



8 April 2011

Senate Standing Committee on Climate Change, Environment and the Arts  
Australian Government  
Parliament House  
Canberra

Dear Committee Members

## **Carbon Credits (Carbon Farming Initiative) Bill 2011**

Greenfleet, the not for profit environmental charity, welcomes the opportunity to respond to the Carbon Credits (Carbon Farming Initiative) Bill 2011. Greenfleet is Australia's longest operating and largest proponent of biodiverse carbon forestry, having established 450 forests and planted over 6.8 million native trees since 1997. Greenfleet's approach to carbon forest projects was approved under the former Greenhouse Friendly™ standard and Greenfleet brings significant expertise as one of the few organisations in Australia with direct experience in establishing and managing biodiverse forests for carbon offsets.

Greenfleet strongly supports the introduction of legislation to underpin the CFI and to provide certainty to the offsets market. If the legislation is significantly delayed or does not receive parliamentary support, we strongly recommend that an administrative scheme is developed to provide support to ongoing credible land based Australian abatement.

We urge the Parliament to ensure that Scheme is not unduly delayed and ensure that its design does not unnecessarily provide barriers to participation in carbon farming.

Yours sincerely

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# 1 Summary

Greenfleet, a not for profit environmental charity, is Australia's largest and longest project originator of biodiverse carbon forests having established 450 forests and planted seven million native trees since 1997. This undertaking is the equivalent of at least 1.8 million tonnes of abatement as these forests grow or the equivalent of removing the fuel used in one year by 455,000 cars. Greenfleet was the first not for profit agency approved under the former Greenhouse Friendly™ standard and Greenfleet brings significant expertise as one of the few organisations in Australia with direct experience in establishing and managing biodiverse forests for carbon offsets.

In summary our issues are:

1. Australia needs a credible mechanism for recognising forest sink abatement to stimulate investment in our landscape and to overcome the 'carbon trading deficit' currently imposed under the rules.
2. Dismantling previous schemes such as Greenhouse Friendly and the failure of the Carbon Pollution Reduction Scheme have created significant market uncertainty and has stymied investment in Australian abatement.
3. Projects and methodologies approved under previous schemes should be accepted and transitioned into the CFI.
4. Abatement from all projects should only be counted once.
5. Eligible projects' abatement is recognised from the commencement of the Kyoto period (2008) to prevent double counting by the Australian Government.
6. The proposed sections to impose automatic cancellation on voluntary abatement are unworkable.
7. Amend Part 2, Division 3, Section 19(2)(c) and Section 27 (3)(e) to allow voluntary retirement of carbon credits from eligible projects.
8. Let the ACCC fulfill its duties to ensure that offset agencies neither double-count abatement nor make false claims regarding their projects.
9. Approval of forestry projects, particularly those under 50 hectares should not require additional levels of Government approval as the administrative delays will act as a significant barrier to participation in the CFI. Existing approval regimes should remain.
10. Natural resource agencies should not have the power to veto projects where they have a direct or perceived conflict of interest in the project's approval.
11. There is unlikely to be a huge flood of CFI credits into the market in the short to medium term.
12. Forests are unlikely to displace food production on productive agricultural land.
13. If there were a flood of credits onto the market, emission reduction targets can be adjusted accordingly.
14. Use existing international biodiversity standards to support claims regarding biodiversity.

## 2 Creating a Mechanism for Recognising Credible Abatement

Greenfleet supports the CFI as it will allow accreditation and recognition of additional Australian biodiverse forest sink abatement. Furthermore it will overcome the current situation whereby overseas abatement is recognised in Australia but local abatement is not. Currently Australia endures a 'carbon trading deficit' as local businesses are obliged to invest in overseas projects to become carbon neutral under the National Carbon Offset Standard. Both voluntary and compliance carbon markets demand confidence that Australian abatement projects can be subjected to tests of integrity that illustrate that the abatement is real, additional, secure and permanent: the Carbon Farming Initiative provides this mechanism.

