

Change from the Carbon Farming Initiative (CFI) to the Emissions Reduction Fund (ERF) and what it means for farmers

Jo Wheeler, WANTFA Carbon Farming Extension Officer

Direct Action is the Australian Government's plan to efficiently and effectively source low cost emissions reductions, to enable Australia to reach its emissions reduction target of 5 per cent below 2000 levels by 2020. It contains several initiatives all working towards lowering greenhouse gas emissions or sequestering carbon in the landscape.

The Emissions Reduction Fund (ERF) is the centrepiece of the Direct Action plan, with \$2.55 billion earmarked to buy Australian carbon credit units (ACCUs) from businesses and individuals across the economy, through a reverse auction process.

The Carbon Farming Initiative (CFI) has been folded into the Emissions Reduction Fund (ERF), with projects registered under the CFI transitioning to the ERF on 13 December 2014. The ERF has a broader scope than the CFI to allow for sectors across the economy including land, waste, energy efficiency, transport and large facilities to participate. Some of the major changes are listed in the table below or can be found on the Clean Energy Regulator website at www.cleanenergyregulator.gov.au/Emissions-Reduction-Fund/The-Emissions-Reduction-Fund-and-other-schemes/Key-differences-between-the-CFI-and-the-ERF/Pages/Default.aspx

Registering Projects

If you already have a project registered under the CFI, your project automatically transitioned to the ERF. The CFI method that your project was approved with can still be used. If you wish to register a project under the ERF using a former CFI method, you still can. Be aware that if you register before 1 July 2015, your project application will be assessed under the rules of the ERF with some adjustments. These are

1. Your project does not need to be new
2. Your project may be backdated in line with the rules allowed by the CFI method you are using

After 1 July 2015, all new projects will need to apply under Emissions Reduction Fund rules, using former Carbon Farming Initiative or Emissions Reduction Fund methods. Remember, to meet the ERF requirement that projects must be new, your project activity must not have started.

25 Year Permanence Obligation Option

A key change under the ERF is the introduction of a 25 year permanence obligation option for sequestration projects, a major change from the previous 100 year obligation. Sequestration projects, soil or reforestation, can now choose to protect the sequestered carbon for either 25 or 100 years. This option is available to both CFI projects transitioning to the ERF and new ERF projects, but the 25 year option will incur a 20% reduction in Australian Carbon Credit Units (ACCUs) generated to the project. This option will reduce the amount of income that could be made from selling ACCUs by 20%. Once you have nominated a permanence period, you will not be able to vary that period.

It is important to note that projects that move to the 25 year permanence period that have already received ACCUs under the former CFI will have 90 days to relinquish a number of ACCUs equivalent to the 20% reduction for their project. You can contact the Clean Energy Regulator to discuss an alternative schedule to relinquish ACCUs if needed.

More information about permanence can be found on the Clean Energy Regulator website <http://www.cleanenergyregulator.gov.au/Emissions-Reduction-Fund/The-Emissions-Reduction-Fund-and-other-schemes/Permanence-and-the-ERF/Pages/default.aspx>

Contracting of Projects

The contract period is the period over which the Government will purchase emissions reductions delivered by a proponent and only applies if the project is successful in gaining a carbon abatement contract.

Projects can have consecutive contracts to deliver ACCUs but not more than one contract at the same time. The total contract length can't exceed 7 years for emission avoidance projects and 10 years for sequestration projects, remembering that for sequestration projects you also have a permanence obligation that exceeds the contracting period (See above).

The crediting periods of a project is different from the contract length.

Crediting periods

The crediting period is the period of time that a project is able to apply to claim ACCUs. The crediting periods for projects are 7 years for emissions avoidance, 20 years for avoided deforestation and 25 years for sequestration projects and savanna burning projects.

Reporting period

The reporting period is the period of time for which a project report is prepared for submission to the Clean Energy Regulator in order to receive ACCUs. Under the Emissions Reduction Fund, you can still choose when to report on your project, and may report as frequently as every six months where allowed for in the legislative rules made under the *Carbon Farming Initiative Act (2011)*. The

maximum reporting period for emissions avoidance projects is two years. For sequestration projects the maximum reporting period is five years.

The project report indicates the number of ACCUs that may be issued for abatement achieved by a project so far during a crediting period. An application to be issued with ACCUs may be submitted to the Clean Energy Regulator at the same time a project report is submitted.

