

Operation of the scheme

Introduction

- 3.1 This chapter discusses a number of issues surrounding operation of the scheme that arose in evidence to the Committee, including carbon pricing, possible disincentives to participation, regulations, research and development, and carbon literacy. The chapter concludes with consideration of the 2014 review of the scheme.

Carbon pricing

- 3.2 The Committee heard from several witnesses at its public hearing that for the carbon farming initiative to be completely effective, the Government would have to place a price upon carbon emissions.
- 3.3 Mr Michael Power of the Australian Network of Environmental Defender's Offices suggested the initiative was unlikely to work without a carbon price, as a price was needed to drive demand for offset credits, as well as ensuring there was a net reduction in emissions across the economy.¹
- 3.4 Mr Corey Watts of The Climate Institute indicated that the carbon farming legislation would be well served with a carbon price, or a 'direct spend' on abatement:

¹ Mr Michael Power, Proof Transcript of Evidence, 3 May 2011, p. 17, 18.

... without a carbon price or direct investment this scheme will suffer from uncertainty and very likely low participation simply because the demand will not be there. The beauty of this scheme is that it is, in a sense, neutral as to whether you introduce a carbon price or whether you go with a more direct spend approach. It lends itself to either tactic, although the Institute has favoured a carbon price and an emissions trading scheme.²

- 3.5 The Committee asked witnesses whether it would be better to wait for a price to be placed upon carbon dioxide pollution, or to commence rollout of the scheme. Mr Mark Wootton of The Climate Institute replied that rolling the program out before a carbon price had been set would enable landholders to think about involvement in the program, and to begin to innovate.³
- 3.6 Dr Sarah Ryan suggested placing a floor price in place to support the market at its initial stages.⁴
- 3.7 Mr Peter Cosier of the Wentworth Group of Concerned Scientists saw a carbon price as the mechanism to drive the initiative further, believing it would encourage practitioners to develop methodologies to take full advantage of the scheme.⁵

Possible disincentives to participation

- 3.8 The Committee recognises that while there is broad support for the scheme, disincentives to participation have been identified by a number of organisations.
- 3.9 In particular, the Committee acknowledges the issues raised by representatives of the forestry industry in submissions and in evidence to the Senate Environment and Communications Legislation Committee.⁶ The Committee notes that many of these issues are considered to be barriers to participation in the scheme.

2 Mr Corey Watts, Proof Transcript of Evidence, 3 May 2011, p. 8.

3 Mr Mark Wootton, Proof Transcript of Evidence, 3 May 2011, p. 10.

4 Dr Sarah Ryan, Proof Transcript of Evidence, 3 May 2011, p. 15.

5 Mr Peter Cosier, Proof Transcript of Evidence, 3 May 2011, p. 39.

6 Australian Plantation Products and Paper Industry Council (A3P), Submission No. 7, pp. 1-2; Australian Forest Growers, Submission No. 4, p. 2; National Association of Forest Industries, Submission No. 27, p. 2; Mr Allan Hansard, Senate Environment and Communications Legislation Committee Proof Transcript of Evidence, 20 April 2011, p. 11. See also Queensland Government, Submission No. 61.

3.10 When asked about support for the bills, the Department of Climate Change and Energy Efficiency told the Committee in relation to the forestry industry:

I guess it is fair to say that the forestry industry would prefer that we did not have the additionality test that we are applying to commercial forestry. They would obviously have preferred it if the government had adopted the same approach as it had for the Carbon Pollution Reduction Scheme, although I should say that that is an issue that is still under consideration. As far as I am aware, that is the only sector or industry that has raised a very serious concern.⁷

3.11 The Committee also acknowledges the issues raised by other groups, such as the National Farmers' Federation, NSW Farmers' Association, Australian Pork Limited, and AUSVEG, both in submissions and evidence.⁸

3.12 The Committee recommends that the Department continue to consult with key stakeholder groups to provide greater clarity about how the scheme is to operate and to address barriers to participation for these and other industries.

