

31 October, 2014

Ms Anthea Harris  
Chief Executive Officer  
Climate Change Authority  
GPO Box 1944  
Melbourne VIC 3001

By email: [submissions@climatechangeauthority.gov.au](mailto:submissions@climatechangeauthority.gov.au)

Dear Ms Harris

### **Re: Review of Carbon Farming Initiative**

The National Farmers Federation (NFF) welcomes the opportunity to provide a submission to the statutory review of the Carbon Farming Initiative (CFI) that is being conducted by the Climate Change Authority (CCA).

The NFF is the peak national body representing farmers and the agriculture sector more broadly across Australia. The NFF's membership comprises all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF.

### **Operation of the Carbon Farming Initiative**

NFF's view is that the CFI has been delivered in accordance with the overarching objectives of the CFI Act, which are to:

- Implement some of Australia's obligations under the Kyoto Protocol
- Create incentives to carry out offset projects
- Reduce emissions in a way that protects our natural environment and improves resilience to climate change.

The NFF notes that the operation of the CFI has continued to improve since its inception. An example of this is an increasing collaboration between the Department and industry to collaboratively develop methodologies.

To ensure that the lessons of the CFI are captured, NFF's view is that in addition to this overarching statutory review, a more detailed independent evaluation of the program be conducted to ascertain:

- The efficiency of the administrative processes with successful CFI projects
- The outcomes achieved and the effectiveness of the Carbon Farming Futures – Extension and Outreach program

## **Proposed changes— Emissions Reduction Fund**

NFF welcomes a number of the changes proposed by the Government in the design of the Emissions Reduction Fund (ERF). These include:

- the option of a 25 year permanence period for sequestration projects;
- inclusion of improvements in emissions intensity as well as absolute emissions reduction;
- a formal process for prioritising methodology development; and
- streamlining of methodology development to allow for greater flexibility.

Despite these welcome improvements, NFF cautions against over-emphasising the opportunities for the agriculture sector under the ERF. While a “least cost approach” to pricing is economically efficient, it comes with a significant risk that agriculture is excluded from accessing the ERF. The experience of the CFI is that the break-even price of agriculture sector carbon projects is close to \$23/t CO<sub>2e</sub>. This indicates that agricultural projects may not be competitive in the ERF reverse auctions when compared to, for example, large projects likely to be generated from the industrial and energy sectors.

The Government has recently released for consultation a draft “facility based” methodology for large businesses that already report emissions under the National Greenhouse and Energy Report Scheme (NGERS). The broad concept of facility wide method that recognises either a reduction in absolute emissions or emissions intensity is aligned to NFF’s view that a “whole of farm” or “whole of farming system” approach would streamline the participation of agricultural businesses in the ERF. Farms have a range of emission sources, and a method that covers multiple activities in our view may result in lower transaction costs when compared to implementing a number of activity based projects.

### **Project aggregation – Emissions Reduction Fund**

It is proposed that the ERF will have an initial minimum bid size of 2000 tonnes of CO<sub>2e</sub> a year on average over the life of the contract bids. Given this threshold, participation for the agriculture sector will be largely as part of an “aggregated project” of a third party. There are both benefits and risks associated with participation in an aggregated project. The greatest benefit for farmers is that projects may be more cost-competitive if part of an aggregated project that includes a mix of higher and lower cost abatement activities. There are however, considerable risks, including:

- *Accessing finance.* NFF’s view is that there is additional risk associated with the aggregator model that make agriculture projects less attractive to lending institutions. While larger projects have the benefits of a contract with Government, participants in an aggregated project are contracted with the aggregator.
- *Unscrupulous aggregators.* Farmers could be duped into participating in an aggregated project by unscrupulous aggregators, who place additional risk on to farmers.

NFF’s view there is an opportunity to use the contractual process between Commonwealth and the aggregator (i.e. *the seller*), or some other enforceable mechanism, to manage the risks associated with the aggregator model for both farmers and government.

It is important that farmers have a clear understanding of their rights and obligations when entering into an agreement with a seller. Similar to the rights and obligations of sellers in the draft Carbon Abatement Contract, agreements between farmers and aggregators should address the rights and obligations of the parties in relation to:

- Delivery dates
- Payment schedules
- Reporting
- Audit
- Make-good arrangements
- Project termination
- Dispute resolution
- Insolvency
- Change in property ownership

Similar to the model used in residential tenancy arrangements, NFF has advocated that:

- Sellers should be required to provide farmers and other land managers with independently prepared information about their rights and obligations and be required to demonstrate that this information has been provided. NFF's view is that Government should ensure that there is clear, accessible independent information available for farmers about the ERF and the aggregator model. By providing such information, farmers would be better placed to verify the claim of an aggregator, and thus better understand the risks and benefits of participating in an aggregator's project.
- Sellers should be required to include standard terms and conditions in their agreements with land managers that clearly specify the rights and obligations of farmers. In NFF's view, uniformity in contractual arrangements would provide certainty and transparency for both farmers and government.

### **The need for continued R&D**

A key challenge for much of the agriculture sector is that many cost-effective emissions reduction technologies are still in the embryonic phase of research and development and are not yet "methodology ready". This is reflected in the analysis conducted by the CCA in the issues paper, which highlights a focus on landfill, reforestation, afforestation methodologies and projects to date.

To unlock the broader potential for abatement in agriculture, further investment in research and development is required, particularly to develop methodologies. Continued R&D is critical to ensure that agriculture is well placed to take advantage of opportunities in the future.

Thank you for providing NFF with the opportunity to meet with members of the Review team to discuss our views of the operation of the CFI, and the establishment of the ERF. NFF looks forward to continuing dialogue with the Climate Change Authority over the course of the review period.

Should you require clarification on any issue arising from this submission, please do not hesitate to contact Ms Jack Knowles, Manager NRM Policy on 02 6269 5666 or by email [jknowles@nff.org.au](mailto:jknowles@nff.org.au)

Yours sincerely

A handwritten signature in blue ink that reads "Tony Mahar". The signature is written in a cursive style with a large, looping initial 'T'.

**TONY MAHAR**  
**Acting Chief Executive Officer**