Submission: Independent Review of Australian Carbon Credit Units September 2022

About Climate Friendly

Founded in 2003 by a CSIRO scientist, Climate Friendly is a profit-for-purpose company with a vision for a productive, sustainable land sector that contributes to a zero net emission Australia by 2050. We achieved our first target to support 20 million tonnes of greenhouse gas reductions at the end of 2020, and our purpose is to scale up to 100 million tonnes by 2025. We are one of the longest operating and most experienced carbon extension service providers in Australia. Our growing team of 65+ expert staff has supported registration of over 150 carbon projects since 2014. We partner with agricultural producers, foresters, Traditional Owners, conservation organisations and governments to design and implement these projects across approximately 10 million hectares of land.

Climate Friendly welcomes the opportunity to provide a submission to the Independent ACCU Review. A high-integrity carbon crediting framework is critical to meeting and beating Australia's emissions reduction goals and transforming the way land is managed in Australia. This transformation is essential to draw carbon down from the atmosphere to achieve net negative emissions and limit global warming to 1.5C, increase sustainable food production to feed a growing global population and reverse biodiversity loss.

Our experience with the Emissions Reduction Fund (ERF)

Climate Friendly has supported registration of more than 150 carbon farming projects under seven different land sector methods (human-induced regeneration, avoided deforestation, savanna burning, soil carbon, plantation forestry, environmental plantings and beef herd management). As part of our carbon farming extension services, we have obtained 285 eligible interest holder consents (91 banks, 97 government, 19 native title holder and 78 other). We have worked with partners on each of these projects to prepare property management and project permanence plans, including coverage of fire management.
We conduct quarterly monitoring on each of the projects that we support to collect time-series, third party auditable data on project implementation. We have completed 109 independent project audits with 12 different audit companies who are registered under National Greenhouse and Energy Reporting Scheme (NGERS). We submitted more than 1000 offsets reports, which include review against our internal quality assurance processes, and more than 1000 associated applications for ACCU issuance to the Clean Energy Regulator. We have submitted more than 50 first regeneration checks for human-induced regeneration projects that we support. We invest deeply in technological innovation to continuously improve precision of measurement and monitoring, while driving down costs.

Part 1: Governance of the carbon farming framework

Climate Friendly's role in these carbon farming collaborative partnerships is to bring together the complete package of expert skills and extension services needed to run a high integrity, high impact carbon project. Our goal is to make it easy for our partners to continue to focus on their passion and expertise in managing land for agricultural production or conservation or both, while we advise and enable them on how to participate in carbon farming and optimise their land management to deliver a suite of other environmental, cultural, agricultural productivity, economic and social benefits.

Best practice management of ecosystems and high integrity carbon farming necessarily requires expertise. Below is a non-exhaustive example of the package of expertise that Climate Friendly brings together for our partners. Each project we support has one main point of contact to streamline and integrate services and information for our partners. Behind the scenes, that contact person is supported by a team of people with diverse skills delivering the full package of expertise that are required. It is unrealistic and undesirable for most land managers to develop the full set of necessary capabilities outlined in the below table. While it is an option to outsource specific tasks to different consultants, this requires significant project management and typically comes at a higher cost. There is also greater risk that different service providers advice will not be coordinated, leading to sub-optimal outcomes.

Table 1: Expertise & Services required to support a high integrity land based carbon farming project		
	Services & Expertise	**Typical services provided by Climate Friendly as part of carbon project**
1	Ecology	Carbon projects require considerable knowledge of the environment and how it will respond to changes in land management. This requires extensive environmental expertise that is combined with knowledge of the evidence required by auditors and the Clean Energy Regulator (CER). Without understanding the ecology, a land manager will have limited ability to identify suitable land management practice changes that will lead to carbon storage or avoidance of emissions.
2	Agronomy & Forestry	Carbon projects are often operated on productive agricultural properties. To deliver the ecological and carbon benefits without adversely impacting agricultural production requires expertise in agronomy to be combined with ecology and carbon expertise. Climate Friendly has a team of people with grazing, cropping and forestry expertise that is applied in tandem with ecological expertise. This enables better choices on how to optimise agricultural productivity as part of carbon farming management changes, or informs land managers where trades offs might be required.
3	Modelling & data science	Operating a carbon project requires carbon, environmental and financial modelling expertise. Climate Friendly has a team of modelling and data science experts that manage complex timeseries datasets and model carbon abatement and other scenarios. This skill is necessary to pass project audits and submit applications for ACCUs, as well as informing initial decisions about whether or not a project is feasible to implement for a carbon, environmental and commercial perspective.
4	Geospatial mapping	Most land based carbon methods require substantial mapping expertise to determine eligibility and monitor project impact. Climate Friendly has a team of GIS experts for these tasks and has invested deeply in emerging technologies and automated mapping systems, which would not be feasible to invest in at an individual project scale. This includes both the acquisition of suitable remote sensing data from satellites, planes, drones, and advance technology that enables us to integrate this with field data sets.
5	Regulatory compliance & other legal services	Operating a carbon project is generally a once in a lifetime process for land managers. To do so successfully requires compliance with a broad range of complex laws including: CFI Act, CFI Rule, CFI Regulations, Methods, Technical Guidelines, Native Title Act, national tax laws, financial services legislation, multiple state and territory laws relating to land management. And the legal requirements often change through time, such as after government reviews. An in depth and current understanding of all these requirements, and how they apply to a specific property is required to deliver a carbon project that is eligible to access carbon credits over time. The ability of individuals to consistently meet these legal requirements, without expert advice, is likely low.
6	Traditional Owner partnerships	Establishing a carbon project can often involve the need to establish and maintain a partnership with Native Title holders or other Traditional Owner partners. In our experience, new relationships with a Native Title or Traditional Owner group can take 2-4 years to establish and follow best practice consultation, consent and partnership establishment processes while observing cultural protocols. These partnerships commonly require significant ongoing engagement to maintain productive, two-way relationships. Many projects would not be able to proceed without successful establishment of such partnerships, and this is commonly outside of the expertise of most land managers, many of whom have limited time to invest in these partnerships at conception. These partnerships also provide important opportunities for two-way learning, sharing of Traditional knowledge and furthering reconciliation.
7	Audit and assurance	Carbon projects require extensive pre-feasibility assessments prior to registration to ensure they are viable for all partners, and once registered they require multiple audits across their life and ongoing quality assurance. This is a key integrity requirement. These audits are expensive and time-consuming processes to manage. Climate Friendly undertakes full feasibility assessments on each prospective project to determine its viability, or inform land managers that their property does not meet eligibility requirements. These assessments are screened by an internal Technical Review committee before we recommend a project is eligible to proceed to registration. Further, we pre-audit land management records, compile audit packs and manage independent auditor's information requests throughout each external audit, which typically involve detailed technical questions and responses.

