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WWF Submission Carbon Credits (Carbon Farming Initiative) Bill 2011

WWF's submission to the Department of Climate Change and Energy Efficiency on the Design of the Carbon Farming Initiative (28/1/11) focused on two key areas:

- The development of standards to assure initiatives deliver effective and verifiable emission reductions
- Protection of the environment and delivery of environmental co-benefits.

This submission considers how well the proposed Carbon Credits Bill 2011 addresses the issues raised in WWF's previous submission.

WWF remains broadly supportive of initiatives aimed at reducing emissions of greenhouse gases due to agricultural activities. While the Government's Carbon Farming Initiative has the potential to reduce emissions in the land and agriculture sectors, it is critical that carbon credits be certified under acceptable standards assuring that they not only reduce emissions but do no environmental harm. This is particularly important if carbon credits issued through the scheme are eventually to be eligible offset activities for the Government's recently announced Carbon Pricing Scheme. Many of the carbon farming initiative activities being considered under the Carbon Farming Initiative do not yet have internationally recognized standards developed. For this reason WWF believes that activities where agreed international standards exist, such as avoided deforestation and reforestation, should be given priority for implementation.

WWF considers that, in order to streamline the scheme to reduce costs and complexity and make it more appealing to participants, the integrity standards originally proposed in the Consultation Paper and Exposure Draft have been weakened considerably.

- Project level additionality tests including financial additionality have been removed. Activities will now be subject to a "Common Practice" test for additionality which remains to be defined and may not provide what WWF would consider a strong enough standard.
- The proposed legislation has eliminated the need for activities to meet standards for leakage which were included in the Exposure Draft and the design consultation paper. WWF considers it essential that adequate and accepted leakage standards be established for activities undertaken under the FCI.



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- Reporting requirements have been reduced. WWF has particular concerns on assuring perpetuity for sequestration projects since reporting requirements for sequestration projects that have reached maturity and are no longer generating ACCUs has been removed.

Unless activities to be undertaken under the FCI meet adequate standards and are effectively monitored and reported, there can be little certainty that expected emission reductions will be achieved.

In respect to biodiversity co-benefits, the Bill includes legislation which protects against the adverse impacts of activities but there is little that contributes to positive biodiversity outcomes. The legislation calls for the Minister to recommend regulations which would exclude activities which would have an adverse environmental impact. These will be included in a “negative list”. While WWF in general, supports this approach, its adequacy for protection of the environment cannot be determined until the regulations are prepared and excluded activities determined.

The following sections provide an outline of WWF position on the Farm Carbon Initiative and specific comments on the proposed legislation.

Integrity Standards

WWF Position

It is critical that any carbon credits generated by the scheme meet rigorous standards to assure that they truly represent a verifiable, permanent reduction of emissions.

Methodologies for development and certification of the credits must take a conservative approach where uncertainty exists and be built on a scientifically credible knowledge base.

Specific recommendations made were:

- **Phasing** -that approved activities be phased-in. Activities for which accepted international standards exist, such as reforestation and afforestation should be introduced first, before activities for which methodology is yet to be established and standards set, such as for the management of soil carbon.
- **Additionality** - The project activities must be demonstrated to be additional to those that would occur under the business as usual case. Clear guidelines must be provided establishing a realistic business as usual baseline. The baseline must be estimated on a conservative basis so as not to inflate potential carbon credits. Activities that under normal business assumptions would provide an acceptable economic return could not be considered additional nor would activities required by existing regulations.



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- **Permanence** - Farm Carbon credits must represent a permanent removal of carbon from the atmosphere in order to be considered as an offset against equivalent industrial emissions. WWF supports that a proportion of carbon credits be set aside as a buffer to insure against the future emission of carbon. However, as discussed in WWF's previous submission, it is considered that the 5% buffer proposed is too low a general rate to adequately protect against inadvertent carbon release, in particular bush fires for forestry projects. Risk buffers must be validated through empirical research appropriate to Australian ecosystems and conditions. Moreover, the risk buffer must be large enough not just for present day risk but must account of the increased risk of biocarbon losses due to increased heat, drought, flood and fire in future climates.
- **Leakage** - WWF recommends that the scheme adopt procedures similar to the VCS leakage standards under which the project proponents are required to identify potential project leakage and propose mitigation to the extent possible. The level of emissions that cannot be mitigated are then to be deducted from the level of carbon credits available.
- **Monitoring and Reporting** - It is imperative that carbon abatement projects be effectively monitored and reported on to assure that carbon abatement committed to is achieved. A monitoring plan should be required which defines measurements to be taken including sampling methodology.

