Australian Government
Climate Change Authority

CLIMATE CHANGE AUTHORITY

REVIEW OF THE EMISSIONS REDUCTION FUND 2020: COVER SHEET FOR WRITTEN SUBMISSIONS

Contact Details

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Date of submission:2/6/2020

Submission Instructions

The Authority encourages submissions from organisations and individuals on all issues relevant to this review by **20 May 2020.** We have identified key areas of focus in the consultation paper.

Your contributions are valued greatly by the Authority and will inform the Authority's final review report on the legislation, which is due by 31 December 2020.

The Authority will also talk to stakeholders to complement the written submissions.

Submissions can be made:

via email submission@climatechangeauthority.gov.au

via post Submissions
Climate Change Authority
GPO Box 787
Canberra ACT 2600

Contacts

Should you require further information about making a submission please contact the Authority on freecall 1800 475 869 or via email at submission@climatechangeauthority.gov.au.

Confidentiality and publication

Your submission may be published.

Submissions not marked as confidential may be published on the Climate Change Authority's website. The Authority welcomes submissions made in a respectful manner and while the Authority values public consultation highly and seeks to be transparent, it is under no obligation to publish submissions it receives and reserves the right not to publish submissions on its website that raise legal or other concerns.

For submissions made by individuals, all personal details other than your name and the state or territory in which you reside will be removed from your submission before it is published.

Please do not include information about third parties of a private nature unless you have permission to do so.

If any part of a submission should be treated as confidential, please provide two versions of the submission, one with the confidential information removed for publication. If you choose not to use this cover sheet and wish your submission to remain confidential then the document should be clearly marked as confidential.

Do you want this submission to be treated as confidential? ☐ **Yes** ☒ **No**

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Signature of submitter:

Date: 2/6/2020

Background to Ignatius Verbeek

I have been involved in carbon accounting in the industrial and agricultural sectors for over 30 year. I was responsible for developing a LCA capability in BHP and have completed numerous LCA's in industry, forestry and agriculture. I was one of a panel of 4 selected to support the Greenhouse Friendly program and went on to advise many organisations on greenhouse matters. I was program manager for the state and then the national launch of the Australian Building Greenhouse Rating Scheme and was involved in its transition to NaBERS. I have been active in the development of soil carbon methodologies in Australia and sat on stakeholders and technical panels for both methodologies. I am currently involved in the design and implementation of a significant number of soil carbon project. I am also involved in international carbon trading and accounting frameworks in biomass, biochar and agricultural sectors and have reviewed most of the global methods and trading frameworks. This is all supported by decades working as a professional engineer and manager in the private sector, government and consulting roles.

Do you have any views on the operation of the offsets integrity standards and the additionality provisions as key principles supporting the integrity of abatement under the ERF?

- The application of additionality and newness to the agricultural sector is more complex and nuanced than for industrial projects. I believe the current interpretation of additionality is based on the industrial focus of the Kyoto Protocol which is inappropriate and outdated for the agricultural sector. At worst it precludes leading practitioners from participating.
- Farm management activities do not always have strict definitions, clear boundaries and hard starts and finishes that can be easily defined as "new". For example, grazing management, even if it is considered new, is likely to continue to evolve over generations in line with ongoing innovation and adaption to production objectives, markets, seasons, climate and owners priorities. Starting a new activity under a methodology is also difficult as it may require seasonal or weather breaks which may not align easily with the timing dictated in methodologies.
- The current ERF methodologies have a strong "activity focus". This is based on the assumption that activities are well defined and will have predictable outcomes. In agriculture, this is not the case. Activities are not well defined and the outcomes can vary widely from farm to farm from time to time and for many reasons. For measurement-based methodologies, an "outcome focus" focus should be adopted. Outcome focus means crediting for the measured outcomes without limiting activities. To be clear management activities such as clearing land would continue to be the subject of existing controls – ie the methodology should not enable activities that are otherwise regulated.
- Activity focus is also conflated with permanence risk. Activities are assumed to result in sequestration and by their continuation ensure permanence. The ERF uses this as a crude form of risk management but it is counterproductive as it creates "activity lock" potentially preventing adaption, innovation or wholescale change. Activity Lock is a major impediment to uptake particularly as projects are multi decade long and there is a real and perceived risk that subsequent generations and owners will be locked into superseded activities. Under a measurement-based approach, permanence is demonstrated by measurement.

