Australian Government
Clean Energy Regulator

# Audit Thresholds Instrument consultation

## Coversheet for submissions

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| Do you want this submission to be treated as confidential? | Yes ☐ No X |

## Submission instructions

Submissions are due by **5 pm AEDT, Sunday 15 December 2024**. Any submissions received after this date will be considered at the discretion of the Clean Energy Regulator. You can email your submission to StrategyCoordination@cer.gov.au. Please include this coversheet with your submission.

## Confidentiality and privacy

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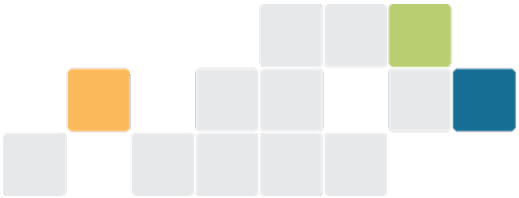
The agency will deal with personal information contained in, or provided in relation to, submissions in accordance with the privacy policy.



# Table of Contents

## The individual and entity providing this feedback

This submission is completed by Joseph Siebert, director of Quetaka Pty Ltd. Joseph has 10-yrs experience as a professional agronomist, viticulturist, and soil consultant and is involved with soil carbon estimations and other soil programs aimed at increasing the resilience and productivity of agricultural enterprises. Joseph also works as a consultant in preparing and reviewing land management strategies as part of soil carbon sequestration projects, and as a consultant to environmental plantings projects ('vegetation' and 'agriculture' methods).
In the financial year 2023-24, Quetaka worked as a contractor to deliver soil carbon baselines to over 70 individual properties throughout South Australia, Western Victoria, and New South Wales. Joseph had discussions with almost all of these landholders as to their interest in participation in vegetation and soil methods for ACCU generation and their own goals in terms of farm biodiversity projects and carbon-neutral status into the future.

Neither Quetaka Pty Ltd or Joseph have any investment or interest in the profitability of CER declared projects or the clients they service, they have no agricultural land holdings or ACCU holdings. They operate solely as a fee-for-service consultant to landholders wishing to partake in CER carbon emissions avoidance or sequestration projects as part of their agricultural production.

Joseph is providing this submission free of charge and in good faith to inform the future audit mechanisms of carbon sequestration projects in Australia. This feedback does not need to remain confidential.

Joseph Siebert (Director, Quetaka Pty Ltd)

## Contact information

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# Introduction

It is the view of this respondent that integrity in the Australian Carbon Credit Unit and the methods associated with it must be paramount when projects are both declared, and credited. However, the safeguards in place to ensure this integrity should not be overly burdensome on proponents - particularly those of small-volume and low-risk projects, else these landowners are likely to opt out of registering projects and potential ACCU's will not flow to the marketplace.

This presents to negative aspects; firstly, it does not help the Australian government commitment to meet overall net zero targets and, secondly, it does not help immediate downstream consumers of primary produce meet their own scope 3 emission reduction targets - many of which are publicly declared and at short timeframes.

It is hoped by this respondent that the 'alternative assurance arrangements' be applied to the new REMP2024 vegetation method, to encourage proponents who are primarily in the business of farming to actively participate in the scheme into the future.

## Current incentives for primary producer participation in reducing emissions intensity

Primary producers are being expected to firstly calculate their emissions intensity, and then secondly to reduce this emissions intensity value. This is mainly being driven by downstream consumers of their product declaring their intention to reduce their own scope 3 emissions, and meet declared net zero targets/ transitions. Many of these primary producers are optimistic about the towards-net-zero direction of their farming enterprise on the proviso that it is financially viable to do so (practice change and program administration/audit costs) and has a neutral or beneficial affect on their net farm productivity.

It is my own experience that the overwhelming majority of these producers are interested in carbon sequestration methods as opposed to carbon credit purchase, and that they are interested in carbon sequestration projects that they can establish on their own land for insetting purposes as opposed to sale on the carbon market. This is because they are primarily involved in traditional farming practice and not carbon farming projects. Carbon farming projects are appealing to them where they can best fit into their farming system, and are often small in area - in my own first hand experience, 10ha or less.

There is a potentially complimentary incentive to complete environmental planting projects for ACCU generation and this activity also being able to demonstrate to downstream markets that they have an active land management and biodiversity plan - part of their emerging ESG compliance needs.

