



Tasmanian forests and the carbon market: Barriers and opportunities

Final report

Tasmanian Policy Exchange
at the University of Tasmania in partnership
with the Tasmania Forestry Hub

August 2024

ACKNOWLEDGEMENT OF COUNTRY

The University of Tasmania pays its respects to elders past and present, and to the Tasmanian Aboriginal community that continues to care for Country. We acknowledge the profound effect of colonial settlement on this Country and seek to work alongside Tasmanian Aboriginal communities, respecting their deep wisdom and knowledge as we do so. The palawa/pakana belong to one of the world's oldest living cultures, continually resident on this Country for 42,000 years.*

We acknowledge this history with deep respect, along with the associated wisdom, traditions, and complex cultural and political activities and practices that continue to the present.

The University of Tasmania also recognises a history of truth that acknowledges the impacts of invasion and colonisation upon Aboriginal people and their lands, resulting in forcible removal, and profound consequences for the livelihoods of generations since. The University of Tasmania stands for a future that profoundly respects and acknowledges Aboriginal perspectives, culture, language and history, and continued efforts to realise Aboriginal justice and rights, paving the way for a strong future.

* Members of the Tasmanian Aboriginal community identify with a range of terms, including palawa, pakana, Pallawah, Aboriginal, Aborigine, Indigenous, Traditional Owners, First Nations, and First Peoples. In this report, we use the term Tasmanian Aboriginal people and communities, while recognising that there are several other ways Tasmanian Aboriginal people may choose to refer to themselves.

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The Tasmanian Policy Exchange (TPE) was established in 2020 to enhance the University's capacity to work with government and community partners to make timely and informed contributions to policy issues and debates which will shape Tasmania's future.

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In particular, we would like to acknowledge and thank the participants at the workshop held in Launceston on the 25 July 2024 for generously sharing their time and expertise.

The views expressed in this report are the views of the authors and not necessarily the views of the University of Tasmania, the Tasmania Forestry Hub, nor workshop participants.

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Executive Summary

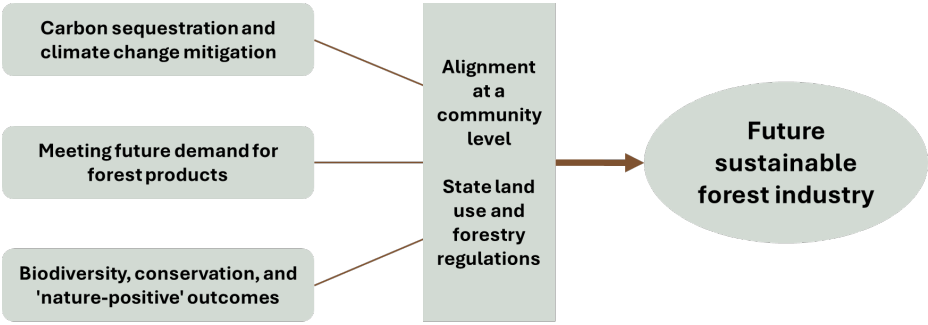
It is widely recognised that meeting emissions reduction targets to avoid dangerous global warming will require both deep cuts to existing emissions *and* the removal of carbon dioxide already in the atmosphere. Given that growing trees is by far the most effective means of removing atmospheric carbon dioxide at scale, the Commonwealth in 2011 established a regulated framework for allocating tradable credits to approved carbon-removal projects: the Australian Carbon Credit ‘ACCU’ scheme.

This report, produced for the Tasmania Forestry Hub, provides a timely industry perspective on Tasmania’s forest carbon market; its strengths, barriers to its expansion and strategies and reforms that will help ensure the sustainable growth of forest-carbon projects in Tasmania. In addition to providing background information on the operation of the ACCU scheme, the report also summarises the findings of an industry workshop held in Launceston in June 2024.

A key workshop finding was that while carbon credits provide an important source of additional income for approved forestry projects, the decision to invest in such projects and their ultimate viability depend largely on other factors, chiefly the commercial return on resulting forest products. The bottom line is that it is neither viable nor desirable to grow trees for carbon credits alone, but ACCUs can incentivise plantation establishment and forest management practices designed to maximise carbon storage.

Given that carbon credits are the ‘icing on the cake’ for eligible forestry projects, there is a clear need to better align carbon incentives with other considerations to ensure we grow the right trees in the right places to support the sustainable growth of the forestry and forest products industry. There is no reason why carbon credits cannot be integrated with existing plantation incentive schemes, land-use and future production plans and emerging ‘nature-positive’ priorities to promote the transition to a more sustainable and strategically focused industry. If better policy coordination and alignment can be achieved at the national, state and local levels, biodiversity and forest product supply chains will benefit while also maximising carbon sequestration.

Figure 1: Aligning incentives to achieve a sustainable forestry and forest product industry.



In addition to aligning and integrating carbon incentives with other policy and industry priorities, the workshop identified six broad barriers to the sustainable growth of forest-based carbon projects in Tasmania.