1. ***Greenfleet supports the CFI as it allows recognition of credible Australian abatement and will overcome the "carbon trading deficit" implicit in the rules as they stand.***

## 3 Recognition of Prior Abatement & Continuity of Scheme

### 3.1 Sovereign Risk

It is also important that the CFI is durable and enduring and not dismantled by future governments so participants have confidence investments in forestry projects may be recouped by future returns.

The demise of the Greenhouse Friendly (GF) scheme was a significant setback to the carbon offset industry in Australia and the current lack of any mechanism to transition carbon forests from this scheme to the CFI is a significant impediment to investment in the CFI. It has been discussed, though the detail is not yet released, that projects approved under GF will become part of the CFI positive list. We support this proposal.

Australian business, government and individual supporters have contributed over \$25 million towards Greenfleet's GF approved carbon forestry projects and Greenfleet believes this investment -- made following tacit undertakings from previous Australian governments and supported in a bi-partisan manner by the Parliament -- should be allowed to mature and obtain its original goals as approved by the GF scheme. By including appropriate GF qualifying projects as an eligible activity under the CFI, investors will be reassured of the Australian Government's good faith in offsets projects.

2. ***Dismantling previous schemes such as Greenhouse Friendly and the failure of the Carbon Pollution Reduction Scheme have created significant market uncertainty and has stymied investment in Australian abatement.***
3. ***Projects and methodologies approved under previous schemes should be accepted and transitioned into the CFI.***

### 3.2 Recognition of Prior Abatement

The CFI Bill proposes that abatement for forest projects is recognised from 1 July 2010. Many of Greenfleet's projects were commenced prior to this date and failure to allow recognition of abatement from projects earlier than 1 July 2010 through the scheme means that the Australian Government is counting this abatement to meet its own target during the Kyoto period. We note the Part 2, Division 3 of the Bill contains sections that obliges organisations like ours to automatically cancel any abatement that has been presold as voluntary offsets to avoid double counting. We note the double standard evident whereby the Australian Government is allowed to double count our supporters' carbon prior to CFI Scheme commencement but we are not.

**4. Abatement from all projects should only be counted once.**

**5. Eligible projects' abatement is recognised from the commencement of the Kyoto period (2008) to prevent double counting by the Australian Government.**

## 4 Voluntary Automatic Cancellation

The CFI Bill imposes automatic cancellation of credits from projects that are subject to declarations under section 27(3). This section requires eligible entities to include in their application a statement that the project applicant should declare that the project is subject to the voluntary automatic unit cancellation regime. We believe that this section is unworkable as proposed.

Greenfleet is supportive of mechanisms that protect the integrity of the scheme and confidence in the market. Our business model is similar, but not as simplistic as Greenfoot Pty Ltd described in the Explanatory Memorandum to the Bill (we note that your example is for a private company and Greenfleet is a charitable trust). As it stands the Bill will make all abatement from any proposed project required to be retired. In practice, Greenfleet has conservatively established forest sink projects to ensure that carbon abatement from forest sinks will meet voluntary commitments made to our supporters that are based on tonnes of abatement, not on projects. Greenfleet supporters do not donate to a project, they pledge so that we can remove x tonnes of carbon from the atmosphere on their behalf – a very important difference.

In practice, the underlying contracts and commitments to supporters are more complex than implied by the Bill and the Explanatory Memorandum with several large sites (or projects) generating abatement for a mixture of voluntary abatement from donations for offsets as well as more commercial transactions for transfer of carbon credits when they become available.

For example, a single 200 hectare forest sink site (project) is generating abatement for:

1. At least 5,000 individual donors from a particular state – donations for voluntary offsets
2. State government departments – transfer of carbon credits (when able)
3. Private businesses - some donations, some transferrable carbon credits.
4. Local government agencies - transfer or retire carbon when able, as well as voluntary offsets.

The Bill as it stands, does not discriminate for separate recognition of the underlying commercial agreements within a single project and would require us to split single projects into voluntary cancellation and not voluntary cancellation projects – though the abatement is being generated from the same site, planted at the same time with the same species, on the same landholder's land, requiring all the same consents, subjected to the same management regime and the same monitoring, verification and auditing.

