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NETWORK

15th April 2011

Committee Secretary
House of Representatives Standing Committee on
Climate Change, Environment and the Arts
PO Box 6021
Parliament House
CANBERRA ACT 2600

To whom it may concern,

Carbon Credits (Carbon Farming Initiative) Bill 2011

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to comment on the *Carbon Credits (Carbon Farming Initiative) Bill 2011*.

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies. This submission accords with the views of AIGN members in general, though it may differ in particulars, and accordingly some individual member associations and companies have prepared submissions of their own. A list of AIGN members is attached.

AIGN has previously made submissions on an exposure draft of this Bill to both the Department of Climate Change and Energy Efficiency and to Minister Combet. While the Bill being considered by the Committee has been modified to reflect some issues raised by AIGN and its member organisations, many of the comments made regarding the draft legislation remain relevant.

Some have been strengthened by the subsequent announcement by the Prime Minister and Minister for Climate Change and Energy Efficiency on the 24th February of the framework for the implementation of a carbon price mechanism in Australia. The absence of detail regarding this mechanism furthers AIGN's concern that the Carbon Farming Initiative is premature, and in any event, unlikely to generate the investment in carbon abatement that is identified in Minister Combet's second reading speech.

Timing and Structure of the Carbon Farming Initiative (CFI)

AIGN supports the economy-wide pricing of greenhouse gas emissions as the economically efficient and least-cost policy approach to climate change mitigation.

Unfortunately in Australia, any claims to economic efficiency of an emission price continue to be eroded by the plethora of ill-conceived and duplicating Federal and State policies, programs and regulations covering emissions, renewables and energy efficiency. Many of the elements of the CFI are likely to further detract from the potential economic efficiency of any emission price scheme.

Although the CFI aims to contribute to a 'step change' in reducing emissions, a separate process under the Multi-Party Committee on Climate Change (MPCCC) is currently investigating the options for a mandatory scheme to establish a domestic

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emissions price. In addition, the Australian Government has already announced its two-stage plan for a carbon price mechanism that will start with a fixed price period for three to five years before transitioning to an emissions trading scheme. It is AIGN's view that developing the voluntary CFI before the MPCCC process is concluded is incompatible with establishing a cohesive long-term price signal across the whole economy.

In particular, the CFI:

- Creates uncertainty with respect to the future role and nature of voluntary schemes. The explanatory memorandum and legislation provides no indication on how they might be transitioned into a mandatory pricing scheme
- Pre-empts decisions on the coverage of an emissions pricing scheme, particularly in relation to agriculture and landfill waste
- Changes the treatment of forestry relative to the treatment that had been proposed under the Carbon Pollution Reduction Scheme (CPRS) and, hence, creates uncertainty about the treatment expected under any new emissions pricing scheme.

AIGN understands that Australia will easily meet its commitments in the first period of the Kyoto Protocol. Legislating the CFI now, or at least prior to decisions on the design details of an emissions pricing scheme, is unnecessary.

Recommendation: *AIGN recommends that the CFI legislation be split such that those elements related to voluntary sequestration scheme may be legislated now, but that all other elements be deferred and, where relevant, incorporated into any future legislation to implement an economy-wide emission price.*

Scheme Coverage

The legislation has better defined the types of projects that would be eligible under the program (Part 3, Div. 2), however it remains AIGN's view that the breadth of coverage of the scheme, including that it covers offsets with varying rigour of methodologies, has potential ramifications for the efficacy of a long-term price signal.

The CFI treats parts of the forestry industry differently from the manner proposed under the CPRS and has created confusion as to whether this different treatment is only for the period to 2012, or if it will extend to when Australia has an emissions pricing scheme. In any future emissions pricing scheme, it is important that companies who will be liable to acquit their emissions, whether by paying a tax or by submitting an emission permit, also have the option of meeting their liability with a forestry sequestration offset.

The effect of the CFI is that it is now not clear how the Australian Government would treat Kyoto compliant forestry sequestration projects, including those forests that are also planted for wood and paper production, in the transition to any mandatory domestic emission price. AIGN appreciates that it is difficult to make the transition arrangements clear in the absence of a more detailed proposal for a carbon price – however this firms AIGN's view that the CFI is being implemented prematurely.



Recommendation: *If the Parliament proceeds with the CFI, the CFI legislation needs to incorporate transition provisions that ensure that, if an emissions price scheme is legislated, similar provisions to those that were in the old CPRS legislation relating to forest sequestration come into effect.*

A similar issue of transition is created with the inclusion of agriculture and landfill emission reductions in the CFI. Agriculture was excluded from initial consideration under the CPRS for two reasons — difficulty in measurement of emissions; and difficulty in identifying a point of liability. It is now apparent from the inclusion of agriculture in the CFI, to the point that emission avoidance projects could qualify for allocation of Australian Carbon Credit Units (ACCU), that both these problems expect to be overcome before 1 July 2011. That is, the underlying emissions (or baseline) can be measured and the persons that would qualify for allocation of ACCUs can be identified.

This outcome has important implications for the work of the MPCCC and again suggests that CFI is premature. It demonstrates that agriculture can be covered by an emissions pricing scheme.

Recommendation: *If the Parliament proceeds with the CFI, it will be important for provisions covering the transition of agriculture into a pricing scheme to be included.*

AIGN is also concerned about the potential for ‘leakage’ in a scheme that recognises avoided deforestation on a project-by-project basis. Again, this problem is resolved in a pricing scheme that covers all emissions, including emissions from deforestation.

