotiations. This was a process that your industry was deeply involved in.

There are currently 28 generators accredited under the RET with wood waste listed as a fuel source. Re-including wood waste in the RET provides opportunities for more capacity from this energy source.

#### **2.4. Emissions Reduction Fund**

Alongside the RET, the Emissions Reduction Fund is the centrepiece of the Government's policies to reduce emissions. It provides a broad range of opportunities to reduce emissions right across the economy.

The Emissions Reduction Fund was a central election commitment in 2013. It was designed, legislated and implemented by my predecessor, Minister Hunt, using the Carbon Farming Initiative Act as its legislative basis.

It continues to be a success. From the four auctions held to date, the Government has contracted 178 million tonnes of carbon abatement at an average price of \$11.83 per tonne. A total of 397 projects have been contracted under the Fund, across many sectors of the Australian economy.

Emissions reductions provided by the Fund will help ensure we meet our 2020 emissions reduction target and will assist in meeting our 2030 target. The Fund also provides a financial boost to industry, landholders and farmers.

There are 3 industrial energy efficiency projects registered under the Fund from the forest products industry, representing around 270,000 tonnes of emissions contracted.

For example, Norske Skog has a contract with the Clean Energy Regulator for a project to reduce emissions from the Boyer paper mill in Tasmania by 250,000 tonnes by improving the efficiency of equipment.

More than 60 per cent of the emissions reductions contracted so far under the Fund are associated with projects promoting more vegetation cover across the Australian landscape. The Government has contracted 113 million tonnes of carbon abatement through such projects.

Australia is a frontrunner at investing in forest carbon projects. According to Ecosystem Marketplace's latest annual report, in 2015 the Emissions Reduction Fund was the largest source of forest carbon funding globally.

Our record on forest carbon projects is backed by world-class monitoring and modelling of changes in carbon in the land. The National Greenhouse Gas Inventory has highly advanced capabilities for estimating greenhouse gas changes in production native forests and plantations.

### **3. Plantation forestry method**

Much of the early work of the Emissions Reduction Fund methods has related to protecting or re-establishing native vegetation.

#### **3.1. The method details**

However, I know there is very keen interest in this room about the new ERF method currently under development for Plantation Forestry projects.

This method aims to allow commercial forestry operations to be credited for the first time to recognise the carbon they sequester. This opportunity stems from the very low rate of new plantings both in recent years and in forward projections.

There are two elements to this method.

- Firstly, incentivising new plantations
- Secondly, incentivising a shift from shorter to longer harvest rotations, which can sequester more carbon.

#### **3.2. The process that must be followed to make methods**

The process for developing all methods under the Emissions Reduction Fund is set out in legislation. Firstly, as the Government has made public over a year ago, we have identified the plantation method as a priority for development.

It is here I want to acknowledge the ongoing efforts of the Australian Forest Products Association and individual members during development of the method, through participating in a technical working group, making submissions and liaising with my Department. You have brought a great deal of experience to the process from the fields of forestry and forest carbon.

Secondly, a draft method must be consulted on. This process is happening now and I want to acknowledge the detailed submissions that have been made and ongoing discussions with officials.

Finally, the method must be considered and endorsed by the independent Emissions Reduction Assurance Committee. The ERAC committee scrutinises methods against the requirements in the legislation. The Minister can only consider approving a method once the ERAC has considered and endorsed it.

The Government recognises the importance of forestry expertise on this committee and I would like to note that the contribution of forestry experts on the ERAC since its beginning. In particular past member Professor Richard Harper and a new member joining the committee, Dr Hilary Smith.

### **3.3. Sensitivities with the method**

I recognise that work on the method has been under way for some time.

Being at the cutting edge of developing forest carbon methods means we face new challenges that take time to work through.

We need to ensure that the opportunities for forestry plantations under the Fund have the maximum chance of success.

The Government recognizes there are a range of community benefits from plantations. As you are aware, there are also concerns among some of those in the agricultural sector about the effects of plantation expansion. We are giving these issues close attention to ensure that new methods garner support across the community and avoid any unintended consequences.

## **4. Conclusion**

Thank you once again for the invitation to speak. Your industry is being well represented within Government by Minister Ruston.

From the perspective of my portfolio, the Government is committed to a national reform agenda that prioritises energy security and affordability, as we meet our emission reduction commitments.

It is clear that the forest sector will have a role to play in the transition to a low carbon economy, and the Government is working to help open up new opportunities.

Thank you.