Australian Government

Submission Template

Design of the Carbon Farming Initiative

Overview

This submission template should be used to provide comments on the consultation paper outlining the proposed design of the Carbon Farming Initiative.

Contact Details

Name of Organisation:	Humane Society International

Confidentiality

All submissions will be treated as public documents, unless the author of the submission clearly indicates the contrary by marking all or part of the submission as 'confidential'. Public submissions may be published in full on the Department of Climate Change and Energy Efficiency website, including any personal information of authors and/or other third parties contained in the submission. If any part of the submission should be treated as confidential then please provide two versions of the submission, one with the confidential information removed for publication.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

Do you want this submission to be treated as confidential? ☐ **Yes** ☒ **No**

Submission Instructions

Submissions should be made by **close of business 21 January 2011**. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address – **CFI@climatechange.gov.au**.

Submissions may alternatively be sent to the postal address below to arrive by the due date.

Emerging Policy Section, Land Division
Department of Climate Change and Energy Efficiency
GPO Box 854
CANBERRA ACT 2601

Scheme design principles

Emissions Reduction a Top Priority

A key design principle should be to ensure that existing terrestrial carbon stores (reservoirs) in natural, pastoral and agricultural landscapes are maintained (i.e., reducing emissions from all forms of land degradation, including land-clearing, forest degradation, unsustainable soil management, etc. should be a priority for the Scheme).

Humane Society International has a particular interest in ensuring that maintaining the natural carbon carrying capacity of landscapes by protecting and restoring carbon stores in intact native vegetation is recognised as a design principle so that opportunities to capture public policy co-benefits can be achieved as the Scheme is operationalised.

In this regard, HSI feels it is important that the Scheme explicitly recognise, as a matter of principle, that there are co-benefits for carbon conservation, biodiversity conservation and water conservation (including flow, quality and salinity control) to be captured by optimising landscape conservation of natural ecosystems across Australia. The extent to which the resilience in the face of change of relatively intact, diverse natural vegetation is likely to represent a more secure and enduring carbon store than crops with little genetic diversity is an additional consideration warranting explicit recognition.

If such notions are not established up-front, as principles, our experience both domestically and internationally indicates that there is a high likelihood of perverse initiatives being taken seriously and of opportunities to maximise cost-effectiveness in use of public funds being missed or ignored.

Sequestration to restore degraded land as secondary consideration

HSI is also supportive of establishing a secondary principle of restoring the carbon carrying capacity of degraded landscapes that would broaden eligibility for the Scheme to embrace a range of carbon sequestration strategies (including improved management of soils in croplands and pasture; restoration of natural vegetation in over-cleared and degraded landscapes, especially in groundwater recharge zones; and introduction of tree crops on already cleared land. Preventing further degradation of existing carbon stores, however, must be established as the primary purpose of the Scheme if it is to be cost-effective and to capture co-benefits.

Offsetting a key strategy cost-effective mobilisation of adequate funds

HSI supports the offset principle generally, particularly in relation to avoided degradation, including avoided deforestation (see comments under 'scope' below). If a liable emitter purchases 'avoided degradation' credits associated with a landholder foregoing opportunities to degrade or destroy natural vegetation in order to meet its obligations, this not only achieves a positive carbon benefit for the landholder and the nation but also contributes towards protection of Australia's globally unique, but often threatened biodiversity.

HSI sees merit in achieving biodiversity co-benefits from a market-based offset scheme as a complement to any regulatory regime established by federal and state governments. Such regimes axiomatically establish a minimalist duty of care that is always likely to fall well short of what is necessary to adequately conserve biodiversity conservation in Australia. Existing government and private funding schemes that complement regulatory constraints have little prospect of filling this nature conservation needs gap. A properly directed emissions offsetting scheme, however, especially if based on a cap-and-trade approach that prices carbon at a level commensurate with a realistic emissions reduction target, has the potential to mobilise sufficient funds to make a substantial contribution to helping the Australian community and its landholders achieve Australia's conservation goals.

Additionality needs a clearer ecosystem services policy foundation

Maintaining an existing carbon store should be explicitly identified as an ecosystem service additional to maintaining any other ecosystem service, including biodiversity or water conservation. In other words, no landholder should be ruled ineligible to participate in any CFI Scheme simply because they have previously benefitted from participation in a biodiversity conservation scheme with respect to the same area of land. Only in circumstances where rights to carbon are explicitly transferred to another party should landholders be so constrained.

Indeed, HSI is strongly of the view that any CFI Scheme must be developed within a broader ecosystem services policy context – where landholders able to contribute to the maintenance of a range of ecosystem services should be able to derive multiple benefit flows associated with each of those multiple benefits. Conversely, there would be a perverse disincentive established if benefitting from the maintenance of one ecosystem service was to prevent a landholder benefitting from maintaining any other ecosystem services even when other landholders providing the same services were able to do so.

