Submission 013
Date received: 12/04/2011

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8 April 2011

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

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

Dear Members of the Committee:

The Verified Carbon Standard Association (VCSA) – formerly the Voluntary Carbon Standard Association - is pleased to offer the following comments on the Carbon Credits (Carbon Farming Initiative) Bill 2011 submitted to the Parliament on 24 March 2011.

As one of the world's leading voluntary greenhouse gas (GHG) emission reduction programs, founded in 2005 by The Climate Group, International Emissions Trading Association, World Business Council for Sustainable Development and World Economic Forum, and with almost 54 million Verified Carbon Units (VCUs) issued from 580 projects registered worldwide, the VCSA is eager to assist in the development of a robust Australian offset program that will serve both compliance and voluntary objectives. Such a program will minimize the costs of compliance with any future carbon pricing mechanism and facilitate voluntary private sector participation in the carbon market, while supporting the development of innovative projects and technologies that reduce or sequester carbon. We have many years of experience in building a strong, coherent and well-respected global GHG emission reduction program and would like to share our experiences and insights. More information about the VCSA and the VCS Program can be found on our website at www.v-c-s.org.

Our comments are offered with a view to providing participants in the Carbon Farming Initiative (CFI) with the clarity needed to proceed with investments in both methodologies and projects that will generate the offsets to be used in the system. Specifically, we address the following main topics:

A. Recognition of offset projects from other schemes including the National Carbon Offset Standard.

B. The methodology approval process and recognition of methodology development processes established under existing recognized GHG programs.

C. Provisions of the bill that relate to the overall integrity of the CFI.

A. Recognition of Offset Projects From Other Schemes

The CFI Bill would establish a new GHG program with rules relating to the approval of methodologies and projects, eligible offset entities, permanence requirements, reporting, auditing, crediting, monitoring and enforcement, and other important features. Given the ambitious nature of the initiative, it may prove challenging to establish all of the rules of the program, including having methodologies ready for use, by the Government's hoped for implementation date of 1 July 2011. Rushing to meet an ambitious deadline may put the program at risk (e.g., approving a methodology that may not have been thoroughly vetted) and will not allow the Government to effectively leverage important learning that can be provided by already-existing GHG programs.

The Bill includes a provision for recognizing offset projects from "prescribed non-CFI offsets schemes" but essentially leaves it to the rulemaking process, subsequent to the Bill's passage, to determine which schemes might qualify. Australia already has an established portfolio of offsets schemes that should be designated in the legislation as qualifying prescribed non-CFI offsets schemes. The National Carbon Offset Standard (NCOS) has already endorsed high-quality GHG programs that have robust rules regarding the development of a variety of different project types – the Verified Carbon Standard and the Gold Standard.

Several of the project types identified by the Government as eligible under the CFI are eligible under the VCS Program, and there are already existing VCS methodologies that could be used for developing such projects under the CFI. For instance, there are Improved Forest Management (IFM) and Reduced Emissions from Forest Degradation and Deforestation (REDD) methodologies already approved under the VCS, and there are methodologies that would allow crediting for improved grassland management and reduced application of nitrogen fertilizer that are under development. Several of these methodologies have been developed by Australian entities or with the collaboration of Australian scientists.

Relying on existing GHG programs already endorsed by the NCOS will allow the CFI to start delivering results faster and at less cost, especially because the rules of the GHG programs recognized by the NCOS are already well established and have been vetted already. Faster development of projects will enable the CFI to deliver quick results and to gain important knowledge in respect of key aspects of the process (e.g., approaches to permanence). The CFI is covering new ground, and it will be particularly useful to assess progress over the coming years to make sure that the initiative continues to attract investment and reduce emissions cost-effectively, suggesting that an early start with concrete results will enhance the potential for success, especially if the government intends to establish its own GHG program.

- ✓ **Recommendation**: The legislation should make explicit reference to NCOS as a prescribed non-CFI offsets scheme.