Implementation

Regulations

3.13 Detail about a number of aspects of the scheme is to be provided in regulations rather than the bills, including the content of the positive and negative lists. As noted above, the negative list will include those abatement activities that are ineligible for ACCUs because of a high potential for perverse outcomes.⁹ The positive list will include offset projects taken to have passed the additionality test.¹⁰

7 Mrs Shayleen Thompson, Proof Transcript of Evidence, 3 May 2011, p. 52.

8 See, for example, Australian Pork Limited, Submission No. 58; AUSVEG, Submission No. 69; NSW Farmers' Association, Submission No. 67; National Farmers' Federation, Submission No. 32.

9 Carbon Credits (Carbon Farming Initiative) Bill 2011, Explanatory Memorandum, p. 9.

10 Carbon Credits (Carbon Farming Initiative) Bill 2011, Explanatory Memorandum, p. 53.

- 3.14 Some participants in the inquiry expressed concern that more detailed information about what will be included in these lists is unknown. For example, in relation to the negative list, WWF-Australia commented:

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.¹¹

- 3.15 The Committee sought the Department's comments on this issue:

I think of one of the challenges with taking these approaches and having the negative and the positive list is that, as I said, we are looking to design them quite explicitly to be very tailored to particular local conditions and needs. That means, in my view, that it is something that is very difficult to do in legislation. You actually do need to do it in regulations so that you can have the consultation process on it and you need the capacity to change it as new information and scientific evidence come to light. I think there are some very sound reasons for doing it in regulation. We are intending to begin the consultations on both the negative and the positive list very soon.¹²

- 3.16 Participants also raised issues concerning other matters that will be clarified in regulations. For example, Mr David Putland of Growcom drew attention to as yet unknown costs that are to be determined in regulations and the financial commitments that will be required from producers in instigating a project.¹³ Degree Celsius drew attention to the significant establishment costs that could be faced if a project proponent was required to provide an audit report prior to approval 'if the project is of a kind specified in the regulations'.¹⁴ The North Australian Indigenous Land and Sea Management Alliance expressed concern that many of the rules that will decisively govern participation are as yet unavailable.¹⁵

- 3.17 Australia Pork Limited similarly commented that although it broadly supports the scheme:

... APL believes there will be many administrative burdens to participating in the CFI because of the lack of detail currently

11 WWF-Australia, Submission No. 34, p. 2.

12 Mrs Shayleen Thompson, Proof Transcript of Evidence, 3 May 2011, p. 50.

13 Mr David Putland, Proof Transcript of Evidence, 3 May 2011, p. 36.

14 Degree Celsius, Submission No. 14, p. 6.

15 North Australian Indigenous Land and Sea Alliance, Submission No. 6, p. 2.

provided. It is therefore difficult to determine the administrative burdens and impact on producer participation.¹⁶

- 3.18 The Committee considers that further information about the matters that are to be addressed in regulations is required as soon as possible. In many cases, it will be this detail that will determine the extent of support and participation in the scheme.

Funding for research and development and carbon literacy

- 3.19 The Committee also learned in its public hearing that there was a need for further funding of research and development into methodologies, and also into ensuring that landholders were 'carbon literate', that is, informed about the opportunities available to them under the carbon farming initiative.

- 3.20 Mr Peter Cosier of the Wentworth Group of Concerned Scientists noted the importance of robust peer reviewed science, commenting on the lack of research that effectively determines the capacity of Australian soil to sequester carbon:

... there is no peer reviewed science of sufficient robustness to provide anybody with a reasonable estimate. Is that bad? It is not good. But is it surprising? No, it is not – we have never had a carbon market provide this opportunity before, so it is not surprising that we do not have the science behind that information. One of the things we think is excellent in the design of this bill is that it creates the institutional framework circumstances to encourage that innovation in science, to answer that question.¹⁷

- 3.21 Professors Snow Barlow and Peter Grace appeared before the Committee to discuss their submission that reported on the state of funding for research, development and extension in the field of carbon farming and agricultural productivity.
- 3.22 They reported that they were appearing on behalf of the Primary Industries Adaptation Research Network, which sought to develop mitigation and adaptation solutions for primary industries in Australia. The Committee heard that the program was co-funded to a total of approximately \$100 million, \$46 million of which was provided by the

16 Australian Pork Limited, Submission No. 58, p. 3.

17 Mr Peter Cosier, Proof Transcript of Evidence, 3 May 2011, p. 39.

Department of Agriculture, Fisheries and Forestry, and that funding for the program was scheduled to end in June 2012.¹⁸