Key barriers to the growth of the Tasmanian forest carbon market included:

- Managing long-term project risk;
- Modelling carbon sequestration;
- Simplifying project administration;
- Establishing a more efficient risk-based auditing and compliance framework;
- Creating new methods and reforming existing methods; and
- Enhancing industry and community awareness.

In addition to these barriers and risks, participants identified several important strengths and opportunities of the scheme, summarised in the table below:

Table 1: SWOT analysis of Tasmania's forest carbon market.

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Incentivising additional and permanent sequestration to meet climate targets • Contributing to strategic industry objectives (e.g., increase supply of timber) • Tasmania has disproportionate potential to capitalise/contribute 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Complexity of scheme • Long-term risk (financial and natural disturbance) • Lack of alignment with wider policy/landscape/industry goals • Limited (but growing) participation
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Income or incentives to support restructuring of industry (e.g., increase plantation establishment) • Greater participation • Expansion, alignment, coordination • Estimated 37,000 hectares of current agricultural land in Tasmania is suitable for plantation establishment¹ 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • High fixed and upfront costs create significant barriers to entry • Legitimacy, credibility and social license • Unsustainable market (MIS) • Failure to align with industry and policy goals

¹ Greenwood Strategy, *Access to land and land use policy for plantation forest investment (2020)*, https://www.tffpn.com.au/wp-content/uploads/2020/11/1.-NNWRFH_AccesstoLandandLandUsePolicy_FinalReport_210920.pdf.

The report comprises four sections:

- The aims and scope of the project are outlined in the Introduction
- Section 2 provides an overview of the Commonwealth ACCU scheme and established forest carbon schemes in Tasmania
- Section 3 outlines the broad themes identified in the project workshop and
- Section 4 provides a more detailed account of the specific barriers facing the sector and opportunities to address these barriers in Tasmania.

1 Introduction

Governments, industries and communities around the world are grappling with the challenge of reducing greenhouse gas emissions and learning how to live in a world shaped by climate change. However, given the slow pace of progress to date, it is clear that reducing or abating existing sources of emissions will not be enough. The most recent IPCC data shows that the critical task of limiting global warming to 1.5 degrees Celsius will require both deep cuts to existing emissions *and* the removal of carbon dioxide already in the atmosphere. Additionally, it is inevitable that carbon removals will be required to offset emissions in hard-to-abate industries.

Reflecting these imperatives, many governments have introduced schemes for certifying or crediting emissions reduction or removal and sequestration projects. These policy instruments – like the Australia Carbon Credit Unit (ACCU) Scheme which is the focus of this report – underpin growing carbon markets in which projects can sell offsets to businesses who wish to reduce their net emissions, either voluntarily or to meet mandated emissions targets.

In the Australian scheme, there is a wide variety of methods whereby proponents can procure or ‘earn’ ACCUs. Some methods credit emissions-reduction projects, and others credit carbon removal and sequestration. While emerging methods like direct air carbon capture or deep-ocean sequestration dominate headlines and the public imagination, it remains the case that the most viable, cost-effective methods for long-term carbon storage are nature based: particularly forest sequestration.²

As a result, some of the most significant sequestration opportunities for Australia and Tasmania lie in large-scale tree planting and forest management practices designed to sequester additional carbon. In these areas, the forestry and forest products sector is well positioned to make a major contribution to decarbonisation. Despite this enormous potential and opportunity, however, only a small percentage of land managed for forestry is currently engaged in (or even eligible for) the ACCU Scheme and its associated carbon market.

While forest-based projects will accumulate more ACCUs over time, to date only around 2.8% of ACCUs (87,157 tonnes of carbon) issued in Tasmania have been to forest sector projects, indicating there is a significant opportunity for growth. Given that plantations and permanent plantings possess significant sequestration potential compared to many other methods, analysis of the barriers and issues preventing growth in this sector is needed.

² Ian Chubb et al., *Independent Review of Australian Carbon Credit Units - Final Report (The 'Chubb Review')*, Commonwealth Government (2022), <https://www.dcceew.gov.au/sites/default/files/documents/independent-review-accu-final-report.pdf>; Gert Jan Nabuurs et al., "Forestry," in *Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*. (Cambridge, United Kingdom and New York, NY, USA: Cambridge University Press, 2007).

In June 2024, the Tasmanian Policy Exchange facilitated a workshop in collaboration with the Tasmania Forestry Hub which convened a range of stakeholders to discuss Tasmania’s emerging forest carbon market. Participants from the forestry and forest products industry and agriculture sector along with carbon market and policy specialists discussed the perceived and real barriers to forest sector participation in the ACCU Scheme, as well as future opportunities.