Do you think the governance structures of the ERF remain fit for purpose?

- My experience is that there are significant flaws in current structures:
    - The ERAC is opaque and appears to be disconnected from the methodology development process. The interpretation of "integrity" and "conservative" is overstated and variously interpreted. ERAC needs to be more transparent and work with methodology developers to resolve issues and apply well-defined interpretations of integrity and conservativeness. To do this ERAC needs more resources, such as a technical secretariat, to assist the committee to get through the workload in a reasonable timeframe. ERAC should also publish its concerns along with justifications so that methodology developers have the opportunity to respond to them explicitly. On numerous occasions, the Department has advised that they couldn't include one or other aspect into a methodology because ERAC would not accept it. The reasons behind this are generally not made public and there is no mechanism for appeal.
    - There is scope to improve the three-party communication of issues between the Department, ERAC and Regulator to ensure complete and operational methodologies are delivered and operationalised in a reasonable time frame. At present methodologies can be incomplete, contain errors and be difficult to operationalise. This is compounded by the continuous loss of knowledge in the Department and Regulator as staff move to different agencies and positions.
    - The auditing structure appears by design to be the most expensive and intractable approach that is possible. There is often a lack of clarity about how to interpret methodologies and no reference body or expertise in the Department or Regulator to refer to or to publish agreed interpretations and precedents.
    - There is no inbuilt process for continuous improvement in the administrative structures for identifying and resolving issues. This should be an integral part of every audit as should the continuous communication of best practice and precedents to all participants. This is particularly the case for soil carbon projects where there are a large number of smaller projects with many project developers.
    - Methodologies are developed as legislative instruments (technically refusable instruments). This means a complex technical document needs to be shoehorned into legislation. And by design the person writing the legislation is not a domain expert. The result is a methodology that is almost guaranteed to contain errors and is very difficult to implement and understand and almost impossible to improve even when there are known errors. There are good reasons to bind methodologies in legislation but there are better ways to achieve the same outcomes while providing a more practical methodology document.
    - CSIRO, other scientific advisers and other research institutions are given too great an influence on details of methodologies and this is often done behind closed doors without the opportunity for review and input by practitioners.

What are your views on method prioritisation, method development and method review processes in the ERF? Please include any thoughts on how these processes could be improved, including how the expertise of industry could be better incorporated.

- Development of methodologies is very slow and in my experience has resulted in methodologies that have mistakes and bureaucratic creep.

- Bureaucratic creep example: The soil carbon methodologies originally identified that it should not be used as a trigger for clearing of land. Through various draftings in 2014 methodology, this resulted in blocking any felling of any tree for any reason even if it was normal legal farm practice such as fire break clearing. In the 2018 methodology, the term "forest" was introduced and this is being variously interpreted as preventing soil carbon projects on any country that could be classified as a forest (0.2Ha, 30% canopy, 1.5m high). The original intent was lost and significant unnecessary restriction have been added.
- The 2018 methodology appears to have a mistake in critical equations. To date, these have not been resolved.

- The process of prioritising new methodologies is very political. There is scope to allow much more input from proponents while still allowing scrutiny of the department, ERAC and Regulator.
- I strongly advocate that there is much more industry/proponent involvement in methodology development and that the methodology should initially be drafted by industry. This will go a long way towards reducing the time to develop a methodology and ensuring it can be implemented. However, if the industry is allowed to propose and partly develop methodologies a very robust process and adequate resourcing will be needed to help focus the ambition of project developers.
- Retain the key part of defining methodologies in legislation but move the majority of the technical content to a document that is much more user friendly and can more easily be continuously improved as experience is gain in implementation and issues or errors are identified.
- Ensure that every methodology is tested before release and staff in the Regulator are trained in its implementation and interpretation. Ensure that best practice and interpretation is frequently updated and widely published.
- Ensure Department and ERAC have the resources and priority to implement methodologies in a reasonable timeframe.

What are your views on the suitability of the permanence period discount?
What are your views on the suitability of the risk of reversal buffer?

