



Discussion Paper January 2014

Introduction

The concept of farmers working together in a co-operative approach to benefit individual landholders is as old as farming itself. Carbon farming is no different.

Aboriginal and non-Aboriginal carbon farmers need a fair price for their carbon product and the Fair Carbon model is simply a vehicle (under development) to achieve this outcome.

Fair Carbon can bring a degree of certainty and help ensure the sustainability of Carbon Farming projects across Australia. With future pricing uncertain farmers need to have confidence that if they are switching from more traditional agribusiness into Carbon Farming they will be able to sell their product and receive a price that makes it economically viable and recognizes the 'real' value of the co-benefits associated with these projects.

Why establish Fair Carbon?

The history of carbon markets has shown the price for carbon credits is volatile and very weak at times. A Fair Carbon trading system will address this matter to enable better prices for carbon farmers.

The current policy situation in Australia continues this uncertainty and has led to a lack of investment in carbon projects. As a result, there are relatively few land carbon projects and so far only one Indigenous carbon project has generated carbon credits.

The current Emissions Trading Scheme (ETS) has a fixed price of \$24/tCO₂e. However, if removed on 1 July 2014 this price will significantly reduce as the Australian Government seeks the lowest cost of abatement. Furthermore, after years of development the European Union ETS is still trying to stabilize the carbon price at a realistic level.

If the current Australian Government Direct Action legislation passes through the Senate, uncertainty will only increase. Proposed auctions under an Emissions Reduction Fund are likely to generate a price of around \$8/tCO₂e or lower. This is clearly below cost price for almost all land carbon projects in Australia.

Existing savanna burning projects have indicated a cost price of around \$12-\$15/tCO₂e and have been ably assisted by grant funding. Other types of projects would likely be more expensive. The voluntary market does offer some lessons. As the business deals are voluntary, this market is much more stable than the compliance market in the EU ETS. This does not provide much additional support in an Australian context, as the price is too low to make this a realistic option.

The current carbon market conditions are simply not setting a realistic long term price that can deliver projects in Australia, especially in remote areas where costs can be higher.

The Fair Carbon model proposes to give carbon farmers a 'fair go' by providing a level of certainty in this market, and facilitating longer-term commitments from buyers.

It is intended carbon farmers who are producing credits under the Fair Carbon banner can access fairer prices, better terms of trade for ongoing investment and greater sustainable development opportunities.

Objectives

The key objectives of a Fair Carbon model are:

- Provide a stable market price for Carbon Farmers in Australia.
- Provide buyers of carbon credits an opportunity to address climate change by supporting Australian projects with co-benefits.
- Set a progressive framework to ensure that the conditions for the production and trade of carbon credits are economically fair, socially responsible and environmentally beneficial.

Environmental, Social and Cultural Co-benefits

The social, cultural and environmental co-benefits of a carbon project are just as significant as the actual carbon credits produced.

Carbon markets are an example of a payment for environmental services that can include the social and cultural dimensions of a project. This may address the decline in biodiversity, improving fire management practices, maintenance of Indigenous ecological knowledge, social requirements for local employment and community development aspirations.

In general ordinary carbon customers want to know they are making a positive contribution to the broader environment and local community through their financial decisions. Corporations want a positive image, their staff to be proud of the organisation and good stories in the media.

How customers are made aware and kept informed of these co-benefits, how they are verified and how they evolve (i.e. community development aspirations change over time) will be critical to the Fair Carbon model working well, having integrity and being positive for customers.