Table 1: Expertise & Services required to support a high integrity land based carbon farming project		
	Services & Expertise	**Typical services provided by Climate Friendly as part of carbon project**
8	Project management	Operating a carbon project is a substantial logistical and project management exercise. The coordination of the range of expertise required to achieve a successful carbon project is substantial. Climate Friendly have a team of project managers who ensure each land manager's project meets required milestones and underpinning data requirements. This is delivered in a seamless fashion through each carbon project having a dedicated project manager that is their primary point of contact.
9	Financial services	Australian Carbon Credit Units (ACCUs) are financial products. This means that land managers require advice to inform their decisions to trade, hold or voluntarily retire ACCUs generated from their projects. Climate Friendly holds an Australian Financial Services Licence (AFSL) which enables us to provide market advice to our clients.
10	Research & development (R&D)	Climate Friendly is constantly investing in R&D, to improve project services for our partners and ensure they are informed by the latest science, advance industry best practice, accelerate climate action and optimise land management. This includes through key partnerships with CSIRO, Bush Heritage Australia, WWF Australia, The Mulloon Institute, NSW Government, QLD Government, UNSW and Charles Sturt University among others. Examples of our R&D investment include piloting a holistic approach to carbon farming with Bush Heritage Australia which is now informing the design of a new Integrated Farm Management (IFM) method, development of an Integrated Native Vegetation Condition (IVC) method that has been approved by Accounting for Nature. The IVC enables dual monitoring of carbon and biodiversity when coupled with IFM. We are also well progressed in the development of a drought resilience standard. Over 15% of Climate Friendly's expert staff have a dedicated focus on R&D, with all staff having opportunities to participate in specific R&D projects.
11	Government relations	Climate Friendly manages the relationships with the Clean Energy Regulator and a wide array of other government bodies at the state and federal levels. This includes day to day project management, as well as broader engagement on government policies that relate directly and indirectly to carbon farming, including government reviews and submissions such as this one. A part of the focus of this engagement is expanding opportunities to deliver climate impact on the ground and ensuring government policies are "implementation-ready" and address existing barriers to implementation and participation.
12	Capital investment	Climate Friendly provides significant upfront investment to get carbon projects up and running. Our standard model is that we don't get paid until our project partners generate ACCUs. The time between initial feasibility assessment to first issuance of ACCUs is typically a minimum of 18+ months. It requires significant investment in field work, mapping and data collection such as drone plots or aerial lidar, preparation of various applications, obtaining consents and payment of audit fees, among other costs. This all comes at substantial cost and is an at-risk investment in the project by Climate Friendly. Many land managers would not have the capital available to design and implement the projects without this investment. We also support mobilisation of capital (directly and indirectly) to fund other capital intensive land management practice changes, such as upfront planting costs.

The review consultation paper questions under the section "*Your experience with the ERF scheme*" seem largely targeted at individual land managers. This contrasts with the fact that the majority of ERF participants are supported by one or more service providers. We recommend that the Review Panel consider the range of skills needed to ensure a high integrity carbon crediting framework. Recognising that most participants will have expert support will enable better regulation of the service industry and better advice to land managers about what considerations they should consider when deciding whether to self-manage or engage one or multiple services providers.

As the government continues to scale up its ambition to address climate change, we anticipate the carbon service industry will continue to expand to meet demand. This is to be encouraged, as we have a significant collective task to achieve net zero, and indeed net negative emissions. However, it also creates emergent risks if not appropriately recognised and regulated. To date the industry has undertaken significant efforts to self-regulate, including through the establishment of the voluntary Australian Carbon Industry Code of Conduct (the Code), to which Climate Friendly is a foundation signatory. However, we suggest that in a rapidly growing market this could be enhanced by either formalising a requirement to participate in the Code, or introducing new accreditation requirements for agents to ensure carbon service providers have the requisite skills and experience.

Recommendation:

- ***Government should provide realistic, unbiased guidance to land managers outlining the true complexity of operating carbon projects, and the full package of expertise required. This contrasts with current communications materials published that commonly suggest navigating the scheme is simple and imply land managers could self-service. This would help build trust in the skilled advice provided by the carbon service industry, and enable land managers to conduct an honest appraisal of the trade-offs of self-managing a carbon project, as compared with appointing one or multiple service providers to assist them with project management and administration.***
- ***Government should enhance regulation of service providers, either through formalising the voluntary Carbon Market Institute (CMI) Code of Conduct, or by introducing accreditation requirements for agents administered by Government.***

Governance of the ERF

Scheme level governance

The overarching governance of the CFI Act, Emissions Reduction Fund and the associated IT infrastructure has, in our view, been robust with world-leading government regulation of carbon crediting. Government officials involved in administering the carbon farming framework have shown dedication to implement the intents and purposes of the legislation, and many market participants have shown a similar dedication to best practice by developing voluntary self-regulation, such as through the Code. However, there remain some opportunities to further strengthen governance and address some structural risks to deliver best practice governance and promote continued scale up of the carbon crediting framework.

In **Table 2**, we outline our views on an amended governance structure, which includes greater separation of policy review, policy development, market operations and project compliance functions in line with best practice regulatory frameworks. See section on method governance for detailed recommendations around the policy & method development process.

Recommendations:

- ***Structural revisions be implemented to scheme governance to improve the perception of potentially conflicted roles in a) policy review, b) policy & method development, c) project compliance and d) market operation.***
- ***Restructuring of the ERAC to create additional technical subcommittees with adequate staffing and expertise.***
- ***New technical subcommittees continue to be supported by a form of co-design, such as that currently adopted for method development by the Clean Energy Regulator, involving a broad cross-section of organisations and interests that results in greater integrity and more implementation-ready methods that are informed by diverse perspectives and experience.***

Table 2: Best practice scheme governance structure				
Minister & Parliamentary oversight Maintaining a legislated scheme provides many beneficial governance features. One change we would recommend is to introduce new provisions that enhance transparency of advice provided to the Minister, reduce Ministerial discretion as to whether or not to implement expert advice, and include transparent decision-making criteria to prioritise new methods for co-design.				
• **Policy Review**	• **Policy / Method Development** *Land Sector*	• **Policy / Method Development** *Energy & waste sectors*	• **Project Compliance & registry development**	• **Market regulation**
Climate Friendly supports the Albanese Government's proposal to strengthen independent review of policy implementation and recommendation on climate targets.	The current ERAC structure does not have sufficient land sector expertise. A dedicated committee should be formed to oversight recommendations on land sector methods. The committee role should be to review existing and propose new methods to the Minister against specified criteria.	A separate committee should be formed for any energy and waste sector methods. The appropriateness of these methods should be considered in the context of other policies such as the Safeguard Mechanism. The committee role should be to review existing and propose new methods to the Minister against specified criteria.	Project regulation and registry development should be separated from carbon purchasing or other market regulation functions. Suggest same entity also regulates and develops other environmental credit registries for carbon, renewables and biodiversity projects given close intersection.	Regulates the market exchange which is under development for ACCUs, as well as RECs, LGCs, biodiversity certificates. If government plans to continue to purchase consider if this fits with market regulator or other investment entity such as CEFC or ARENA, or the Department.
Who: Climate Change Authority	**Who:** replace ERAC with new Land Technical Committee	**Who:** replace ERAC with new Energy & Waste Technical Committee	**Who:** CER or alternate entity if CER maintains market regulation function	**Who:** new entity or merge with existing market regulator
Expertise required: the CCA should be supported by a broad panel of expertise. CCA Board members should publicly declare any conflicts of interest on a public register and should not have paid employment or other financial benefits (for example shares) in a market participant or other relevant entity that may conflict with their ability to independently perform functions. .	**Expertise required:** Secondee from carbon project compliance entity with experience regulating; rotating panel of scientific experts (e.g. ecology, agronomy, GIS etc); land management practitioner; auditor, economic modelling, legal	**Expertise required:** Secondee from carbon project compliance entity with experience regulating; rotating panel of scientific/engineering experts (e.g. energy technology, waste management etc); infrastructure practitioner; auditor, economic modelling, legal	**Expertise required:** Compliance and enforcement; technical method specific expertise for each regulated sector; IT; intelligence & audit; legal; communications, education & engagement	**Expertise required:** Economic modelling & market governance; compliance & enforcement; intelligence & audit; legal; communications, education & engagement

