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Australian Forest Growers
ABN 39 000 694 904

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

Email: ccea.reps@aph.gov.au

RE: AFG SUBMISSION TO THE HOUSE STANDING COMMITTEE ON CLIMATE CHANGE, ENVIRONMENT, AND THE ARTS ON THE CARBON CREDITS (CARBON FARMING INITIATIVE) BILL 2011 AND EXPLANATORY MEMORANDUM

Australian Forest Growers (AFG) is the national association representing around 1200 private forest growers from 24 regional branches across Australia's forest growing regions. AFG's members include farm plantation growers, private native forest managers and private commercial plantation companies predominantly focussed on timber products. Founded in 1969, AFG has for over forty years, advocated responsible establishment and management of forests on private land providing the multiple outcomes that the community increasingly demands. The growing of commercial plantations and sustainable active management of private native forests by our members has been delivering improved landscape health outcomes for decades, as well as complementing existing productive land use practices.

Background
AFG has been actively engaged as the Australian Governments response to climate change has evolved, from the Carbon Pollution Reduction Scheme (CPRS) to the Carbon Farming Initiative (CFI).

However, of concern to AFG is the pace to which the Department of Climate Change and Energy Efficiency (DCCEE) seek to have feedback on the Carbon Credits (Carbon Farming Initiative) Bill 2011. Two weeks is not enough time to become fully familiar with a complex document over 300 pages in length, and the accompanying Explanatory Memorandum.

Of particular concern is the presence of inconsistencies between the Bill and the Explanatory Memorandum (i.e. the reporting period, is it 7 or 15 years for reforestation projects?), there is also a grey area associated with selective harvesting in native forests. Further, other aspects of the Exposure Draft seem to have disappeared in the Bill, i.e. averaging for for-harvest reforestation projects. These errors seem to undermine the integrity the scheme is seeking to pride itself on.

Unfortunately the policy of DCCEE seems to be one of creating ground-hog day. While the CFI is not a replica of the CPRS, and agriculture is now included, it seems that a lot of the principles raised by AFG in consultation with the formation of the CPRS, have not been built upon in the CFI. Further, the front of frequent consultations hasn't seemed to translate into traction with issues associated with for-harvest reforestation projects in the CFI, and as such AFG believes the CFI is unlikely to influence any material expansion in the production forestry estate.

Forests sequester carbon and have an important role to play in addressing climate change as forests and wood products provide long term carbon storage. The forest industry, including

for-harvest forest management, makes a positive contribution to reducing Australia's carbon emissions. However, the current structure of the CFI continues to present a large number of disincentives for scheme participation.

Introduction

AFG welcomes the opportunity to provide a submission to the Carbon Farming Initiative. AFG provided a submission on the Carbon Farming Initiative Exposure Draft. In it, AFG detailed the disincentives for scheme participation, particularly to small-scale growers. The list below details why small-scale growers are unlikely to participate in the CFI, and why it is unlikely that the CFI will result in an expanse in the production forestry estate.

- *Sovereign Risk*: The scheme still involves too much uncertainty surrounding involvement in the scheme, with the Government reserving the right to vary requirements of project proponents, e.g. the Government reserves the right to assess the impact of methodologies and make changes to the scheme and a proponent's eligibility based on these findings.
- *Costs of Compliance*: AFG believes that most small-scale growers won't be able to afford the costs of compliance (either in methodology development or reporting) and will be disadvantaged by the complexity of compliance with the CFI.
- *Commencement date:* AFG advocates that ACCUs should be able to be generated from 1 January 1990. This was when the Australian Government began its reporting requirements under the Kyoto Protocol, and as such growers should be rewarded for the carbon sequestered from this date, and have the ability to "reach back" for ACCUs from this date.
- *Native forests:* AFG opposes forests being "locked up and left" and instead promotes multipurpose native forests which are managed for multiple outcomes, including timber products through selective harvesting.
- *Reporting Period:* While AFG is pleased to see the frequency of reporting has decreased, there remains confusion as to whether reforestation projects would be required to report every 7 or 15 years. AFG prefers a reporting period of at least every 15 years for reforestation methodologies.
- *Additionality and the Common Practice Test:* AFG supports the change to the requirements under the additionality provision, however questions the subjectivity, practical and application, of the common practice test.
- *Permanence:* The 100-year requirement for offset reforestation projects does not mirror the real world situation of carbon sequestration and storage, and is likely to act as a disincentive for scheme participation.
- *Harvested Wood Products:* AFG continues to seek inclusion of harvested wood products in the CFI, to reflect the real world situation of carbon sequestration and storage.

