National Farmers' Federation

Submission to the
Senate Standing Committees on Environment and Communications into
Carbon Credits (Carbon Farming Initiative) Bill 2011;
Carbon Credits (Consequential Amendments) Bill 2011 and
Australian National Registry of Emissions Units Bill 2011

8 April 2011

National Farmers' Federation

Member Organisations

Contents

Contents

1. Introduction

The National Farmers' Federation (NFF) has welcomed the introduction of the Carbon Farming Initiative (CFI) legislation into Federal Parliament and is pleased that it has addressed a number of the NFF's key concerns raised through the draft consultation process.

The NFF has always stated its broad support of the concept and intent of the CFI.

Despite the uncertainties that abound in the area of carbon mitigation, the progress of the CFI demonstrates the positive role agriculture can play in mitigating against carbon emissions through on-farm management.

Within the CFI legislation, the Government has made significant movements on a number of flaws in the draft legislation. This includes the critical area of financial additionality, where the absurd proposal to exclude projects leading to material benefits or productivity gains has thankfully been rejected.

The legislation has also addressed NFF concerns around potential perverse outcomes in relation to food production, water, local communities, employment and biodiversity, as well as reducing some of the uncertainty and administration costs surrounding crediting periods, reporting timeframes and offsets compliance.

The Government deserves credit for listening to the farm sector and modifying its proposal to ensure that genuine abatement opportunities under the CFI are not unnecessarily overlooked.

However, the NFF looks forward to the serious interrogation of these issues by the Senate Standing Committees on Environment and Communications, with the aim of reassuring the farm sector that the proposed remedies are sufficient to avoid perverse outcomes and unnecessary cost of engagement.

While many in farming communities remain disappointed over the lack of appropriate recognition for past farmer contributions to carbon mitigation, under the CFI farmers can look forward to being recognised for at least some of their future contributions to the carbon abatement challenge. How much exactly remains to be seen and the NFF is under no illusion that the CFI will revolutionise revenue streams for farmers – at least in the short to medium term.

However the clear passage of this legislation cannot be misinterpreted as being the end of the road for this process and additional research and development as well as a significant education task will still be needed for farmers looking to engage. In the absence of a significant injection of research and development funding into abatement opportunities and their measurement, the NFF suspects that uptake of the initiative will be limited.

While some prudent flexibility has been shown by the Government in making the CFI more accessible for landholders, the reality is that CFI offset credits will still require participants to adhere to stringent obligations. For bio-sequestration projects, such as those involving soil carbon and forestry, these obligations will remain for many years.

Farmers need to be aware of these responsibilities and a detailed education program, both utilising the Landcare networks and other existing farmer extension networks, will be vital.

2. Financial additionality

During the CFI consultation process, the NFF advocated that adopting the rigid definition of additionality presented within the draft legislation would effectively rule out the vast majority of potential agricultural offsets and severely limit the scheme in terms of its potential to generate additional revenue streams for farmers.

The NFF suggested that the aspect of financial additionality within the draft legislation be removed as this test would lead to a very restrictive suite of available offsets and limit the carbon abatement outcomes.

The NFF therefore welcomes the amendments to the legislation in relation to financial additionality and believes that the legislation now presents a much improved balance for the approval of projects that may also lead to productivity gains or other material benefits.

That is not to suggest that the existing additionality clauses for CFI offsets will be easy for farmers to meet. The requirement to demonstrate abatement methodologies are not ‘common practice’ will still place a limit on many abatement projects. Therefore, despite the improvement to the legislation, additionality will remain a challenge for many landholders to demonstrate through their projects and the CFI will overlook many activities that deliver strong mitigation outcomes.

3. The risk of perverse outcomes

The NFF has been strong in identifying the potential for adverse impacts on regional communities, water, biodiversity and food production from carbon mitigation policies that provide a disproportionate incentive for forestation as a regional land use. The NFF would be extremely concerned if, as a result of any carbon policy, large scale carbon sink forests dominated the Australian landscape at the expense of agricultural production, regional communities and the environment.

The NFF’s concern on these issues was heightened, particularly by the rigid interpretation of additionality within the draft legislation that threatened to leave carbon sink tree planting as one of the only genuine offset opportunities for landholders looking to participate in the scheme.

The NFF has therefore taken some comfort in the change to the additionality definition and changes to the legislation that are designed to ensure that these perverse outcomes will hopefully be avoided. These include the following inclusions within the CFI Bill and Explanatory Memorandum:

(2) In deciding whether to recommend to the Governor-General that regulations should be made for the purposes of subsection (1) specifying a particular kind of project, the Minister must have regard to whether there is a significant risk that that kind of project will have a significant adverse impact on one or more of the following:

(a) the availability of water;
(b) the conservation of biodiversity;
(c) employment;
(d) the local community;
in, or in the vicinity of, the project area, or any of the project areas, for that kind of project.

The Government will monitor the implications of the scheme for regional communities and introduce further restrictions on abatement projects as necessary, if there is evidence that projects are likely to have a material and adverse impact on the allocation of prime agricultural land, water availability or biodiversity.

Notwithstanding the coverage of the scheme, the Minister may exclude projects that could have significant adverse impacts on water availability, food production and the local communities, conservation of biodiversity or employment.

In order to enhance the strength of the Bill in this area, the NFF recommends that Part 3, Division 12, Section 56 (2) of the Bill adds "(e) land and resource access for agricultural production", as a further criteria for approval of CFI projects.

Despite the legislative amendments, this remains an area of sensitivity for the NFF, particularly in light of recent analysis by the CSIRO suggesting that a carbon price of $36 per tonne will see the entire food-growing area of the lower Murray Darling Basin converted to carbon sink forests.

It is appropriate for the Inquiry to closely examine this issue to ensure that the amendments are robust enough to provide the assurances that the farming community requires in this area.

