

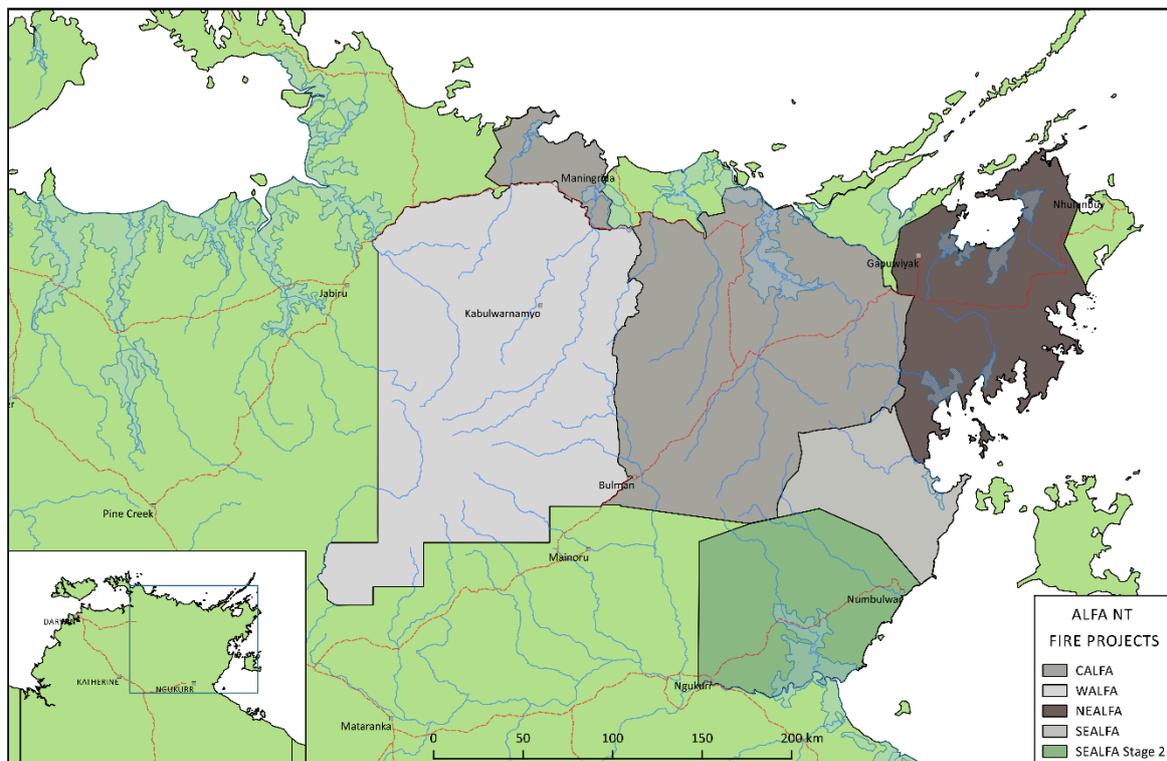
ALFA (NT)Limited

Arnhem Land Fire Abatement

The Directors
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Submission to the Climate Change Authority on the Review of the Carbon Farming Initiative legislation and the Emissions Reduction Fund

ALFA (NT) Limited is an Indigenous-owned carbon business working in partnership with Traditional Landowners and Indigenous ranger groups over more than 80,000 km² of Aboriginal freehold land (under the *Aboriginal Land Rights Act (NT) 1976*) in Arnhem Land in the Northern Territory of Australia. ALFA is the registered project proponent for five projects which generate Australian Carbon Credit Units (ACCUs) through the Savanna Burning methodology and is currently the largest producer of Savanna Burning ACCUs. ALFA is a not for profit Company that derives its income from the sale of ACCUs. The proceeds from the sale of carbon credits are reinvested to fund the on-ground land management activities of the Indigenous ranger programs within the fire project areas in Arnhem Land. The engagement in savanna fire management through the CFI/ERF provides a critically important source of income and employment and is integral to the environmental, social and cultural fabric of Arnhem Land in which ALFA operates.



ALFA welcomes the chance to comment on the Climate Change Authorities review of the Carbon Farming Initiative Legislation and the Emissions Reduction Fund. ALFA notes the critical role of the Federal Government in maintaining a viable carbon industry in Australia. Since 2010, changes in carbon law and Government policy have been frequent and have had significant impacts on the viability of carbon projects, including savanna burning projects. As such, one of the biggest risks to emissions reduction projects is the lack of long term national climate change policies and associated frameworks to support the creation and sale of ACCUs through the ERF or other future policy directions.

