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The Chair
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Submission to the 2020 Emissions Reduction Fund review

This submission is based on our experience with and research into a certified carbon sequestration project in north Queensland for which we have claimed ACCUs for the past few years. The reforestation project is also a research project into cost-effective restoration that was designed in association with five Australian and international Universities and was an Australian Research Council Linkage project that commenced in 2019 and continues.

We address two major issues with the current Emissions Reduction Fund (ERF).

1. **Carbon price is too low**

At the current price for Australian Carbon Credit Units (ACCUs) it is far from economical for any farmer or grazier to set aside land to plant trees for carbon sequestration.

This is a result of a fundamental design flaw in the Emissions Reduction Fund in that the Australian people are paying for reducing carbon emissions, and so it is in the political interests of government to keep the price for carbon credits as low as possible. This is achieved by the government conducting 'reverse auctions' so that carbon sequestration providers are competing on unequal terms to provide carbon abatement credits at least cost. This seriously disadvantages naturally more expensive reforestation and restoration activities in a directly competitive environment. Avoided deforestation, human-induced regeneration (HIR), avoided emissions from piggeries and landfill and the like are far cheaper options than restoring forests. They are all competing in the same carbon market as reforestation projects. There is no consideration for this in the design of the scheme, even though the costs of planting and maintaining a carbon sequestration forest are significantly higher than other mitigation activities. The carbon price to date under the ERF has been far lower than what would make carbon farming viable. The reasons for the poor uptake of carbon farming by reforestation are due mostly to these poor returns.

This has resulted in at least **three times** as many avoided deforestation and human-induced regeneration projects than there are reforestation projects, and the avoided deforestation and HIR and similar projects cover vastly more area than do the reforestation projects. The latter cost significantly less to undertake than does active reforestation. Reforestation of some cleared lands is a much greater priority in terms of reducing atmospheric CO_2

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equivalents than avoiding deforestation (although this is essential) as the cleared areas have already contributed to the increase in greenhouse gases and to meet our emission reduction targets at least some forests have to be restored.

We have recently published the results of our detailed economic study of the costs and potential benefits of carbon farming in far north Queensland (copy attached). We found that the carbon price would have to be at least $37 per tonne (at current prices) for farmers to break even from carbon forestry. From a grazier's or farmer's point of view, the returns from these investments must be at least equivalent to grazing cattle on the same land. Critical factors include the costs of establishing the carbon forests, the returns that can be generated over the period of contracts to provide carbon credits, and the permanence obligations.

The current emissions reduction fund deters farmers from signing up because of the long commitment periods required. Few farmers will sign over part of their land for 100 years when there is no potential return from carbon credits from that land after the contract period of 25 years mandated by the Australian government. A further dis-incentive is built into the ERF in that if a farmer chooses to commit to 25-year permanence, then the scheme demands a 20% reduction in the value of carbon credits. This turns farmers off such commitments. We are not objecting to permanence obligations, and most farmers understand that a planted forest needs to be established for a sufficient period to sequester carbon. But there must be adequate financial returns from the carbon planting over the whole permanence obligation period.

A better way of pricing carbon-related emissions would be to set a minimum price on carbon emissions or allow the carbon market to set prices, so that polluters pay for the emissions that they create, and so that government does not have to pay and therefore provide lowest cost carbon pricing. Least-cost abatement favours only those projects that require little cost input to the required work.

Without significant restoration of forests, it is unlikely that we will be able to reverse the rapidly accelerating effects of anthropogenic climate change. Comprehensive modeling undertaken in a recent report, *Decarbonisation Future*, by ClimateWorks (supported by CSIRO) shows that it will not be possible to reach net zero emissions by 2050 without 8Mha of reforestation by 2030. In order to achieve reforestation that is needed, rural land holders must be convinced of the benefits of reforestation on their lands. Incentives such as the Queensland government has recently proposed and funded in its Land Restoration Fund are more attractive to farmers as they incentivize the co-benefits of restoring forests and pay farmers much greater returns on their investments.

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2. Policy uncertainty leaves farmers nervous

The other major factor around the failure of uptake by farmers is the lack of policy certainty. We have discussed this with a number of farmers in the district and with national farming bodies and this uncertainty about climate change and carbon policies is a major consideration in farmers' minds. They are mostly conservative people who think and plan a long way ahead, often to their grand-children's futures.

Carbon and climate policies have undergone many changes, reversals and uncertainties over the past couple of decades. Farmers know this, and it makes them nervous. Stability of policy is essential to improve uptake of carbon farming in the long term.

I trust this submission will provide the committee with some insights into the reality of the emissions reduction fund on the ground. I am happy to provide further input if you so require.

Yours sincerely

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