

## **Government Response to the Senate Environment and Communications Legislation Committee inquiry on the:**

- **Carbon Credits (Carbon Farming Initiative) Bill 2011 [Provisions]**
- **Carbon Credits (Consequential Amendments) Bill 2011 [Provisions]**
- **Australian National Registry of Emissions Units Bill 2011 [Provisions]**

The Senate Environment and Communications Legislation Committee presented its final report on 27 May 2011. The Committee's report made nine recommendations. The Government's response to each of these recommendations is set out below.

### **Recommendation 1**

**2.36 The committee recommends the government consider options to ensure there are no perverse incentives to cease existing abatement projects, and encourage first movers to undertake further abatement or sequestration activities under the Carbon Farming Initiative.**

*Response:* The Government agrees with this recommendation. The Carbon Farming Initiative (CFI) has been designed to address these issues.

An activity will be considered additional under the CFI if it is not common practice in an industry or under specific regional or environmental conditions. This common practice test will ensure that early movers who have already adopted more sustainable practices are eligible to participate in the scheme. Credits will be able to be earned from activities that reduce or store carbon from 1 July 2010.

The CFI will also recognise projects that were set up under some other abatement schemes – such as Greenhouse Friendly and the ACT and NSW governments' Greenhouse Gas Reduction Scheme – and provide an incentive for these projects to continue. To be eligible for CFI credits, these projects will still need to be conducted under an approved CFI methodology and meet other scheme requirements including additionality.

The CFI legislation contains several provisions to ensure projects do not have adverse impacts on the environment or communities.

The CFI excludes high-risk activities through a "negative list", which will be in regulations. Activities that pose a significant risk for the availability of water, the conservation of biodiversity, employment or local communities will be included on the negative list. These activities will not be eligible to receive carbon credits under the CFI.

The Government has released for consultation an indicative list of activities that would be excluded from the scheme. For example, the list includes establishing an identified weed species as a reforestation project. The Government will continue to consult local communities, industry and other stakeholders on the negative list, including when methodologies are proposed for new activities.

All CFI projects will have to comply with any applicable water, planning and environment requirements, and obtain all necessary government approvals, before they are eligible to receive credits under the scheme.

In addition, project proponents will need to take account of regional natural resource management (NRM) plans. As part of its Clean Energy Future plan, the Government will provide \$44 million over five years to improve existing regional NRM planning for climate change. Regional plans will provide guidance to landholders on the type and location of carbon projects that will provide social and environmental benefits, and avoid adverse impacts.

The Biodiversity Fund will provide additional incentives for CFI projects that establish, restore or protect biodiverse carbon stores. The ongoing Biodiversity Fund is part of the Government's plan for a clean Energy Future and will provide close to \$1 billion in support for biodiversity over its first six years.

## **Recommendation 2**

**2.37 The committee recommends the government consider what more can be done to fast track development of methodologies, and to develop and test the workability of carbon offsets projects in key agricultural industries.**

*Response:* The Government agrees with this recommendation.

The Government has already invested more than \$46 million in research and development through the Climate Change Research Program on ways of reducing pollution and helping Australian farmers adapt to a changing climate. The Climate Change Research Program is addressing the need for research into reducing greenhouse gas emissions and adapting to the unavoidable impacts of climate change. The outcomes from the program will be available by mid 2012 and will assist government and industry to develop new carbon estimation methodologies.

As part of the plan for a Clean Energy Future the Government's *Carbon Farming Futures - filling the research gap* program will provide a further \$201 million over six years. This program will focus on research into new ways of storing carbon and reducing pollution in the land sector. \$20 million will be available to convert research into practical carbon estimation methodologies for use under the CFI.

In addition, the Government will provide a total of \$99 million in direct support for landholders to take action on the ground, including testing new ways to increase soil carbon and reduce pollution. This will include a refundable tax offset to encourage the uptake of conservation tillage farming techniques and participation in soil carbon sequestration research. Like all conservation tillage practices, no-till works to improve the organic matter in the soil by retaining crop stubble. It aims to reduce soil disturbance, minimise damage to soil structure, increase nutrient availability and reduce water loss by increasing soil water holding capacity.



## **Recommendation 3**

**2.49 The committee recommends the government continue to monitor scientific research relevant to the issue of permanence and adjust permanence obligations in the CFI to reflect international consensus on this matter.**

*Response:* The Government agrees with this recommendation.

Carbon dioxide cycles between the atmosphere, oceans and land biosphere. Its removal from the atmosphere involves a range of processes with different time scales. The Intergovernmental Panel on Climate Change notes that around 50 percent of the increase in CO<sub>2</sub> increase will be removed from the atmosphere within 30 years, and a further 30 percent will be removed within a few centuries. The remaining 20 percent may stay in the atmosphere for many thousands of years.

In this context, 100 years has become the internationally accepted timeframe for ensuring that sequestration is equivalent to (and can be used to offset) emissions. Under the CFI, sequestration projects can be terminated without having to pay back carbon credits after 100 years.

The Government will monitor international developments on this issue and adjust permanence obligations in the CFI to reflect international scientific and policy consensus on this matter.

It should also be noted that the CFI permanence obligations allow significant flexibility. Landholders would be able to cancel their sequestration project at any time by relinquishing the number of credits issued for the project.

## **Recommendation 4**

**3.31 The committee recommends that in developing the negative list the government takes care to preserve abatement incentives, for example by tightly defining excluded projects to reflect local environmental conditions or circumstances.**

*Response:* The Government agrees with this recommendation.

To maintain abatement incentives wherever possible, the negative list will be tightly defined to identify the specific circumstances where particular activities have significant risks of adverse impacts.