Auditing Requirements

Projects will still need to be audited, though audits will no longer be required for every reporting period. The number of audits for ERF projects will be based on the potential average annual abatement generated by the project during the crediting period. The potential annual average abatement of a project is determined when planning the project. For most projects there will be a minimum of three audits required for the crediting period of the project. Auditing requirements are important costs to factor into a project at the planning stage.

Eligibility of established trees

Until 30th of June this year, projects that planted trees after July 2007 may still be eligible to participate in the ERF, where the method allows. After June 30 this year, these older tree plantings will no longer be able to be used to generate ACCUs, as all ERF reforestation projects need to involve new plantings. To be eligible, existing tree planting projects must comply with a relevant ERF method.

Selling ACCUs

ACCUs can be sold by entering into a contract with the Australian Government or privately into the secondary market.

To secure a contract, project owners need to register their projects, offer to enter into a carbon abatement contract and bid successfully at an auction, conducted by the Clean Energy Regulator (CER) on behalf of the Australian Government. If the project is successful at auction, the contract automatically comes into effect. The Government will enter into a contract with the project owner to deliver the agreed quantity of ACCUs for payment at the price bid into the auction. The CER will set a benchmark price and purchase 80% of the ACCUs below this price starting at the lowest price. The first Auction was conducted on the 15-16th April 2015.

To participate in the auction requires a minimum bid size of 2000t of CO₂-e sequestered or avoided per year. Projects that were registered under the CFI (before 13 December 2014) are exempt from this minimum bid size. Projects can be combined to reach this tonnage requirement. There are different methods of combining projects, from individual landowners, co-operatives of landowners, using agents or service providers to landowners working with aggregators. The different ways of combining projects have advantages and disadvantages that need to be considered. The Kondinin Group "Business Case Manual" is a good reference for these comparisons (see link below to manual). All combined projects must be using approved methods to be eligible to participate.

The other way in which you can sell ACCUs will be within an evolving secondary market. This market is expected to include companies (e.g. Qantas airlines) that voluntarily buy ACCUs to be able to claim

to be carbon neutral or projects that have contracts with the CER and are unable to deliver the required ACCUs from their project. To participate in this secondary market projects must still be registered with the Clean Energy Regulator.

Legal Obligations

As with the CFI, the ERF has legal obligations so before starting your ERF project, it is important that you to get legal and financial advice. A good place to start your planning is on the Clean Energy Regulator website - <http://www.cleanenergyregulator.gov.au/Pages/default.aspx> or using the manual created by the Kondinin Group "The Business Case for Carbon Farming: Improving your Farm's Sustainability which will be available on the Farming Ahead website in the near future <http://www.farmingahead.com.au/>



Requirements	CFI	ERF
Eligible project with approved methodology (name change to method in ERF)	Yes	CFI registered projects are automatically eligible
Crediting Period (apply for ACCUs)	New crediting periods commenced 13 December 2014 or 1 January 2015 for savanna burning.	<ul style="list-style-type: none"> • 7 years for emission reduction projects • 25 years for sequestration projects • No change for avoided deforestation or savannah burning projects
Reporting periods	As registered or can change if new method applied	<ul style="list-style-type: none"> • As frequently as every 6 months or • Every 2 years for emissions avoidance projects (changed from 5 years) and • Every 5 years for sequestration projects
Enter into Carbon Abatement Contract	CFI registered projects are automatically eligible	<ul style="list-style-type: none"> • New projects must be eligible projects and qualify for auction • Offer to enter into Carbon Abatement Contract • Prepare ACCU delivery schedule • Register for auction • Successfully bid into Auction
Permanence obligations	<p>100 year obligation to maintain carbon levels.</p> <p>Projects registered under CFI can change to 25 year permanence within 2 years of ERF starting (with the number of ACCUs reduced by 20%).</p>	Sequestration projects can choose to maintain carbon levels for either 100 years or 25 years
Auditing requirements	Due every reporting period	Majority of projects will only need 3 audits, this is based on the number of tonnes of CO ₂ -e the project will produce.
Carbon Sequestration Right	Held over land where project is run	Demonstrate permission from carbon sequestration right holder to run project on their property and receive ACCUs.

This project is funded by the Australian Government