Project level governance

We propose that there are three key parameters that must be balanced when examining options to reform and strengthen project level governance:

- maximising volume of abatement to achieve climate goals
- maximising integrity to ensure certainty of impact
- minimising costs (or maximise /simplicity) to enable greatest participation.

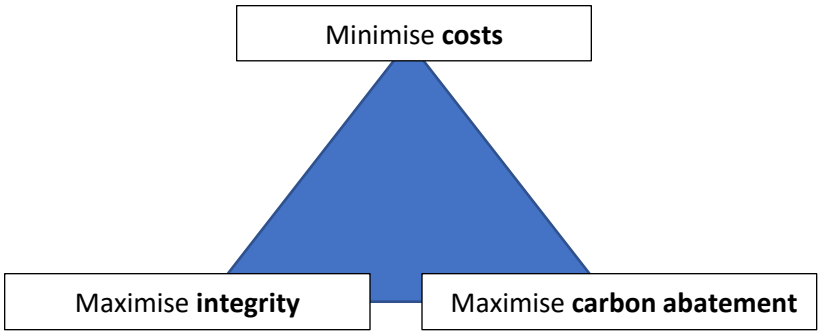


Figure 1: constraint triangle showing competing priorities in project level governance

From our experience, while all three parameters are important, it is very difficult to achieve all three at once. The Review Panel should carefully consider which of these objectives are most important in assessing scheme governance. Climate Friendly believes that maximising volume of abatement is one of the most critical goals in order to urgently tackle climate change, and maximising integrity of this abatement is key to ensure the impact is validated. Since the scheme commenced, we have already experienced rising project costs due to strengthening of our integrity controls and investments to increase the accuracy of our abatement forests using the latest science and technology. While we seek to minimise costs through continuous system improvements where possible, we believe that higher scheme complexity and associated costs for project implementation are, to a certain extent, necessary trade-offs, as high integrity abatement requires expertise and verification of outcomes to deliver and prove results.

Recommendation:

- ***Provide clear guidance on the relative importance and potential trade-offs between high integrity, volume of abatement and costs of compliance or scheme complexity. Clearer guidance from the government on the costs of compliance and expertise required would help prospective participants make more informed choices on self-management vs service partnerships when commencing a project.***

Offsets integrity standards

Climate Friendly believes that the offsets integrity standards are generally aligned with international principles and emergent standards governing high integrity carbon projects, and therefore remain fit for purpose. We do however feel recent questions related to the offsets integrity standards are more related to perceived issues with their application. We strongly support increased transparency on how the standards are applied by the relevant governance body and Minister in decision making processes.

Recommendation:

- ***Increase the transparency of how the offsets integrity standards are applied by the ERAC or as part of Ministerial decisions related to method prioritisation and approval.***

Method development governance

Since the Carbon Farming Initiative (CFI) Act was made in 2011, the process and responsible entity for method development under the CFI/ERF has changed over time. The Table below summarises the evolution in the method development process, and the advantages and disadvantages of each approach.

Table 3: summary of historical approaches to governance of method development			
Time period	2011 – 2015	2015 – 2021	2021 - present
Entity responsible for method approval	Domestic Offset Integrity Committee	Emissions Reduction Assurance Committee	Emissions Reduction Assurance Committee
Entity responsible for method development	Any interested stakeholder, with support from the Department	Department of Environment or equivalent	Clean Energy Regulator
Method development process	First draft prepared by interested stakeholder using a template. Later drafting done by Department in collaboration with interested stakeholder.	Drafting conducted by Department using advice from expert committees and consultants. Input from interested stakeholders generally limited to 30 day consultation period.	Drafting conducted by the Clean Energy Regulator with regular input from stakeholders via a co-design process, plus a formal consultation process on near-final draft
Process to suggest new methods	Application from interested stakeholder to the Department	Ministerial discretion	Annual nomination process with Ministerial discretion on selected priorities
Advantages	High level of industry involvement Relatively rapid pace of method development	High level of Government control over the process	Mix of Government control and industry involvement Relatively rapid pace of method development
Disadvantages	Large volumes of method applications that were sometimes poorly drafted or very narrow in scope, making administration difficult	Slow pace of method development Resultant methods were highly scientific that sometimes had limited real world capacity for implementation. Limited ability for stakeholders to influence method development priorities	Lack of clear and transparent decision-making process around Minister's choice for method prioritisation[1]

[1] While some methods, such as the Integrated Farm Management Method, had support from a very broad range of organisation types and sectors and publicly available documents outlining how they met the assessment criteria, the rationale for prioritisation of some other methods was less clear.

Currently, there are thirty-seven operational carbon farming methods. There are approximately 21 closed methods which are no longer active. While there are many available methods, in our experience many of the methods are not viable to implement. This is for a variety of technical, operational and financial reasons.

Based on our experience in these method development processes, we believe the most rigorous methods that are also likely to have significant uptake are those that were developed alongside an inclusive co-design process, similar to that currently conducted by the CER.

Recommendations:

- ***Establish a clear and transparent decision-making process around prioritisation of any new methods for development or variation.***
- ***Continuation of a method co-design model similar to that currently adopted by the Clean Energy Regulator. This will ensure high integrity, implementation-ready methods that are informed by both the latest science and real world operational issues.***
- ***Establishment of two separate advisory bodies, one focused on the land sector and one on energy and waste sectors.***

Transparency and data access

Sufficient transparency on decision making processes and access to key project information is at the heart of recent criticisms of the ERF. Climate Friendly supports increased transparency in both these areas to improve confidence in Australia's carbon crediting framework.

Transparency of regulatory oversight

While the Clean Energy Regulator has published multiple guidance documents with key regulatory interpretations, we believe there is an opportunity to further strengthen transparency of regulatory decision making through the publication of public rulings by the Clean Energy Regulator. Publication of rulings would provide greater consistency of advice, and ensure all participants have a common interpretation of the scheme. This increased transparency could be delivered through a system similar to the Public Rulings provided by the ATO.