These stakeholders have diverse experiences and knowledge of different aspects of the forestry and carbon sectors. We have incorporated their views in this report to capture a holistic snapshot of the key barriers and opportunities within Tasmania’s forest-based carbon market. This report builds on the findings of Keenan, Ryan and Stewart (2020) in their *Climate Change and Carbon Policy Assessment Report*, which was prepared for the Tasmania Forestry Hub and identified key barriers to participation and recommendations to unlock further opportunities in the market for forest carbon in Tasmania.³ While elements of the sector have changed in recent years, with updates to the plantation project methodology in 2022 resulting in a significant uptick in project registrations, many of the issues and opportunities identified by Keenan, Ryan and Stewart (2020) are still found to be relevant and are yet to be addressed in the broader policy and regulatory landscape.

³ Rod Keenan, Zoe Ryan, and Hugh Stewart, *Climate Change and Carbon Policy Assessment Report*, The University of Melbourne, Faculty of Science (16 November 2020), https://www.tffpn.com.au/wp-content/uploads/2020/11/3.-NNWRFH_ClimateChangeandCarbonPolicy_FinalReport_161120.pdf.

2 Background

2.1 The ACCU Scheme

This project is focused on the government-administered Australian Carbon Credit Unit Scheme (ACCU Scheme) under which credits can be earned for projects that reduce emissions or sequester carbon, and are then sold to the Government or to private entities wishing to voluntarily offset their emissions or meet compliance obligations. The ACCU Scheme was established in 2011 and is administered by the Clean Energy Regulator (CER).⁴

One ACCU is earned for every tonne of carbon dioxide equivalent (CO₂-e) avoided or removed from the atmosphere and stored via a certified abatement or removal project. Projects can receive ACCUs if they meet one of 33 currently approved methodologies,⁵ or if they successfully apply to have a new method developed through the CER's expression of interest (EOI) process.⁶

The largest source of new ACCUs is currently the land sector, with this trend expected to continue, particularly through vegetation and savanna fire management activities.

ACCU can be sold to the Government through a carbon abatement contract, or to private buyers who may purchase ACCUs either to meet their emissions requirements under the Safeguard Mechanism (see below) or to voluntarily offset their emissions.⁷ Since January 2012, a total of 113.7 million ACCUs have been issued.⁸ ACCU prices have varied significantly⁹ (see Figure 2), and the market has also experienced significant stratification, with ACCUs from different types of projects fetching significantly different prices; in March 2024, generic ACCUs were priced at \$35.20, while Indigenous-managed savanna fire management projects and environmental plantings achieved a

⁴ Through the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth). In previous iterations, it was known as the Emissions Reduction Fund (ERF).

⁵ "ACCU Scheme Methods," 2024, accessed 30 May, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme/accu-scheme-methods>.

⁶ Creating a new methodology to be eligible for ACCUs is a recent development which arose out of the Chubb Review recommendations. The first EOI process deadline will occur in July this year (2024). See: "Australian Carbon Credit Unit Scheme," Australian Government, updated 29 May, 2024, accessed 30 May, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme>.

⁷ The Safeguard Mechanism was designed to ensure that large emitters decrease their emissions over time, by setting a baseline emissions level which, if exceeded, requires emitters to purchase and surrender carbon credits, or request more time to reduce emissions.

⁸ There were no ACCUs issued in 2011. The number of ACCUs issued per year has increased from 1,750,179 ACCUs issued in 2012-13 to 16,508,527 ACCUs issued in 2021-22, an increase of 943%; see "Australian carbon credit unit data," updated 22 March, 2024, accessed 6 June, 2024, <https://cer.gov.au/markets/reports-and-data/australian-carbon-credit-unit-data>.

⁹ "Quarterly Carbon Market Reports," updated 9 April, 2024, accessed 6 June, 2024, <https://cer.gov.au/markets/reports-and-data/quarterly-carbon-market-reports>.

premium price of \$48.90 and \$57 respectively.¹⁰ Volatility in Australia’s still relatively young and dynamic ACCU market has also been adversely affected by changes in federal climate policy at times, introducing the potential for perceived sovereign risk.¹¹

Figure 2: Generic Australian carbon credit unit (ACCU) reported spot price. Source: [CORE Markets](#), as of 24th of July 2024



It has been predicted that ACCU demand will peak in 2031, driven primarily by Safeguard Mechanism requirements, with related demand expected to increase from less than 1 million ACCUs in 2022 to 26 million ACCUs in 2030.¹² In Tasmania, six major industrial and mining operations will be subject to the Safeguard Mechanism in the coming years.¹³

An independent review of the ACCU Scheme was undertaken in 2022 – the ‘Chubb Review’ – in response to growing concern that ACCUs were being issued to projects that did not represent

¹⁰ Carbon Market Institute, *Carbon Markets and Australia’s Net Zero Challenge* (2024), https://carbonmarketinstitute.org/app/uploads/2024/04/2024_CMI-Westpac_Carbon-Market-Report.pdf; "A look back on the Australian carbon market in 2023," updated 12 December, 2023, accessed 17 June, 2024, <https://www.tasmanenvironmental.com.au/insights/a-look-back-on-the-australian-carbon-market-in-2023/>.