Comprehensive land-based accounting system needed

It is a critical matter of principle that a credible accounting system is used to support any CFI Scheme. There is a clear and important choice to be made: to move on from the 'activity-based' accounting system currently used – and abused – to identify emissions within the LULUCF sector relevant to national emissions reduction targets established pursuant to the UNFCCC's Kyoto Protocol - to land-based accounting. Land-based accounting cannot be perversely manipulated in the same way that activity-based accounting has been manipulated to unfairly advantage the forestry sector compared to other sectors of the Australian economy with emissions covered by national reduction targets.

Land-based accounting can provide a clear, transparent and fair foundation for any and all groups of landholders within the primary production land use sector of the Australian economy to contribute to national emissions reduction targets on the same basis as other sectors of the economy. If a CFI Scheme is to allow emitters in other sectors of the Australian economy to offset emissions by contributing to emissions reduction in the primary industry land use sector, that sector must have a credible accounting system capable of generating a credible offset credit. Current LULUCF accounting rules cannot meet that simplest of tests.

Scheme coverage

The term 'avoided deforestation' should be rephrased as 'avoided degradation' (of terrestrial carbon stores) to include all forms of degradation, where avoided loss of indigenous native forest is but one, albeit extreme and sudden, form of degradation of such carbon stores. 'Avoided degradation' should also include not only avoided loss of other indigenous vegetation types (e.g. wetlands, grasslands, shrub-lands and woodlands) but also degradation, short of complete destruction, of all types of Australian native vegetation and degradation of soils in all situations whether under natural vegetation or in pastoral or agricultural use.

It is important to note that the definition of '(native) Australian **forest'** in the draft Bill defines "deforestation" as "conversion of forested land". This is an administrative definition, based on the administrative land classification system used by FAO member states in preparing their national forest resource inventories. It is an inappropriate definition of 'forest' for terrestrial carbon management purposes. For example, conversion of 'naturally regenerated forest' to 'planted forest' (clearing native forest and replacing it with plantations) does not constitute 'deforestation' using these FAO categories – as no loss of 'forested land' is involved. Similarly, even massive degradation of 'forest' by clear-fell logging previously intact forest might involve a reclassification from 'mature naturally regenerated natural forest' to 'other naturally regenerated natural forest' – but it's still 'forested land' for FAO administrative purposes. Likewise, progressive degradation of woodlands from intact 'forested land' to open pasture over long periods of time escapes reporting as 'deforestation'.

The only sensible way to deal with these definitional problems is to include the entire terrestrial landscape in the scope of the Scheme and to use comprehensive land-based accounting as the basis for reporting changes in all relevant carbon pools (sub-sets of stores) in any relevant areas of land. This approach not only serves to prevent foresters from hiding the emissiveness of their activities but, much more importantly, also serves to allow pastoral and agricultural landholders to derive benefits from adjusting their management practices to reduce emissions by stopping or reducing degrading carbon pools on their land. This is particularly important insofar as it creates incentives to rewet drained wetlands and so prevent ongoing large, net emissions from such organic soils.

Such a broadening of approach to Scheme eligibility also serves to align any domestic Australian scheme with international developments since the UNFCCC COP in Bali in 2007 made a commitment to establishing a 'REDD' mechanism (to 'reduce emissions from deforestation and forest degradation in developing countries'). This commitment was formally expanded at the recent UNFCCC COP in Cancun to include 'conservation, sustainable management of forests and enhancement of stores' (known as 'REDD+' or 'REDD-plus') and there is mounting political momentum to further expand the mechanism to include agriculture ('REDD++'). It would thus be prudent and sensible to establish an Australian scheme that not only embraces the current scope of international arrangements and commitments but the likely future scope of such arrangements and commitments.

Of particular importance n the Australian context is to ensure that the Scheme encompasses avoided loss or degradation of regrowth. I.e. regrowth of previously cleared land that was not forested or containing other vegetation types on 1 January 1990 (the start date for UNFCCC accounting purposes) but has subsequently become reforested or occupied by regrowth of other forms of native vegetation). Such native vegetation regrowth has considerable carbon storage value and ongoing sequestration potential as well as considerable biodiversity and other landscape benefits.

The CFI should also cover projects that involve the environmental restoration of any degraded natural vegetative ecosystems, such as coast dune systems, wetlands and woodlands, as well as forests.

For guidance, it might be useful to consider Section 6 of the *Native Vegetation Act 2003* (NSW) which includes a broad definition of 'native vegetation':

For the purposes of this Act, "native vegetation" means any of the following types of indigenous vegetation:

(a) trees (including any sapling or shrub, or any scrub),

(b) understorey plants,
(c) groundcover (being any type of herbaceous vegetation),
(d) plants occurring in a wetland.