Recommendation:

- ***Create a public registry of individual precedents or rulings on carbon farming projects, similar to the system of public rulings provided by the ATO.***

Transparency of project information via a National Integrated Land Database

As highlighted in our covering letter and Part 2 of this submission, Climate Friendly and our partners collect a substantial volume of environmental, carbon, agricultural production and other land management data spanning a 35-year period as part of assessing and implementing a land-based carbon farming project. There is a significant opportunity to share this data to support ongoing research, continuous improvements of national carbon, environmental and agricultural policies, programs, and systems, and to provide information to other land managers

to aid decisions on managing their property. Similar opportunities were identified in the Samuel's Review of the nations environment laws, which recommended changes to improve the centralisation of industry and government collected environmental data.

In the case of carbon farming projects, this data is tightly linked to privacy laws and the livelihoods of individual land managers. Therefore, there are careful legal, ethical and technological considerations in enabling access to this information. Technical challenges to sharing data are partly owing to the immense size of the data sets, and also related to the need for different types of data to be linked or integrated. For the last two years Climate Friendly has been working on possible solutions to enable data sharing with industry, government and research partners, and supports the establishment of a national data sharing platform which makes information accessible, while also protecting privacy.

Advances in data infrastructure technology mean it is now possible to bring together agricultural, biodiversity and carbon storage data at property, regional or national scales. A National Integrated Land Database, with a data discovery portal, sharing agreements and usage licenses, will allow organisations and individuals to opt-into sharing information for purposes beyond just project level compliance and enforcement.

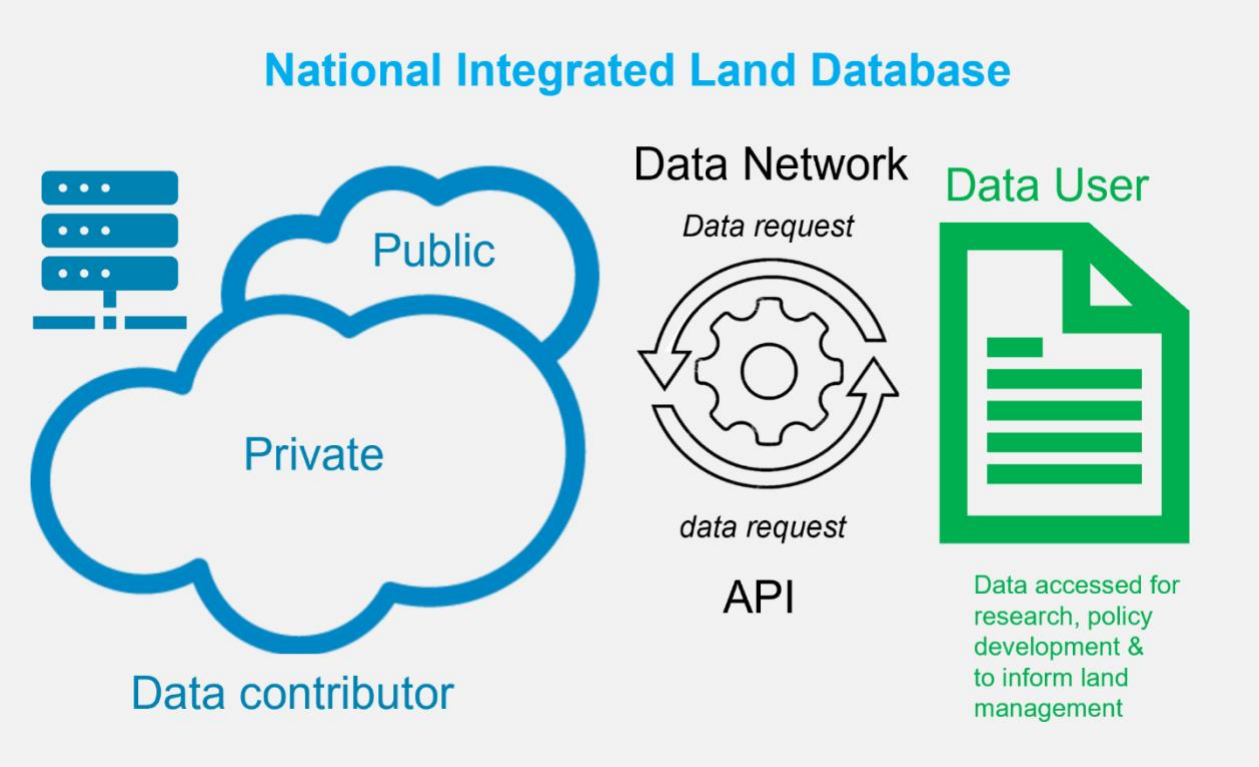


Figure 2: A regulated data network links data contributors to data users as part of a National Integrated Land Database

Creating a data network will enable public and private organisations or individuals to continue to hold and manage the data they collect, while making it available to data users in a de-identified, confidential manner. This is achieved through an Application Programming Interface (API[2]) implemented by multiple data contributors to allow these distributed datasets to be unified and accessed as a collective whole. Facilitating efficient data requests and exchange practices is a more agile way to manage and access large datasets with multiple contributors, than designing and implementing a single consolidated, centralised database. A custodian or oversight body, as proposed in the Samuels Review, can regulate the data network by setting standards for data contributions that public and private contributors implement. This also reduces costs of data collection by enabling private organisations to opt-in and contribute privately funded data sets, including lidar, field inventories and other environmental, carbon or agricultural management datasets, allowing government and research bodies to supplement these data sets with strategic data acquisitions.

This short video helps explains how the database could work and how governments, conservation organisations and agricultural producers might all contribute information and obtain benefits: https://www.climatefriendly.com/future-of-carbon-farming/.

Recommendations:

- ***Establish a National Integrated Land Database to enable sharing of carbon, environmental and agricultural production data in a way that protects privacy while enhancing transparency of information, expanding research capability and informing best practice land management and policy development.***
- ***Consider the interaction of data transparency recommendations made in the Samuels Review of the nations environment laws.***

