

AIGN Comments on CCA Carbon Farming Initiative Review Issues Paper (October 2014)

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1 INTRODUCTION

AIGN welcomes the opportunity to provide comments on the Issues Paper released by the Climate Change Authority (CCA) on its review into the Carbon Farming Initiative (CFI). We note, as does the CCA, the pertinence of taking into account the legislative amendments as passed by the Senate last week to expand and streamline this policy as a key component of the proposed Emissions Reduction Fund (ERF).

In reading this response, the CCA should note AIGN’s broad range of members, and resultant wide diversity of views on greenhouse and energy policy. This submission accords with the views of our members in general. However, at times, there are variations in the positions of individual members on specific issues. It is therefore important that the CCA considers AIGN’s feedback alongside any feedback (written and verbal) provided by our members.

In particular, AIGN supports comments made by the Australian Forest Products Association (AFPA) in its submission to the CCA regarding the legislative and regulatory changes required for commercial forestry to fulfil its mitigation potential via recognition of the carbon sequestration in growing, sustainably managed forests.

2 CARBON FARMING INITIATIVE

The majority of AIGN members have had very little interaction with the CFI, their core business not being directly in the land management sectors to which the CFI principally applies. A large number of members were liable entities under the now repealed carbon pricing mechanism and were more engaged and familiar with that policy. Those members with experience with the CFI report that the methodology approval process is time-consuming and painstaking, as was noted in the consultation process for the ERF legislation and in the Authority’s Issues Paper.

2.1 Governance Arrangements

While acknowledging that the administrative arrangements of the CFI “...are designed to increase transparency and minimise fraud or misconduct,”¹ AIGN is concerned that the trade-off between transparency and efficiency has gone too far in favour of the former. This is not an unusual occurrence in climate change policy; the risk burden of managing a project lies so overwhelmingly with the participant that it acts as a disincentive. One example from the CFI is the risk-of-reversal buffer, which is designed to nationalise risk from natural disturbance; but despite its existence it can be overlaid by further requirements to re-establish a project after such an event. This results in a duplication of risk management entirely at the expense of participants.

AIGN recommends a more common-sense approach to governance – one which recognises that the vast majority of participants are law-abiding, honest, easily located and highly unlikely to engage in fraud or misconduct. Instead, entities should be encouraged to participate by rules that are simple, clear, and do not add large compliance costs (or the risk of large costs) to a project. In other words, the efficiency of the scheme needs to be enhanced.

3 EMISSIONS REDUCTION FUND

With respect to the Government’s planned introduction of the ERF through amendments to the Carbon Farming Initiative legislation, AIGN provided extensive feedback in several submissions throughout the consultation process, most recently to the exposure draft legislation. We have also made comments on Senator Xenophon’s proposed package of further amendments to the same as previously provided.

¹ Climate Change Authority, *Carbon Farming Review Issues Paper*, October 2014, p 11

3.1 Principles of ERF

AIGN supports the three principles that have guided decisions on the design of the ERF, namely lowest cost emissions reductions, genuine emissions reductions, and streamlined administration. They are consistent with AIGN principles advocating policy approaches based, as far as is practicable, on market mechanisms with the objective of least cost abatement (both domestic and international), underpinned by streamlined, transparent, efficient and effective administrative, reporting and compliance arrangements. In addition, AIGN proposes a fourth principle: ensuring competitiveness. Our climate policy framework must maintain the competitiveness of entities operating in Australia, to avoid leakage and thereby ensure that emissions reductions result in a genuine lowering of global emissions. Accompanying these principles is the need for long-term policy stability to encourage industry investment.

AIGN notes that the ERF’s “overriding objective...should be to purchase emissions reductions at the lowest available cost”.² Consistent with the AIGN principle of least cost abatement, the ERF should provide access to international units. This will promote genuine emissions reductions, assist with maintaining Australia’s competitiveness, and address the potential for leakage.