To ensure that activities on the negative list are appropriately defined, the Government will consult with stakeholders before adding to or amending the negative list. The negative list will be included in regulations and subject to Parliamentary scrutiny.

The CFI Bill also provides for reviews of the operation of the CFI, with the first review to be completed by 31 December 2014. This will present a further opportunity to evaluate the effectiveness of the negative list in ensuring that the CFI does not provide incentives for activities that could have adverse social or environmental impacts.

## Recommendation 5

**3.46 The committee recommends the government consider options for improving the capacity of natural resource management plans to take account of climate change mitigations options and adaptation needs, and to maximise the broader environmental and social benefits of the Carbon Farming Initiative.**

*Response:* The Government agrees with this recommendation.

Regional NRM organisations are well placed to help plan for climate change and to maximise the social and environmental benefits of carbon farming projects. Through Government initiatives such as Caring for our Country, regional NRM organisations have had nearly a decade of experience in providing information, training and support to land managers and environmental, Indigenous, and community groups on sustainable land management.

As part of its Clean Energy Future plan, the Government will provide \$44 million over five years through the Regional NRM Planning for Climate Change Fund. NRM organisations will develop plans to guide where carbon farming projects should be located in the landscape. These can be used by landholders to identify and develop carbon farming projects that provide maximum social and environmental co-benefits. The fund will also support research and analysis to develop scenarios on regional climate change impacts which can be used for NRM and land use planning.

## Recommendation 6

**3.47 The committee recommends the government consider further changes to regional natural resource management plans to improve their governance and consistency, such as by requiring each plan to:**

- be managed by a statutory authority;
- address the same basic criteria, at a minimum; and
- be enforced to the same standard.

*Response:* The Government notes this recommendation.

The Government's \$44 million Regional Natural Resource Management (NRM) Planning for Climate Change Fund will enable the production of NRM plans in each region to a highly professional, nationally consistent standard, to guide where CFI projects, such as tree plantings and avoided deforestation, should be located in the landscape to avoid unintended negative impacts and maximise the carbon co-benefits for biodiversity, water and agricultural production.

The 56 regional NRM organisations that develop these plans are currently a mix of statutory authorities, public companies limited by guarantee and incorporated associations. The nationally consistent standards for the plans will be designed to ensure regional NRM organisations provide the required information and detail in the plans to guide CFI projects.

The Government will establish a new statutory body, the Land Sector Carbon and Biodiversity Advisory Board, which will report to the Government and annually to the Parliament about implementation of the land sector measures, including the Regional NRM



Planning for Climate Change Fund, announced as part of the Government's plan for a Clean Energy Future.

## **Recommendation 7**

**4.15 The committee recommends the government address obstacles to indigenous participation in the CFI, including resolving outstanding uncertainties in relation to participation by holders of non-exclusive native title.**

*Response:* The Government agrees with this recommendation.

The Government is committed to helping Aboriginal and Torres Strait Islanders benefit from carbon farming.

As part of the Clean Energy Future plan, the Government has committed \$22million over its first five years to an Indigenous Carbon Farming Fund that will assist Indigenous communities to benefit from the CFI. Funding will be provided for specialists to work with Indigenous communities on carbon farming projects. Funding for research and reporting tools for CFI methodologies will also create further opportunities for Indigenous Australians.

Under the CFI, Indigenous landholders will be able to earn carbon credits for activities including improved savanna fire, livestock, feral animal, fertiliser, soil or forest management, reforestation and vegetation regrowth.

The Government has made the development of a methodology for savanna fire management a priority. This is an activity which is likely to have high indigenous participation and social co-benefits for Indigenous communities.

The legislation makes it easy for holders of exclusive possession native title to undertake abatement projects and to receive carbon credits. The legislation also provides for holders of determined native title to consent to sequestration projects undertaken by other interest holders on their land. This will enable Indigenous land holders to negotiate a share of the benefits from carbon farming projects.

The Government is consulting stakeholders about the circumstances in which native title claimants will need to give their consent to projects conducted on land where there are native title interests. Complex legal issues are involved, and any outcome will be consistent with the Native Title Act and Racial Discrimination Act.

## **Recommendation 8**

**4.24 The committee recommends the government make clear that Kyoto-compliant credits will be linked to any future carbon price mechanism.**

*Response:* The Government agrees with this recommendation.

The Government has agreed to link Kyoto-compliant credits with the carbon price mechanism. This will increase incentives for landholders to reduce or store pollution.

Kyoto-compliant activities include reforestation, savanna fire management and reductions in pollution from livestock and fertiliser.

During the initial fixed price period, liable parties under the carbon price will be able to meet five per cent of their obligations using carbon credits generated under the CFI. In the flexible price period, there will be no limit on the use of credits generated under the CFI.

The CFI non-Kyoto Carbon Fund will provide incentives for other activities that are not part of accounting for Australia's Kyoto Protocol target, such as revegetation and soil carbon projects. This fund will be worth \$250 million over the first six years of the program.

Australia will continue working to develop new international rules that recognise a wider range of action on the land to reduce carbon pollution.

## **Recommendation 9**

**4.26 The committee recommends that, subject to the recommendations contained elsewhere in this report, the Senate pass the Carbon Credits (Carbon Farming Initiative) Bill 2011; the Carbon Credits (Consequential Amendments) Bill 2011; and the Australian National Registry of Emissions Units Bill 2011.**

*Response:* The Government supports this recommendation.

The CFI package of bills will pave the way for farmers, forest growers and landholders to generate saleable carbon credits for domestic and international carbon markets. This will begin to unlock the abatement opportunities in the land and waste sectors which currently make up 22 percent of Australia's emissions.