AFG's submission will solely address the Carbon Credits (Carbon Farming Initiative) Bill 2011 and Explanatory Memorandum and the changes that have resulted since the Exposure Draft was released. AFG's submission to the Exposure Draft is available at: http://www.afg.asn.au/images/stories/PDF/Submissions/20110121_AFG_submission_on_the_Design_of_the_Carbon_Farming_Initiative.pdf.

Sovereign Risk and Issues Pertaining to Environmental Integrity

AFG continues to advocate that the sovereign risk associated with the scheme is likely to be the principle disincentive for scheme participation, particularly for small-scale growers who don't have the ability to absorb and take large business risks.

The statement that "the Government will monitor the implications of the scheme for regional communities and introduce further restrictions on abatement projects as necessary, if there is

evidence that projects are likely to have a material and adverse impact on the allocation of prime agricultural land, water availability or biodiversity" requires further clarification as to exactly what this entails and comfort from the Government that this process will be based on sound, repeatable science, and not popular ill-founded opinion. There should be a middle ground where the Government works with project proponents to solve any of the issues raised, rather than adopting a black and white mentality.

The argument in 1.33 of the Explanatory Memorandum further emphasises the sovereign risk associated with scheme participation: "If there are types of projects that have an adverse impact on the availability of surface or ground water, the Government will include these on the list of excluded projects". This argument must also be balanced by the effect that a particular project has on enhancing water quality, i.e. forests. Further AFG advocates that policy on rainfall interception and water use by plantations must be evidence-based and underpinned by sound, repeatable and reliable science. But at a strategic level the CFI is not the legislative tool with which to manage water policy. This must be the case when addressing the statement in 1.27 of the Explanatory Memorandum in relation to project methodologies and broad impacts felt by the community.

AFG has further reservations regarding the need for project proponents to take account of natural resource management plans. This could act as another disincentive to scheme participation if project proponents have to make available their intellectual property to NRM groups. AFG seeks a scale threshold for this requirement, i.e. for small scale forest growers. This would lessen the costly burden of paperwork on small-scale entities. Alternatively, if a methodology has a certain number of co-benefits listed in the Register of offset projects, perhaps this could be a substitute for needing to take account of regional natural resource management plans.

AFG supports an integrated system where trees are integrated into the agricultural landscape to reap a myriad of outcomes, including improving water quality, boosting agricultural productivity, sequestering carbon and providing the landholder with income diversification through timber products.

Overall the approach by DCCEE to 'protect' the environment is one of negativity. Instead of empowering landholders through provision of extension and technical support services, they have created further disincentives for scheme participation through potential layers of regulation and uncertainty. Potential proponents are likely to view the layers of bureaucracy as a deterrent to scheme participation.

Scheme coverage

AFG continues to advocate that <u>all</u> post-1990 carbon sequestration on Kyoto compliant land as a result of reforestation and revegetation projects should be tradeable some of which may be in a voluntary "non-Kyoto" market. The Australian Government, as part of its commitment to the Kyoto Protocol, has been claiming/reporting carbon sequestered through reforestation/revegetation activities on both public and private land. This has occurred without any form of recognition or value being passed onto the Australian growers and landholders who pursue this land management decision. As such, AFG deems it appropriate that the CFI issue ACCUs for any carbon sequestered through a reforestation/revegetation project from 1 January 1990. This could provide the scheme with some initial traction and be an opportunity for the Australian Government to pass due recognition onto landholders for the service they have rendered.

Further, the Government states in 1.43 of the Explanatory Memorandum that: "The Government will publish indicative Kyoto land eligibility maps to assist project proponents to identify areas of their project that would be counted towards Australia's Kyoto target". If

maps exist to provide this information, surely landholders should be able to receive ACCUs for carbon sequestered from 1 January 1990.

There appears to be a grey area in the treatment of selectively harvesting private native forests. AFG has previously and continues to state that it strongly opposes the exclusion of for-harvest native forests as an eligible offset project in the CFI. There is no scientific basis for such exclusion, or rationality to exclude it from the CFI, and seems to undermine the scheme's integrity. The layers of legislation already surrounding land clearing and the sustainable harvesting of native forests ensure that landholders are managing their forest according to best practice forest management. As such, AFG cannot envisage any reason why managed native forests should be excluded from the CFI, or that "using material obtained as a result of the clearing or harvesting of native forests" should also be excluded. This exclusion of native forests by the DCCEE seems more a decision based upon so-called 'popular' opinion, rather than factual science. The DCCEE has promoted the CFI as being open-minded about methodology, and seek to encourage "broad participation" in the scheme. The exclusion of sustainable management/harvesting of native forests from the CFI, or relegating it to the negative list, is blatant discrimination against a sector which is already subject to a large amount of legislative burden purporting to ensure its sustainability.