3.1 Purchasing Emissions Reductions

In order to align with the aforementioned principles, AIGN makes the following observations and recommendations:

- **Purchase contracts:** industry requires certainty and stability to encourage rational long-term business decision-making. AIGN therefore welcomes the reconsideration of purchase contract to allow purchase contracts of seven years, with the possibility of negotiating a longer term if deemed appropriate. AIGN also recommends the Government maintains access to independent advice on contract length through a consultant as the ERF evolves, rather than ending the proposed consultant’s role prior to the first auction. This would encourage genuine abatement options not to be missed due to an arbitrary cut-off date and a lack of flexibility.
- **Methodologies:** AIGN supports endeavours to streamline the development of methodologies by increasing the discretion and flexibility of the Minister and the ERAC. It will be important to eliminate avoidable time and resource costs associated with the current accreditation process. AIGN also supports a mix of membership to the ERAC to ensure that expertise currently not required under the CFI is adequately represented.
- **Additionality:** there is considerable room for streamlining current additionality provisions, and AIGN supports moves toward simplifying this element of registration.
- **Procurement:** AIGN supports the potential for ERF funds to be secured through tender as well as reverse auction, as the explanatory memorandum accompanying the draft amendments indicates will be possible in the ‘significant discretion’ to be assigned to the Clean Energy Regulator “...in the conduct of purchasing processes and [it] can purchase emissions reductions through other processes such as through a tender.” (paragraph 4.3, p 35)

However, AIGN believes that the separation of development from implementation, as a cornerstone of good policy, should be maintained in designing the auction process. It is the expectation of industry that the Government will provide the CER with clear directions on the operation and management of the

² Emissions Reduction Fund Green Paper, Commonwealth of Australia, 2013, p 18.

auction and tender (and any other procurement) processes. The CER should then establish the detailed implementation arrangements in close consultation with industry.

- **Price discovery:** while acknowledging the perceived sensitivities involved in publishing the auction benchmark price, AIGN promotes the provision of aggregated information regarding auction results to enable some form of price discovery. We recognise that the Government wishes to avoid inflated bidding; conversely, the Government should consider the inherent disincentive of forcing entities to operate ‘blind’, with no way of ascertaining the approximate cost of abatement.
- **Make-good provisions:** AIGN recognises the need for abatement to be credible, however the Government has alternative options to achieve this in place of the proposed make-good provisions. For example, entities needing to make good a shortfall should be able to access the international market (this could be facilitated through the Xenophon proposal via the strategic reserve).
- **International Units:** Whilst noting the Government’s decision of last week, AIGN continues to support the use of international units in efforts to meet our emissions reduction targets.
- **Auditing:** AIGN supports a risk-based approach to auditing, as well as promoting greater commonality in the carrying out of audits. The CER should be able to issue ATO-style rulings to clarify regulations, and in this case, ensure there are no significant variations between audits dependent on service provider.

3.2 Safeguarding Emissions Reductions

While aware that the CCA is conducting a review into the CFI, there is an acknowledged link between the intended ERF and the safeguard mechanism. AIGN wishes to emphasise the importance of the safeguard mechanism to our members; participation will be mandatory (in contrast to the voluntary nature of the ERF), and it remains unclear what the obligations of liable entities under the safeguard mechanism will look like.

AIGN draws attention to the Government’s intention that the ERF will not be revenue raising, nor will it penalise businesses who continue to operate on a ‘business as usual’ basis.

AIGN supports the delay in the commencement date of the safeguard mechanism to allow further consultation. Many issues remain unresolved.

The safeguard mechanism is intended to cover facilities with direct emissions of 100,000 t CO₂-e or more per annum, or about 52 per cent of Australia’s emissions. AIGN accepts the administrative advantages of limiting coverage; at the same time, AIGN draws attention to the Government’s intent for the mechanism to ensure emissions reductions paid for through the ERF are not displaced by significant rises elsewhere in the economy. The mechanism will leave about 48 per cent of Australia’s emissions uncovered, creating the possibility for economy-wide emissions to rise outside the scope of the mechanism. Entities covered under the safeguard mechanism must not bear the burden of rises in uncovered emissions in any way.

4 CONCLUSION

Thank you for the opportunity to provide comments on the Issues Paper. Please contact Alex Gosman if you have further questions (T: 02 6295 2166; E: alex.gosman@aign.net.au).