GreenCollar Climate Solutions
A member of the GreenCollar Group

4/12/2011

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

RE: Comments on the Carbon Credits (Carbon Farming Initiative) Bill 2011

Dear Members of the Committee,

The draft legislation and its accompanying consultation paper assign the task of methodology development to the Departments of Climate Change and Energy Efficiency, Agriculture, and Fisheries and Forestry, as well as to private project developers. This administrative arrangement implies an expeditious delivery of innovations and advances in methods by establishing multiple channels for delivery of methodologies to the scheme.

It should be well recognised however, that the private sector has been and continues to be an important driver of methodology development and innovation in the carbon space, and that over time, the delivery of methodologies from the private sector can provide significant intellectual assets to the scheme. The CFI does not however offer a means to renumerate for intellectual property, and therefore offers no direct incentive for methodology development. [1]

In addition the scheme is structured such that it effectively creates a situation whereby the government or third parties can take methodologies approved under schemes such as the VCS and submit them for consideration for use under the CFI. In principle this makes sound scientific and policy sense as it utilises existing tools and IP that have been subjected to exhaustive peer review and field testing. Unfortunately it also present a serious dilemma for Australian based and owned developers of methodologies such as our own company.

We have developed two methodologies with the VCS. One for Improved Forest Management and another for Agricultural Grasslands Management. Both methodologies are the first of their kind and will be applied in Australia and throughout the world. The approval for use of the first methodology under the VCS – the one for Improved Forest Management - was a significant achievement for our company and a significant milestone for the development of forest carbon projects globally. The methodology was approved in February and the first project utilising this methodology developed by a third party in Tasmania was approved in in March with VCS carbon credits now available for sale.

Our dilemma is that under the VCS mechanism we are currently compensated, albeit minimally for the use of this methodology. The process of methodology development is costly and time consuming and has been a key bottleneck to the successful development of carbon projects in the Agriculture and Forestry sectors. Some of this cost is offset by the development of projects, however the use of the methodology under the VCS is unrestricted and thus the benefit and return to third party developers and the standards far exceeds any direct benefit to the developer of the methodology.

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Many developers based in Australia would now like to see our methodologies submitted to the CFI for approval. They are already using the tools under the VCS, they work very effectively and have been extensively reviewed through a very transparent peer review process under the VCS. Moreover it makes sense to see Australian developed know how and technology being applied in Australia in addition to Asia, Africa and the Americas.

If we submit the methodologies, however there is currently no mechanism for compensation. More over the Australian government lays claim to all IP contained within the methodologies once they are submitted. Furthermore, a third party can happily take the publically available methodologies, submit them to the CFI on their account and thus hand over this IP directly to the government without any involvement of the developer of the methodology.

We understand that the benefit of a methodology is in its use. Indeed nothing would make us happier than to see the methodologies widely applied in Australia. We feel however that it is reasonable to expect that some mechanism be incorporated into the CFI to acknowledge the work of the methodology developers and compensate then accordingly. The absence of such a mechanism that incentivises methodology development from the private sector is a significant omission.

We have provided further detailed comments on the legislation below and appreciate your consideration on our concerns.

Sincerely

James Schultz

Chief Executive Officer

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Detailed Comments

Commercial realities dictate that costs of developing intellectual assets will only be incurred when the values of those assets can be realised. Currently, the only incentive for commercial entities to cover costs of methodology development is by aligning the methodology with a single project development.

When the cost burden of methodology development becomes absorbed as a project development cost, methodologies will be designed project specific. This means the scope of environmental characteristics, organisational capacity, and project activities will narrowly align only to the specific project case.

The following flow-through effects are likely:

- proliferation of project specific methodologies– a high number of methodologies with narrow scope will be brought forward by the private sector
- limitations on innovations and advancements - high value intellectual property will only be released when it can be offset by carbon gains in a specific project

Implanting a compensation mechanism into the scheme structure can help deliver results aligned to the CFI's core design principles of maintaining environmental integrity and enabling broad participation. A compensation mechanism when designed correctly, will incentivise the creation of fine-tuned methodologies which can optimise environmental integrity and be applied by a broad spectrum of scheme participants.

The objectives of a compensation mechanism should be to:

- promote broadly applicable methodologies
- incentivise advancements in accounting methods
- discourage the unnecessary proliferation of methodologies
- safeguard the value of intellectual property with rules classifying treatment of revisions and deviations

Creating a link between volume of credits produced under a specific methodology and financial reward is a practical means to ensure the methodologies are created to be broadly applicable, general, and easy to use. This link can be established by allocating a portion of the scheme's per-credit-fee to the author of the methodology.

To incentivise advancement and innovations in new methodologies, the scheme administrator must ensure that the level of per-credit incentive is high enough to warrant the exchange of valuable intellectual property.

The scheme should include rules around what constitutes a 'new' methodology. This will discourage the proliferation of methodologies by unnecessary production of similar or copy-cat methodologies as well as help safeguard intellectual property. For instance, the scheme could adopt rules similar to those in the Voluntary Carbon Standard[2], which ensure that a methodology should only be considered for approval when it includes a significant advancement or structural composition, unavailable to participants in the current set of approved methodologies. These rules require the author or sponsor of a methodology to demonstrate the significance of the advancement or structural change.