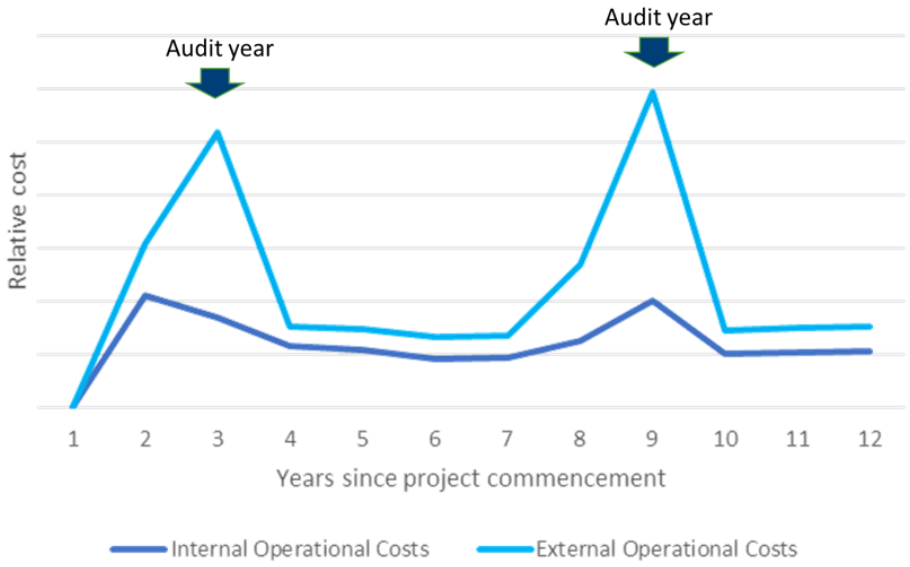
Procedural improvements

Process-based audits

As part of our extension services, Climate Friendly oversees our partner's project audits. This includes preparation of the audit pack (including field monitoring data, offsets reports, abatement calculations, spatial files that meet threshold accuracy tests, third party management information etc); engagement of the independent NGER accredited auditor, oversight of the audit process, responding to auditor action requests, participation in auditor field visits, and submission of the final report and accompanying request for ACCUs to the Regulator. Costs associated with data collection and the audit are extensive and are funded by Climate Friendly as part of our investment in the project to remove barriers to participation. For our projects that are modelled (i.e. projects that estimate abatement using a model, and do not involve direct field measurement of trees or soil), audits and related evidentiary requirements are generally the highest project cost after the project pre-feasibility assessments. Figure indicates the relative costs associated with audit years. Reducing audit costs is a way to increase viability of projects, however, any reduction in audit costs must be done in a way that maintains integrity.

[2] APIs are information exchange protocols that allow systems to communicate with one another. Implementing data exchange practices in software allows for automation of search, access control and quality assurance.

Figure 3: Indicative cost trends for a typical modelled carbon farming project



We propose the introduction of an option for process-based audits for carbon service providers, as opposed to the current system where each audit is conducted for each project separately, even though the project utiilises the technical systems and procedures as numerous other audited projects. Transition to process-based audits would save significant costs and enable us to support smaller scale project participants, as currently smaller scale projects are not commercial to operate as they cannot cover the quality assurance costs. Analysis conducted by Climate Friendly suggests that implementation of process-based audits could unlock the commercial viability of many smaller scale projects, and is akin to a $5 or more increase in carbon price.

Process-based audits are a common feature in other sectors, for example, finance. They would involve company-wide audits of processes and systems, where the implementation of a company's internal quality control systems would be checked; coupled with appropriate project level spot checks. The spot checks could be based on a specified set of focal items as identified by the Regulator based on a risk assessment against the method. The recommended assurance level for the company wide process audit is reasonable assurance. The suggested timing of process-based audits would be every 1 – 5 years depending on portfolio size and frequency of reporting. There could be requirements for notification in the event of a substantial change to company processes or structure.

We believe that introduction of a process-based audit option would enhance scheme integrity and also enable greater participation. This is because the current audit arrangements tend to replicate the same checks and investigations for each project, with a lesser focus on assessment of company systems, processes and data storage. Project-specific audits should continue to be an option as an alternative to a process-based audit to enable different participants to choose depending on the number of projects they participate in.

Recommendations:

1. ***Introduce the option of process-based audits to lower transaction costs, utilise emerging technologies to unlock commercial viability of carbon farming for smaller scale land managers***
2. ***Auditor guidelines and training should be updated to ensure auditors have the appropriate skills and expertise to conduct process-based audits. This could draw on guidelines and requirements from other sectors where process-based audits are common***

Co-benefits and other impacts

Best practice land-based carbon farming has a significant potential to deliver multiple environmental, Indigenous, agricultural productivity and other benefits. There are many controls already embedded within the ERF scheme and its methods to minimise the risk of adverse impacts.

Recognising that many carbon farming participants may also wish to participate in other certification standards or markets for ecosystem services, or to otherwise value-add on their existing carbon projects, Climate Friendly believes it is important, to harmonise the regulatory frameworks for carbon markets with other emerging ecosystem markets or standards that govern claims related to other co-benefits. This will streamline administration, avoid risks of double claiming in different schemes, reduce the cost of compliance, and optimise the ability of land managers to deliver multiple, long-term benefits.

Integrated governance with other emerging policies and programs

The Albanese Government is working on a range of complementary policy initiatives, many of which have parallel consultation processes currently underway. These include the Biodiversity Stewardship Certificate framework, a new drought plan, a Climate Active land standard, remote employment plan, among other initiatives. Many of these areas relate to core or co-benefits of carbon farming, and such benefits are increasingly being valued financially, as a result of the Taskforces on Climate-Related and Nature-Related Financial Disclosure and other initiatives. As these emergent attributes are increasingly valued as benefits or 'products', increased and harmonised regulatory oversight is required. To reduce the cost of this oversight, it is important to integrate and align both carbon and other benefit verification requirements or standards wherever possible. This will minimise costs, reduce risks of double claiming of benefits, improve understanding of rules, and ultimately increase integrity and impact.

Recommendations:

1. ***Amend the Carbon Farming Initiative Act to incorporate the Biodiversity Stewardship Certificate Framework into a joint carbon and biodiversity framework, rather than creating two separate but mirroring pieces of legislation.***
2. ***Enable to Regulator to declare one project that applies multiple methods or protocols, so that land managers can opt to participate in relevant carbon farming methods and biodiversity protocols on a single property through one harmonised project.***

3. ***Consider other opportunities to integrate emerging standards, policies and programs to optimise multiple benefits, streamline land manager participation and help to reduce regulatory complexity and costs of participation in parallel schemes.***

Maximising Indigenous benefits from carbon farming

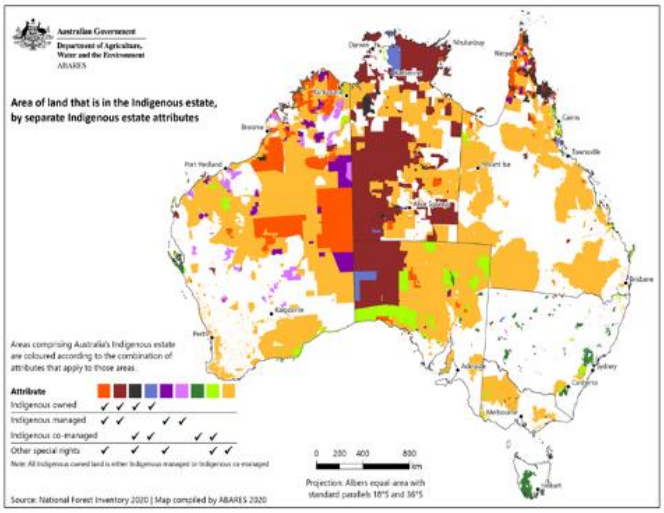
While some important financial and non-financial benefits have flowed from some carbon projects to Indigenous Australians, we believe that there is significant scope to scale up these benefits and use carbon farming as a key mechanism to deliver economic opportunities for Indigenous people, alongside environmental repair and reconciliation with non-Indigenous Australian partners. It is important to review the types of opportunities for Indigenous Australians in the context of the different types of Indigenous land estate around Australia.

Summary of Indigenous Estate

While some Indigenous Australians have had land rights and/or native title determinations recognised, many remain excluded from having full ownership and control of the underlying land. As a result, economic opportunities for many Indigenous Australians remain limited to receipt of more passive income under Indigenous Land Use Agreements. Many Aboriginal corporations are underfunded (e.g. median income of native title prescribed bodies corporate is less than $90k p.a), with limited capital base and/or income.

