CARBON MARKETS PART ONE:

Is the Land Restoration Fund fit for purpose?

The Land Restoration Fund was a centrepiece of the environmental platform of the Palaszczuk government at the 2017 election.

> The Fund's ultimate objective is to invest in projects that will deliver Australian Carbon Credit Units (ACCUs) plus additional environmental, socio-economic and First Nations co-benefits. The Fund will also work to build capacity across Queensland's land sector and the supply chain to undertake projects that generate carbon offsets with co-benefits, and also invest in research and science to enable the growth of carbon farming and new environmental markets.

In 2018 and 2019, optimism on the part of the Society was high that the Fund could be a significant agent for achieving the objectives of the Discussion Paper *From Red to Green to Black* presented at a public forum in May 2018, and the subsequent Rangelands Policy Dialogue symposium in July 2019. In fact, the July 2019 symposium was supported financially by the Fund.

Another two years later, doubts remain:

- Concept of carbon farming for offsets, process and target ill-defined and outcomes very costly. Does not follow the "Fund's ultimate objective"
- Transaction costs too large; mainly benefit external project managers not the landholders
- Australian Carbon Credit Units will inevitably rise in value; will Government continue buying
- How to define co-benefits and monetise them
- Can carbon farming outputs be reliably measured so that the offset market is not a scam?
- How to support regenerative agriculture
- Can we learn from the US and UK reverse auctions for land stewardship and biodiversity conservation support.

A small number of contracts have been let to a small number of brokers. The $500 million flagged as investment in carbon sequestration and co-benefits has yet to materialise.

Peter Dart
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CARBON MARKETS PART II: STOCKS AND FLOWS

The online discussion proposed for 16 November is an opportunity for members who are not familiar with the "carbon timing" depiction of carbon stocks and flows by former grazier Alan Lauder to become acquainted. Alan's material is available on the Society's website https://www.royalsocietyqld.org/carbon-stocks-and-flows/ .

A policy proposal for funding a flexible, sector wide transition to sustainable land management

Introduction

This policy proposal has emerged from a study of landholder views on Queensland's *Vegetation Management Act* undertaken in 2020.[1] At least some landholders continue to be critical of this legislation. A common view is that it neither serves economic or environmental goals well. There is also a view that land managers have, without adequate compensation, borne the lion's share of carbon emissions reductions to date.[2] For some stakeholders, these are long held views which have engendered a deterioration of trust in government and animosity to environmental causes.[3] This policy stand-off is unsustainable: our land managers deal on a daily basis with Queensland's physical environment. Any progress towards a more sustainable future will depend on their willing cooperation and participation. The policy proposal sketched out below aims to restore trust in government, encourage an ethos of environmental stewardship and reconcile the regulatory effect of the *Vegetation Management Act* with current and emerging trends towards greater carbon accountability and payment opportunities for managing and restoring ecosystem services. Unlike the existing range of project based funding, it aims to:

- reach out to land managers not willing or able to engage in more sophisticated funding regimes;
- minimise bureaucracy and red tape; and
- allow a degree of flexibility, autonomy and tailoring to suit regional circumstances.

It does not in any way aim to roll back or diminish the regulatory scope of the *Vegetation Management Act.*

The policy dilemma

In today's policy environment, landholders can earn carbon credits for tree planting and protecting regrowth vegetation provided the activity / service is additional to any legal requirements. Landholders impacted by the land clearing laws passed at the turn of the century have missed out on this opportunity - so the challenge today is really about how to square the ledger and level the playing field for all affected landholders. Offering Australian Carbon Credit Units (ACCUs) for historic actions prescribed by law is not really a feasible path because the international rules governing the distribution of ACCUs limit their availability to activities that are voluntarily undertaken, operating above and beyond legal requirements.[4]

A more promising development is the Commonwealth's newly announced Enhanced Remnant Vegetation (ERV) pilot. This project will fund participating landholders to protect and enhance remnant vegetation on their land whether or not it is regulated by land clearing legislation.[5] Unfortunately, the design of the ERV program exhibits many of the same flaws regularly raised by

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[1] England and Quinn, *Discussion themes arising from a survey of the Vegetation Management Act*, available at: https://www.royalsocietyqld.org/wp-content/uploads/2020/Newsletters/VegMgt_Discussion_paper_v4.pdf

[2] Sullivan,K, "Farmers demand compensation for land clearing laws to meet Kyoto climate targets" 10/11/2021, ABC News. The article suggested governments' failure to pay compensation for land clearing restrictions is a "festering sore, created by statutory theft" for many landholders. Available at: https://www.abc.net.au/news/2021-10-11/farmers-demanding-compensation-land-clearing-laws/100528176

[3] Productivity Commission, *Impacts of Native Vegetation and Biodiversity Regulations*, Productivity Inquiry Report, no.29, 2004, Australian Government. Available at: https://www.pc.gov.au/__data/assets/pdf_file/0005/49235/nativevegetation.pdf

[4] For general information about Australian carbon credit units, see: http://www.cleanenergyregulator.gov.au/OSR/ANREU/types-of-emissions-units/australian-carbon-credit-units

[5] For information about the Enhancing remnant vegetation pilot, see: https://www.awe.gov.au/agriculture-land/farm-food-drought/natural-resources/landcare/sustaining-future-australian-farming/enhancing-remnant-vegetation-pilot

landholders in relation to 'market' based schemes – onerous start-up and administration requirements (with costs to be borne by the landholder); contractual agreements limiting flexibility and adaptability to address ongoing challenges over time; a competitive bidding process that will deter less committed players and minimal remuneration for landholders. These are widely recognised as design features that limit participation in existing, more established schemes.[6]