3.23 Professor Barlow advised that funding for research and development had been written into the Carbon Pollution Reduction Scheme, and also into the Caring for our Country program, but that both sources of funding were no longer available. As a possible remedy, he suggested connecting funding directly through the Carbon Farming Initiative to a price on carbon.¹⁹

3.24 The Department of Climate Change and Energy Efficiency agreed that research and development assisted both environmental and productivity outcomes:

[The legislation] ... is a matter of putting together an approach that balances environmental integrity with creating an incentive for farmers and landholders to take action on their land. One of the unknowns about carbon farming is how the market will indeed respond to there being, for the first time, this very clear legislative framework to underpin people taking these sorts of actions. I think that the great strength of carbon farming – that it offers the opportunity to road-test the research that our colleagues in DAFF have been funding for some time and actually see how it can work on the ground.

One of the issues that people talk about a lot in that context is the differing views about the potential for soil carbon. I think the fantastic thing about carbon farming is that for the first time people will be able to do these projects and see how much they can actually deliver on the back of a methodology that will be assessed through the Domestic Offsets Integrity Committee. I think the potential for learning by doing and for road-testing approaches to deal with climate change for sectors that have not really had that opportunity before is going to be really significant.²⁰

3.25 Professor Grace noted that a lot of work had already been done in this field of research, and that while infrastructure had been put into place, further support was needed to ensure that research breakthrough opportunities were not lost.²¹

18 Professor Snow Barlow, Proof Transcript of Evidence, 3 May 2011, p. 2.

19 Professor Snow Barlow, Proof Transcript of Evidence, 3 May 2011, p. 2.

20 Mrs Shayleen Thompson, Proof Transcript of Evidence, 3 May 2011, p. 52.

21 Professor Peter Grace, Proof Transcript of Evidence, 3 May 2011, p. 2.

- 3.26 Mr Mark Wootton also expressed concern at the lack of government support for research and development and carbon literacy:

... we are asking in our submission for \$200 million over the four years which would allow you to come forward and engage not just the R&D ... but the extension stuff. If you are going to get people to understand, this is what you want them to do, even if they do not do it now. They are doing their whole of farm plan and they are going to work on what systems they need to put in place in terms of shelter belts or whatever they want to do – or riparian correction or working with the local catchment management authorities in a range of schemes. You want them to be able to get that into their system.²²

- 3.27 Dr Sarah Ryan of the National Natural Resource Management Working Group spoke of the importance of carbon literacy to inform landholders about how the system operates, and also to address or clarify possible misconceptions:

There are a lot of new concepts here, and we have to help people learn their way into thinking and working with these, so support for the activities that will increase people's carbon literacy are important.²³

- 3.28 Mr Mark Wootton supported the importance of providing information to landholders to improve their carbon literacy, even if they currently had no intention of participating in the scheme, as an awareness of the scheme may lead them to participate at a later date when it is of more financial advantage to them.²⁴

- 3.29 Dr Sarah Ryan also noted it was important to improve carbon literacy so the scheme itself would be a success:

We believe it is really important for this scheme, if it is to deliver a workable market that actually achieves the outcomes, which are saving emissions or sequestering considerable amounts of carbon, that we have reasonably high levels of uptake. It is going to be really important to think about how that 100-year permanence rule is conveyed and communicated or even dealt with in ways like the international voluntary carbon scheme, which has more of a risks based approach built into it.²⁵

