

# Chapter 1

## Background

### Introduction

1.1 On 19 June 2014, on the recommendation of the Senate Selection of Bills Committee, the Senate referred the provisions of the Carbon Farming Initiative Amendment Bill 2014 (the bill) to the Senate Environment and Communications Legislation Committee (the committee) for inquiry and report by 7 July.<sup>1</sup>

1.2 The Selection of Bills Committee set out the following as reasons for referral and principal issues for consideration:

- the impact and operation of the Carbon Farming Initiative amendments on existing land sector projects and changes to research and development;
- the application of the Carbon Farming Initiative to other industry areas and community energy efficiency projects; and
- the role and operations of Australian Carbon Credit Units in a grant-based system.<sup>2</sup>

### Conduct of the inquiry

1.3 In accordance with the usual practice, the committee advertised the inquiry on its website and invited relevant organisations to make submissions by 26 June 2014.<sup>3</sup>

1.4 The committee received 17 submissions relating to the bill. These are listed at Appendix 1 and may be accessed through the committee's website.

1.5 The committee held a public hearing in Canberra on 1 July 2014. A list of witnesses who appeared at the hearing may be found at Appendix 2.

1.6 The committee thanks all the organisations and individuals that contributed to the inquiry and the witnesses who participated in the public hearing.

### Notes on references

1.7 Hansard references in this report are to the proof committee Hansard. Page numbers may vary between the proof and the official Hansard transcript.

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1 *Journals of the Senate*, No. 33, 19 June 2014, pp 914–916.

2 Senate Selection of Bills Committee, *Report No. 7 of 2014*, Appendix 4.

3 Senate Standing Committee on Environment and Communications website, 'Carbon Farming Initiative Amendment Bill 2014 [Provisions]', [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Environment\\_and\\_Communications](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications) (accessed 23 June 2014).

## Purpose of the bill

1.8 The purpose of the bill is to provide the framework to administer the Emissions Reduction Fund, the establishment of which is a Coalition election commitment. The Emissions Reduction Fund is a significant element of the Government's policy to respond to climate change.<sup>4</sup>

1.9 The legislation proposes to extend the reach of the Carbon Farming Initiative to allow for the crediting of emissions reduction projects across more sectors of the economy. It proposes to broaden the powers of the Clean Energy Regulator to purchase emissions reductions and streamlines existing processes under the Carbon Farming Initiative.<sup>5</sup>

1.10 The bill principally amends the *Carbon Credits (Carbon Farming Initiative) Act 2011* and makes minor amendments to the *National Greenhouse and Energy Reporting Act 2007*, the *Australian National Registry of Emissions Act 2011* and the *Clean Energy Regulator Act 2011*.<sup>6</sup>

1.11 The Minister for the Environment, the Hon Greg Hunt, in his second reading speech concluded:

By building on the success of the Carbon Farming Initiative, this Bill supports positive action by farmers, businesses and households.

This Bill will use positive incentives to reduce emissions, unlock economic benefits, boost energy efficiency and improve agricultural productivity...This Bill will deliver these results through the Emissions Reduction Fund.<sup>7</sup>

## Background to the bill

1.12 At the 2013 federal election, the Coalition committed to the repeal of the carbon price and the implementation of its Direct Action Plan on climate change and carbon emissions.<sup>8</sup> The Emissions Reduction Fund is a key element of the Direct Action Plan. It is designed to support activities that reduce greenhouse gas emissions and to contribute to Australia meeting its emissions reduction target under the Kyoto

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4 The Hon Greg Hunt MP, Minister for the Environment, *House of Representatives Hansard*, 18 June 2014, p. 9.

5 The Hon Greg Hunt MP, Minister for the Environment, *House of Representatives Hansard*, 18 June 2014, pp 10–11.

6 Carbon Farming Initiative Amendment Bill 2014, *Explanatory Memorandum*, p. 8.

7 The Hon Greg Hunt MP, Minister for the Environment, *House of Representatives Hansard*, 18 June 2014, p. 13.

8 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DID%3A%22library%2Fparty%2F2645370%22> (accessed 24 June 2014).