The addition of “excluded offsets projects” in the revised legislation is contrary to the operation of a market “*which provides clear economic value to actions which store or reduce our carbon pollution*”¹. While it is the case that projects should meet robust and transparent criteria and comply with relevant planning and environmental instruments - this should be sufficient. The inclusion of a negative list opens the door for regulatory interference in the market that should not be required if the appropriate transparent conditions for approval exist. Either a project meets these conditions or doesn’t.

Recommendation: *The negative list should be removed from the legislation.*

Additionality

AIGN’s primary concerns with the draft legislation were with the additionality provisions (Part 3, Division 6). The deletion of the financial viability test is a significant improvement on the draft legislation.

However, it remains that given the scheme covers both Kyoto and non-Kyoto offsets, the one-size fits all approach to additionality is surprising.

With regard to Kyoto-compliant forestry sequestration projects, if the project meets the additionality requirements under Kyoto, then this should be sufficient under the CFI.

¹ Hon Greg Combet MP, Second Reading Speech, Carbon Credits (Carbon Farming Initiative) Bill 2011, 24 March 2011



On the other hand, Kyoto-compliant emissions avoidance projects in agriculture and landfill should require additionality tests that would take into account the future price of emissions, as they would likely be covered by any emissions pricing scheme (see comments above).

AIGN also notes that the ‘common practice’ test will be difficult to define and apply.

Finally, AIGN is concerned about the impact of regulatory conditions imposed by the Government or by other jurisdictions that would have the effect of ‘acquiring’ emission offsets. The nature and nuance of regulations imposed for a number of reasons, including regulations that are not motivated by climate change policy, could have consequences with respect to additionality. Despite numerous COAG iterations of a commitment to a streamlining agenda, State and Territory jurisdictions remain undeterred, both in maintaining existing, and in imposing new climate change related regulation. State and Territory regulations alone could make passing the additionality test difficult and could have the effect of drying-up whatever domestic demand there may be for the CFI offsets.

Differentiation between Kyoto and non-Kyoto units

The legislation provides for a differentiation between Kyoto Australian carbon credit units and non-Kyoto Australian carbon credit units (Part 2, Div. 2). AIGN considers this to be an important distinction to ensure transparency for the market.

***Recommendation:** The legislation should require the Regulator to establish separate registers and numbering systems for Kyoto Australian carbon credit units and non-Kyoto Australian carbon credit units. Further, any reference to Australian carbon credit units should enable transparent identification of them being either Kyoto or non-Kyoto ACCUs.*

Voluntary schemes and environmental effectiveness

The AIGN has members who are interested in the CFI from the perspective of project proponents, partners and clients. However, the majority of members will be customers of project developers and, as such, must be confident that offsets created under the scheme, which will have imprimatur of the Australian Government, are permanent, transferable and will retain their value over time. Without this confidence AIGN members will be reluctant to support this voluntary market for any purpose.

Voluntary carbon offset schemes are established for various reasons and the contribution they currently make to substantial greenhouse gas abatement is mixed. Consequently, a key measure by which AIGN views the CFI is its environmental robustness and efficacy.

Voluntary schemes are supported by customers for reasons other than compliance under mandatory schemes. In particular, they serve a purpose to provide individuals and companies with the opportunity to develop methodologies and standards for new offset opportunities that have yet to be adopted by international compliance mechanisms. They also provide successful case studies that may then be used in future mandatory compliance schemes. Whatever the motivation, their environmental integrity is vital.



***Recommendation:** AIGN supports a restricted CFI that would underpin the National Carbon Offset Standard.*

In conclusion, AIGN appreciates that the CFI is intended to fulfil the Australian Government's 2010 election commitment to provide the land sector with access to carbon markets. However, the benefits of the CFI should not be over-stated, particularly when one considers the prospect of a mandatory pricing mechanism in the near future. AIGN cannot share the Minister's view that the scheme will unlock significant new abatement opportunities in the land sector in the absence of revised international rules on abatement projects. Efforts to help commercialise R&D into currently non-Kyoto compliant sequestration offsets are laudable and welcome, but it would be unfortunate to create expectations of a significant voluntary market that is unrealistic in the current domestic and international context.

Yours sincerely

Michael Hitchens
Chief Executive Officer



ATTACHMENT A: AIGN MEMBERSHIP

Industry Association Members

Australian Aluminium Council
Australian Coal Association
Australian Food and Grocery Council
Australian Industry Group
Australian Institute of Petroleum
Australian Petroleum Production and Exploration Association
Australian Plantation Products and Paper Industry Council
Cement Industry Federation
Federal Chamber of Automotive Industries
Minerals Council of Australia
National Generator's Forum
Plastics and Chemicals Industries Association

Individual Business Members

Alcoa World Alumina - Australia
Adelaide Brighton Cement
BlueScope Steel Limited
BP Australia Limited
Caltex Australia
Cement Australia Pty Ltd
Chevron Australia Pty Ltd
CSR Limited
ExxonMobil Australia Limited
Hydro Aluminium Kurri Kurri Pty Ltd
Incitec Pivot Ltd
International Power Australia
Inpex Browse Ltd
Leighton Holdings Ltd
Origin Energy Limited
Qenos Pty Ltd
Rio Tinto Australia Limited
Santos Limited
Shell Australia Limited
Tarong Energy Corporation Limited
Thiess Pty Ltd
Tomago Aluminium Company Pty Ltd
Wesfarmers Limited
Woodside Petroleum Limited
Xstrata Coal Australia Pty Ltd