Table 4: Indigenous Estate

Estate Category	1788	2021
First Nations owned*	100%	17%
First Nations managed*	100%	18%
First Nations co-managed*	-	4%
Other special rights (e.g. native title)*	-	44%
No explicit rights, management or ownership*		43%



** These categories are not mutually exclusive and have substantial overlap. A total of 57% has some form of First Nations right, ownership and/or management*

Indigenous Estate and Carbon Farming:

Opportunities for participation in carbon farming vary across these different categories of Indigenous Estate. Our understanding of the potential opportunities is summarised in the table below.

Table 5: Opportunities to participate in carbon farming by Indigenous Estate Type

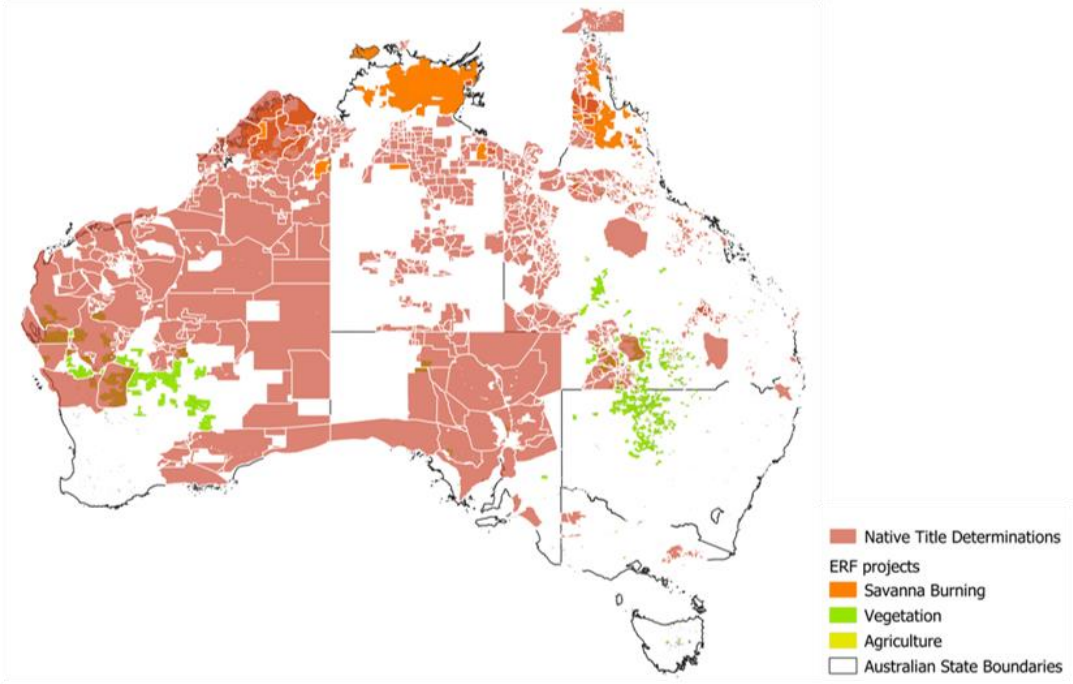
Estate Category	1788	2021	*Carbon farming participation type*		
			Legal right	*Eligible interest holder*	*Implementing partner*
First Nations owned*	100%	17%			
First Nations managed*	100%	18%	Depends on tenure	Depends on tenure	
First Nations co-managed*	-	4%	Unlikely	Depends on tenure	
Other special rights (e.g. native title)*	-	44%	Yes if exclusive native title otherwise unlikely	Yes if determined native title	
No explicit rights, management or ownership*		43%			Depends on relationship and capacity

** These categories are not mutually exclusive and have substantial overlap. A total of 57% has some form of First Nations right, ownership and/or management*

As noted in the recent September 2022 report prepared by the Indigenous Carbon Industry Network (ICIN) titled *Mapping the Opportunities for Indigenous Carbon in Australia: Identifying opportunities and barriers to Indigenous participation in the Emissions Reduction Fund,* Indigenous Australians participation in carbon farming has to date been largely limited to two method, namely savanna fire management and human-induced regeneration.

We believe there are some key lessons from engagement in these two methods to date which could help unlock broader opportunities across the Indigenous Estate. **Climate Friendly has reviewed the ICIN Report, and broadly supports its recommendations, including specifically their recommendation to develop an Integrated Farm Management Method that is suited to all environments across Australia, including the Desert and the Savanna, and has appropriate Indigenous participation in the design and development.** In this submission our recommendations are focused on expanding on how we think the scheme could be strengthened to unlock further benefits for a specific sub-set of the Indigenous Estate, Native Title Holders, based on our experience working with Native Title Holders under the human-induced regeneration method.

Figure 4: location of carbon farming projects relative to Indigenous Estate



Since 2014, Climate Friendly has developed partnerships with Native Title Groups on 18 carbon farming projects, delivering more that 4 million ACCUs from those projects to date. This is 92% of the ACCUs issued with Native Title Partnerships under that method. These Native Title Partnerships provide multiple benefits, including new economic opportunities for the Indigenous groups via a revenue or ACCU share, annual field monitoring work, ability to develop bush tucker gardens and undertake cultural heritage surveys, among other benefits. Most importantly, they have also resulted in strengthened relationships been agricultural producers and Traditional Owners and improved health of country. While these agreements are a positive step, we believe there are major opportunities to deepen the involvement and benefits for Indigenous Australians through a combination of governance reforms and development of the new Integrated Farm Management Method.

Firstly, when examining Figure 4, it is apparent that there is a higher concentration of projects located on land that does not have declared Native Title. This is despite considerable efforts by Climate Friendly, and others in the carbon industry more broadly, to expand the impact of carbon farming on Native Title land. So far, only 22 human induced regeneration projects with Native Title determinations have been issued ACCUs, while 72 projects are yet to obtain consent or have any ACCUs issued. Nearly half of these projects were registered more than two years ago. A further 21 projects with Native Title have been discontinued or revoked. Climate Friendly believes there is an opportunity to support more projects to be successful on Native Title land and deliver benefits to Indigenous Australians, along with the land manager partners.

Climate Friendly has identified the following key barriers to widespread implementation of carbon farming projects on land with a Native Title determination:

1. Establishing a partnership with Native Title Holder groups can be complex, costly and time consuming. In our experience, formation of these partnerships has taken 18 months to four years. While the outcome is highly rewarding, the upfront investment can be daunting, for both the Native Title group and the land manager who are time limited.
2. There are limited support services for the Native Title Holders to get advice on partnership models, and this can slow down their ability to make informed decisions. In our experience, we provide funding for independent advisers, but these advisers still have limited knowledge of carbon farming and often have high competing workloads.
3. Many of the Native Title Holder groups we have engaged with are overwhelmed by a high number of various regulatory processes and applications that their Prescribed Body Corporate must consider under other legislation. While carbon farming projects involve regeneration of their traditional lands, their ability to consider opportunities to partner on carbon farming projects is often delayed by statutory obligations to consider mining and other similar applications, even in instances where such applications deliver no economic benefits to the Native Title group.

Addressing these impediments to Native Title Holder participation may help to improve the flow of benefits to Indigenous Australians from carbon farming and promote reconciliation in regional Australia.

