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Emissions Reduction Fund Submissions
Department of the Environment
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Emissions Reduction Fund Green Paper Submission

Attention: Emissions Reduction Fund Submissions

Summary remarks

The Indigenous Land Corporation (ILC) wishes to emphasise the following key messages in response to the Emissions Reduction Fund Green Paper:

- Indigenous landholders are well positioned to play a significant role in Australia's transition to a low carbon economy through land sector Carbon Farming Initiative (CFI) projects.
- The CFI provides opportunities for Indigenous landholders to engage in productive land uses on what is often marginal country where alternative economic development opportunities are limited.
- The CFI provides opportunities to achieve significant co-benefits that align with other Australian Government policy commitments. A focus solely on lowest cost abatement provides no mechanism for valuing the co-benefits associated with land sector projects.
- Indigenous land sector projects are unlikely to be able to compete at auction against large corporations with cheaper sources of non-land sector abatement.
- The benchmark price of CFI ACCUs should reflect both the real cost of project development and the value of co-benefits achieved.
- Supply side challenges could be addressed through funding support to Indigenous proponents to assist with project establishment and transaction costs. Funds for this purpose could be generated through financial penalties for companies that exceed emissions baselines.
- Resources to support the establishment and operation of an Indigenous aggregator to manage the complexities of Indigenous CFI projects and achieve minimum bid volumes should be considered. The ILC would be pleased to discuss this notion further, including a possible formal role for the ILC.

The Indigenous Land Corporation

The ILC is an independent Commonwealth statutory authority established in 1995 to assist Indigenous Australians to acquire and manage land to achieve economic, environmental, social and cultural benefits. Through its key policy framework, the [National Indigenous Land Strategy](#), the ILC prioritises involvement in projects that lead to socio-economic development for Indigenous people, including creating sustainable employment opportunities.

The ILC welcomes the opportunity to respond to the Australian Government's call for submissions with regards to the proposed Emissions Reduction Fund, as outlined in the recent Green Paper. The ILC understands the Government is seeking views on the development of the Emissions Reduction Fund including how best to:

1. Facilitate the production, crediting and purchasing of lowest-cost emissions reduction, including the operation of an efficient auction process;
2. Establish baselines, design compliance options and safeguard emissions reductions;
3. Build on the existing Carbon Farming Initiative and encourage the uptake of land sector activities; and
4. Proposed governance arrangements.

The ILC led a process to assist stakeholders involved in Indigenous CFI projects to frame their responses to the Green Paper. This process enabled common themes to be identified and key messages to be articulated. This submission does not necessarily represent the views or opinions of any participant; stakeholders formulated their own positions and prepared independent submissions. The ILC would like to thank the approximately twenty predominantly Indigenous stakeholder groups that participated in this process.

The ILC is principally interested in the opportunities available to Indigenous landholders and businesses through the generation of carbon credits from land-based projects under the CFI, including emissions avoidance and biosequestration. Projects currently underway or in development cover large tracts of northern Australia and are providing significant benefits for Indigenous landholders, including income generation, sustainable employment, training, access to country and cultural connection to land. Further, these projects have led to the improved management of ecological values by keeping fire out of rainforest and wetland areas and protecting threatened species.

Under the current CFI savanna burning methodology, there is potential for up to one million tonnes of carbon dioxide equivalent to be abated annually through Indigenous projects. Additional abatement is likely to be available once the lower (600mm-1000mm annual) rainfall and the biosequestration methodologies are developed and made into determinations.

The ILC has developed significant capacity and is actively engaging with the CFI to enable participation by Indigenous landholders by:

- Providing significant financial and in-kind support to CFI methodology development, including methodologies for carbon abatement through controlled savanna burning, biosequestration, conservation grazing and feral animal removal;
- Undertaking the first Indigenous CFI project at Fish River in the NT and being the first entity to have a savanna burning project accredited under the CFI through the [Fish River Fire Project](#), with credits successfully sold to Caltex Australia; and
- Promulgating the lessons learnt from establishing the *Fish River Fire Project* and supporting other Indigenous organisations to engage with the CFI, including the *West Arnhem Land Fire Abatement (WALFA) Project* and the *North Kimberley Fire Abatement Project*.

The Emissions Reduction Fund

Indigenous landholders are keen to continue to play a significant role in Australia's transition to a low carbon economy through the CFI by influencing the design of the proposed Emissions Reduction Fund and through the delivery of practical projects on the ground. Engaging in the CFI presents opportunities for Indigenous landholders, often on marginal country, where alternative economic development opportunities may be limited.