ALFA has been operating as a project proponent with the CFI/ERF since 2014 and address the relevant consultation questions as they relate to ALFAs experiences to date with respect to engagement with the Savanna Burning Methodology.

CONSULTATION QUESTIONS

Q.1. Is the coverage of methods sufficient or should other emissions reduction opportunities that are consistent with the offsets integrity standards be included?

There are significant opportunities for emissions reduction which are currently not covered by approved methodologies. As such, the development of other methodologies should be strongly encouraged and future methodologies should be included within the ERF.

Specifically, in relation to Savanna Burning, there are sequestration methodologies that are currently not approved methodologies (although the Savanna Fire Management – Sequestration and Emissions Avoidance Methodology Determination has been released for a first round of public consultation) that could make a significant contribution to emissions reduction.

The experience of ALFA in the application of the current Savanna Burning methodology in Arnhem Land demonstrates highly successful uptake and engagement by remote Indigenous Australians in the CFI/ERF. Engagement in the carbon industry is particularly important for these remote Indigenous communities as other industry and employment options are limited. As such, savanna fire management presents a rare and significant opportunity for Aboriginal people to work on and generate wealth from their country. The ability to engage with new methodologies represents an opportunity for Indigenous Savanna Burning projects to significantly increase not only the economic returns generated from the fire projects but also the environmental, cultural and social returns from investment in the fire project areas.

Given the success of savanna burning methodologies in driving significant carbon reductions while promoting positive environmental outcomes, other similar opportunities (e.g. feral animal herd management) might also exist within the land sector.

Q.2. Are the existing methods fit for purpose, including with respect to the offsets integrity standards?

The existing Savanna Burning Methodology is fit for purpose and has undergone a number of updates since first approved. However, it would be most beneficial if it were possible to recognise and value the ACCUs that have significant co-benefits generated through their production. For example, the savanna burning projects in Arnhem Land create ACCUs that support the continuing and beneficial management of a vast area of country of high conservation value. The production those ACCUs support Aboriginal people in returning to, working and remaining on their country. In doing so, the knowledge of old people is preserved and transferred to younger generations, Aboriginal languages are maintained and people involved in managing their land have higher standards of mental and physical health.

Q.3. Would emissions reductions from some ERF offset projects be delivered more efficiently through regulation or some other policy?

With respect to the Savanna Burning methodology, the projects could not be delivered through regulation or some other policy. The eligible activity required in the Savanna Burning methodology is incredibly resource intensive and the funds derived from the sale of ACCUs are required to fund the activity – in this case the application of strategic early dry season prescribed burning throughout the project area.

It is very important to note that the adoption of the savanna burning methodology has been the direct cause of recent positive changes in fire management regimes in Arnhem Land.

Q.7. Is the ERF delivering additional abatement?

In the case of the Savanna Burning methodology, the ERF is delivering additional abatement. As described above, the application of landscape scale strategic early dry season fire management is very resource intensive. As such, the prescribed burning that occurs within a fire project area is an additional management activity that is applied to the landscape. Whilst there are environmental, cultural and social benefits that flow from the activity in the ALFA project areas, the activity would not occur in the absence of a registered fire project.

Q.8. Could the additionality requirements be improved?

The Savanna Burning methodology currently recognises that emissions avoidance from savanna burning is an ongoing annual abatement. As such, the crediting period for savanna burning projects is 25 years. However, even a 25 year crediting period will not cover the entirety of the opportunity for as soon as the annual fire management ceases a project would revert back to its baseline conditions.

Q.9. Do any methods or projects raise particular additionality concerns?

ALFAs experience with Indigenous savanna fire management projects has clearly shown that it takes time to develop capacity. Clearly, savanna fire management that accords with the methodology is “good practice”, to which landowning and management groups should aspire. It is “bad practice” to discourage them from taking appropriate steps by incrementally learning and investing. The concept of “newness” and “additionality” as they relate to Indigenous Savanna Burning projects could result in unintended perverse outcomes.

Q.10. Are current emissions estimation approaches and tools fit for purpose? If not how can they be improved?

The current emissions estimation approach for the Savanna Burning methodology, SavBAT, is very fit for purpose. SavBAT is an incredibly user friendly tool that automates the complex GIS and data modelling within the methodology to calculate emissions from fire in a project area.

