Senate Environment and Communications Committee
Australian Parliament House
Inquiry into the Carbon Farming Initiative Amendment Bill 2014

Dear Committee Secretary

We are concerned that the Australian Government's Emissions Reduction Fund (ERF) policy and the proposed changes to the Carbon Credits (Carbon Farming Initiative) Amendments Legislation 2014 have some serious inadequacies that will stop effective participation from the land sector. This means the scheme will not be able to be of use to farmers and other land managers as the Government currently claims in public.

Climate policy cannot be developed in isolation from other Government policy positions. Smart policy development will leverage investment across different portfolios to drive important outcomes for agriculture, Indigenous communities, biodiversity, food production as well as climate. It must be remembered that all investment in emission reduction activity across all sectors of the Australian economy are delivered for a range of reasons, and climate mitigation alone is never the only driver.

Climate policy in Australia needs policy Transparency, Longevity and Certainty (TLC). If these prerequisites are met, then the long term private market investments required to deliver the minimum international obligations Australia has committed to will be met. It must be at the forefront of policy makers in developing the CFI and Emission Reduction Fund that it will be private market capital and business investment decisions will be the critical deliverers of Australia's abatement challenge.

We are working with large collectives of landholders in both "agricultural" and "rangelands" zones who collectively have the potential to create several million tonnes of abatement to 2020, and on the order of hundreds of millions of tonnes out to 2050. These can be produced at very low cost, and provide significant biodiversity, food security and economic diversification options for traditional owners and agricultural producers alike. The changes we suggest are necessary and outlined in our submission below are easy to do, and would work with Australia's significant natural advantages in dealing with human induced climate change at lowest cost. The proposed changes we raise will assist in developing policy TLC to enable multiple Australian Government policy objectives to be met at lowest cost.

To ignore these opportunities or to prevent them through poor scheme design will be to the long term economic and environmental detriment of the nation. I have summarised these and other important potential amendments that need to be made to the proposed CFI legislation in the appendix to this letter. I would be pleased to meet with you to discuss these matters.

Dr Tim Moore,

Director NetPositive

APPENDIX

The proposal for credit purchasing contract periods of five years.

Five years is an inadequate. To create any certainty, the Government needs to lengthen the terms of the abatement purchase agreements (forward contracts for delivery) to align with the projects' economic lifetimes. Long lived assets such as forests need revenue forecasts that match their useful lifetimes which may exceed 20 years. The Government either needs to create longer contract terms to create investment certainty or to provide a clear, credible alternative market based opportunity for carbon credit sales. The current policy and proposed legislation simply creates uncertainty and will not drive new investment as required. The policy setting is inadequate to meet Australia's abatement needs.

Proponents are being asked, in effect, to condense all project lifetime costs into a single five year period to determine a bid price. This will raise the bid price into the ERF, make it less cost effective and render the ERF scheme unable to deliver "lowest cost abatement" by its own design faults.

It will also reduce ability of land sector projects to participate in the CFI/ERF. Australia cannot hope to meet even the meagre -5% on 2000 levels by 2020 without full and deep participation of the land agricultural sector.

- This can be fixed by increasing the contract purchasing contracts to match project crediting periods e.g. 2 x 15 year renewable periods for carbon sequestration & revegetation projects

Proposal for a "single" contract with the Government

There is no sound reason nor any logical policy setting for the Government to limit successful proponents to only one contracting period. This policy actually undermines the potential for the ERF to drive new investment in dealing with Australia's abatement challenge. If a project has a crediting lifetime greater than the contract lifetime, then the project or credit owners should be able to bid into subsequent rounds. To refuse to do so is counterproductive for the scheme.

- There should be no restriction on a project from being able to bid into subsequent funding rounds of the ERF once the initial contracting period assuming the ERF has not transitioned to a market based instrument.

Proposal to shorten land sector crediting periods

Consistent with our concerns over short contracting periods is our concern over the proposal to shorten land sector crediting periods for sequestration to 25 years. It is obvious that trees do not stop growing at twenty five years. To remove the ability to earn revenue based on the full productive life of the tree-based asset makes projects to fix up country less viable and unable to return revenue required to make the project's cost effective and to provide a reasonable return on investment to private landholders. Native forest projects seeking to cover development costs through carbon trading will typically require at least 30 years of growth to recoup cost of development.

By allowing only a 25 year crediting period, the Government prevents landholders from owning the carbon rights from the growth in years 25-40, the natural growth cycle of native vegetation. They also make the projects economically unviable.

The carbon sequestration occurring on private land from growth in years 25 to 40 will in fact be nationalised. This is because, crucially, the national accounts will take account of growth in years 25-40 which will make a contribution to meeting Australia's national target. So, the nation benefits from trees on private land. The Government will then be nationalising private assets and personal property and stopping private landholders from being able to earn a return on investment for permanently improving the environment! This is perhaps the most counterproductive proposed change we can see in the CFI legislation

This is reminiscent of the institutional removal of land rights during colonial days. The proposed policy setting and legislation amendments infringe on private property rights that have been hard fought for.