B. The Methodology Approval Process

The methodology approval process set out in the Bill could prove difficult to implement. First, the methodologies already being developed by the Departments will likely generate a flood of requests and justifications from interested parties that will inevitably leave some stakeholders unhappy (e.g., those whose project types are not selected as eligible under the CFI). Second, the breadth of project types that will be addressed will likely overwhelm the technical expertise of the Domestic Offsets Integrity Committee (DOIC). This will mean that the DOIC will constantly have to rely on outside experts, which could undermine the speed with which it reviews methodologies.

By recognizing existing methodology development and approval processes established under recognized GHG programs, the Government will be able to tap a broad pool of expertise and the wider community of innovation that will not only enhance the impact of the CFI but further expedite its implementation. The VCS methodology approval process, for example, was designed based on a careful review of existing approaches, and as a result addresses some of the major shortcomings related to developing

methodologies in a top-down fashion. The VCS Program employs a bottom-up approach, whereby the VCS sets the rules and procedures for methodology development and then allows anybody to develop a methodology for a broad range of project types. As a result, the VCS Program does not make decisions regarding which methodologies are developed, but rather relies on the initiative and entrepreneurship of market stakeholders. In addition, the VCS methodology approval process relies on qualified third-party experts (i.e., validators with both sufficient technical expertise regarding the project type at hand, as well as a sufficient auditing track record), thereby automatically leveraging the relevant expertise in the market. Importantly, relying on validators has resulted in VCS methodologies being highly usable from an auditing perspective.

- ✓ **Recommendation**: Include a provision in the Bill which directs the Minister, upon endorsement of the DOIC, and within a designated time frame (e.g., 60 days following passage of the Bill) to designate established methodology development programs that have applied for consideration as qualifying CFI methodology approval bodies so long as their approval processes are consistent with the integrity standards relating to credits being additional, measurable, verifiable, internationally consistent, supported by peer-reviewed science, and accounting for both leakage and cyclical variability as defined in the Bill and amended per our recommendations below.

C. Provisions Relating to the Overall Integrity of the CFI

Additionality

We applaud the Government's effort to establish more standardized approaches to determine additionality (e.g., the creation of a 'positive list') as this will reduce transaction costs, enhance the credibility of the market and encourage wider participation in the carbon market. However, the development of such approaches should follow a clear set of criteria, particularly as the end-game for such approaches (i.e., when credits are no longer awarded) needs to be consistent across project types.

The VCS Program has established a steering committee that is drawing up program-level requirements regarding standardized approaches for setting baselines and assessing additionality. The results of this steering committee should offer important insights regarding how best to develop standardized approaches such as the 'positive lists' indicated in the consultation paper.

- ✓ **Recommendation**: The VCSA recommends that there be clear guidance in respect of what types of standardized approaches are acceptable. While the Bill and the accompanying Explanatory Memorandum reference 'positive list' approaches, we recommend expanding this to include performance benchmark approaches. In addition, the VCSA recommends that there be clear guidance in respect of how to establish these standardized approaches.

Permanence

The Bill establishes a "risk of reversal buffer" of five (5) percent of the ACCUs issued. We believe the application of a uniform five percent buffer requirement would be administratively simple, but it presents major drawbacks. First, applying a uniform level of risk across all projects, rather than basing the withholding on a project-specific risk assessment, means there is no incentive for projects to address risk. Given that the withholding is very low and projects will be hard-pressed to undertake measures that would lower that risk, there is no incentive to implement measures that would mitigate non-permanence risks and thus enhance permanence (e.g., implement fire breaks, fuel removal). The effective implementation of projects that remove carbon from the atmosphere depends in large part on their ability to address non-permanence risks, suggesting that a well-designed mechanism ought to provide incentives to encourage effective risk reduction. A flat five percent buffer requirement undermines such efforts.

Second, 5 percent is likely a major underestimate of risk, even from natural events alone. Even where fire return intervals are fairly low (e.g., every 25-50 years), over a 100 year period, the likelihood of a fire occurring would be significant. In many cases, such a fire could lead to significant losses of biomass,

likely greater than five percent. Moreover, many areas will be subject to more than just fire risk, increasing the chances of a significant loss over 100 years.

- ✓ **Recommendation**: The VCSA recommends that the buffer withholding of ACCUs for any given project be based on a risk assessment of that particular project.

Thank you for your consideration of our comments and recommendations.

Sincerely,

David Antonioli
Chief Executive Officer