¹¹ Daniel Ziffer, "Coalition government's pre-election carbon credit shake-up created 'sovereign risk', department warned," *ABC News* (Online) 2022, <https://www.abc.net.au/news/2022-07-25/pre-election-carbon-credit-shake-up-foi-documents/101259776>.

¹² Department of Climate Change, Energy, the Environment, and Water, *Australia's emissions projections 2023* (2023), <https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2023.pdf>.

¹³ Lachlan Johnson, Richard Eccleston, and Megan Langridge, *Tasmanian Greenhouse Gas Emissions Update - Annual Progress Report for the 2021 Reporting Year*, Tasmanian Policy Exchange, University of Tasmania (2023), https://www.utas.edu.au/__data/assets/pdf_file/0008/1716227/GHG-Emissions-Update-2024_Final.pdf.

legitimate and additional abatement.¹⁴ The review was focused in particular on four specific methods:

- Human-induced regeneration
- Avoided deforestation
- Landfill gas
- Carbon capture and storage

The review made 16 recommendations which were accepted in principle by the Government, but concluded overall that the Scheme is effective and ‘fundamentally well designed’.¹⁵

Critiques of the ACCU Scheme and debate about the Panel’s findings continue, with concern over additionality (i.e., whether carbon is in fact being stored or avoided that would have otherwise been emitted) and permanence (i.e., duration of sequestration) of projects under the Scheme, particularly in the context of a changing climate.¹⁶

2.2 Forest sector ACCU projects

Vegetation and nature-based activities are the only low-cost and technically feasible forms of carbon sequestration at scale.¹⁷ In this report, we consider vegetation methods that the Tasmanian forestry and forest products sector can engage in, which include growing and harvesting trees in public and private native forests, hardwood and softwood plantations, and farm forestry and agroforestry operations; processing wood and wood fibre; and manufacturing pulp, paper, and engineered, reconstituted and solid wood products.¹⁸

The current ACCU Scheme methods relevant to this paper are:

¹⁴ Chubb et al., *Independent Review of Australian Carbon Credit Units - Final Report (The 'Chubb Review')*.

¹⁵ Chubb et al., *Independent Review of Australian Carbon Credit Units - Final Report (The 'Chubb Review')*.

¹⁶ See Ali Armistead and Polly Hemming, "The Safeguard Mechanism and the junk carbon credits undermining emissions reductions," *The Australia Institute* (Online), 27 January 2023, <https://australiainstitute.org.au/post/the-safeguard-mechanism-explained/>; Climate Council, "Chubb review misses the emissions elephant in the room," news release, 9 January, 2024, <https://www.climatecouncil.org.au/resources/chubb-review-misses-the-emissions-elephant-in-the-room/>; Andrew Macintosh and Don Butler, "Chubb review of Australia's carbon credit scheme falls short - and problems will continue to fester," *The Conversation*, 9 January 2023, [https://theconversation.com/chubb-review-of-australias-carbon-credit-scheme-falls-short-and-problems-will-continue-to-fester-197401#:~:text=In%20a%20series%20of%20papers,of%20dollars%20in%20taxpayers'%20money](https://theconversation.com/chubb-review-of-australias-carbon-credit-scheme-falls-short-and-problems-will-continue-to-fester-197401#:~:text=In%20a%20series%20of%20papers,of%20dollars%20in%20taxpayers'%20money;); Andrew Macintosh et al., "Australian human-induced native forest regeneration carbon offset projects have limited impact on changes in woody vegetation cover and carbon removals," *Communications Earth & Environment* 5, no. 1 (2024/03/26 2024), <https://doi.org/10.1038/s43247-024-01313-x>, <https://doi.org/10.1038/s43247-024-01313-x>.

¹⁷ Peter Fitch et al., *Australia's carbon sequestration potential*, CSIRO, (November 2022), <https://www.csiro.au/-/media/Missions/TNZ/CCA-report/CCA-Report-Australias-Potential-Sequestration-Final-28-November-2022.pdf>.

¹⁸ Commonwealth of Australia and Forest Industry Advisory Council, *Transforming Australia's forest products industry* (2016), <https://www.agriculture.gov.au/sites/default/files/sitecollectiondocuments/forestry/australias-forest-policies/fiac/transforming-australias-forest-products-industry.pdf>.

