2020 REVIEW OF THE EMISSIONS REDUCTION FUND CONSULTATION PAPER

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carbonneutral®

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Company Background

Carbon Neutral assists organisations across Australia to minimise their impact on our environment by measuring, reducing and offsetting greenhouse gas emissions. Carbon Neutral's services include carbon consulting and emission reduction programs, web-based carbon calculators, energy efficiency auditing, developing biodiverse reforestation projects, and retailing of carbon offsets in the Australian and international voluntary markets.

Together with parent company, Auscarbon Pty Ltd, Carbon Neutral has planted close to 14,000 hectares to biodiverse carbon sinks on non-economic farmland in the northern agricultural area of Mid West Western Australia within the *Yarra Yarra Biodiversity Corridor*.

Carbon Neutral is a long-standing, award-winning organisation that seeks mutually beneficial relationships to deliver practical carbon solutions to businesses, government, and tertiary and non-profit sectors.

Carbon Neutral:

- Is the 2016 Winner of the Banksia Natural Capital Award
- Is one of Australia's major biodiverse reforestation carbon sink developers
- Has developed Australia's only international Gold Standard certified carbon offset project
- Is an independent third party – 'endorsement' of environmental claims and programs
- Is a 100% Australian-owned company
- Works with like-minded associates and affiliates throughout Australia to deliver beneficial environmental outcomes and undertake collaborative research in carbon habitat farming

1 OVERALL PERFORMANCE OF THE ERF

1.1 How is the Emission Reduction Fund (ERF) performing overall?

The taxpayer funded ERF has achieved its initial goal in delivering least cost abatement.

Demand for ACCUs will increase with growth in the voluntary market and inevitable imposition of an effective "cap" on industrial emissions under the Safeguard Mechanism. The government will therefore need to allocate more funds as the cheaper abatement activities are exhausted.

This increase in future funding may require the scheme to be funded by:

- Re-direction of government funded national resource management and Landcare budgets, and/or
- emitters, via an enhanced Safeguard Mechanism, which has broad-based bipartisan support.

1.2 What parts of the ERF could be improved and how?

The ERF scheme is 'source neutral' in relation to the 30 current methods. To date, 97% of the ACCUs issued are from vegetation, waste and savanna fire management projects.

It is assumed by the media and the community at large that 'vegetation' projects involve tree planting. This is a misconception, as most Vegetation Method projects are Human Induced Regeneration (where tree planting by seed or seedling is not permitted).

The CCA Discussion Paper erroneously states (page 8) that, "Currently, close to half of all contracted abatement is to come from revegetation projects in western New South Wales and south-western Queensland".

The ERF Register spreadsheet of projects registered under the fund (at 17 May 2020) shows 78.17 million ACCUs across 964 projects. This includes 161 revoked projects.

Analysis shows only 90 active registered projects are 'revegetation' projects and these have issued 1.82 million ACCUs, or just 2.3% of issued ACCUs.

The low level of 'revegetation' projects registered in the ERF is due to the relatively high price of establishment, particularly for ecosystem restoration activities.

Recommendation 1:

The Vegetation Method abatement categories be sub-classified to:

- **Human Induced Regeneration**
- **Plantation Forestry**
- **Farm Forestry**
- **Revegetation (Mallee)**
- **Revegetation (Environmental)**

2 WHAT ROLE COULD THE ERF PLAY IN FUTURE ECONOMIC RECOVERY EFFORTS?

There is a need for enhanced guidance on how to manage ERF projects for multiple benefits. This should this be part of the ERF or complementary programs and policies.

The CSIRO's Australian National Outlook 2019 shows how close to half of the nation's marginal, intensely farmed land could be transformed into profitable forests. These forests would trap carbon to be sold as a carbon credit. By 2060, up to 30 million hectares could be profitably transitioned to carbon plantings. This could offset as much as 700 million of tonnes of CO_2 equivalent, allowing Australia to become a net exporter of carbon credits and earning landowners as much as $114 billion per annum.

The farm production vs carbon farming issue is addressed by CSIRO. Land would be divided into its most profitable and sustainable uses: intensive agriculture in the most productive areas, then livestock and finally a mix of carbon and biodiversity plantings in less tractable landscapes. Each component would be designed so that the natural capital of each segment is maintained or improved.

Much of these carbon plantings would be native species, helping to restore the ecosystem health upon which Australia's agricultural productivity and biodiversity depend.

As identified by CSIRO, agriculture and forestry sequestration projects are different from emissions avoidance in other sectors in that they not only remove CO2 from the atmosphere, but they also provide additional benefits in terms of soil conservation, biodiversity, economic and social benefits in rural and regional areas. Increasing food production and increasing carbon sequestration are not mutually exclusive.

Using land sector offsets towards meeting Safeguard Mechanism liabilities and export opportunities could deliver significant value to the national economy and to regional areas.

International demand for offsets should strengthen over the next decade as more countries and regions look to global offset markets to provide the lowest cost abatement.

Carbon farming project developers and aggregators suggest carbon farming revegetation/reforestation activities will require payments of A$25-40 per tonne of CO2e by 2030. This pricing will be required in addition to development of lower-cost establishment techniques.

Recommendation 2:

- **ERF dedicate a portion of ERF funds specifically for high value land-use carbon farming sector projects that deliver clear environmental and socio-economic co-benefits**
- **This band be allocated a higher benchmark price or top-up funding**

3 MAINTAINING INTEGRITY AND OPTIMISING GOVERNANCE OF THE ERF

The offsets integrity standards, set out in the CFI Act, are designed to ensure that ACCUs issued under the ERF are for genuine emissions reductions that are additional to business as usual.

A perverse situation exists in Australia where some States have had agricultural land clearing bans in place for decades, whilst native vegetation protection laws have been relaxed in New South Wales and Queensland, such that landholders can generate carbon credits by handing in clearing permits.

Vegetation clearing (deforestation and clearing on grazing land) is the main source of land sector GHG emissions in Queensland where land sector GHG emissions were 12 million tonnes of carbon dioxide equivalent (MtCO2e) in 2016 (Queensland Government, 2020).

Recommendation 3:

- **The avoided deforestation method is inequitable with respect to allocation of ERF funding to States with weak land clearing legislation. This should be addressed with 'top up' allocation of funding to affected States to encourage revegetation / reforestation ERF projects.**

4 METHOD PRIORITISATION AND DEVELOPMENT

Increasing a farm's soil carbon has several benefits for agricultural productivity and profitability and enables farmers to earn carbon credits through sequestration.

Management changes through Regenerative Agricultural practices could sequester significant amounts of carbon in soils.

High volatility of the soil carbon pool is acknowledged. However, the potential uptake of soil carbon projects is greatly restricted as the current methodology protocols are not farmer friendly.

For example, projects need to be resampled within 30 days of the baseline anniversary which is totally impractical. Also, the requirement for 50% of the carbon sequestrations measured in the first follow up sampling is deferred until after the second round of sampling. Due to the high costs of field sampling and analysis, sampling is likely to be at least 4 years apart resulting in these projects payback period being 10+ years.

This will be a deterrent to the take-up of the Soil Carbon Method.

Recommendation 4:

- **A Soil Carbon Outreach program be established to present case studies and gain insights from farm managers and project aggregators to assist refine protocols**
- **Increase the risk of reversal buffer for soil carbon**

References:

Australian Government, Clean Energy Regulator; http://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers

CSIRO 2019, Australian National Outlook 2019

Queensland Government (2020); https://www.stateoftheenvironment.des.qld.gov.au/pollution/greenhouse-gas-emissions/land-use,-land-use-change-and-forestry-sector-greenhouse-gas-emissions