



Department of Climate Change,
Energy, the Environment and Water
Proposed removal of ‘water rule’ for
forest carbon projects

submission

November 2022





Department of Climate Change, Energy, the Environment and Water: Proposed removal of 'water rule' for forest carbon projects consultation **submission**

The Carbon Market Institute (**CMI**) welcomes this opportunity to provide feedback to the Department of Climate Change, Energy, the Environment and Water (**DCCEEW**)'s Consultation paper on proposed amendments to requirements for commercial forestry projects – the water rule (**Consultation Paper**), which opened for consultation on 4 October 2022.

CMI is an independent member-based institute that promotes the use of market-based solutions and supports best practice in decarbonisation to limit warming to 1.5°C. CMI's 140+ strong membership includes organisations from across the entire carbon value chain, including primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies.

CMI's Board annually updates the CMI Advocacy Policy Positions in consultation with, but independent of, members. Our positions include supporting policies aligned with Australia's fair share of effort to achieve the high-ambition Paris Agreement goal to limit warming to 1.5°C, evolving Australia's carbon markets to guide investment and opportunities in the transition, and ensuring rigorous governance, integrity and disclosure on carbon crediting.¹ CMI also administers the Australian Carbon Industry Code of Conduct, which was established in 2018 to promote and steward consumer protection and market integrity.²

The positions put forward in this submission are CMI's view, independent of members, and do not represent any CMI individual, member company or industry sector.

CMI position

CMI supports the government's proposal to repeal Section 20AB of the Carbon Credits (Carbon Farming Initiative) Rule 2015 (**CFI Rule**) removing the water rule, in accordance with the Albanese Government's election commitment.

CMI agrees with the view outlined in the Consultation Paper that removing the water rule will enable the forestry industry to better contribute to reducing Australia's emissions, with benefits for regional jobs, communities, and economic growth.

We note that the proposal builds on amendments made to the CFI Rule under the previous Coalition Government in 2020 and 2021 that provided for the exemption of key forestry regions in Victoria, South

¹ CMI 2021, 'Advocacy Policy Position Statement 2021', <https://carbonmarketinstitute.org/app/uploads/2021/12/CMI-Advocacy-Policy-Positions-Updated-Dec-2021-004.pdf>.

² More information can be found on the Code website: <https://carbonmarketinstitute.org/code/>.



Australia and Tasmania.³ Repealing the water rule will bring forestry regions, particularly in northern Australia, in line with these areas that are already exempt from its requirements.

In Australia, CMI notes that state and territory-based legislative frameworks provide a range of protections for water resources that are duplicated in the water rule.⁴ By way of example, the consultation paper highlights advances in jurisdictional water management made under the Council of Australian Governments’ (COAG) National Water Initiative (NWI).⁵ CMI similarly notes that with the progress made under these reforms, state and territory regulations such as water licensing requirements exist to manage access to water and ensure water resources are shared equitably among stakeholders.

In addition to state and territory-level water legislation, CMI notes that there are a range of further safeguards under the CFI Rule that appropriately manage the risk of any encroachment of plantation forestry projects onto agricultural areas,⁶ notably:

- Section 20B of the CFI Rule⁷ requires proponents of new plantation projects on land previously used for agriculture to submit a Plantation Notification to the Department of Agriculture, Fisheries and Forestry (DAFF).⁸
- The Minister for Agriculture must then assess whether the project can go ahead, based on whether it will negatively impact local agricultural production, before the Clean Energy Regulator can register the project under the Emissions Reduction Fund (ERF).

Additional measures to improve carbon project engagement

CMI also supports the government’s broader policy initiatives that aim to facilitate more informed decision-making and engagement in carbon farming projects amongst regional communities, farmers, Indigenous landholders and agricultural stakeholders. We welcome the government’s newly announced \$20.3 million Carbon Farming Outreach Program.⁹

To further support carbon project engagement and participation, CMI recommends the government consider repealing Section 20C of the CFI Rule to remove the Agriculture Minister’s veto powers over Human Induced Regeneration (HIR) and Native Forest from Managed Regrowth (NFMR) projects that are at least 15 hectares in size and cover more than 30 per cent of a property.

³ The Nationals, ‘Our plan for Australian forestry’, https://nationals.org.au/wp-content/uploads/2022/04/The-Nationals_Our-Plan-for-Australian-Forestry.pdf.

⁴ By way of example, in South Australia and Western Australia, there are specific limitations and guidelines, respectively, that apply to plantation forestry water use. In South Australia’s Green Triangle forestry hub, plantations may only be established if they acquire already-allocated water licences, while Western Australia, the conversion of pastures to timber plantations are specifically identified as a water resource management issue that must be resolved before a new plantation can proceed. See for more (including details on specific state- and territory-based water legislation): Greenwood Strategy 2021, ‘Planning and approvals requirements for new plantations in Australia’, <https://ausfpa.com.au/wp-content/uploads/2021/09/Planning-and-approvals-requirements-for-new-plantations-in-Australia.pdf>.

⁵ DCCEW, ‘National Water Initiative’, <https://www.dcceew.gov.au/water/policy/policy/nwi>.