- In my view, the way permanence risk is managed is, inefficient, ineffective, expensive and does not manage permanence risk. The net result is that all parties have the worst outcome.
  - The buyers do not have a permanence guarantee. 25 years is not permanent.
  - The producers have increased risk, activity locks and no mechanisms to manage risk.
  - The government has an unmanaged risk and no real mechanism for managing project risk over time.
- The net result is that any credit with permanence is discounted and, has greater risk and barriers to implementation and this greatly limits potential supply.
- There are much better ways to manage permanence risk and this can be done in a way that:
  - Gives buyers a permanence guarantee (meaning very long term >>100 years).
  - Gives producers and project developers the mechanisms to manage risk.

- Give produces incentives to participate and maintain and enhance carbon stocks over time.
- Unlock other sources of funding and investment to incentify more projects.
- Fully quantifies and manages portfolio risks as well as actively managing risk at an individual project level over the long term.

What are your views on the risks posed to land-based abatement and the adequacy of ERF and project-level risk mitigation measures?
What are your views on the risks to contracted abatement resulting from ERF projects being concentrated geographically and by method type?

- I think these two question highlight a fundamental misunderstanding of land-based abatement and risk mitigation.
  - No land-based project can manage its own risk. This is not new – no farmer can guarantee that it will grow a crop in a given season give flood, fire, pestilence and drought etc. Notwithstanding, in aggregate, the agricultural sector produces a crop every season.
  - The only way land-based (and to be clear this is about credits with a permanence risk) projects can manage risk is via portfolio risk management. An individual farm cannot provide a permanence guarantee but 1000's of farms spread across regions and types of production can.
- The project level mitigation measures currently in place
  - Increase risk to an individual farm.
  - Remove options for managing risk
  - Introduce activity locks
  - Decrease land value or are perceived to do so
  - Decrease income
  - Add other impediments to project uptake including gaining eligible interest holder consent from financial institutions.
- The issue with geographic concentration is because of the assumption that risk must be managed at a project level. If risk can be managed at a portfolio level then developers will naturally spread risk by maintaining a portfolio of projects both in different geographies and across project types.

What role could the ERF play in future economic recovery efforts?

- The ERF could be used as a vehicle to incentivise a wide range of projects that will flow through to more jobs and income to rural communities while improving resilience. It all comes down to the speed of methodology development and the removal of unnecessary barriers. None of this should or needs to be at the expense of integrity.
- Economic recovery means sufficient economic flow. If done properly the carbon (and co-benefit) markets could be the best agricultural policy possible to drive renewal, innovation, productivity, food security, resilience, drought tolerance etc. There is no downside.

Should the ERF more explicitly address climate resilience and impacts? If so, how?

- Yes. This can be done by ensuring that project that addresses resilience and impacts can sell those benefits. The biggest opportunity is in soil carbon. Increasing soil carbon is directly linked to improved productivity and water use efficiency. So by enabling soil carbon projects you are directly supporting changes in management practices that result in climate resilience and mitigation of climate impacts. This is both direct eg drought tolerance and indirect by removing carbon from the atmosphere and mitigating climate change.
- To do this the ERF and methodologies need to transition to a stackable market where co-benefits can be quantified and monetised. In my view, a stackable market is preferable to a bundled market. For this to happen in the ERF, Australia would need to change its NDC - see below.

Is there a need for enhanced guidance on how to manage ERF projects for multiple benefits? If so, should this be part of the ERF or complementary programs and policies?

- The language of "enhanced guidance" is misplaced. The ERF has no guidance and was never designed to reward or measure multi-benefits – the ERF was designed to purchases tonnes of CO_2. There is nothing to enhance.
- There are considerable opportunities and benefits from incentivising multiple benefits in carbon projects but this will need policy change. This could be done through the Paris Agreement NDCs (nationally, determined contributions). Currently, Australia is locked in a politicised process of targets based solely on tonnes of CO_2. This is exacerbated by accounting tricks embedded in the NCA (national carbon accounts) and decades of policy positions taken in international agreements. If the NDC was defined more broadly, for example including resilience, then it would open the opportunity for the ERF to develop methodologies that explicitly included, priced and prioritise multiple benefits.