Q.11. Are the ERF permanence arrangements fit for purpose? If not, how could they be improved?

Having only two permanence period options does not necessarily reflect operational capacity or adequately allow proponents to maximise the carbon storage opportunity to its full potential. For example, in relation to the draft Savanna Sequestration methodology, ALFA does not consider the option of a 100 year permanence period on Aboriginal Land a possibility. The maximum precedent for similar long term land use agreements is 99 years. As such proponents who operate on Aboriginal Land will necessarily only be able to choose a 25 year permanence period. This does not reflect any decision of the proponent regarding the long term commitment to undertaking the project activity nor does it encourage or enable the proponent to maximise their carbon storage commitments. The ability to commit to a series consecutive permanence periods, with appropriate sequestration buffers would address this issue.

In addition, for resource intensive projects like Savanna Burning, it is critical that the crediting periods and permanence periods match. This would also act to deliver the lowest risk to the Government in terms of the long term maintenance of the activity and storage of carbon.

Q.12. Do 25 year and 100 year permanence timeframes raise particular issues?

See above.

Q.13. Is the discount rate set appropriately for the 25 year permanence period and the risk of reversal buffer?

Given the lack of choice for a permanence period for sequestration projects on Aboriginal Land as described above, the methodology may overestimate the risk of reversal to the carbon store. For example, a proponent signing up for a 25 year permanence period for a project on Aboriginal Land does not reflect that the participant expects the project activity to finish in Year 26. It simply reflects that the 25 year permanence period was the only applicable choice for the proponent.

Q.19. What are the barriers to Indigenous participation in the ERF and how can they be addressed?

ALFAs experience in Indigenous Savanna Burning projects has demonstrated a number of barriers to Indigenous participation in the CFI/ERF.

In particular, recognition is that it takes time and resources for Indigenous carbon projects to be established and for Indigenous groups to develop their capacity to engage with the industry. Whilst available, the Indigenous Carbon Farming Fund (ICFF) filled this role by providing invaluable support for Indigenous projects to build their project and business capacity. For the Arnhem Land fire projects, this capacity development support helped fund the creation of ALFA as an appropriate governance and business company to support the Indigenous ranger groups in their engagement with the CFI/ERF and the generation of ACCUs.

As described above, the lack of options or flexibility around permanence periods for projects on Aboriginal Land may also effect Indigenous participation in sequestration methods.

Finally, the least cost abatement purchasing principles has no way of recognising and valuing the co-benefits associated with Indigenous participation in the ERF. As described above in Q2, the savanna burning projects in Arnhem Land create ACCUs that support the continuing beneficial management of a vast area of country of high conservation value. The production those ACCUs support Aboriginal people in returning to, working and remaining on their country. In doing so, the knowledge of old people is preserved and transferred to younger generations, Aboriginal languages are maintained and people involved in managing their land have higher standards of mental and physical health.

Q.21. Are the ERF arrangements to prevent adverse outcomes from ERF projects sufficient? If not, how could they be improved?

ALFAs experience with Indigenous savanna fire management projects has clearly shown that it takes time to develop capacity. Clearly, savanna fire management that accords with the methodology is “good practice”, to which landowning and management groups should aspire. It is “bad practice” to discourage them from taking appropriate steps by

incrementally learning and investing. The concept of “newness” and “additionality” as they relate to Indigenous Savanna Burning projects could result in unintended adverse outcomes.

Q.22 - 28. Operations aspects of the ERF, guidance documents, administration, CER decision making, crediting, reporting and auditing arrangements.

ALFAs experience to date with the operational aspects of the ERF and the CER has been very positive. Information provided on the website and directly by staff members is informative and very helpful and the decision making is consistent and in line with the legislation.

Q.30. Are the purchasing principles fit for purpose? If not, how should they be changed?

The purchasing principles of the CER Auctions have been designed to deliver specific outcomes for the Australian Government. Whilst in the absence of other legislated carbon markets proponents have necessarily had to engage and make the best of the reverse ERF auctions, the process has at times been challenging.

Specifically, the unknown benchmark price and percentage of bids accepted under the benchmark price creates uncertainty in the value of the product as acts to undermine the value of the product. In the case of savanna burning, the sale of ACCUs is required to actually fund the activity and the purchase of lowest cost abatement does not take into account the cost of producing abatement. This purchasing principle benefits those carbon producers that can produce a low cost abatement and also thus locks out significant abatement opportunities that could contribute to emissions reduction targets. The fixed delivery on carbon abatement contracts also introduces risks for carbon producers operating under annually variable methodologies (as is the case with Savanna Burning).