An alternative policy proposal – public money for a public good

This proposal is for a system of green vouchers to be distributed, on an annual basis, to all landholders who are maintaining 20% or more of their land under tree cover. In Queensland, there is evidence tree cover up to 20% of agricultural land may generate net on-farm benefits in the form of shade, wind breaks, erosion control etc., or at least no net economic loss, even for graziers.[7] Landholdings with more than 20% tree cover may still recoup some on farm benefits, but they are also contributing to a wider public good – for flood control, biodiversity, offsetting carbon emissions etc. – and, at least in the short-medium term, are likely to be making some sacrifices in productivity.[8]

The green vouchers proposed would be redeemable against the government, that is, the government will undertake to reimburse anyone who provides evidence they have performed or participated in any action identified on a list of recognised environmental actions /services /products or projects that could be easily tailored to each NRM region. Activities eligible for reimbursement could range from fencing off riparian corridors and remnant bush; to controlling feral animals and weeds; to participating in landscape restoration projects etc. It is envisaged some eligible funding projects would be universal, other may be tailored to specific NRM regions. This aspect allows flexibility and regional autonomy.

These green vouchers would also be exchangeable within each NRM region. Landholders who don't wish to spend their time engaged in any of the recognised environmental activities would be free to sell or donate their vouchers to individuals or groups that are willing to do so. This will allow accumulations for larger projects whilst still ensuring eligible landholders receive a real pecuniary benefit that recognises their contribution to the public good.

An upper cap on distributions to farms or businesses above a certain size would help target the funding towards smaller, less well capitalised operators.

This proposal meets the criteria landholders are looking for – ease of administration; equitable access; flexibility; and due recognition of landholders' positive environmental contributions. Because the government would only refund new environmental activities (on receipt of appropriate evidence), the proposal offers a win for landholders and the environment.

Further explanation

This proposal aims to offer a real benefit to operators who are required by law to retain more than 20% of their landholding under tree cover in recognition of their ongoing contribution to

[6] Australian Farm Institute, *Recognising on-farm biodiversity management*, July 202, available at: https://www.farminstitute.org.au/report-recognising-on-farm-biodiversity-management/

[7] Rolfe, J, "Economics of vegetation clearing in Queensland", (2002) Rangelands *Journal* 24(1) 152-169 at 161 citing, Burrows, W, "Tree clearing - rehabilitation or development on grazing land?" (1999) *Proceedings of the VI International Rangelands Conference*, Townsville, Qld, 17- 18 July; Burrows, W, "Deforestation for pasture development - has it been worth it" (2001) *Proceedings of the XIX International Grassland Congress*, San Paulo University, Brazil, 10-21 February, 2001. Note, the legislation originally implied clearing down to 30% of production land area would be permissible development (Rolfe, p 154).

[8] Productivity Commission, *Impacts of Native Vegetation and Biodiversity Regulations*, Productivity Inquiry Report, no.29, 2004, Australian Government. Available at: https://www.pc.gov.au/__data/assets/pdf_file/0005/49235/nativevegetation.pdf

conservation outcomes that serve the public good. It does not require anything more of them but it does facilitate additional environmentally beneficial actions whether undertaken by them or someone else. In more detail, some specific features of this proposed scheme are:

1. The government only reimburses environmental actions once completed. Therefore public money will only be spent on conservation activities judged to have a broad public benefit.
2. Additional eligibility criteria could target the distribution of green credits to landholdings / operations below a certain size.
3. Landholders will not need to enter into a contract or commit to any particular project in order to receive their green credits. They will have the option of converting their credits into cash on the private market or redeeming their vouchers for cash from government on completing recognised environmental activities.
4. States already map and monitor vegetation cover so the data set for assessing eligibility and monitoring compliance is already in existence and ready to go without any further research required.
5. The proposed voucher scheme would create an incentive for landholders with less than 20% tree cover to increase their tree cover.
6. AgForce Queensland and the Land Management Alliance are developing a land certification methodology (AgCare) that, among other things, measures the overall environmental sustainability of a farm business enterprise including its carbon emissions. This methodology could easily be incorporated into the proposed voucher scheme. For instance, farmers that score highly on this methodology could be rewarded at a higher rate than the base rate for farmers with 20% or more tree cover. This creates an incentive for landholders to adopt and apply the methodology. Participation in other certification schemes could be similarly recognised and rewarded.
7. The value of the green credits does not need to match a 'market rate' because it is simply rewarding farmers who, for other reasons, have chosen, or have been required, to maintain tree cover. In these circumstances, *any* new and ongoing funding is a bonus on the current situation.
8. Nevertheless, the rate of funding should be credible and sufficient to make a real contribution to worthy environmental causes. A base value for the green vouchers, for instance, could be pegged at 50% of the rate paid for ACCUs with a higher rate (eg. 70%) being paid for AgCare accredited operators. This would maintain the incentive to engage in more ambitious, market based funding programs.
9. Market based funding schemes generally require additional actions so the scope for double dipping is limited but possible in some circumstances. The scheme could debit the value obtained by operators that already earn an income from, for instance, the Emissions Reduction Fund in the distribution of green vouchers.

This proposal outlines a simple, targeted and equitable approach to supporting the urgently required transition to sustainable and resilient land management. It is not directly pegged to environmental offsets or carbon credit schemes. Instead, it promises to operate across the whole landscape to hasten the realisation of sustainable agriculture goals including reducing greenhouse gas emissions.

Philippa England.

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