- This can be fixed by ensuring that land sector carbon sequestration & revegetation projects are able to earn credits over the full productive lifetime of the growth cycle i.e. 30 years as under the current arrangements. The proposed amendments should not be accepted. The only rational approach is for a crediting period of two renewable 15 year terms to be retained.

Lack of rangelands carbon storage methodology

Rangelands restoration, including grazing, fire and protection of groundcover.

The single largest source of carbon storage between now and 2050 is from rangelands carbon storage through restoration, including through management of fire, ferals and protection of groundcover.

CSIRO[1] suggests an *achievable* level of carbon sequestration on the order of 20 million tCO_2e per year from rangelands restoration for 40 years. This could happen while maintain other productive, biodiversity and cultural values of those lands that are restored. Again, such projects deliver on multiple policy objectives (e.g. Indigenous employment opportunities, protection of pastoral food production and associated community and social benefits, protection of important heritage values) and can do so for a relatively modest carbon price. **From an abatement perspective, it is that grazing land management projects providing the absolute largest single opportunity identified in the ClimateWorks marginal abatement cost curve (pg 13, Figure 1.5 ERF Green Paper).** They are likely to be viably delivered at a carbon price on the order of $\$15/tCO_2e$. Rangelands carbon sequestration projects are therefore seen as critical to short-medium term emission reduction unit production, and critical to Australia meeting its international emission reduction targets at low cost.

Further emphasising the importance of rangelands restoration is the Government decision to include Article 3.4 (grazing land management) sinks in Australia's national emission inventory (with the *force majeure* clause now in effect). This means that all Article 3.4 carbon sink projects will count towards reducing Australia's national emissions.

Crucially, this opportunity also stands to improve animal production potential (with relative emission reduction intensity in animal production), provide remote and regional jobs, enhance individual enterprise and regional community resilience to drought as well as promote biodiversity protection.

[1] CSIRO (Commonwealth Scientific and Industrial Research Organisation), 2009, An analysis of greenhouse gas mitigation and carbon biosequestration opportunities from rural land use, CSIRO, St Lucia, Queensland.

As such, we see rangelands restoration on pastoral country and Indigenous owned and managed country as being in a unique position to deliver multiple government policy objectives at the same time as delivering abatement at a cost per tonne competitive with many of the other sources identified by ClimateWorks.

The Australian Government could simply adapt and make simple modifications to the significant efforts made to the ACRE submitted Rangelands restoration methodology or to adopt one of the internationally used rangelands restoration methodologies that specify how to quantify carbon stock change.

The availability of a practical methodology would open up long term, large scale carbon storage that would also drive indigenous participation, food production, protection of cities from dust storms, enhance biodiversity, and allow the Australian Government to meet long term climate goals at lowest cost.

Not prioritising a useable rangelands carbon storage methodology will critically risk Australia's ability to meet climate and other sustainability goals at significant long term economic cost.

"Government funded" projects ineligible

Hundreds of projects in Australia that have the potential to create real, verifiable emission reduction benefits have been developed with partial funding from Government. In all cases, the ongoing development, capital and operational costs will be incurred over project lifetimes by investors and private owners of the emission reduction benefits, not Government.

It is counterproductive to scheme design and current Government policy to prevent individuals from being able to benefit from improving environmental assets. It will have negative consequences for remote and regional economic development and Indigenous economic participation.

- The restriction on "projects that have been funded by Government programs be ineligible to participate in the ERF and CFI" need to be clarified & specifically allow land sector projects that have had Government support to participate.

Whole of project must be bid in

We see no sound policy basis for requiring a project owner to bid entire project credit production volumes at an ERF "auction". If a project owner wishes to retain some credits for some future risk management or in the event they feel they can find an alternative buyer, then in a free and rational market they should be able to do so. The current proposal restricts the scheme from operating as a "market based instrument" which was the claimed basis for its development. The current proposal is in conflict with the scheme's aims and intent.

- The amendments need to be modified to allow proponents to bid in whatever volume of credits above the minimum they chose.

ERF project selection process

The ERF process as proposed is a single-bid, one-shot, pay-as-bid tender process, not an auction. There is no opportunity for price discovery, and the proposed disclosure of pricing arrangements to

not allow for transparency in development of bidding strategies for future “auctions”. The ERF needs to move to a more transparent auction process that facilitates market price discovery.

- The amendments need to move the process towards a true auction with real time price discovery, not a one-shot, pay as bid tender as currently stands.

- Auction clearing prices need to be published to allow price discovery, not “aggregated” average paid prices as currently proposed

Safeguard mechanism

There is inadequate information regarding how the proposed safeguard mechanism is to operate. There is real potential to create an ongoing opportunity for credit sales to parties with potential obligations under a safeguard mechanism. This needs to be a focus of this area of policy development to enable to development of a deep and liquid market for emission reduction units that will enable Australia to meet its abatement challenge to 2020 and 2050. A baseline and credit approach would be preferable to the current proposed arrangements, but less preferred than a cap-and-trade system.

- The ERF and CFI legislation need a clear example of how a national cap will be imposed to create an emissions limit, enabling the development of a market based approach to lowest cost projects driving the emissions reductions.