AFG seeks reassurance that selective harvesting of native forests will be an eligible scheme methodology, recognising that active management of these forests falls under "native forest protection, improved management of forests, and enhanced or managed regrowth". These practices were recognised in 1.13 of the Explanatory Memorandum as "land management practices that may enhance sequestration".

Lastly AFG seeks the recognition of carbon stored in harvested wood products. The assumption that a plantation sink becomes a carbon emitter at harvest is demonstrably erroneous. Interestingly the Government are strong advocates for this recognition in international forums. Wood products actually store carbon for the life of the product. AFG calls on the government to include harvested wood products in the CFI from scheme commencement as a means to continuing international leadership on this issue and demonstrating a simple and robust methodology can be implemented. A robust methodology for inclusion of harvested wood products is important for forest growers.

Integrity Standards

Additionality

AFG is pleased to note that the additionality requirements have been lessened so that a methodology can be approved even if it is commercial despite the CFI. While AFG broadly supports 5.44 of the Explanatory Memorandum that: "the Government's intention is that this test will enable crediting of activities that improve agricultural productivity or have environmental co-benefits, but which have not been widely adopted" even though AFG advocates that all carbon sequestered should be tradeable, even if just in the voluntary market. While some methodologies may have co-benefits, AFG understands the basis for the CFI is to reward growers for carbon sequestration.

The process of assessing whether an activity is common practice seems very subjective. AFG seeks further information on the common practice test and who the experts will be who will pass judgement on the methodology.

Permanence

The permanence integrity standard is another disincentive for participating in the scheme and disregards the fact that carbon is stored in harvested wood products.

The permanence provision could perversely impact scheme participation, particularly as local councils, NRM groups or state governments feel that 100 year un-managed CFI reforestation

projects were a fire risk that present a threat to local infrastructure. As stated in the Explanatory Memorandum: "the Government will monitor the implications of the scheme for regional communities and introduce further restrictions on abatement projects as necessary". Thus, the permanence integrity standard could ultimately work against the scheme's success.

The variable risk of reversal buffer is another disincentive for scheme participation. The variable risk of reversal buffer appears to demonstrate a lack of commitment on behalf of the Government as growers are required to absorb any form of risk over the 100 year period. This is a major disincentive to landholders, and could impact their venture in a perverse manner from one of viability to that of unviable. The 100 year period is a long-term commitment, and a lot to ask of a landholder, as such there needs to be some form of incentive provided by the Government for participation, and a variable risk of reversal buffer isn't one.

Further, any variation to the risk of reversal buffer must be calculated in a transparent manner and be easily accessible to project proponents.

Scheme Processes

First and foremost AFG is of the view that compliance costs for project proponents are likely to be prohibitive for small-scale growers. For reforestation projects there are costs associated with the initial establishment phase – weed control, seedlings, fertiliser, and control of browsing animals – and to further compound these costs through the process of becoming a scheme entity seems to culminate in an obvious disincentive for scheme participation.

The averaging stocks approach for reforestation seems to have disappeared between the Exposure Draft to the Bill. AFG supported the average stocks approach, it was a key attraction of the CPRS framework for reforestation, and AFG questions why this has been abolished, and if it was intentional?

There seems some confusion surrounding the reporting periods for reforestation projects, both not-for-harvest and for-harvest between the Explanatory Memorandum and the Bill. A fifteen year reporting period is more desirable for reforestation projects (as stated in 9.36 of the Explanatory Memorandum), however the Bill states in Part 5, Division 1, Section 68 that the reporting period will be 7 years. AFG seeks consistency in the reporting requirements, and would prefer a reporting period of 15 years for reforestation projects. It is important to recognise the critical nature of this extended timeframe.

There is currently a serious deficit in capital available for the establishment of new plantations for any purpose, yet there is seemingly ample and competing capital available for investment in semi-mature plantations. While this in itself is a discussion to be had elsewhere it is an important indicator of confidence. It is clear to AFG, and this example supports the view, that there is a serious aversion to agricultural risk. In the CFI paradigm, this is further exacerbated by the permanence obligation. By year 15 the agricultural risk is largely redundant, and the trees have established and have a body of sequestered carbon to trade. This time period should attract greater willingness to participate as the carbon is there in sufficient amounts to be confident of maintenance of the commitment.