## Financial and method limitations to participation

As a primary producer seeking to establish a net-zero or carbon neutral status from sequestration activity on their own land there are currently a few limitations. Firstly, to receive 'Carbon Neutral' status from Climate Active a landholder must typically engage in a declared carbon project governed by the Australian ACCU methods. Voluntary accounting of vegetation and soil projects is not suitable for Climate Active.
Secondly, there is no agreed-upon voluntary method to estimate carbon sequestration through vegetation or soil practice change across primary industries - this complicates the matter for mixed farming enterprises.

Both of these limitations steer the landholder towards a soil or vegetation project governed under the ACCU methods; such as the REMP2024. While this is positive in that it ensures much credibility in the carbon sequestration claims, it tends to be a poor investment from an ROI aspects and cost prohibitive for farms where the primary financial activity lies in production of grain, meat & livestock, dairy and horticulture. The main cost factors that make this prohibitive are consultation costs (to establish a suitable strategy including abatement estimates and practice change), and future auditing costs at the time of project claims.

If this scenario continues to play out Australian landholders will find that it is more cost effective to simply undertake the biodiversity plantings independently and/or purchase carbon credits from international

projects, than to participate in Australian carbon sequestration schemes on-farm. This results in lower overall volumes of ACCU's flowing to the Australian market and limits the potential for Australia to reach it's own net zero targets by virtue of the fact that there are fewer declared carbon projects in the agricultural sector, and the potential areas suitable for projects are already established with vegetation projects outside the scope of the scheme; a lost opportunity in terms of the ACCU market.

# Q1: Subsequent audits

## Subsequent audit threshold changes

*Q: should the audit threshold be changed to better support a risk-based approach to compliance?*

**No.** The current audit thresholds for subsequent audits are, in my opinion, suitable. Certainly projects with peak abatement potential of 50,000t $CO_2$-e per annum are significant scale and my experience is that the ACCU market requires these audits to ensure compliance and confidence in the market value of ACCU's both now and into the future.

However, the scale of potential projects for which landholders that I engage with are much less than 50,000t $CO_2$-e and are considered as part of an overall interest in GHG reductions at the farm scale, and as part of ESG reporting requirements that are increasing produce supply chains. It is relevant therefore, that there might be consideration of an addition scheduled audit tier for projects less than 10,000t $CO_2$-e which only require (1) one scheduled audit with the initial project report, and (1) one further scheduled audit at the period of peak abatement - a total of 2 scheduled audits.
This would reduce the financial burden on the proponent when the stand to gain little from the sale of ACCU's, rather they are to be used as an insetting mechanism to improve their own market access into the future supply chain.

## Changes required to the subsequent audit arrangement

## i. Number of subsequent audits required

The number of scheduled audits required for project thresholds A, B, and C are, in my opinion, appropriate and do not require amendment.

The addition of an addition project threshold ("-A") for projects less than 10,000t $CO_2$-e /yr at peak abatement, requiring only 2 scheduled audits, is recommended for consideration.

## ii. Standardised audit costs for projects

The project auditing service is an open-market, with costs unregulated by the CER and without any guidance documentation. This results in proponent uncertainty and lack of confidence in committing to ACCU generating projects in the vegetation and environmental space because, at the time of declaration of a project, there is no projected audit cost that can truly be applied by the proponent.
While it is expected that auditors will act in good faith for the cost of their services, and that competition in the market for auditing services will drive cost stability, a level of certainty as to the administration costs of a project would be welcomed by proponents.

A guidance document or guardrails as to the standard financial services cost of auditing projects should be considered to support the audit threshold instrument and limit uncertainty surrounding audit costs.
This is a fundamental consideration for landholders considering participation in vegetation or agriculture methods; one which is relayed to me by many independent and corporate agricultural enterprises.

# Q2: Trigger audits

## Trigger audit threshold changes

*Q: Should the trigger audit threshold be changed to better support a risk-based approach to compliance?*

**No.** The maximum reporting period of 2 years for emissions avoidance projects and 5 years for sequestration projects (as set in the CFI Act) is appropriate. Expiration of these maximum periods should result in a triggered audit. Additionally, the provision for a triggered audit mechanism when projects claim 100,000t $CO_2$-e is relevant and ensures safeguard of the validity of ACCU's.

It should be considered to provide clarification for proponents what are there auditing requirements should a triggered audit fall within a 12mth period of a scheduled audit - either pre or post the abatement claim. It seems unnecessary that the proponent may incur additional financial costs associated with a triggered audit within 12mths of a scheduled audit.