Protocol.<sup>9</sup> The bill implements the Emissions Reduction Fund, which is based on three key principles:

- to encourage projects that deliver lowest cost emissions reductions;
- emissions reductions will be genuine and go beyond 'business-as-usual'; and
- streamlined and cost-effective administration.<sup>10</sup>

### ***Consultation process***

1.13 Prior to the introduction of the bill, the Government undertook a consultation process.<sup>11</sup> In October 2013, the Government invited submissions on its terms of reference for the Emissions Reduction Fund. More than 290 submissions were received in response to the terms of reference. The subsequent Green Paper, released in December 2013, outlined options for the design of the fund, and invited submissions by 21 February 2014. More than 340 submissions were received in relation to the Green Paper.<sup>12</sup>

1.14 The design of the Emissions Reduction Fund was also guided by an Expert Reference Group, comprising leading industry and academic experts, appointed for their knowledge of, and expertise in, the sector. The scope of the group's advice was determined by the terms of reference for the Emissions Reduction Fund. According to the Department of the Environment, the Expert Reference Group has met a number of times and 'will be convened as required to provide advice on aspects of the Emissions Reduction Fund that have yet to be finalised, such as the safeguard mechanism'.<sup>13</sup>

### ***White Paper***

1.15 The final design of the Emissions Reduction Fund was outlined in the White Paper that was issued on 24 April 2014.<sup>14</sup> In the White Paper, the co-chairs of the Expert Reference Group stated that there was 'broad agreement on a number of key

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- 9 The Coalition, *The Coalition's direct action plan: environment and climate change*, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;adv=yes;orderBy=customrank;page=0;query=%22direct%20action%22%20Dataset%3Apartyol;rec=1;resCount=Default> (accessed 24 June 2014); Carbon Farming Initiative Amendment Bill 2014, *Explanatory Memorandum*, p. 11.
- 10 The Hon Greg Hunt MP, Minister for the Environment, *House of Representatives Hansard*, 18 June 2014, p. 10.
- 11 Carbon Farming Initiative Amendment Bill 2014, *Explanatory Memorandum*, pp 9–10.
- 12 Carbon Farming Initiative Amendment Bill 2014, *Explanatory Memorandum*, p. 9; Department of the Environment, *Emissions Reduction Fund*, <http://www.environment.gov.au/climate-change/emissions-reduction-fund> (accessed 24 June 2014).
- 13 See further Department of the Environment, *Expert Reference Group on the design of the Emissions Reduction Fund*, <http://www.environment.gov.au/climate-change/emissions-reduction-fund/expert-reference-group> (accessed 26 June 2014).
- 14 Australian Government, *Emissions Reduction Fund White Paper*, April 2014, <http://www.environment.gov.au/climate-change/publications/emissions-reduction-fund-white-paper> (accessed 26 June 2014).

policy settings to ensure the Emissions Reduction Fund made an effective contribution to reducing greenhouse gases in Australia'. Those key policy settings include:

- the need for an effective safeguard mechanism;
- the operation of baselines that permit sustainable economic growth;
- ensuring the Government only sponsors projects that would not otherwise proceed but would make a genuine contribution to achieving the targeted reduction in greenhouse gases;
- ensuring there is no net increase in the administrative burden on industry;
- ensuring the commercial arrangements associated with the operation of the Emissions Reduction Fund attract economic investments;
- reducing duplication and overlaps between Commonwealth and state policies to reduce greenhouse gases;
- to the extent possible, develop the Emissions Reduction Fund in a way that can mesh in with a range of international initiatives to reduce greenhouse gases; and
- recognition of the important role of local communities in achieving sustainable outcomes.<sup>15</sup>

1.16 The White Paper noted that the 'overriding objective of the Emissions Reduction Fund will be to reduce emissions at lowest cost over the period to 2020, and make a contribution towards Australia's 2020 emissions reduction target of five per cent below 2000 levels by 2020'.<sup>16</sup>

### ***Exposure draft legislation***

1.17 On 9 May 2014, the Government released the Emissions Reduction Fund exposure draft legislation and explanatory memorandum for public consultation. The consultation period closed on 23 May 2014.<sup>17</sup> The Department of the Environment published a document detailing the results of the consultation on the draft legislation on 18 June 2014.<sup>18</sup>

### **Relevant existing programs and entities**

1.18 It is proposed that some existing programs and entities will be retained in the implementation of the Emissions Reduction Fund under the bill. In particular:

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15 Australian Government, *Emissions Reduction Fund White Paper*, April 2014, p. 4.

16 Carbon Farming Initiative Amendment Bill 2014, *Explanatory Memorandum*, p. 10.

17 Department of the Environment, *Emissions Reduction Fund – Legislation*, <http://www.environment.gov.au/climate-change/emissions-reduction-fund/legislation> (accessed 26 June 2014).

18 Department of the Environment, *The Emissions Reduction Fund: The Results of Consultation on Draft Legislation*, 18 June 2014, <http://www.environment.gov.au/system/files/pages/7aef9f12-8ba1-4d9a-bf6a-1bc89a0bd6f5/files/erf-exposure-draft-legislation-consultation.pdf> (accessed 26 June 2014).