22 Mr Mark Wootton, Proof Transcript of Evidence, 3 May 2011, p. 9.

23 Dr Sarah Ryan, Proof Transcript of Evidence, 3 May 2011, p. 13.

24 Mr Mark Wootton, Proof Transcript of Evidence, 3 May 2011, p. 9.

25 Dr Sarah Ryan, Proof Transcript of Evidence, 3 May 2011, p. 13.

- 3.30 The Committee believes robust scientific processes are required to assist in the development of methodologies and to harness the full potential of the carbon farming initiative. It is extremely concerned that the program that best assists in this endeavour is in danger of ending due to a lack of funding, and is especially concerned that projects already underway may never be completed. It strongly encourages both the Department of Climate Change and Energy Efficiency, and the Department of Agriculture, Fisheries and Forestry to examine this issue further and to provide support to Australia's agricultural scientists.
- 3.31 Carbon literacy is also an area of concern for the Committee. It is clear that stakeholders consider this to be an important issue, and given the current uncertainty of the program due to large parts of the legislation being determined through the use of regulations, strong promotion of the scheme is required.
- 3.32 The success of the initiative will depend greatly on its take-up, and landholders will be reluctant to become involved in a program that currently is the source of speculation and potential misinformation. The Department of Climate Change and Energy Efficiency should endeavour to improve carbon literacy amongst landholders and potential participants to the greatest degree possible.
- 3.33 The Committee notes the planned discussions with regional NRM groups scheduled to commence in June, and encourages the Department to use these and any other opportunities for interaction with landholders to promote understanding of the program and to address any misconceptions surrounding the program.

2014 Review

- 3.34 Part 28 Clause 306 of the Carbon Credits (Carbon Farming Initiative) Bill 2011 provides that a review of the Act, regulations and any other instruments made under the Act must be undertaken with a report tabled before 31 December 2014.
- 3.35 Reports of subsequent reviews must then be tabled within three years of the previous review.
- 3.36 The bill also provides that reviews must include public consultation.

- 3.37 Several inquiry participants saw the first review as an opportunity to refine operation of the scheme. For example, ANEDO advocated a careful approach until the review:
- ... we take the approach that you should put in place a scheme with as much environmental integrity and as much safeguards as possible and see what the response in the market is and then recalibrate as necessary in the 2014 review.²⁶
- 3.38 The Climate Institute also saw opportunities in the review and advocated that, following monitoring of additionality, the positive list should be a key topic. The Institute stated that the risk of reversal buffer should be reconsidered at the same time.²⁷
- 3.39 The requirement to review the scheme no later than 31 December 2014 presents the Government with an opportunity to consider how well the scheme is meeting its stated objectives and the level of uptake that has been achieved. The issues that have been raised by participants in this inquiry are all matters that should be addressed within the review.
- 3.40 While all of the stated objectives for the bill are important, the Committee considers particular attention should be paid to the extent to which the scheme is meeting its third objective, which is to achieve carbon abatement in a manner that is consistent with protection of Australia's natural environment and improves resilience to the effects of climate change.²⁸

Conclusion

- 3.41 The Committee acknowledges the broad support for these bills expressed by inquiry participants. Many of the outstanding issues relate to matters that will be addressed either in regulations or as the scheme is implemented, or upon which the Department of Climate Change and Energy Efficiency is continuing to consult. Participation in the scheme for many will hinge upon satisfactory resolution of these issues and, in some cases, greater clarity of the scheme through the proposed regulations.
- 3.42 Many participants cited the lack of a carbon price as a significant impediment to the scheme. The Committee sought the opinion of those

26 Mr Michael Power, Proof Transcript of Evidence, 3 May 2011, p. 21.

27 The Climate Institute, Submission No. 63, pp. 6, 8.

28 See Carbon Credits (Carbon Farming Initiative) Bill 2011, Part 1, Clause 3.

people who appeared at its public hearing as to whether it was better to wait for a price before implementing the scheme. Overall, the response was that it was better to proceed. Mr Mark Wootton, Chairperson of the Climate Institute and also a landholder and farmer commented: 'I think the advantage of going now is that you have an ability to get people not only thinking about it but looking for innovation.'²⁹

- 3.43 The Committee notes that initial uptake of the scheme is expected to be modest. The 2014 review presents an opportunity to assess the successes and failures of the scheme, and to refine it as appropriate.
- 3.44 On balance, while recognising that there are still a number of outstanding issues to be resolved and that consultation is ongoing on matters such as native title, the Committee recommends that the bills be supported.

Recommendation 1

The Committee recommends that the House of Representatives pass the *Carbon Credits (Carbon Farming Initiative) Bill 2011*.

Recommendation 2

The Committee recommends that the House of Representatives pass the *Carbon Credits (Consequential Amendments) Bill 2011*.

Recommendation 3

The Committee recommends that the House of Representatives pass the *Australian National Registry of Emissions Units Bill 2011*.

Tony Zappia MP
Chair

²⁹ Mr Mark Wootton, Proof Transcript of Evidence, 3 May 2011, p. 10.