(2) Vegetation is "indigenous" if it is of a species of vegetation, or if it comprises species of vegetation, that existed in the State before European settlement.

It is not entirely clear whether 'avoided deforestation' or 'avoided degradation' would provide Kyoto or non- Kyoto credits. Kyoto CFI credits for avoided deforestation or degradation are preferable as they may be of higher value. S 45 (1) (d) defines avoided deforestation as a 'Kyoto offsets project'.

- However it is understood that avoided deforestation projects are not recognised as eligible under the Kyoto Protocol for either the Clean Development Mechanism (CDM) or the Joint Implementation mechanisms. There is as yet no international agreement on the use of REDD+ projects in compliance markets. Moreover, current international negotiations relate to the use of avoided deforestation projects in developing countries, not in the developed world. Therefore, it seems from this perspective that domestic avoided deforestation projects will not be able to generate Kyoto CFI credits. This means that at present avoided deforestation projects conducted in Australia can only be used for the voluntary offset market in Australia. That is, they will only be able to generate non-Kyoto CFI credits.

This correctly describes the current status of international arrangements if not the potential broadening of scope inherent in ongoing negotiations. It would be prudent, therefore, if S 45 was appropriately amended to allow any domestic avoided terrestrial carbon degradation activity to be defined as a 'Kyoto offsets project'. This would have the advantage not only of accommodating likely future international developments but also of allowing participation by the widest range of Australian landholders. It would also serve to allow the Government to ensure that any domestic Australian scheme can be coherently connected to any compatible REDD+ schemes being developed in relevant developing countries.

CFI projects that involve use of biochar derived from the destruction of native vegetation should not be allowable. Any use of biochar must also involve application of appropriate methodologies to properly account for the carbon sequestered and/or emitted in all stages of the process of creating biochar.

Sale of units

Regional Communities, Water and Biodiversity

Ensuring alignment of projects with other natural resource management and environmental policies:

- alignment of CFI projects **should** be a necessary condition with the following: Green Corridors Initiative; Caring for Our Country goals and objectives; Australia's Biodiversity Conservation Strategy 2010 - 2030; and, with EPBC Act listings.

This obligation should be established by regulation that can readily be updated in response to any relevant changes in federal government policies, programmes and initiatives.

It should be a requirement of the Act S 25(4) (1) that not only will projects be ineligible if they involve the destruction or significant degradation of native forest but also if they involve the destruction of other native vegetation types eg wetlands, grasslands, shrub-lands and woodlands.

Integrity standards

In relation to avoided deforestation and degradation the CFI legislation should incorporate the relevant REDD+ safeguards recently agreed at the UNFCC Cancun meeting. (*Cancun Decision LCA: Annex I Guidance and safeguards for policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries*.)

Additionality

Considerations in the consultation paper relating to the additionality test for avoided deforestation/degradation seem somewhat inconsistent. It is stated (p11) that:

"*Landscape conservation or restoration that has been funded under previous or existing government programs and secured, for example with a covenant or contract, could not be considered additional even if environmental covenants or contracts protecting these areas are removed or cancelled*."

But in other paragraphs on p11 it is stated that:

"…*activities that require ongoing funding, such as feral camel management and savanna fire management, would likely be considered once government funding ceases.*

If an activity is on a positive list or depends on revenue from the sale of credits, participation in future government conservation and natural resource management programs including grants, covenanting and stewardship programs would not, of itself, result in ineligibility for participation in the Carbon Farming Initiative."

Para 1 above rules out potential avoided deforestation/degradation projects that once were in receipt of government and/or private sector conservation funding but where now funding has ceased. But because funding has ceased, a landholder could chose to deforest the area of land thus contributing additional greenhouse gas emissions. Yet paras 2 and 3 above set out essentially the same situation in para 1 and yet the consultation paper suggests the latter projects could be considered additional and would qualify for offset credits.

A clear additionality test for avoided deforestation/degradation could be for those projects that avoid some loss or degradation of native vegetation where the landholder has the legal right and opportunity to remove or further degrade native vegetation in part or all of the proposed project area

The consultation paper indicates that the Government has provided funding to develop methodologies as part of the CFI, including "*development of approaches to baseline setting that will make it easier for project proponents to demonstrate that their projects are additional*."

Sufficient Government funding should be allocated to develop methodologies that would address baseline setting and additionality in relation to avoided deforestation/degradation projects.