⁶ See, for example, former Minister for Agriculture, David Littleproud, quoted in: Honan, K & Martin, M 2019, ‘A billion trees planted by 2030? It can’t be done, forestry industry says’, ABC News, <https://www.abc.net.au/news/rural/2019-05-02/call-for-removal-of-forest-water-rule/11061870>.

⁷ See: Carbon Credits (Carbon Farming Initiative) Rule 2015, CFI Rule, 20B Excluded offsets project—certain new plantation forests, <https://www.legislation.gov.au/Details/F2022C00403>.

⁸ See: Department of Agriculture, Fisheries and Forestry (DAFF), ‘Emissions Reduction Fund Plantation Notification’, <https://www.agriculture.gov.au/agriculture-land/farm-food-drought/climatechange/mitigation/cfi/plantation-forestry-notifications>; Clean Energy Regulator (CER), ‘Plantation forestry method’, <https://www.cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-the-land-sector/Vegetation-methods/plantation-forestry-method>.

⁹ See CMI’s full response to the new Carbon Farming Outreach Program in: CMI 2022, ‘CMI welcomes ‘solid’ first budget as the Hon. Chris Bowen opens Day 2 of Summit’, <https://carbonmarketinstitute.org/2022/10/26/cmi-welcomes-solid-first-budget-as-the-hon-chris-bowen-opens-day-2-of-summit/>.



CMI supports proportionate, evidence-based intervention to prevent adverse unintended consequences, including on the agriculture industry, that may arise from the expansion of Australia's carbon industry. Therefore, to inform government deliberation on repealing Section 20C of the CFI Rule, CMI recommends the government undertake a comprehensive review of the veto power mechanism, to assess potential impacts and possible alternative solutions.¹⁰ CMI is aware of research, including that undertaken by member organisations, that demonstrates the impacts of these regenerative carbon farming projects such as HIR and NFMR on the agriculture sector that may be useful in informing such a review.¹¹

CMI does not dispute the complex socio-political realities in areas where the carbon farming industry is growing and we support examination of the impacts of carbon farming projects and ways in which to mitigate these impacts, including through evidence-based approaches.¹² However, we maintain that these ministerial veto powers represent an extraordinary intervention into landholder decision-making processes.¹³

Should you have any questions about CMI's submission or wish to discuss any aspect in greater detail, please contact Gabriella Warden, Manager, Research and Government Relations, at gabriella.warden@carbonmarketinstitute.org.

Yours sincerely,

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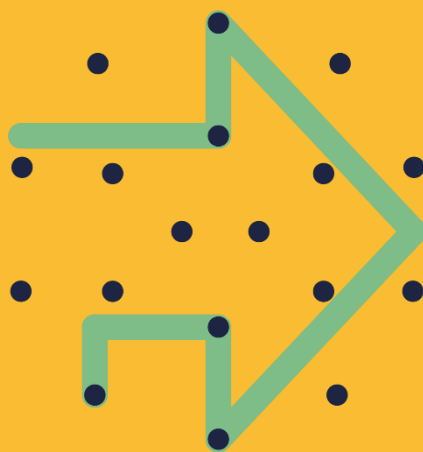
¹⁰ CMI 2022, 'DISER Proposed Carbon Credit Rule Changes submission', <https://carbonmarketinstitute.org/app/uploads/2022/01/Proposed-Carbon-Credit-Rule-changes-CMI-Submission-Jan-2022-2.pdf>, p. 5.

¹¹ In 2021, carbon project developer Climate Friendly received a Natural Resource Management (NRM) drought resilience grant from the government to undertake research into the impact of carbon farming on drought resilience. The project, in partnership with Charles Sturt University, surveyed 200 Australian farmers to compare the financial and environmental performance of farm businesses with and without carbon farming activities before, during and after a drought. Farmers engaged in carbon farming reported reinvesting project revenue into the farm, including to support drought resilience and general farm activities.

Learn more about the research project here: Climate Friendly 2021, 'Grant awarded to look at links between carbon farming and better drought resilience', https://www.climatefriendly.com/grant_investigating_resilience/.

¹² By way of example, CMI has been supporting a comprehensive study into the impacts of carbon farming in South West Queensland. The study is being led by the South West Queensland Regional Organisation of Councils in close partnership with the Commonwealth and Queensland Governments. This study will identify, compare and document the impacts – benefits and disbenefits – arising from ERF regeneration projects currently registered in South West Queensland. A separate study was recently conducted by Southern Queensland Landscapes, which sought to understand the barriers and opportunities of carbon farming in the region by surveying local land managers on their perceptions and experiences with the carbon markets. Among other findings, the study found that 95% of land managers surveyed were concerned by conflicting and complex information about the ERF scheme. More information about the Carbon Farming Study can be found on the SQ Landscapes' website at <https://www.sqlandscapes.org.au/carbon-farming-survey>.

¹³ See more details on CMI's position on Section 20C, the ministerial veto powers, in: CMI 2022, 'DISER Proposed Carbon Credit Rule Changes submission', <https://carbonmarketinstitute.org/app/uploads/2022/01/Proposed-Carbon-Credit-Rule-changes-CMI-Submission-Jan-2022-2.pdf>; CMI 2022, Australian Government Independent Review of ACCUs submission, <https://carbonmarketinstitute.org/app/uploads/2022/10/FINAL-CMI-ACCU-Review-submission.pdf>.



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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.



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