It should also be clarified if the trigger threshold applies to the gross abatement value, or the value of the abatement total after any discounting applied per the 'risk of reversal' mechanism in the relevant methods - in cases this may result in a unit value of 20,000t $CO_2$-e or greater.
Clarity must be provided for proponents and carbon service providers if, when a scheduled and triggered audit could occur at the same time, the same audit and auditor may be used to satisfy the compliance requirements.

# Q3: Alternative assurance

## Extension to the new REMP2024 method

*Q: Should the alternative assurance arrangements be extended to the new REMP2024?*

**Yes.** The alternative assurance arrangements should be applied to the REMP2024 as per the REMP2014 'Environmental Plantings Pilot', and apply to 'low-risk' projects. These are inherently projects which take place on landholdings involved primarily in the supply of meat, dairy, grains, and fresh produce, and only in the generation of ACCU's as a secondary (and mutually complimentary) practice.

Quetaka had 5 individual client proponents seeking to register future environmental plantings under the 'Environmental Plantings Pilot' method (REMP2014) at the time of it sunsetting; 30-Sep-2024. All of these landholders are now not proceeding with these planting projects explicitly because of the auditing requirements required with the expiration of the pilot method.

## Changes required to the alternative assurance arrangement

## iii. Redefine eligibility criteria

The previous criteria for low-risk environmental plantings, set at projects with a CEA of less than 200ha could be applied again - or, provide for even greater access to the ACCU scheme, by application of an "either/or" criteria; specifically the criteria could be "projects with a CEA up to 200ha in cumulative area, or which are expected to result in abatements claims of less than 5,000t $CO_2$-e per annum".

This broader application of the eligibility criteria would enable landowners in more arid areas or marginal cropping/pastoral lands to exceed the 200ha CEA area without placing the safeguards of the ACCU audit process in jeopardy because the likelihood of great volumes of un-audited credits flowing onto the carbon market remains low (low-volume projects). However, at an ESG and biodiversity reporting level, many

landholders in marginal farmland would be able to increase the area to which they apply environmentally regenerative practices. Area of biodiversity restoration is an increasingly sought-after metric to downstream consumers and markets of agricultural produce, so the ability to exceed 200ha CEA total may be appealing to landholders - further incentivising participation in the REMP method.

Examples of potential average yearly $CO_2$ abatement via environmental plantings practice in South Australia are typically low; less than 15t $CO_2$-e $^{-ha\ -yr}$ on a 25yr crediting period and many are less than 5t $CO_2$-e $^{-ha\ -yr}$ (FullCAM data). A project sequestering CO2 at a rate of 15t $CO_2$-e $^{-ha\ -yr}$ in a reasonable rainfall cropping region in South Australia would be able to register a CEA of 333ha, and in an semi-arid marginal cropping region with a rate of 5t $CO_2$-e $^{-ha\ -yr}$ a CEA of 999ha would be plausible under this new “either/or” eligibility criteria.
In this comparison, there is a significant area of land (>600ha) that could be added to biodiversity and environmental plantings projects, on sub-optimal grazing and cropping land, that would have additional value to growers aiming to improve their ESG reporting metrics without precluding them from participation in the method to which alternative assurance arrangement apply.

## iv. High-level audits and capped-cost auditing

Another concept that might be considered under the alternative assurance arrangements is that of ‘high-level’ audits with a capped or fixed cost to the proponent. In effect, should an on-site audit need to take place to support other monitoring efforts by satellite and proximal images, there would be a reduced burden on the proponent to produce records for all activities - rather there are key reporting metrics that must kept and met to satisfy a high-level audit. This would provide a high degree of confidence to the CER and carbon markets that standards of compliance have been met, at a capped-cost to the proponent.

Auditing entities may choose to service this capped-cost assurance mechanism or not. In reality, it may open the door to additional category of auditors for ‘low-risk’ projects and expedite the auditing workload currently being experienced.

## v. Partnership and support for auditing software

There may be an opportunity for the Australian government to reduce the proponent-borne cost of audits to provide assurance in ACCU claims, by co-funding or supporting the development of a software solution for record keeping to the level required by the CER.
This is a loose concept, but consider the relationship Xero accounting software has had on SME’s in terms of their ability to self-manage much of their record keeping and business accounting; could there be a software solution which proponents of small, low-risk, ACCU projects could use to improve record keeping and demonstrate compliance to a high degree, requiring only minimal audit intervention at a lesser cost?