Proposed Legislation-Standards

The scheme is focused on crediting genuine and verifiable abatement which is permanent and additional to business as usual or regulatory requirements. This is given effect by requiring methodology determinations to meet internationally consistent integrity standards. The Minister must not make a methodology determination unless a methodology is assessed and endorsed by the Domestic Offsets Integrity Committee (DOIC) [Part 9, Division 2, clause 106(4)(b)]

Where appropriate, the Administrator will take a light-handed approach to documentation to reduce administrative costs for the project proponent, for example, the Administrator may provide for statements to be verified by statutory declaration [Part 3, Division 2, clause 23(2)].

Additionality

Methodology determinations must relate to the kinds of projects that pass the additionality test [Part 9, Division 3, clause 133(1)(a)]. The purpose of the additionality test is to ensure that credits are only issued for abatement that would not normally have occurred and, therefore, provides a genuine environmental benefit.



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Due to concerns on administrative costs, complexity and reduced appeal of schemes, the project-level additionality test, including references to financial additionality have been removed. Instead, abatement activities that are not common practice within an industry or region would be included on a 'positive list' and recognised as additional. ACCUs would only be issued for additional abatement, which means that ACCUs would not be available for abatement practices and activities that are already widely used by farmers or other land holders. Common practice is not defined in the legislation.

An offsets project is taken to pass the additionality test if it relates to an activity or kind of project that is listed in the regulations [*Part 3, Division 6, clause 41(1)(a)*] and is not required to be carried out under Commonwealth, State or Territory law [*Part 3, Division 6, clause 41(1)(b)*]. In other words, the regulations will list activities or types of projects which are additional. This is referred to as a 'positive list'.

Permanence

Sequestration is generally regarded as permanent if it is maintained on a net basis for around 100 years.

The risk of reversal buffer is to insure the scheme against temporary losses of carbon whilst carbon stores are recovering, and losses as a result of wrong doing by the project proponent that cannot be remedied. A risk of reversal buffer will be deducted from the ACCUs issued for sequestration projects [*Part 2, Division 3, clause 17(2)*]. The risk of reversal buffer will be 5 percent of the ACCUs issued unless another number is specified in the regulations [*Part 2, Division 3, clause 17(2)(a) and (b)*]

As a result of these adjustments, ACCUs would generally be issued for average increases in sequestration rather than temporary increases beyond this level (maximum sequestration). This provision reduces the risk that ACCUs will be issued for abatement that may not be permanent. It also makes possible a risk of reversal buffer that is lower than other voluntary offsets schemes, without compromising the environmental integrity of ACCUs.

Administrative and compliance costs have been reduced through removing reporting requirements for sequestration projects that have reached maturity and are no longer generating ACCUs.

Leakage

The proposed legislation includes no specific requirement for activities to meet leakage standards.

WWF comments



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- Legislation does not consider phasing in of activities prioritising those where proven methodologies exist, such as for deforestation and reforestation.
- In order to reduce costs and provide more appeal to participants, project-level additionality tests including financial additionality have been removed. Instead activities must meet a “common practice” test to be included on a positive list for approved activities. Additionality is a key test to assure activities will reduce emissions. However “common practice” remains a flexible concept in the legislation, relying on expert judgment and further consultation. It is recommended that principles defining “common practice” should be clearly defined in the legislation and that the details in the regulations should be reviewed periodically in order to ensure that it remains an adequate test of additionality.
- WWF considers that the 100 year sequestration period for biological carbon stores as a reasonable approximation of permanence for offset credits. However the risk of reversal buffer is still considered to be too low. It is recommended that the required buffer be increased and risk adjusted depending on the project type and characteristics. For example, VCS standards recommend a 15-30% buffer for a *medium risk* Improved Cropland Management Project and 40-60% for a *high risk* reforestation project. Because of the legislated compliance provisions of the scheme the buffer will not need to be as high as those under VCS however lower buffers would be acceptable only if implemented together with the obligation of current and future landholders to maintain committed carbon stocks and relinquish credits if carbon stocks are destroyed.
- In the legislation, reporting requirements cease after ACCUs are issued for sequestration projects raising the question of how permanence can be assured without further reporting requirements. It is recommended that a minimum level of monitoring and reporting continue on sequestration projects until the perpetuity requirement is met.
- The proposed legislation has eliminated the need for activities to meet standards for leakage which were included in the Exposure Draft [Part 9, Division 2, clause 100 (4-g), 102 (1-4)] and the design consultation paper. WWF considers it essential that adequate and accepted leakage standards be established for activities undertaken under the FCI. Without activities, particularly sequestration projects, meeting acceptable leakage standards, credits are unlikely to be acceptable as international offsets.

Environmental protection and co-benefits

WWF Position



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The carbon farming initiative provides the opportunity of not only reducing greenhouse gas emissions but also contributing to positive biodiversity outcomes.