Recommendation:

- **The eligible interest holder consent process for Native Title Holders be reviewed to determine if the process is fit for purpose for this category of interest holder, or whether changes could be made to improve this process for Native Title Holders and further encourage land managers to establish projects in partnerships in regions with determinations. Opportunities to strengthen may include provision of further support mechanisms (financial and advisory) for Native Title Holder groups. Additionally, it should be considered whether there is any benefit to regulatory notification deadlines similar to those that apply in other sectors such as mining. This review should be done through a consultative process involving Native Title Holder groups and other Indigenous Australian input, as well as land managers and service providers.**

Maximising biodiversity co-benefits

Carbon farming vegetation projects store carbon through increasing trees and shrubs and not maintaining habitat. Carbon farming soil projects often result in increased pasture biodiversity which in turn increases insect and bird life, in addition to soil microbial biodiversity. These activities can be expected to improve native habitat and have flow on improvements to biodiversity. Climate Friendly has provided a detailed submission to the Federal Government on the proposed Biodiversity Certification Scheme. While we support the development of the Scheme, we have outlined in our submission views on how best to align the legislative elements of carbon and biodiversity to improve the biodiversity outcomes.

Please refer to our submission on the Biodiversity Certification Scheme for more detailed recommendations on how biodiversity benefits can be optimised.

Improving regional development and local communities

Climate Friendly and our partners believe that carbon farming should have positive impacts on local communities. To achieve this aim, we make significant investments into the regional communities where we live and work, and our partners have been shown to re-invest their carbon farming revenue back into their farms and the local communities they live in.

An analysis of farm management and tenancy statistics from Climate Friendly's human-induced regeneration portfolio shows that 49% of projects are owner-occupied and a further 30% employ on-site managers. The remaining 21% are actively managed either by the owner, who typically lives nearby in the closest regional township, or a manager who is employed to manage multiple neighbouring stations. When this is compared to the farm tenancy prior to the carbon project, there has been a slight increase to the level of owner-operated on-farm management of our projects since they started carbon farming. This appears to be a result of the improved financial position enabling farmers to remain on the land.

Table 6: Farm manager tenancy on Climate Friendly human-induced regeneration projects

Farm tenancy / management arrangement	Proportion of CF projects
Owner occupied	49%
On-site manager	30%
Off-site manager	13%
Off-site owner manager	8%

Source: Survey conducted by Climate Friendly of its own clients

New economic opportunities in regional Australia

At the time of writing, over 35.8 million Kyoto-compliant ACCUs have been issued to HIR and NFMR projects since 2015, with an estimated value of over $622 million based on average auction prices (*note: actual value will be higher, given some ACCUs traded outside ERF auction mechanism, estimated value calculated based on average ERF price*).[3] Around half of these have been issued to projects which Climate Friendly supports.

Regional training, community events and services

Climate Friendly supports the local communities in which we work in a range of other ways, including being a Co-Founder of the Wal Dunsdon Memorial Scholarship which was established in 2019. Annually, we host and support a variety of other regional community events and services, including field days, sporting events, and supporting important services such as the Royal Flying Doctors.

[3] Source: Clean Energy Regulator ERF Project Register (available at: https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register). Accessed 30 September 20222; and average auction price of $17.35 sourced from Clean Energy Regulator April 2022 Auction Results. Available at: https://www.cleanenergyregulator.gov.au/ERF/auctions-results/april-2022

Employment opportunities for regional Australians

Apart from opportunities created directly through the management of carbon farming projects, Climate Friendly is also a direct employer of people who live in the communities where we work. In the last two years our team has nearly doubled in size. Our staff live in Quilpie, Dubbo, Toowoomba, Tamworth, Moree, Trentham, Darwin and many other regional communities around Australia. We understand that country needs management and communities need people, and this is at the core of our partnership model.

Carbon farming enhances agricultural production outcomes

Most carbon farming projects we support involve improved management of livestock as a part of the project. We note that to be eligible for a human-induced regeneration project, land managers have historically been supressing regeneration on their property, typically through a combination of over-stocking relative to pasture availability, inadequate infrastructure and/or grazing rotations, vegetation clearing and/or lack of weed control. This means they have not had an optimal mix of sustainable agriculture and environmental stewardship, and that a carbon project necessarily involves adoption of more sustainable practices which improve long-term agricultural viability. A very common situation land managers found themselves in prior to starting a carbon farming project was running stock numbers above the land carrying capacity to ensure the short-term viability of their business and debt servicing. This resulted in land managers being in a position where both their land and agricultural activities were less productive for the medium to long term. Carbon farming has enabled their land to regenerate and for stock levels to be re-aligned with a level below carrying capacity, benefiting both the environment and agricultural productivity. The carbon project is an additional complementary activity and a new source of revenue, alongside sustainable agricultural and environmental stewardship activities that our carbon farming partners conduct on their respective properties.

For these reasons, we believe that Ministerial veto powers inserted by the Morrison Government into Section 13(4) and 20C of the Carbon Credits (Carbon Farming Initiative) Rule 2015, should be repealed, as the reasons cited for requiring the Ministerial veto power are erroneous. We reiterate from our January 2022 submission to the Morrison Government that this amendment to the CFI Rule introduces uncertainty and duplication, unnecessarily increases scheme complexity without adding any new controls, and potentially leads to material adverse impacts for regions that are yet to benefit from carbon farming. Given the significant potential for the veto power to lead to adverse impacts, we recommend that this project level requirement be reconsidered and removed as part of the ACCU Review. Further details on how it duplicates existing requirements for weed, pest and fire controls are included at **Attachment A**.

Improving drought resilience

In 2021, Climate Friendly received an NRM drought resilience grant from the Australian Government's Future Drought Fund. The purpose of the grant was to understand the impacts of carbon farming on drought resilience. As part of the project activities, Climate Friendly worked with Charles Sturt University to conduct a survey of 200 farmers from across Australia. The detailed results are presented in **Attachment B**.

Key findings of the research are that carbon farming is viewed as participants as a powerful drought impact mitigation tool. 75% of carbon farming respondents indicated that the carbon farming revenue helped them meet their loan repayments during drought. The revenue provided from carbon farming helped support and enhance their traditional agricultural enterprise.

Improving management of pests, weeds and fire risks

For human-induced regeneration projects, the humane control of feral animals and the management of plants that are not native to the area, are two of the eligible management changes. Therefore, control of feral animals and weeds is an integral mechanism behind the carbon farming payments for many land managers.

In addition, the carbon farming legislation contains numerous requirements for management and reporting of weed, pest and fire risks, either directly or indirectly via at least nine existing provisions in the CFI Regulatory Framework, as described in **Attachment A**.

Recommendations

- ***Repeal the veto power and requirement for additional project approvals by the agricultural minister for regeneration projects which cover more than 30% of a property (Section 13(4) and 20C of the Carbon Credits (Carbon Farming Initiative) Rule 2015, should be repealed)***
- ***Recognise the positive benefits of carbon farming on agricultural production and drought resilience of farms and regional communities in Australia.***

Relationship to voluntary Climate Active certification

We believe Climate Active policies must be reviewed in the context of Australia's international commitment to limit global warming below 1.5C. Whether or not a % ACCU purchase requirement is appropriate depends on how voluntary actions are accounted for as part of Australia's NDC. This is to ensure that voluntary action supports Australia to increase our level of ambition and go beyond the legislated 43% reduction target.

