

Additional Comments by Senator Nick Xenophon

1.1 Australia cannot underestimate the challenges our environment, our economy and our way of life will face if we do not take proactive steps to manage climate change. We need to reshape our economy to move towards less carbon-intensive ways of operating across all sectors. It is a fine balance between using a carrot and a stick—something to support and encourage businesses and households, but also something to enforce measures where encouragement doesn't work. This needs to be carried out in the most cost effective way possible.

1.2 While I acknowledge the Government's proposed amendments to the Carbon Farming Initiative will go some of the way to reducing greenhouse gases there is currently too much uncertainty as to how effective this scheme will be.

1.3 For example, the Carbon Farming Initiative Amendment Bill 2014 ('the bill') proposes to limit the standard crediting period for emissions reduction projects to seven years. Unlike the current framework which allows for project proponents to reapply for accreditation after seven years, the bill removes this possibility. While there is provision for projects to receive accreditation for more than seven years through the design of methodologies, I believe this will do little to encourage investment in long term projects, particularly where initial capital costs are high. As the Carbon Market Institute told the committee:

There is a potential mismatch between the effective abatement generating periods of many carbon abatement assets and the single crediting periods as proposed in the Bill. For many projects, particularly land-based projects, a single seven- or 15-year crediting period is inadequate. Preventing abatement projects from generating ACCUs beyond these periods may have a number of implications on both the level of participation in the ERF and the general level of private sector investment in abatement projects.¹

1.4 I agree with the Carbon Market Institute proposal that crediting periods "should better align with the life of carbon abatement assets".² Whether the intended flexibility of the methodologies will achieve this is yet to be seen.

1.5 The absence of clear information as to how the proposed safeguard mechanism will look and operate is cause for serious concern. The Government must ensure that gains from carbon abatement and sequestration projects are not cancelled out by increases in emissions elsewhere. In order to achieve this, the safeguard mechanism must involve an immediate penalty and it must be directly linked to the Carbon Farming Initiative legislation. Without such a link there is a real danger the safeguard mechanism will not achieve its desired objective.

1 The Carbon Market Institute, *Submission 11*, pp 8–9.

2 The Carbon Market Institute, *Submission 11*, p. 6.

1.6 The concerns of the Grattan Institute in relation to the safeguard mechanism should also be heeded. During the public hearing Mr Anthony Wood from the Grattan Institute outlined some of these concerns:

Senator XENOPHON: Mr Wood, is it fair to say that without safeguard mechanisms in place now that will skew the scheme and cause a cost blow-out, both in terms of the cost of the budget and in that it will affect the achievability of the target?

Mr Wood: I think the simple answer to your question is yes. It is a serious problem relating not only to existing businesses that change their business activities but also to new businesses, the most obvious example being LNG businesses in Queensland—businesses for whom there are no obvious ways of even setting baselines. I have not seen anything tabled as yet that would solve that problem. So it is one of those absolutely fundamental design parameters around the ERF itself that suggest that achieving the target at lowest cost is still a significant challenge.³

1.7 While this bill is a step in the right direction in terms of Australia's climate change policy, it does require refinement.

Recommendation 1

1.8 The legislation should be amended to allow for longer contracting and crediting periods as well as an immediate and effective safeguard mechanism.

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3 Mr Anthony Wood, Program Director, Energy, Grattan Institute, *Committee Hansard*, 1 July 2014, p. 43.