ALFA also wish to note that there have been positives associated with the ERF. In particular the ability to enter into a low risk and long term contract selling credits to the Australian Government.

Q.31. Is too much emphasis placed on the least cost principle?

Yes, too much emphasis is placed on the least cost principle. However, the whole design of the ERF and the use of public funds to purchase abatement necessitates this approach. This is to the detriment of the development of a robust and sustainable carbon market.

Q.32. Is the contracting and auction process fit for purpose?

The actual contracting and auction processes are relatively straightforward and there is information available to assist in navigating the process. The challenging part as described in Q 30 above, relates to being awarded a contract at an appropriate price for your particular project. It is the complexity of this situation which tends to favour a small number of large

carbon aggregators who are making up a large volume of the auction deliveries and works against smaller proponents.

Q.33. Are there improvements that could be made to the auction design or contracting process?

Currently, each registered eligible offsets project can only bid in for one ERF contract at a time. ALFA would like to be able to have the option to also deliver carbon credits to the ERF through additional short term contracts.

The ACCUs derived from undertaking the Savanna Burning methodology are inherently variable and depend upon climatic conditions, vegetation growth, past fire histories as well as anthropogenic factors. To navigate the fixed deliveries inherent in the ERF carbon abatement contracts ALFA bid conservatively in their carbon contracts. Whilst, there is the ability to deliver early on the carbon contracts, this is not an option for ALFA given the high resource costs of undertaking the fire management activity and the operational stability that long term carbon abatement contracts provide. The result is that in some years, ALFA have significant quantities of ACCUs that are not delivered to the ERF directly.

Additionally, ERF contracts are for a maximum of one-10 year term. This does not adequately support projects with longer crediting periods.

Q.35. How has the secondary market been operating?

ALFAs experience is that the secondary market is active. However, given the predominance in the secondary market of a small number of large carbon aggregators, the confidentiality clauses around bid price disclosure and the push for lowest cost abatement at auctions there is little transparency or market continuity in the secondary market. And whilst it is a mechanism to sell ACCUs, the transactions necessarily benefit the purchaser as opposed to the seller. As described above in Q33, ALFA would like the option to be able to deliver additional units directly to the ERF without having to deliver early on long term contracts

Q.38. In what ways could transaction costs be minimised for ERF participants while maintaining environmental integrity?

ALFA has not found the current transaction costs to be onerous and recognises that rigorous processes maintain the integrity of the scheme. Significant transaction costs for the proponent occur in the auditing process and the introduction of audit schedules over the life of a crediting period has helped to address these costs.

Q.41. Should the Government allow the export of ACCUs or imports of carbon credits to meet contractual obligations under the Emissions Reduction Fund?

A great strength of the Australian carbon market is that ACCUs are of a high standard and rigorously verified. The CFI and ERF has established a strong price for ACCUs given cost of production of high quality carbon credits in Australia. It would be detrimental to these high standards and the integrity of domestic scheme should the market be flooded by cheap, less rigorously verified international credits.

However, given the integrity of ACCUs it would be advantageous to be able to deliver these high quality credits to other markets, including international markets, as this would support domestic carbon production.

Q.43. What role should the ERF play in meeting Australia's future international targets?

The development of a strong and viable Australian carbon industry should play a significant role in meeting Australia's future international targets. However, the ERF could potentially limit this role, given the size of the reduction targets and the finite funds available in the ERF. The model of the public purse purchasing lowest cost abatement credits to meet long term international goals is clearly not sustainable for the Government or carbon producers.

It is very important to note that the carbon industry in Australia was developed under a carbon price mechanism and it was ALFAs experience during this period that the higher and market driven price on carbon increased the uptake of offsets projects as well as the demand for ACCUs.

Q.45. To what extent (if at all) is uncertainty around the future of the ERF affecting investment decisions in offset projects and the secondary market?

As stated previously, one of the biggest risks to emissions reduction projects is the lack of long term national climate change policies and associated frameworks to support the creation and sale of ACCUs through the ERF or other future policy directions. This uncertainty necessarily affects decision making around offsets projects. This is particularly important for a company like ALFA who engage currently engage in the Savanna Burning methodology (which operate over long crediting periods) and are looking to engage with the upcoming Savanna Sequestration methodology with permanence period obligations that require the continuation of resource intensive fire management operations.