This approach is unnecessarily intrusive of Greenfleet's operations and it suggests that we will need to either breach commercial confidences which underpin our program as the administrator will need to understand the nature of individual transactions or it will impose an unnecessary regulatory burden on Greenfleet's program.

We note that the CFI relies on the Australian Competition and Consumer Commission (ACCC) to assist determining whether an entity is a 'fit and proper person'. We agree with this approach and strongly feel that these aspects of the CFI should be subject to the same regime. Let the ACCC administer, as it is obliged to do, claims of double counting. It is neither in Greenfleet's interests nor its intention to double count carbon however we feel that the approach proposed in the Bill is unduly limiting and prejudicial to Greenfleet's operations and provides a disincentive to manage our forest sinks to maximize abatement beyond the initial commitment, nor for landholders with whom we partner to ensure maximum abatement as they have no commercial incentive to do so.

This issue is overcome by Greenfleet voluntarily retiring abatement on behalf of our supporters in line with our commitments (rather than the compulsory retirement of all abatement from an individual project).

- 6. *The proposed sections to impose automatic cancellation on voluntary abatement are unworkable.***
- 7. *Amend Part 2, Division 3, Section 19(2)(c) and Section 27 (3)(e) to allow voluntary retirement of carbon credits from eligible projects.***
- 8. *Let the ACCC fulfill its duties to ensure that offset agencies neither double count abatement nor make false claims regarding their projects.***

## **5 Risk Management and Safeguards**

Greenfleet is supportive of measures to ensure that appropriate checks are put in place to ensure that projects are not approved in opposition to good natural resource management plans and principles. However, we raise two issues with sections of the Bill that require all levels of government and natural resource agencies to approve projects prior to them going ahead.

### **5.1 Planting Forests is a recognised Agricultural Purpose**

Firstly, forests are already a recognised agricultural use for planning purposes and should not require additional planning approvals at the state / local government level. Local governments in particular are

not sufficiently resourced nor experienced to make decisions on these matters and in many regional areas – where forestry projects are most likely to occur – may be unduly influenced by vested interests. Many projects will be under 50 hectares and will not have a significant impact on catchments, nor will they change the predominant use of agricultural land in any area. We fear that this requirements, if implemented, will become administratively burdensome and would lead to inordinate delays and costs in commencing projects and will only serve to reinforce the views and tactics of skeptics.

**9. *Approval of forestry projects, particularly those under 50 hectares should not require additional levels of Government approval as the administrative delays will act as a significant barrier to participation in the CFI. Existing approval regimes should remain.***

## 5.2 Conflict of Interest

Secondly, many natural resource agencies have either proposed to become project proponents themselves or have aligned to another agency for project development. They then have a direct conflict of interest if Greenfleet proposed a project within their sphere of influence which may be viewed as competition to their own projects. Therefore, the power to veto a project should be limited and clear.

**10. *Natural resource agencies should not have the power to veto projects where they have a direct or perceived conflict of interest in the project's approval.***

We have also addressed additional concerns which have been raised during the debate on the Carbon Farming Initiative. These are addressed below.

## 5.3 “Floods of credits” – where from?

The design of the CFI allows for abatement from agriculture including soil carbon. There have been numerous reports on the potential for soil carbon abatement in Australia. In fact Prof. Garnaut, in his recently updated report<sup>1</sup>, stated that Australia has the highest potential land based abatement per capital in the world. The key word here is potential, not actual abatement in established projects. Furthermore, at present, there is no routine way of measuring soil carbon that would make the cost of abatement economic unless the price of carbon was relatively high. Even if there were, and much more carbon became available to the market than was originally envisaged, it is possible to make abatement targets harder to account for the increase in supply. Greenfleet's view is that climate change is so challenging, and the required targets to meet safe greenhouse levels so aggressive, that we need everything to work and it is risky to stifle innovation in a potentially huge source of abatement.