- Plantation forestry methods (Plantation Forestry Methodology Determination 2022 and 2017)
- New farm forestry plantation method (Measurement Based Methods for New Farm Forestry Plantations Methodology Determination 2014)
- Reforestation and afforestation method (Reforestation and Afforestation 2.0 Methodology Determination 2015)
- Reforestation by environmental or mallee plantings (REMP) pilot method (Reforestation by Environmental or Mallee Plantings (REMP) – FullCAM Methodology Determination 2014)

This report will not be considering the following methods, which expired or were revoked in 2023:

- The human-induced regeneration method, which credited emissions reductions to landholders who regenerate native forests on land where human activity has previously prevented growth¹⁹
- The avoided native deforestation method, which credited projects that avoided greenhouse gas emissions by protecting native forests that would otherwise be cleared for agricultural purposes²⁰

In Tasmania, there are currently 41 ACCU projects operating under the four methods considered in this paper.²¹ The plantation forestry method is the main ACCU Scheme method of interest for the forest sector.²² Plantation projects are those which establish, continue, or change the management of for-harvest forests.²³ The 2022 plantation forestry method provides four different ways to generate ACCUs:

- Schedule 1: Establishing a new plantation
- Schedule 2: Converting an existing plantation from a short to a long rotation
- Schedule 3: Continuing plantation forestry activities
- Schedule 4: Transitioning to a permanent (not-for-harvest) forest

¹⁹ "Human-induced regeneration of a permanent even-aged native forest 1.1 method," n.d., accessed 11 July, 2024, <https://www.dcceew.gov.au/climate-change/emissions-reduction/emissions-reduction-fund/methods/human-induced-regeneration-of-a-permanent-even-aged-native-forest-11>.

²⁰ "Avoided deforestation method closed to new projects," 2023, accessed 11 July, 2024, <https://www.dcceew.gov.au/about/news/avoided-deforestation-method-closed-to-new-projects#:~:text=Methods%20set%20out%20the%20rules,%2C%20under%20pre%2Dexisting%20approvals>.

²¹ "ACCU Project and Contract Register," 2024, <https://cer.gov.au/markets/reports-and-data/accu-project-and-contract-register?view=Map>.

²² Fabiano Ximenes and Thinkstep-anz, *Forests, Plantations, Wood Productions & Australia's Carbon Balance* (2023), <https://fwpa.com.au/wp-content/uploads/2023/09/Forests-Plantations-Wood-Products-and-Australias-Carbon-Balance-.pdf>.

²³ Fitch et al., *Australia's carbon sequestration potential*.

There was a notable spike in project registrations following the amendments to the plantation methodology in 2022, with 33 new projects registered (28 projects under the new methodology) since the changes were made.²⁴

The farm forestry plantations method credits projects which establish and maintain trees as either permanent plantings or as harvest plantations. Projects are subject to size restrictions, up to 100 hectares or 30% of a farm (whichever is smaller) if rainfall is more than 400mm annually, or up to 300 hectares or 30% of a farm if rainfall is less than 400mm annually.²⁵ There are not any projects currently registered in Tasmania under the farm forestry plantations method.²⁶

The reforestation and afforestation method issues ACCUs for projects undertaking reforestation (the restoration of previously forested land back to forest) and afforestation (the establishment of new forest in an area that was not forested).²⁷ These projects must be permanent plantings on land that has been grazed, cropped or fallow for at least 5 years.²⁸ There are not any projects currently registered in Tasmania under the reforestation and afforestation method.²⁹

A range of regulatory and administrative factors can make it difficult for small landholders to take part in the reforestation and afforestation method.³⁰ The CER therefore introduced the reforestation by environmental or mallee plantings (REMP) pilot method,³¹ which applies to projects that establish or maintain a mixed-species environmental planting or a mallee eucalypt planting on land that has been clear of forest for at least five years.³² The REMP pilot was introduced to make it easier for smaller-scale farmers and landholders to participate in the emissions reduction fund by streamlining registration, reporting and crediting forms; reducing audit obligations; and providing an option to sell ACCUs to the Government at fixed prices, removing the uncertainty involved in the traditional auction process.³³ There are 6 registered REMP projects in Tasmania.³⁴

²⁴ Clean Energy Regulator, "ACCU Project and Contract Register."

²⁵ Clean Energy Regulator, *Participating in the Emissions Reduction Fund - A guide to the Farm Forestry method* (n.d.), <https://cer.gov.au/document/guide-to-farm-forestry-method>.

²⁶ Clean Energy Regulator, "ACCU Project and Contract Register."

²⁷ "Reforestation and afforestation method," updated 2 April, 2024, accessed 6 June, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme/accu-scheme-methods/reforestation-and-afforestation>.

²⁸ Clean Energy Regulator, "Reforestation and afforestation method."

²⁹ Clean Energy Regulator, "ACCU Project and Contract Register."

³⁰ Fitch et al., *Australia's carbon sequestration potential*.