AFG broadly supports the maintenance phase of reporting once a project has reached a plateau in its sequestration, and the intention to reduce compliance costs during this phase.

Further evidence of project proponents being exposed to sovereign risk is outlined in 3.28 of the Explanatory Memorandum that states: "the Administrator must be satisfied that the project proponent has obtained all regulatory approvals" and that they "must have met all Commonwealth, state and local government planning, environmental and water requirements". This could prove very costly for small-scale growers and AFG seeks a scale exemption for project proponents operating on a small-scale. However AFG does broadly

support the concession in 3.29 that "if the relevant regulatory approvals have yet to be obtained, the Administrator can issue a declaration that is conditional on the project obtaining these approvals before the end of the project's first crediting period. This is to enable project proponents to be certain that their project is approved before going to the expense of obtaining regulatory approvals. It also allows proponents additional time to obtain regulatory approvals".

AFG advocates that all auditing costs must be paid by the Government. The concession in 8.14 of the Explanatory Memorandum that "If an audit statement under this section does not reveal any evidence of non compliance, the person required to commission it can apply to have their costs reimbursed" isn't good enough. Considering the fine print then details that: "The Administrator may reimburse reasonable costs if satisfied that the person would suffer financial hardship if they were not reimbursed" seems very subjective. The Government should fully fund the auditing costs regardless of their fiscal position. Proponents will prepare reports and suffer the penalties if proved, they can't be expected to also fund the 'police force'. This seems the only fair approach.

AFG seeks comfort that if a project entity voluntarily chooses to relinquish some or all of its ACCUs that there is no fierce administrative penalties associated with choosing to opt-out of the market (i.e. they are not subject to 10.49 of the Explanatory Memorandum). Further, if a project proponent seeks to relinquish their ACCUs and there is no market for their units, AFG advocates the Government should enter the market and buy back the ACCUs at a transparently determined value with no penalty.

Additional comments

- AFG welcomes the ability for project proponents to appeal for certain information to be withheld from the register of projects, should the loss of this intellectual property result in material harm to the project.
- AFG supports the principle that "a project can cover multiple land areas or facilities".
- AFG broadly supports 1.52 in the Explanatory Memorandum: "companies could act as service providers to proponents of small projects", however these provisions require robust ownership and division of income contracts between the landowner and the manager.
- AFG broadly supports 3.60 in the Explanatory Memorandum: "project proponents may apply to the Administrator to add areas of land to or remove areas of land from a project". AFG also queries whether a provision for swapping areas of land could be included.
- AFG broadly supports 6.6 in the Explanatory Memorandum.
- AFG broadly supports 6.9 in the Explanatory Memorandum.
- AFG broadly supports the reporting obligations during the maintenance phase, and the intention to "reduce compliance costs for proponents once projects have reached maximum levels of carbon sequestration".
- AFG broadly support 9.17 of the Explanatory Memorandum.

Conclusion

As stated previously in this submission, the sovereign risk associated with scheme participation is anticipated by AFG to be the principle reason why the CFI is unlikely to result in an increase in the production forestry estate.

While the CFI Consultation Paper markets the scheme as being an opportunity for "farmers, forest growers and landholders to access domestic voluntary and international carbon markets" the scheme seems poorly conceived and unlikely to be widely adopted/ utilised, which would be a pity as this scheme could have the potential to fund large revegetation projects that are much needed to further diversify agricultural regions of Australia. The

Government continues to impart sovereign risk on landholders and this compounded by the onerous process and cost of compliance is unlikely to result in great uptake of the scheme.

As an aside, at times the Bill and Explanatory Memorandum exceed their scope: that is to create a market place in which Australian landholders can be renumerated for sequestering carbon. This is evidenced by specifying that products sourced from native forests will be ineligible in the scheme. If a product is sourced sustainably and abides by all Commonwealth, State and local government laws, there is no reason why the CFI should interfere in the marketplace. Further, this process is wholly about greater sequestration of carbon biophysically, continued reference to the "environment" in the Explanatory Memorandum is irrelevant and even a little offensive. The goal is to reward landholders for sequestering carbon in a law abiding manner, and as DCCEE value integrity they should not be undermining this process.

This submission outlines our current analysis of the disincentives for participation in the scheme by the small-scale forest grower, one who doesn't have the ability or desire to absorb much risk as is created by the current proposed provisions of the CFI.

Yours sincerely,

Warwick Ragg
Chief Executive