

Farmers, land managers examine Carbon Farming Initiative

By

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As farmers and land managers examine the new structures of the Carbon Farming Initiative (CFI) that will lead to the generation of Australian carbon credit units (ACCUs), industry professionals say a perceived cloud of political and financial uncertainty, combined with a relatively limited list of approved methodologies, is causing potential project developers to approach potential developments slowly.



Nick Armstrong, CEO of COzero

The CFI, which was launched last December, will implement certain national obligations under the Kyoto Protocol and the United Nations Framework Convention on Climate Change and also creates financial incentives to undertake emission avoidance and sequestration offset projects and increase carbon abatement in line with the protection of Australia's natural environment. Thus far, four methodologies have been approved – [capture and combustion of landfill gas](#), [destruction of methane generated from manure in piggeries](#), [environmental plantings](#), and [savanna burning](#), while other methodologies are under consideration.

At the moment, there are no approved projects generating ACCUs, and the carbon pricing regime doesn't start until July 1. Industry professions in the project development fields are reporting that while they have had enquiries from farmers, forestry developers and landfill operators, three areas are causing potential developers from committing to the investment necessary to start: concerns over the technological resources need to implement and oversee a CFI project, concerns over the political uncertainty surrounding the carbon pricing regime, and concerns over the long-term price of ACCUs after the initial three-year fixed price regime of AU\$23/tonne CO₂-e transitions to an open market.

The opposition Liberal Party/National Party coalition has endorsed the CFI, which was passed in a separate bill to other parts of the overall Clean Energy Future legislative package. However, the opposition coalition has committed to winding back other aspects of the carbon pricing regime if brought to power at the next election, and there is general industry concern about the future price of carbon credits, impacting on the desire of farmers and land managers to invest in the processes and equipment to generate ACCUs.

"The coalition has stated that they will repeal or amend the carbon price mechanism," said Astrid Edwards, a senior associate at consultancy Net Balance, which runs a CFI business line. "But land based

sequestration activities, potentially including the Carbon Farming Initiative, appear to have more bipartisan support.”

Under existing legislation, when the pricing mechanism transitions to a market trading system, the government has imposed a price floor of AU\$15/tonne. But key independents in Parliament, such as Rob Oakeshott, oppose a price floor, adding to the financial uncertainty.

“There is a cloud of political uncertainty hovering above us all,” said Sally Burns, managing director of Sigma Global, a company that advises on corporate carbon compliance obligations and offset projects. “Obviously, buying ACCUs at \$5/tonne will rule out most projects. It will be really damaging. In terms of developing the project, there’s only a three year forwards sale horizon, very difficult to develop projects on the basis of that.”

The uncertainty around the price of ACCUs is a question for potential clients who come to Net Balance with questions about setting up projects under the CFI, Edwards said.

“The potential price of ACCUs is a significant consideration for any project proponent,” Edwards said. “But at this point, people are concerned about the technical aspects of the proposed project, as well as the financial analysis. Both considerations can make or break a CFI investment decision.”

It is possible to work around the market uncertainty of future prices, but it requires specific language in contracts, said Nick Armstrong, CEO of COzero.

“For example, in [the [Clean Development Mechanism](#)] CDM, we often have a floating parts structure, where we have a purchase price at, say, 80% of what the market price is on the day. That 20% enables us to get up our upfront payment. What we typically do is pay the registration costs and then we’ll recover it from the 20% margin. It gives the project owner the ability to share in the upside if they price does go up. What we’ve seen is a cap and a floor and a floating price in between. If we were to write a contract today, we probably wouldn’t write a floor price above AU\$10.”

It is also possible that liable entities will contract directly with project developers for offset credits, which would lock out uncertainty for both parties, noted Louisa Kiely, director of Carbon Farmers of Australia.

“If we get a soil carbon methodology up and running, the government has committed AU\$250m over six years to the CFI [Non-Kyoto Carbon Fund],” Kiely said. “That’s about AU\$40m a year to buy ACCUs. My understanding from talking to the brokers and others is that there is good demand for ACCUs. There’s a good potential that farmers can deal direct with polluters and set up not a forward trade, but an agreement that when we get an ACCU up on the registry, you can use that for your compliance needs or your voluntary needs. We can go and do deals directly. I don’t have an issue with demand I don’t think. I think we have the demand.”

Meanwhile, potential developers are also tackling the regulations surrounding the creation of methodologies as well as their implementation and monitoring structures. No one disputes that the CFI must have rigorous monitoring processes to assure that the claims of a tonne of carbon sequestration or greenhouse gas emission abatement measures up.

“We’re starting some early stage projects,” said Burns of Sigma Global. “The companies want to put in the investment, but how the returns work is being worked out I’d also say that there’s a knowledge gap on the side of some developers as to what’s required and what they need to show to get that investment. You need to show you can meet the terms of the methodology and get a project accredited.”

Currently, landfill methodologies are generating the most queries to Net Balance, Edwards said.

“At the moment, landfill methodologies are generating the most interest,” she said. “If you already have a legacy waste landfill, it’s potentially easier to make the business case and attract finance to get a project up and running. The other methodologies – particularly sequestration based on the land – may have more difficulty securing investment in the initial years.”

There are also the compliance costs to running a project. COzero has a portfolio of CDM projects. According to their website, one example of a CDM project that COzero is partnered with is a biogas project – 40,000 households in Hunan province in conjunction with a local piggery utilise biogas “generated by the decomposition of manure produced by around 200,000 pigs,” with the gas used for cooking and heating.

“[Farmers] need to understand exactly how the methodologies work and adapt their practices accordingly,” Armstrong said. “It’s not must as simple as turning existing projects into cash. What we’ve found in China – in one project, we turned pig waste into methane at a household level. That required a heap of change for 40,000 household farmers. The technology was one thing, but getting them to weigh the pigs on a regular basis was ... a very big hurdle and we’re still actually dealing with that at the moment.”

Kiely of the Carbon Farmers of Australia also said that certain aspects of the CFI are hard for farmers to embrace, particularly the integrity rules that stipulate that project developers must hold carbon in the ground for at least 100 years for it to be permanently sequestered.

“There is a lot of resistance still amongst the farmers,” Kiely said. “We spend full time on this and it takes full

time work to take abreast of things, let along for the farmer to do their thing. What the farmer is hearing is a stack of noisy stuff, but also they're also taking on the hard bits – the 100 year rule, additionality, and other things that are coming through. But there are a lot of people moving forward.”

The positive additionality test means that potential project must be of a kind that are prescribed by regulation – included on a ‘positive list’ – and must not be mandated by law. If a proposed project is not on the list prescribed by regulation, it does not qualify as a CFI project.

Kiely said that future methodologies should include activities that relate to broadacre farming activities – large-crop agriculture.

“We’re more on the side of the lower your nitrogenous fertilisers and stimulate the soils,” she said. “On the basis of those things, that’s where it’s headed. We are working very hard to make sure that the broadacre farmer isn’t being forgotten, that we get some useability into the requirements.”