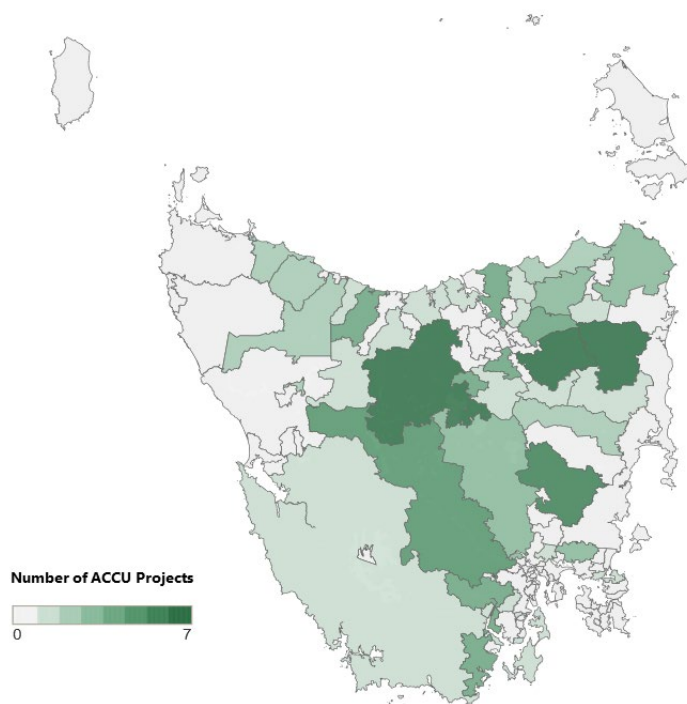
³¹ Clean Energy Regulator, *Environmental Plantings Pilot Information Pack*, Australian Government (2021), <https://cer.gov.au/document/environmental-plantings-pilot-information-pack>.

³² Clean Energy Regulator, *Participating in the Emissions Reduction Fund* (n.d.), <https://cer.gov.au/document/guide-reforestation-environmental-or-mallee-plantings-fullcam-method>.

³³ Clean Energy Regulator, *Environmental Plantings Pilot Information Pack*.

³⁴ Clean Energy Regulator, "ACCU Project and Contract Register."

Figure 3: Map of Tasmanian Forestry ACCU Projects as of May 2024. Data Source: CER and ABS



Sequestration is measured differently across projects. Plantation forestry projects use FullCAM, and account for carbon sequestered as trees grow, carbon stored in harvested wood products and debris, carbon stock changes, and emissions due to management activities.³⁵ Farm forestry projects combine physical measurements of trees with modelling using FullCAM.³⁶ Carbon storage in reforestation and afforestation projects is calculated by directly measuring trees in sample plots using infield measurements.³⁷ REMP projects use FullCAM to calculate the carbon abatement of their plantings.³⁸

2.3 Tasmania's forest industry

Tasmania enjoys abundant forests that are highly valued by a wide range of users for their amenity and aesthetic values, biodiversity, carbon sequestration, and timber resources. Some 3,354,000

³⁵ Fitch et al., *Australia's carbon sequestration potential*.

³⁶ Clean Energy Regulator, *Participating in the Emissions Reduction Fund - A guide to the Farm Forestry method*.

³⁷ "Reforestation and Afforestation 2.0 method," 2024, accessed 2024, 6 June, [https://www.dcceew.gov.au/climate-change/emissions-reduction/emissions-reduction-fund/methods/reforestation-and-afforestation-20#:~:text=This%20methodology%20determination%20\(method\)%20provides,previously%20used%20for%20agricultural%20purposes](https://www.dcceew.gov.au/climate-change/emissions-reduction/emissions-reduction-fund/methods/reforestation-and-afforestation-20#:~:text=This%20methodology%20determination%20(method)%20provides,previously%20used%20for%20agricultural%20purposes).

³⁸ "Reforestation by Environmental or Mallee Plantings - FullCAM," 2024, accessed 6 June, 2024, <https://www.dcceew.gov.au/climate-change/emissions-reduction/emissions-reduction-fund/methods/reforestation-by-environmental-or-mallee-plantings-fullcam>.

hectares, or just under half of the total land area of the state, is covered by forest. As such, it is unsurprising that the forestry and forest products industry has traditionally been a major economic and political force in the state. In recent decades, however, Tasmanian forestry has faced considerable headwinds. Between 2002 and 2022, total log production in Tasmanian forests fell 28% by volume. Moreover, the value of logs harvested grew by less than 4% (adjusted for inflation) compared with more than 50% nationally. Crucially, Tasmania has also seen a drastic shift away from native forest harvesting and toward plantation timber. In 2002, 72% of Tasmania's forest harvest (by volume) was native hardwood; by 2022, this figure had fallen to less than 25%.³⁹

The changes Tasmanian forestry has seen in the past 20 years clearly show that although native forests may yet continue to be a source of wood fibre over the short to medium term, the industry's future lies mostly in plantation timber. The challenge of navigating this transition has been compounded by stagnation in new plantation establishment and a decline in the overall size of the plantation estate, which has shrunk by 10% (32,000 ha) since its peak in 2013.⁴⁰

Spatial analysis undertaken for the Tasmania Forestry Hub in 2020 found that the area of current agricultural land which is "(i) suitable and available, (ii) able to support plantations in competition with other land uses, and (iii) grow commercially viable plantations; is approximately 37,000 hectares".⁴¹ While the size of Tasmania's plantation estate has likely increased since 2022, with 28 new projects being established under the new plantation methodology, data reflecting the change in the size of the estate are not yet available.