As it stands, limitations on eligible forest projects and the significant capital needed to inject for expansion of the sector means that there is very unlikely going to be a ‘flood of credits’ into the market. This is nicely summarised in Mitchell and Harper's (2011)<sup>2</sup> paper, ‘*Status and Prospects of Carbon Forestry*

<sup>1</sup> Garnaut, Prof. R. (2011) Garnaut Review Update 4 – Transforming Rural Land Use.

<sup>2</sup> Mitchell, C and Harper, R, (2011) Status and Prospects of Carbon Forestry in Australia. Available at [http://www.daff.gov.au/\\_data/assets/pdf\\_file/0012/1896888/Chris\\_Mitchell.pdf](http://www.daff.gov.au/_data/assets/pdf_file/0012/1896888/Chris_Mitchell.pdf).

in Australia' which estimates current eligible forest sink total at approximately 65,000 hectares, not all of which will deliver credits to the market. To be conservative, assuming all 65,000 hectares came under regulation of the CFI, at 15 CO<sub>2</sub>-e tonnes per year, we could expect approximately 1 million tonnes of abatement per year from existing forests which is approximately 0.2% of Australia's emissions inventory.

- 11. There is unlikely to be a huge flood of CFI credits into the market in the short to medium term.**
- 12. If there were a flood of credits onto the market, emission reduction targets can be adjusted accordingly.**

#### **5.4 Forests are unlikely to displace food production**

We believe that carbon forestry projects are unlikely to displace high-value agricultural production on the nation's most productive soils. We believe that carbon forestry projects are and will remain peripheral to prime agricultural production and in fact may improve, but not replace, sophisticated farming systems. We believe the Australian Government is best placed to debunk myths regarding replacing farming with forests or that forest projects will cause food prices to rise.

Establishing forest sinks costs involves a high initial capital investment of anywhere between \$2,000 to \$10,000 per hectare depending on the planting approach. Carbon yields in the first few years are very low until active growing periods commence. If the average site generates 300 tonnes of CO<sub>2</sub>-e per hectare (at 20 years), and the price of carbon is \$25 per tonne of CO<sub>2</sub>-e, the potential income to the project originator is \$7,500 – over 20 years that's an average of \$375 per hectare per year. Compare this to a hectare of wheat that produces say 1.8 tonnes per hectare each year, at say \$300 per tonne – that is an income of \$1,140 per hectare per year with much lower capital investment and income anticipated every year for 20 years. It is unlikely that we will see huge productive areas of farmland planted with forests for carbon alone. However, landholders may plant some areas to hedge themselves for future markets. The price of food is much more likely to be impacted by global supply and demand for food, the price of fuel, biofuel policy and as we have recently seen, major natural disturbances. Forests remain part of a suite of actions to take meaningful and lasting action on climate change and biodiverse forests have the benefit of increasing the landscape's resilience to climate change. In the International Year of the Forest, we think it's a great option.

- 13. Forests are unlikely to displace food production on productive agricultural land.**

## **6 Enhanced Protection for Conservation & Biodiversity**

Greenfleet strongly endorses the new provisions added to the CFI bill that provide for the exclusion of certain projects under the regulations where the Minister determines there is a *significant risk* the project will have significant adverse impacts on, *inter alia*, conservation and the conservation of biodiversity.



The bill is however silent on how any *significant risk* may be measured or assessed or who would undertake any assessment and what would trigger a notifiable activity to the Minister. Greenfleet believes the application of a ‘conservation and biodiversity’ standard such as the Climate Community and Biodiversity Standard should be applied in parallel with the CFI -- or be extended from it -- to allow project proponents of biodiverse carbon forestry projects to have conservation claims certified under an internationally accepted standard and allow the Minister to determine projects that may have *significant risk*.

Certification under a biodiversity and conservation standard would provide the market with the same levels of surety proposed by the CFI for carbon sequestration projects and allow the Minister to make decisions using an acceptable and transparent framework. The Minister could also direct project proponents to seek certification under the biodiversity and conservation standard where the Minister had cause to be concerned with any project or deemed it to have *significant risk*.

**14. Use existing international biodiversity standards to support claims regarding biodiversity.**