4. Administration costs for the CFI

The NFF notes that some key improvements have been made to streamlining the administrative costs around the CFI and giving additional confidence to those considering developing CFI methodologies. Improvements include:

- lengthening the crediting period for CFI offsets from 3 to 7 years (15 years for reforestation projects and 20 years for avoided deforestation projects),
- providing flexibility in the reporting timeframes, allowing participants to choose between 1 or 5 year reporting and allowing bio-sequestration projects to cease reporting on maturity; and
- waving compliance audit fees in circumstance where financial hardship can be demonstrated.

While these changes are welcome, the NFF believes that the costs of measuring, reporting, and verification (MRV) will continue to be a significant hurdle for many farmers looking to engage in the CFI.

The NFF urges the Government to continue to focus on streamlining MRV administration as the CFI develops. The Government should also look to provide more detailed cost ranges, using case studies where possible, to demonstrate to potential CFI participants the type of costs involved.

5. Permanence

The NFF notes that no legislative change has been made in the area of permanence and that this integrity standard will continue to be a barrier for many people looking to engage in bio-sequestration projects.

6. Education and extension

Should the CFI be introduced, the Government must ensure that education and extension services for land holders are enhanced. There are real risks that farmers may unwittingly engage in offset projects without being appropriately advised about the risks and responsibilities that come with participating in the scheme, particularly in meeting the permanence requirements surrounding bio-sequestration projects.

A failure to undertake extensive education and extension programs could expose the Government to the real possibility of participants feeling misled and seeking remedies on the basis of having inadequate information about the risks involved.

The NFF believes that it will not be sufficient to rely wholly on the Landcare system to educate landholders about the opportunities, risks, and responsibilities that come with engaging in the CFI.

To supplement this effort, the NFF believes that Government should consider utilising and resourcing the State and Commodity Farming Organisation extension networks in its education and extension efforts.

7. CFI funding

The NFF notes that $45.6 million has been allocated to the CFI to support the extension, administration and some research around CFI methodology development.

To date, the NFF understands that only a small portion (approximately $6 million) of this funding has been committed through funding the Landcare system ($4 million) and biochar methodologies ($2 million).

The NFF understands that CFI administration costs including running the Domestic Offsets Integrity Committee (DOIC) will also require funding allocations from the original $45.6 million, however this still leaves the Government with a considerable pool of money (well in excess of $30 million) to ensure that the CFI is a success.

The NFF is adamant that the remaining CFI funding must not be siphoned off into consolidated revenue. Instead, remaining funds should be committed to the CFI through enhancing the education and extension services and/or investing in research and development to support and develop agricultural offset methodologies.

8. Research and Development

The NFF continues to advocate that research and development (R&D) will play a vital role for farmers in ensuring that they can optimise the capacity of the sector to abate emissions. This issue has not been resolved in the CFI legislation introduced into Parliament.

The NFF believes that a long term commitment to significant supporting R&D, in addition to current productivity based research, will be required to underpin the CFI methodologies and to develop new options for farmers to engage within the CFI. There should also be an investment in reviewing and adopting international research if tested and shown to be applicable to Australian systems.

The NFF welcomed the $46.2 million commitment to the Climate Change Research Program as a positive first step in helping Australia's farmers to close gaps in R&D surrounding carbon abatement. Yet this funding has merely scratched the surface of the total R&D needs in this space and will come to an end in June 2012. Considerably more will be needed in order to attain maximum gains from the CFI.

Furthermore, strong consideration must be made about the mechanisms through which climate change mitigation research is undertaken. The current Productivity Commission Review of the Rural Research and Development Corporations (RDCs) has observed in its draft report that funding for rural research is undertaken through a range of individual programs, which are not well aligned. The NFF believes that this scatter gun approach does not lead to the best outcomes for Government policy or the best on-the-ground outcomes for farmers.

The NFF urges the Government to make future investments in research through existing mechanisms rather than duplicate administration and overheads by setting up alternative funding mechanisms.

The NFF also notes that proposed project methodologies will need to be underpinned by 'peer reviewed science'. However, in the absence of further R&D funding it will be impossible for the scientific community to invest time and resources to collect data and develop methodologies for many of the potential CFI activities.

9. The CFI in the context of a national carbon price

The Government should not assume that as a result of the CFI, Australian farmers will blindly support an economy-wide price on carbon in the interests of driving demand for offsets under the program.

Instead, the NFF remains concerned about the potential impact on Australian farmers' ability to compete on international and domestic markets should an economy-wide carbon price be introduced – even in the event of farmers having access to CFI credits. This remains the case even if agriculture's direct emissions are excluded from any future carbon price.

However, the NFF notes that as it currently stands, the international community is at varying stages in their efforts to reward the carbon abatement that agricultural and land use management delivers through the proactive efforts of landholders across the globe.

From this perspective, it is important that the CFI is not excluded from linking with any future domestic carbon market, such as a carbon tax or emissions trading scheme.

The NFF notes that there is some opposition to the linking of CFI offsets to any future economy wide carbon pricing mechanism. The NFF argues that excluding CFI offsets from any future economy wide carbon pricing mechanism will increase the total cost of abatement for the Australian economy. This would also be the case if CFI offsets were excluded from a future economy wide carbon pricing mechanism during a fixed price phase as is being proposed under the Government's carbon pricing mechanism architecture.

Similarly, the NFF is surprised at suggestions that there is concern about linking CFI offset credits to any future carbon pricing scheme due to the potential reduction in Government revenue. The NFF rejects Professor Garnaut's proposal that the use of CFI offsets under any future carbon pricing mechanism be capped. The NFF is adamant that any policies to reduce carbon emissions do not transform into becoming policies about how Government can generate revenue.