³⁹ Australian Bureau of Agricultural and Resource Economics and Sciences, "Direct employment, 2021 census - State/Territory and National Scale," ed. Australian Government (2022).

⁴⁰ Australian Bureau of Agricultural and Resource Economics and Sciences, "Direct employment, 2021 census - State/Territory and National Scale," ed. Australian Government (2022).

⁴¹ Greenwood Strategy, *Access to land and land use policy for plantation forest investment*.

3 Key workshop themes

In June 2024, the Tasmanian Forest Hub and the Tasmanian Policy Exchange convened an industry workshop for ACCU Scheme participants. The aim of the workshop was to gain a deeper understanding of the opportunities, risks, and barriers to participation in land-based carbon sequestration projects in Tasmania under the ACCU Scheme.

The workshop addressed the following questions:

- What are the barriers to forest-based carbon project delivery in Tasmania?
- What improvements could be made to policy and regulatory frameworks to support increased participation in the ACCU Scheme in Tasmania's forest sector?
- How can we ensure that forest carbon projects are sustainable and contribute to meeting future timber demand?
- What should the Tasmanian forest carbon market look like in 5 years' time?
- What are the biggest medium-term risks to the sustainable growth of the Tasmanian forest carbon market?

Workshop discussion between key stakeholders identified a number of broad themes, as well as a number of more specific issues and reform options. Given participants' wide-ranging backgrounds and professional specialisations, these questions were met with a range of diverse and nuanced responses. On some points there was considerable variation and disagreement while others elicited consensus. Throughout the day, several clear themes emerged, which have been organised under the two high-level headings below.

3.1 ACCUs and the future of plantation forestry

One clear outcome from the workshop was agreement among participants that carbon credits are an important complement to and provide an additional revenue stream for eligible forestry projects, and that the ACCU Scheme needs to align with the future strategic priorities of the forestry and forest products sector. More specifically, many participants believed that the scheme was instrumental in the establishment of new plantations and in the continuation or conversion (to long-rotation systems) of existing ones that may otherwise have been cleared to make way for different land uses.

Given that the output and harvestable area of native forestry continues to decline, the question of whether ACCUs can incentivise sufficient growth in Tasmania's plantation estate to meet future timber demand is a pressing and important one. While early indications are promising, it is not yet possible to answer this question with a high degree of confidence based on available data.

Data from the Clean Energy Regulator show that there has been growth in new project registrations since revisions to the plantation forestry method 2022. These new projects are yet to be reflected in Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) data (due to a two-year publication lag), making it difficult to definitively assess their impact on the overall size and output of Tasmania's plantation estate.

At this relatively early stage, however, it seems likely that ACCUs may be helping to limit further decline in plantation area rather than driving growth. Of the 28 new plantation forestry projects registered in Tasmania since 2022, 11 include Schedule 1 activities (establishing and maintaining a new plantation). The remainder comprise conversion of an existing plantation from a short to a long rotation (Schedule 2), avoided conversion of existing plantation (Schedule 3), or transition to a permanent forest (Schedule 4). Some of these recently registered Schedule 1 projects do establish large new areas of plantation forest,⁴² but the combined area of all new plantations certified under both the 2017 and 2022 plantation methodology determinations will not be enough to offset the contraction in the size of Tasmania's estate during that period.

It may yet be the case that a rising ACCU price will drive further new plantation establishment, but current modelling suggests that ACCU prices will only achieve a medium-term peak in the early-2030s as the Safeguard Mechanism drives demand for offsets. Given that credit issuance for long-rotation plantations does not peak until years 12 and 13 (year 8 for short rotations), any project established after the very early years of this decade will not mature in time to capitalise on the benefit of the peak ACCU price.

Available evidence suggests that ACCUs provide an important additional incentive for plantation establishment, but the ultimate viability of plantations will still depend on the value of the forest products they produce, highlighting the importance of local processing capacity and strong domestic demand. Participants at the workshop stressed that where proponents can be assured of the ongoing profitability of a plantation project long after credits have been issued, ACCUs are a welcome 'icing on the cake'.⁴³ In other words, ACCUs alone will be insufficient to secure a reliable long-term domestic supply of forest products for Tasmania (and the rest of the country) and that ultimately carbon-related incentives need to be aligned with future forest product needs and broader policy objectives.

⁴² For example, Eastern Tiers PTY LTD's *HPUT Carbon Project Schedule 1* plantation, near Stonehenge in the Southern Midlands LGA, will cover more than 2300ha. See "HPUT Carbon Project Schedule 1," updated 24 July, 2024, accessed 24 July, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme/accu-project-and-contract-register/project/ERF186227>.

⁴³ Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*.