Indigenous landholders are well positioned to make a major contribution to Australia's emissions reduction targets. For example, a few large projects in Northern Australia could offer up to 15 million tonnes of carbon abatement over the 7 years to 2020. Further, analysts have suggested that Australia may not be able to reach its 5% reduction target by 2020 without significant involvement of the land sector.

The ILC is aware that the primary objective of the Emissions Reduction Fund is to achieve lowest-cost emissions reduction. However, the proposed design of the Emissions Reduction Fund, as outlined in the Green Paper, serves to disadvantage land sector projects in general, and Indigenous land sector projects in particular. Accordingly, the ILC seeks to draw attention to some of these design features and offers suggestions to overcome what might otherwise be significant constraints to Indigenous participation in the CFI under the Emissions Reduction Fund.

How best to encourage the uptake of land sector projects

As noted above, Indigenous people are well positioned to contribute to, and benefit from, participation in the CFI and to play a significant role in Australia's transition to a low carbon economy. Indigenous people are responsible for managing a sizeable proportion (around 20%) of Australia's landmass. Land sector projects on Indigenous-held land have strong potential to generate large-scale greenhouse gas abatement with significant co-benefits, including Indigenous employment, training and management of traditional country. These activities include savanna burning, revegetation, avoided deforestation, feral animal management and rangelands restoration.

Although these opportunities may appear promising, the supply of carbon credits generated from land sector activities is likely to be compromised and the participation of Indigenous landholders severely constrained by the Emissions Reduction Fund as currently proposed. Accordingly, it is important that the Emissions Reduction Fund encourage and enable land sector CFI projects, including involving Indigenous landholders in their design and delivery.

Carbon price, project costs and co-benefits

Land sector projects are typically more expensive to conduct than other types of CFI projects. The higher costs of production reflect the more intensive human and other resources that are required to carry out and administer land sector projects. It is these very features that lead to the significant co-benefits associated with land sector projects that are critically important to Indigenous people. A reverse auction process targeting lowest-cost abatement is expected to result in a prohibitively low price per tonne of carbon, which is likely to render most land sector projects on Indigenous-held land non-competitive.

Many of the valuable co-benefits generated by land sector CFI projects are closely aligned with other Australian Government policy commitments, including those related to Closing the Gap, natural resource management and regional development. Measures to facilitate the continued engagement of Indigenous people with the CFI may be a cost effective way for the Australian Government to deliver on complementary policy targets.

CFI project proponents, including Indigenous landholders, require long-term certainty through stable, sufficient demand for land sector Australian Carbon Credit Units (ACCUs) in order to overcome the risks and to make it worthwhile to embark on carbon abatement and/or sequestration activities. The best incentive to encourage uptake of land sector CFI projects is a fair minimum carbon price that takes account of higher production costs.

To this end, a mechanism to differentiate between lower-cost carbon, which has lower socio-economic, environmental and cultural value, and higher-cost carbon, which has higher value, would improve the Emissions Reduction Fund. For example, a tiered approach that recognises and differentiates co-benefits would better encourage the development of high value land sector projects. This could be achieved in a number of ways.

First, the different CFI project categories could have different benchmark prices in the reverse auction process, which could still be kept confidential to encourage competition within that sector. The benchmark price for each sector should be fair and informed by the experience of practical projects delivered to date. A minimum proportion of ACCUs derived from CFI projects in the different sectors in each auction would promote a balanced portfolio of carbon credits and a healthy carbon market that is better insulated from risk.

Second, there may be a way to design the reverse auction so that the 'premium' price associated with higher value CFI projects is subsidized by industry. For example, companies may be willing to match the reverse auction carbon price if they were able to receive recognition for their contribution. Alternatively, the financial penalty for companies that exceed their

emissions baselines could be directed into a fund that is used to purchase higher value land sector ACCUs outside of the reverse auction process. The fund could also provide grants to assist Indigenous proponents with establishment and transaction costs, which would improve the viability of many land sector projects.

It is clear that financial support to Indigenous CFI proponents to assist with project feasibility studies, establishment costs and transaction costs – no matter where the funding is sourced – would help to address some of the supply side challenges and encourage uptake of land sector projects. Funding could assist with the following types of activities:

- Development of and understanding the business case for undertaking a project;
- Clarifying carbon rights and land tenure;
- Establishing approvals for undertaking the work through consensus of interested parties and legal agreement in conjunction with relevant legislation;
- Establishing the responsible party, carbon rights holder and appropriate due diligence;
- Undertaking baseline scientific and technical analysis;
- Auditing the process and outcomes and preparation to bid at auction; and
- Planning and undertaking activities, including staff training, and ensure compliance with contract requirements.