- key elements of the Carbon Farming Initiative will be retained and incorporated into the Emissions Reduction Fund; and
- the Clean Energy Regulator will administer the scheme.<sup>19</sup>

1.19 A brief outline of each of these existing schemes is set out below.

### ***Carbon Farming Initiative***

1.20 The Carbon Farming Initiative is a voluntary scheme established with the purpose of creating incentives for carbon abatement or avoidance projects in land use sectors. The Carbon Farming Initiative operates under the *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act) and is administered by the Clean Energy Regulator. It is currently targeted at landholders who can undertake eligible offset projects and earn carbon credits.<sup>20</sup>

1.21 The Carbon Farming Initiative enables individuals and entities to earn Australian carbon credit units (ACCUs) through activities that store carbon or reduce greenhouse gas emissions on the land. Each ACCU represents one tonne of carbon emissions abatement. ACCUs earned under the Carbon Farming Initiative can be sold to people and businesses wishing to offset liability under the carbon pricing mechanism, or to voluntarily offset their emissions.<sup>21</sup>

1.22 Methodology determinations set out the rules for undertaking activities under the Carbon Farming Initiative which earn ACCUs. The methodology determinations explain how to carry out an abatement project and measure the resulting reductions in greenhouse gas emissions. There are two primary types of methodology determinations: sequestration and emissions avoidance.<sup>22</sup>

1.23 The Domestic Offsets Integrity Committee is an independent expert group currently tasked with assessing methodologies and advising the minister. The minister decides whether to make methodology determinations, which must be based on methodology proposals that have been endorsed by the Domestic Offsets Integrity Committee.<sup>23</sup>

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19 Carbon Farming Initiative Amendment Bill 2014, *Explanatory Memorandum*, pp 6–7.

20 Department of the Environment, *Carbon Farming Initiative*, <http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative> (accessed 26 June 2014).

21 Clean Energy Regulator, *Carbon Farming Initiative*, <http://www.cleanenergyregulator.gov.au/Carbon-Farming-Initiative/Pages/default.aspx> (accessed 26 June 2014).

22 Note that sequestration projects generate abatement by removing carbon dioxide from the atmosphere and storing it as carbon in plants as they grow. Emissions avoidance projects generate abatement by reducing or avoiding emissions. Clean Energy Regulator, *Methodology determinations*, <http://www.cleanenergyregulator.gov.au/Carbon-Farming-Initiative/methodology-determinations/Pages/default.aspx> (accessed 26 June 2014).

23 Department of the Environment, *Domestic Offset Integrity Committee*, <http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/domestic-offsets-integrity-committee> (accessed 26 June 2014).

1.24 The Carbon Farming Initiative presently covers projects that occur in the agriculture and land use sectors, as well as projects to reduce emissions from legacy landfill waste.<sup>24</sup> There are currently 22 methodology determinations. Some of the approved methodologies under the Carbon Farming Initiative include:

- reduction of emissions from the waste sector;
- management of savanna burning in the Northern Territory; and
- capture of methane generated from manure at a piggery.<sup>25</sup>

1.25 The CFI Act requires the Clean Energy Regulator to publish and maintain a web-based Register of Offsets Projects, which includes the number of ACCUs issued. At 26 June 2014, 135 eligible offsets projects had been registered.<sup>26</sup>

1.26 To be eligible for ACCUs under the Carbon Farming Initiative, projects must deliver extra reductions in greenhouse gas emissions—that is, reductions that are additional to what would have occurred in the absence of the project. This is known as 'additionality'.<sup>27</sup>

1.27 Under the Carbon Farming Initiative, projects are also subject to a permanence obligation, meaning that carbon stores must be maintained for at least 100 years. This is known as 'permanence'.<sup>28</sup>

### ***Clean Energy Regulator***

1.28 The Clean Energy Regulator is established by the *Clean Energy Regulator Act 2011* (Cth) and is responsible for administering the carbon pricing mechanism, the National Greenhouse and Energy Reporting Scheme (NGERS), the Renewable Energy Target and the Carbon Farming Initiative. The Clean Energy Regulator's current responsibilities also include functions relating to the carbon pricing mechanism.<sup>29</sup>

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24 Department of the Environment, *Activities – eligible and excluded*, <http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/activities-eligible-and-excluded#scope> (accessed 26 June 2014).

25 Department of the Environment, *Methodology determinations*, <http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/methodologies/methodology-determinations> (accessed 26 June 2014).

26 Clean Energy Regulator, *Register of Offsets Projects*, <http://www.cleanenergyregulator.gov.au/Carbon-Farming-Initiative/Register-of-Offsets-Projects/Pages/default.aspx> (accessed 26 June 2014).

27 The additionality test is currently set out in section 41 of the CFI Act. See also Department of the Environment, *About the CFI*, <http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/about-cfi> (accessed 2 July 2014).

28 Department of the Environment, *Permanence*, <http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/activities-eligible-and-excluded/permanence> (accessed 26 June 2014).

29 Clean Energy Regulator, *Our work*, <http://www.cleanenergyregulator.gov.au/About-us/our-work/Pages/default.aspx> (accessed 26 June 2014).