Separately, we note that Climate Active is currently consulting on a land standard. We believe this is an important development, as it will better enable standardisation of carbon neutrality assessments for the land sector. This standard should be harmonised with emerging best practice for carbon farming methods. We will respond directly to this separate review, but encourage the Review Panel to coordinate recommendations.

Further, Climate Friendly suggests the Australian Government could give greater regulatory guidance on how other non-regulated voluntary carbon market standards can be applied in Australia to ensure that this is done consistently with Australia's National Greenhouse Gas Inventory. The lack of clarity on how and when international carbon standards can be used domestically risks double counting of abatement within Australia and in other nations.

Recommendation:

- ***If the Government's 43% emission reduction target for 2030 takes into account voluntary corporations carbon neutrality commitments, then 100% of Climate Active's offsets should be sourced from ACCUs (rather than the current requirement of 20%). This helps ensure the national ambition is not undermined. However, we note this may also discourage voluntary action which will be***

important to exceed the 43% target and place Australia on a trajectory to meet the 1.5C Paris commitment.

- ***If the Government's 43% target does not include Climate Active carbon neutral commitments, then there is less imperative to mandate the use of over 20% ACCUs in any Climate Active certification. However, any other eligible units able to be used under the Climate Active standard should be carefully screened to ensure they meet a similar integrity benchmark to ACCUs.***
- ***Refer to our separate submission to Climate Active on the proposed land standard and harmonise review recommendations.***
- ***Provide a clear policy position on how and when other international voluntary standards can be applied in Australia, to ensure there is no double counting of abatement.***

Attachment A – Existing controls ensuring adequate management of weeds, pests and fire risk

Requirements for management and reporting of weed, pest and fire risk are already addressed directly or indirectly via at least nine existing provisions in the CFI Regulatory Framework and accompanying guidance.

- concurrence of state and territory laws: all carbon farming projects must comply with state and territory laws, including in relation to weed, pest and fire management (CFI Act s294)
- Non-compliance with an environmental law is also a consideration in relation to fit and proper person test to enable an entity to become or remain a project proponent (CFI Rule s61(1)(e)(i))
- compliance with relevant National Resource Management (NRM) Plan: all carbon farming projects must be implemented consistently with NRM plans, which commonly include provisions related to management of pest, weeds and fire. This must be confirmed as part of the project application and is also commonly reviewed as part of project audits (CFI Act s23(1)(ga)(ii)).
- implementation of relevant management changes related to weed and pest control: two of the five eligible management changes in the HIR and NFMR methods include management of pests and weeds - 'the management, in a humane manner, of feral animals'; and 'the management of plants that are not native to the project area'. (HIR Method s7(2), NFMR Method s1.4(2)).
- permanence plan, including addressing fire risk and management actions: all HIR and NFMR projects must have permanence plans covering the applicable 25 or 100 year period, which must be submitted to the Regulator at legislated intervals. (CFI Rule s13(1)(p) & s70(4A))
- notification requirements in the event of a natural disturbance or fire: in addition to the fire plan, proponents must notify the Regulator within 60 days of 'a natural disturbance that causes a reversal of the removal'. (CFI Act s81)
- Eligible interest holders in the land are required to give consent to the project: common interest holders include state & territory governments, Traditional Owners and financial institutions. These entities commonly request information around permanence obligations and broader land management plans, including in relation to compliance with any relevant state- based laws, lease requirements or lending requirements. (CFI Act s 43-45A)

Given the existing multiple layers of legislation that already seek to address the objectives described in the consultation paper, we question the utility of adding additional administrative processes. This is contrary to efforts underway by the Regulator to streamline administration, reduce scheme complexity and enable more land managers to participate in carbon farming.

Attachment B – Co benefits on drought resilience survey

Key findings:

1. 65% of survey respondents were net promotors of carbon farming as a drought mitigation tool
2. The projects have helped improve their preparedness for drought and helped most meet their loan repayments during periods of drought.
3. The revenue provided from carbon farming helped support and enhance their traditional agricultural enterprise.

Introduction:

In 2021, Climate Friendly received an NRM drought resilience grant from the Australian Government's Future Drought Fund. The purpose of the grant was to understand the impacts of carbon farming on drought resilience.

Method:

As part of the project activities, Climate Friendly worked with Charles Sturt University to conduct a survey of 200 farmers from across Australia.

The research looked at the impacts of carbon farming in relation to the farm business' financial and environmental performance before, during, and after a drought. We surveyed farmers engaged in carbon farming and carbon farming-like activities,[4] and those not engaged in any carbon farming activities. By contrasting responses between these different cohorts, we gained an understanding of the impact of carbon farming on drought resilience, as distinct from other background effects. The survey participants came from across Australia.

Results:

Key findings from the survey were:

1. 65% of respondents were net promotors of carbon farming as a drought mitigation tool (Figure 1)
2. 73.3% of respondents that had a registered project or were engaged carbon farming-like activities, strongly agreed that carbon farming had improved their preparedness for drought. Similarly, when asked if the carbon farming activities had reduced the severity of drought, 71% of respondents agreed or strongly agreed. This enhanced drought resilience was attributed to both the environmental benefits of carbon farming and the financial benefits.
3. Interestingly, those farmers implementing more than one carbon farming activity scored higher in response to questions about carbon farming improving their drought preparedness and reducing its severity. This suggests that more holistic carbon farming

[4] Participants were mostly engaged in soil management (29.8%), Human-induced Regeneration (HIR) (22%) and environmental plantings (19%). Some participants were engaged in multiple activities. Those with a registered project were mostly engaged in HIR (66.7%).

frameworks such as the Integrated Farm Management Method might further enhance the drought resilience benefits of carbon farming.

4. Of the carbon farming participants that had been paid for their Australian Carbon Credit Units (ACCUs), all but one respondent had reinvested the carbon farming revenue back into their farm. The one respondent that did not reinvest back into the farm, used the carbon farming revenue to purchase another farm. This data suggests that carbon farming revenues are used by farmers to support and enhance their traditional agricultural enterprise.
5. 75% of carbon farming respondents indicated that the carbon farming revenue helped them meet their loan repayments during drought. Those respondents indicated they had stronger business stability during drought, as compared to those engaged in carbon farming like activities.
6. The speed with which decisions could be made relating to drought were also impacted by the carbon farming revenue, with those receiving revenue indicating they were better able to make quick decisions to better manage and recover from because of the revenue safety net.
7. Farmers with a carbon farming project and those implementing carbon farming-like activities had a 6.5% increase in their locus of control over drought, as compared to non-carbon farmers. This is despite the majority of respondents with carbon farming projects coming from regions that are at higher risk of drought.
8. Those engaged in a carbon farming project and receiving carbon credits also reported they experienced reduced stress during drought as compared with before having the carbon farming project.

Figure 1 Promotor score for carbon farming as a drought mitigation tool