

Extension and Outreach

#1 THE EMISSIONS REDUCTION FUND

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 (often referred to as carbon emissions) or sequestering carbon in the landscape.

The Emissions Reduction Fund (ERF) is the main initiative 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

The Carbon Farming Initiative (CFI) has been folded into the ERF to create one programme.

The ERF builds upon the same principles as the CFI. The scheme is voluntary so businesses can choose to get involved, participating in the scheme by following methods that either cut emission or sequester carbon. More than 20 methods developed under the CFI for the agriculture industry and land sector are available for use under the ERF.

Existing CFI projects were automatically integrated into the ERF when it commenced in December 2014. Participants with ACCUs earned under the CFI can choose to sell either under the ERF or on the voluntary carbon market.

Both ERF and CFI participants will need to register with the Clean Energy Regulator (CER) to participate in the auctions.

A step by step guide for participation in the ERF is available on the CER's website.

<http://www.cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund>

The Auctions

The CER is the government agency responsible for running the ERF auctions. A maximum benchmark price per tonne of emissions reduced may be set before each auction.

The benchmark price will not be publicly available. Participants will submit a bid - specifying a price per tonne of emissions reductions - with the lowest-cost projects being selected out of the auction. The minimum bid size for auctions is 2000 ACCUs per year for the life of the contract. However, as a transitional measure, the minimum bid size will not apply to projects that were declared and registered by the CER under the CFI before 13 December 2014.

The length of the crediting period will depend on the nature of the project; an abatement project will generally have a seven year crediting period while a sequestration project can choose a crediting period up to 25 years. Sequestration projects also have the choice of maintaining their forestry or soil carbon projects for 25 or 100 years (the permanence period). Projects choosing the 25 year option will incur a 20 per cent reduction in the number of ACCUs issued.

ERF projects can be registered and undertaken without participation in the auctions. ACCUs can be earned for various reasons which could be environmental considerations, entering into the voluntary carbon market, or the project can be undertaken with the aim of later participation in the ERF.

Reporting and auditing

Reporting and auditing is a necessary part of running an official emissions reduction project. This is to prove the progress of the project and that genuine abatement is being achieved. If reporting and auditing is satisfactory in demonstrating that the method has been followed and that all contract requirements are met during the project period, ACCUs will be issued to the project owner. If the project has a contract with the CER to deliver ACCUs these will then be relinquished to meet the contract requirements and payment will be made. If a project has acquired additional credits, these could be sold on the voluntary market or to other contractors who cannot meet the contract requirements.



Horticulture methods

At this stage, there are no ERF methods approved for horticulture production. Horticulture is characterised by the intensive production of high value products on small land areas compared to other agricultural businesses, and projects based on environmental plantings are not suitable for most horticultural farms.

The most promising type of ERF project for fruit and vegetable growers is mitigation of nitrous oxide emissions from improved fertiliser management. Several research projects funded by the Government's Filling the Research Gap program are investigating fertiliser management and nitrous oxide reductions. These projects may result in the development and approval of new cost-effective methods applicable to horticulture production systems. Of course, some mitigation activities have inherent benefits and are worth considering without the potential financial gains from generating and selling ACCUs. For example, improved fertiliser management may not just reduce emissions, but also reduce input costs and/or increase yields.

With more energy efficiency methods expected to be developed there is a chance that some may be targeted at the agricultural sector. Several agricultural industries have high secondary (off-farm) emissions from energy use and an energy efficiency method to participate in the ERF could be beneficial for the industry. This could help reduce break-even periods and therefore encourage investment in energy efficient measures.

The minimum auction bid for ERF projects of 2000 t/year which could prove difficult for smaller businesses to achieve. However, there is the option to aggregate projects so several businesses can collectively deliver this volume of ACCUs through an aggregator and participate in the ERF that way.

While this would mean a lower price for the ACCUs to the grower, it would also result in less administrative work for each farm.

ERF timeframe

The first auction took place on 15 April 2015. Subsequent auctions will be scheduled as demand requires. Auctions will be announced no later than six weeks prior to the auction day. The outcomes of each auction and an indicative schedule will be made available on the CER's website: www.cleanenergyregulator.gov.au.

The first auction awarded 107 Carbon Abatement Contracts that have committed to deliver a total of over 47 million tonnes of carbon credits. The total price was more than \$660 million, giving an average price of \$13.95 per tonne of carbon. However, this is no guarantee that this price will ensure successful bids at future

auctions. New methods and new industries are being added to the ERF and it is anticipated that the competition will increase.

More information

A carbon mitigation wiki is available and provides a single reference point for carbon mitigation activities in the horticulture industry, including tips from project managers and detailed case studies. Other factsheets in this series are available on the wiki and provide more detailed information on emissions sources in horticulture and emissions reduction methods.

Growcom Horticulture and Carbon Wiki:

<http://carbon.growcom.com.au/>

Emissions Reduction Fund:

<http://www.cleanenergyregulator.gov.au/ERF/Pages/default.aspx>

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