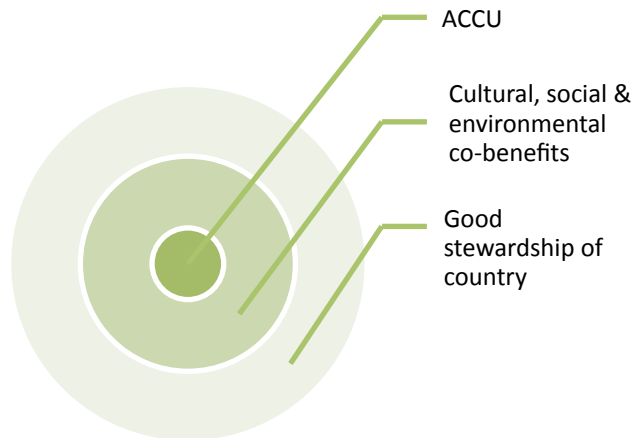


Figure 1: Co-Benefits model

It is important to recognise that co-benefits form part of an overall carbon project, rather than a separate ‘add on’. Therefore, designing projects (including undertaking feasibility reports) should incorporate the cultural, social and environmental co-benefits from the beginning.

Brand recognition – Fair Carbon registered trademark

It is proposed that for a transaction to display the Fair Carbon registered trademark it must be certified.

The certification process should meet with the general public, and industry, expectations to ensure integrity in the system, is at minimal cost and undertaken through an easy to use process.

A set of standards that are based on the principles and agreed through a process of open consultation with key participants in the Fair Carbon scheme will need to be developed.

Interim Governance

The Aboriginal Carbon Fund is fostering the development of the Fair Carbon model and will initially administer a registered trademark to ensure ethical standards are maintained as well as professional advice and support services are available nationally.

A Steering Committee, and then Management Committee, may need to be established to meet the long-term governance requirements.

Fair Carbon Principles

The following Fair Carbon principles may be further developed into a set of national standards.

1. Maximum Benefits go to the Carbon Farmers

The overall Fair Carbon trading system operates for the benefit of carbon farmers promoting long-term sustainability in Australian carbon farming projects.

2. Fair Carbon Minimum Price

The minimum price is the price that a customer of Fair Carbon has to pay to the Carbon Farmers for their carbon credits. It is not a fixed price, but should be seen as the lowest possible starting point for price discussions. It is set at a level to ensure that carbon farmers receive an income that covers the cost of sustainable production of their carbon credits. This means it also acts as a safety net for carbon farmers at times when voluntary markets fall below a sustainable level.

3. Fair Carbon Co-Benefit Premium

The Co-benefit Premium is inclusive of money paid for the agreed Fair Carbon price for work undertaken in the social, cultural and environmental fields directly associated with the project.

The co-benefits could involve employing local people, undertaking fauna and flora surveys, removing feral pests, protecting sacred sites, re-habilitating degraded eco-systems and/or maintaining traditional ecological knowledge of medicinal plants.

All co-benefit projects will be fully detailed and communicated to customers.

4. Long Term Relationships

Fair Carbon seeks to build transparent and sustainable relationships between Carbon Farmers, corporate Australia and the general public.

Corporations are encouraged to enter into long-term (i.e. 5-10 years) trading relationships so that carbon farmers can predict their income and plan for the future.

An element of the long term trading relationship is to allow for carbon farmers to negotiate forward contracts with pre-payment upfront for project startup capital. This is especially important for smaller farmers who may not have access to capital in other forms. This helps to get through the initial cost hurdles of establishing projects before credits have been issued in 3-5 years time.

5. Good Stewardship

The proper governance of a carbon-farming project is essential. This generally relates to applying sound corporate governance principles, fully informed decision making processes and good communication with community members.

It can also relate to carbon farmers being actively involved in natural and cultural resource management plans, property management plans, Indigenous Protected Areas, conservation agreements, Land care and/or the Natural Resource Management body

Collaboration

The Aboriginal Carbon Fund wishes to collaborate with Traditional Owners, the Commonwealth Bank of Australia, Caritas Australia, Land Councils (Native Title Representative Bodies), CSIRO, Monash University and other interested parties to further develop the Fair Carbon model.

Fair Carbon Workshop Questions:

- What are the challenges to establishing a Fair Carbon model and how do we overcome them?
- How should a Fair Carbon trading system operate to ensure Aboriginal and non-Aboriginal carbon farmers achieve the best outcomes?
- What are the qualitative and quantitative criteria for co-benefits? And how are they verified with as little transactional cost as possible?
- What is the most appropriate Fair Carbon governance system that will benefit carbon farmers?