Permanence

The consultation paper seems to see biodiversity benefits primarily being achieved through 'environmental plantings' and seems to ignore the cost-effective biodiversity, water and carbon store conservation benefits of avoided deforestation/degradation projects. For instance, in the first paragraph on page 12 it is stated that:

"Further, proponents of projects involving environmental plantings that provide important biodiversity benefits could seek to protect these through conservation covenants or by transferring these plantings to conservation organisations or governments, for example for inclusion in the National Reserve System. Participation in conservation programs and activities as well as the Carbon Farming Initiative may assist landowners with the future costs of managing these plantings."

The focus on sequestration associated with 'environmental plantings' to the implied exclusion of measures to reduce emissions by protecting existing native vegetation through avoided deforestation/degradation projects suggests that the consultation paper has some sort of bias against avoided deforestation/degradation projects.

It is important that the CFI Scheme, inter alia, establishes a domestic arrangement that is at least equivalent to the REDD+ mechanism being developed for developing countries in part implementation of commitments pursuant to the UNFCCC. HSI is strongly of the view that any CFI Scheme should be broad enough in its scope not only to establish a parallel mechanism to REDD+ but also broad enough to include initiatives to reduce emissions by improved protection of any terrestrial carbon store associated with land in any use in any landscape across Australia.

The twenty-year crediting period for avoided deforestation as a risk of reversal buffer is considered appropriate.

Leakage

Leakage should be regarded as a demand-side issue rather than a supply-side issue. That is to say, it should not be the responsibility of an individual landholder choosing to reduce emissions by changing management practices to ensure that displaced or abandoned degrading practices are consequentially increased elsewhere. Just as operators of wind farms are not held to account for any wider failure to actually reduce emissions from burning fossil fuels because of a broader failure to constrain increasing demand for energy in a growing economy, nor should a landholder choosing to do the right thing be penalised for any failure to forestall increases in degradation on other properties as a result of broader failure to moderate demand.

If land-based accounting is introduced, it is appropriate that any landholder within a sector eligible to participate in any CFI Scheme should be required to prepare property-level carbon accounts and to report changes in carbon pools/stores to the appropriate level of government. It is then up to government to determine how additionality and leakage should be dealt with for the purpose of preparing national reporting and accounting for contributions to sectorally-specific or national emissions reduction targets consistent with international obligations.

Scheme processes

Becoming a recognised entity

Project approval

Register of offset projects

The proposal in the paper for the scheme to allow optional information to be included in the register about the biodiversity and other co- benefits, to provide information for offset purchasers who have a preference for projects with these co- benefits is a good idea and is supported. Insofar as regulations may be introduced specifying relevant government programmes and schemes, provision of such information relevant to such programmes should be mandatory.

Crediting periods

Reporting

Crediting

Transfer or termination of projects

Methodology approval

The paper states (p 20):

"Carbon Farming Initiative methodologies will be developed by the Department of Climate Change and Energy Efficiency and the Department of Agriculture, Fisheries and Forestry in collaboration with industry, as well as by private project developers.
Methodologies developed by the Departments will be prioritised on the basis of scale, cost of development and potential public benefits.
The Departments may assist private methodology proponents, including by providing advice on international carbon accounting rules."

Avoided deforestation and degradation projects have clear potential public benefits for the following reasons:

Australia is losing biodiversity at a significant rate. Part of this loss and future loss can be directly attributable to the impacts of climate change. Maintaining biodiversity is directly related to human survival. Australia's biodiversity is valuable for this and other reasons. Australian government funding and regulation will be insufficient to conserve an adequate range and amount of Australia's biodiversity. The CFI, as a voluntary market mechanism, offers an additional source of funding for contributing to the important national goal of biodiversity conservation through avoided deforestation and degradation projects.

HSI strongly recommends that the development by Departments of CFI methodologies for avoided deforestation/degradation projects be given a high priority on the basis **potential public benefits.**

Further, HSI suggests that the Department of Sustainability, Environment, Water, Population and Communities, as the responsible department for biodiversity should be involved through the provision of adequate staffing, funding and other resources in the development of methodologies for avoided deforestation projects.

Taxation treatment of credits

Any additional comments

In the CFI discussion paper under the section ‘Demand for CFI credits’, it is stated that:

“Whether or not CFI credits can be used to meet carbon liabilities under a domestic carbon pricing mechanism is a matter for future Government decision-making, following consideration of a carbon price by the Multi-Party Climate Change Committee.”

The lack of assurance that project credits will automatically be recognized in a future carbon pricing mechanism creates a degree of uncertainty. A carbon price mechanism will likely have a higher price for offsets which mean that transactions occurring now will need to ensure that they don’t lock in a price before a carbon price mechanism. There should be a Government assurance now that credits created under a voluntary CFI Scheme can transition directly to a mandatory carbon price mechanism.