Continued financial assistance to support the development of new CFI methodologies is also important to facilitate wider participation, continued delivery of co-benefits and to promote innovation in the land sector.

Aggregation

While efficiencies may be gained through the appropriate aggregation of CFI projects under the same methodology, potentially assisting land sector projects to become more competitive, there are also challenges associated with aggregation. Facilitating the agreement of Indigenous landholders to conduct activities on their land and/or hand over control of carbon 'rights' to a third-party aggregator can be a slow and expensive process.

It is imperative that Traditional Owners are appropriately consulted about activities on their land and that consent is free, prior and informed. In some cases this is a legislative requirement, such as under Section 19 of the *Aboriginal Land Rights (Northern Territory) Act 1976*. Statutory bodies, such as Land Councils, and Indigenous organisations must be adequately resourced to navigate these processes and Indigenous participation in the CFI should not be disadvantaged because of it.

The requirement for projects to aggregate in order to meet minimum bid volumes is also likely to make land sector projects even less cost competitive. Project proponents will have to pay a fee to an aggregator meaning less money to cover core project expenses and even tighter margins.

Resources to support the establishment and operation of an aggregator that is specifically equipped to manage the complexities of Indigenous CFI projects would go some way to overcoming this issue and facilitate uptake of land sector projects by Indigenous landholders. The ILC is aware that some stakeholders are of the view that this could be an appropriate role for the ILC. As an independent Commonwealth statutory authority, the ILC would be pleased to discuss this notion further with the Department, including a possible formal role for the ILC to provide project aggregation services.

Make good provisions

The Green Paper indicates that the Clean Energy Regulator will enter into forward contracts with project proponents who are successful at auction and that 'make good' provisions may be triggered if a proponent is unable to deliver emissions reductions through their CFI projects.

Penalties on project proponents for under delivering on emissions reduction estimates are likely to create a degree of risk that will act as a further deterrent to the uptake of land sector projects. The onus would be on proponents to be extremely conservative in their emissions reduction projections so that they are not required to purchase replacement ACCUs from another project in the event of under delivery. By the same token, it does not appear that the proponent would be compensated should a project over-deliver on the number of ACCUs specified in the contract. While the voluntary market could be an option to sell a small volume of 'surplus' ACCUs, the additional expense and administrative burden of accessing the voluntary market may make it infeasible, leading to 'wastage' of high value ACCUs.

It is suggested that contracts specify an emissions reduction target – in the form of an 'up to' amount, or a range – and that payment is made for the product actually delivered with no penalty for under delivery on targets.

Streamlining the CFI

The ILC supports the notion of streamlining the CFI to foster a more efficient process. In particular, current project audit requirements could be reviewed to reflect a risk-based approach. For example, small projects could be subject to spot audits rather than audits needing to be undertaken for every Project Offset Report. This would also improve the viability of many smaller land sector projects.

However, moves to streamline the CFI should be approached with caution. At present, ACCUs generated through the CFI are high quality and can be traded internationally because of the system's strict verification rules. Any moves to relax the verification requirements may have implications for the integrity of ACCUs and their tradability in other systems and markets.

The CFI could also be streamlined by expediting the process for methodology approval. However, again, the high standard of the current system should be maintained. Support to import suitable methodologies from international systems, with appropriate modifications for

local conditions, is another way to increase the scope for land sector projects that Indigenous landholders could participate in.

Wherever possible, every effort should be made to reduce costs associated with CFI project development where these can be mitigated through efficiencies at a regional and national level. For example, using regional/national, government-validated and approved datasets as the basis for projects may reduce the financial burden on project proponents. The development of government-funded abatement calculation tools to support methodologies is also strongly supported.

Proposed governance arrangements

The Clean Energy Regulator (CER) has developed significant capacity over the last two years in applying complex scientific methodologies and assessing projects in various jurisdictions and contexts. This role should be consolidated and expanded, with a view to reducing turn-around times for the various application steps required by the CFI process. The ability of the CER to provide more advice to project proponents should be considered.

The CFI should remain a central platform for delivering abatement for sale through the Emissions Reduction Fund. To date, over 90 eligible projects have been declared and around 3,000,000 carbon credits have been issued under the scheme. Despite challenges and barriers, the CFI is developing strongly, considering it is a market in its infancy.

The proposal to continue the CFI and retain the CER as the administrator of the program is supported.

Concluding remarks

The ILC looks forward to further engagement with the Australian Government in relation to the ongoing design of the Emissions Reduction Fund and the development and delivery of practical CFI projects or any other related policy matter.

Should you require further information in relation to this submission, please contact Michael O’Ryan, Director Policy and Program Development on 07 3854 4600.

Yours sincerely,



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