Greenfleet
years & growing

2 October 2012

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Committee Members

Linking Australia's Clean Energy Legislation with the EU – ETS

Greenfleet is a not for profit environmental NGO and was the first organisation in Australia to establish biodiverse forests as carbon sinks. To date, Greenfleet has established more than 7,500 ha of forest which will capture in excess of 2 million CO_2-e tonnes as they grow.

Greenfleet is supportive of a price on carbon and linkages with international schemes. We believe that the removal of the floor price is a positive step as it was administratively burdensome and created unnecessary complexity in pricing carbon.

Greenfleet recognises that the linkage with the European Union Emissions Trading Scheme (EU-ETS) has the following advantages:

- Linking Australia's trading scheme to overseas schemes lowers uncertainty as international linkages are less likely to be unwound in the short term.
- Provides large emitters a broader market place (in which many currently operate) from which to source credits to meet their obligations, and
- Strengthens the operation of the Clean Energy Future Legislation by increasing its fungibilty with international schemes, thus making further linkages more likely.

Greenfleet notes however, that the Explanatory Memorandum is largely silent on the impact of the proposed changes on the generation and demand for domestic Carbon Farming Initiative (CFI) credits. The Department of Climate Change & Energy Efficiency (DCCEE) has previously reported that project limited supply (< 25 million CO_2-e t pa) of CFI credits into the market prior to 2020. CFI projects are unlikely to meet the high demand for units which some industry experts expect to exceed 250 CO2-e t from 2015. It makes sense therefore for large emitters to look offshore for the supply of low cost credits in the short to medium term. It is not yet clear what will be the impact that the proposed changes will have on investment in local long term CFI projects such as biodiverse forest sinks; which are front loaded capital investments and which require tying up land for extended periods of time.

AVOID REDUCE OFFSET

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Given the current depressed price of the EU-ETS, these linkages mean that local credits will be offered at close to this price to remain attractive in the market. It is unlikely that small projects will meet the economies of scale required to remain competitive and in our view, broad scale participation by the land based sector is unlikely if the price remains low, thus further dampening the supply of credits into the market.

Furthermore, we are hopeful but are as yet unclear whether CFI generated credits will be accepted by the EU-ETS. We believe that fungibility of the AU-ETS and the EU-ETS schemes should work both ways though we acknowledge that negotiations are preliminary at this stage.

Greenfleet believes that there is enormous opportunity for local abatement to assist restoration, productivity and resilience of our precious landscape to climate change. Our hope remains that CFI credits will significantly contribute to reducing Australia's emissions and will emerge as a source of export revenue in the not too distant future.

Please feel free to contact me

Yours faithfully

Sara Gipton
CEO