Specific WWF recommendations:

- ***Eliminating perverse environmental impacts***- projects should be required to identify potential negative environmental impacts and take steps to resolve them prior to issuing carbon credits. WWF considers that legislation developed under the scheme should allow no projects involving negative impacts on the environment to be approved. For example, clearing natural regrowth vegetation to make way for a “carbon planting”.

Invasive plant or animal species should not be encouraged or facilitated by proposed activities and high biodiversity conservation value areas should be completely protected. It is also important to model any effects of afforestation/reforestation projects on the hydrological cycle to be confident there will no significant negative outcomes.

- ***Meeting regulations and conforming to NRM plans***-Projects should conform to all applicable environmental regulations and comply with any relevant natural resource management plan. as long as these regulations and regional plans themselves do not contain any perverse environmental impacts (see above).
- ***Monitoring of environmental impact***-WWF recommends that environmental and biodiversity impact monitoring, resulting from project activities, be required as part of the monitoring and verification process.
- ***Prioritisation of high biodiversity projects***-Avoided deforestation, reforestation and revegetation can offer significant benefits. Offsets for retention of native woody vegetation, including natural regrowth of previously cleared vegetation, whether forest or woodland, should be prioritised on the basis of the very high biodiversity side-benefits realized. As indicated in our submission to DCCEE CFI consultation paper, WWF also recommended that methodology development for savanna fire management and reducing fertilizer use should also be prioritised given their high environmental co-benefits.

Proposed Legislation-environmental co-benefits

To ensure that abatement projects do not have perverse or unintended impacts, offsets projects will need to comply with all state, Commonwealth and local government water, planning and environment requirements. Project proponents will also be required to take account of regional natural resource management plans



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Concerns about the protection of native forests and the potential for adverse impacts from scheme projects have been addressed through requiring that avoided deforestation projects are only for native forests, and creating the potential for the regulations to contain a ‘negative list’ of abatement activities ineligible for ACCUs because they have a high potential for perverse outcomes. The Minister may recommend that regulations are made to exclude certain types of sequestration or emissions avoidance projects that would otherwise be eligible for ACCUs under the scheme [Part 3, Division 12, clause 56]. This is known as a ‘negative list’. In making these recommendations, the Minister must consider whether there is a significant risk that in the areas where the projects are likely to be undertaken, they will have a significant adverse impact on:

- the availability of water;
- biodiversity conservation;
- employment; or
- the local community [Part 3, Division 12, clause 56(2)].

The Government intends to include on the negative list projects that involve the complete cessation of harvesting in plantations established for harvest; that is, converting harvest plantations into permanent carbon sinks.

Projects may not involve the clearing of native forests or using material obtained as a result of the clearing or harvesting of native forests [Part 3, Division 2, clause 27(4)(j)]. This would prevent clearing of low-density native forest to establish a higher-density carbon sink plantation, or biochar projects that make use of materials from native forests.

Project proponents will be able to include environmental and community co-benefits on the Register of offsets projects.

The scheme covers reductions in emissions from introduced animals that are not managed within an agricultural system [Part 3, Division 12, clause 53(1)(c)]. These emissions are not internationally recognised [Part 3, Division 12, clause 55].

WWF Comments

- The legislation proposes to make certain activities which will have an adverse environmental impact ineligible to participate in the Farm Carbon Initiative. These activities take into consideration biodiversity, forest, and water issues among others and are used to create a “negative list”. While WWF supports protection of the environment from adverse environmental impacts through creation of a negative list, regulations have yet to be prepared listing excluded offset activities, so the adequacy of the approach remains to be determined.
- WWF supports the legislation’s prohibition on clearing native forests and restriction of avoided deforestation projects to native forests.



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- While the legislation allows proponents to list environmental co-benefits on the register of offset projects, WWF considers that projects providing co-benefits should be prioritized relative to environmental benefits provided in order to improve biodiversity outcomes.
- WWF recommends that a national ‘Biodiverse [Premium] Carbon’ accreditation standard be developed (along ISO standards), allowing existing (and new) companies to compare their ‘carbon farming’ products and attract greater market interest in a ‘premium / niche’ market. This would allow accredited carbon farming companies to solicit the interest of client companies seeking to make good on their corporate environmental and social responsibilities.
- WWF also recommends in addition to a register of offset projects, that a market guidance mechanism to help identify projects that have high environmental benefits and high market value be created.
- WWF recommends that required reporting under the legislation be expanded to include environmental and biodiversity impact monitoring.
- WWF recommends that the Government provide additional resources to NRM organisations to improve natural resource management plans. For example consider requiring the next phase of regional natural resource management plans to be spatial in nature and include key assets that would take into consideration biodiversity, water quality, food production and water quantity. Consider requiring plans to be nationally consistent and accredited.
- WWF recommends that funds be made available for research and development of abatement opportunities and methodology development in agriculture and land sector.