3.2 Improving alignment between climate, industry and conservation objectives

The second theme to emerge from the workshop concerned the need to integrate and align the ACCU Scheme with the needs of the forest products industry and with other state and commonwealth policies. Participants noted that the range of policy frameworks and regulations applying to forest-based sequestration projects are often at cross-purposes with other policies and regulations, creating confusion, inefficiency, and sub-optimal project outcomes.

The workshop discussion highlighted four specific policy domains where there is need for greater coordination and alignment:

- Initiatives focussed on expanding Australia’s domestic supply of forest products, most notably Commonwealth platforms like the *Billion Trees for Jobs and Growth* framework
- State and Commonwealth biodiversity offsetting or nature-based crediting schemes
- Carbon sequestration and emissions abatement policy
- State and local government strategic land-use planning, and zoning

Ideally, these frameworks would be integrated and coordinated to ensure forest-based ACCU projects not only sequester carbon, but also align with the needs of the forest products industry, minimise impacts on biodiversity, and efficiently allocate land to the best possible use. Currently, however, some of the schemes operating under these various frameworks are essentially neutral to one another’s aims, undermining the prospects for benefit-stacking. Schedule 4 of the plantation forestry method (transitioning to a permanent forest) is an example of where misalignment of policy objectives could be leading to perverse outcomes in some cases.

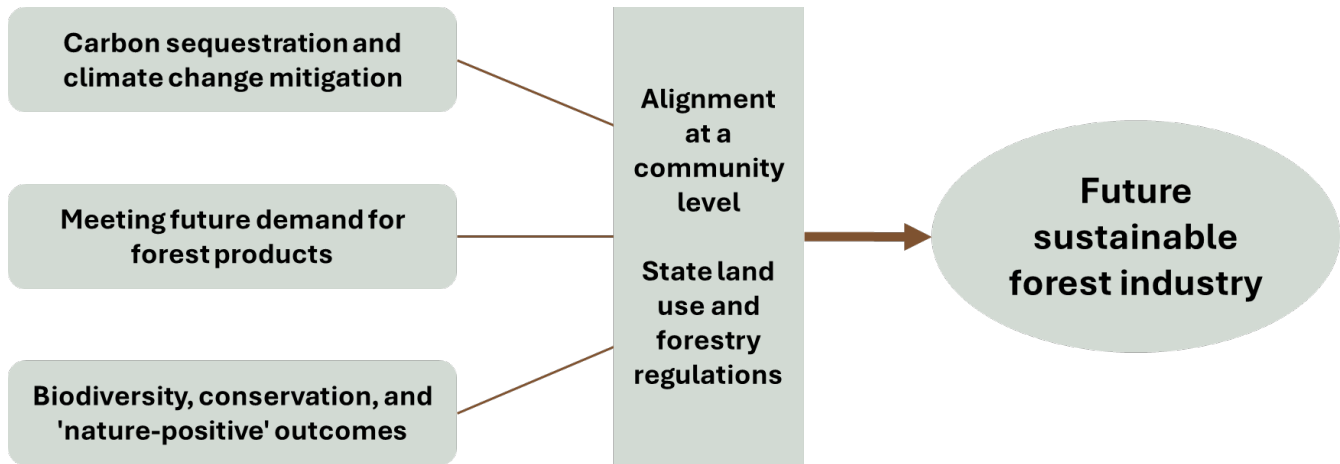
Schedule 4 projects under the Plantation Forestry ACCU Method

Under Schedule 4, ACCUs are issued to projects that transition an existing plantation forest to a permanent (not-for-harvest) forest. This includes projects where the plantation is cleared or gradually harvested and re-planted with a permanent environmental planting, but it can also include projects where forest is not cleared, and a plantation is simply preserved as a permanent forest. This outcome does not align with the interests of the forestry and forest products industry, as it removes a potential stream of timber resources from the supply chain. It also may not align with biodiversity and nature-positive outcomes, particularly in cases where a project indefinitely retains a monoculture of an exotic species, potentially creating so-called 'green deserts'.⁴⁴ Moreover, accessing ACCUs under this method requires demonstrating that the forest is likely to be cleared to make way for a different land use. If a site really is suited to a more efficient and productive use, maintaining an unproductive one indefinitely for the sake of relatively modest carbon sequestration may merely be exacerbating land-use competition elsewhere, and could even be having a net-detrimental impact on sequestration at the overall system level as a result. Although project proponents would receive fewer ACCUs for permanent plantings of commercial species than if they established an environmental planting, the Scheme itself does not specifically incentivise or discourage any particular pathway, creating the possibility of adverse outcomes and inefficient land-use.⁴⁵

⁴⁴ Leah L. Bremer and Kathleen A. Farley, "Does plantation forestry restore biodiversity or create green deserts? A synthesis of the effects of land-use transitions on plant species richness," *Biodiversity and Conservation* 19, no. 14 (2010/12/01 2010), <https://doi.org/10.1007/s10531-010-9936-4>, <https://doi.org/10.1007/s10531-010-9936-4>; Jakub Horák et al., "Green desert?: Biodiversity patterns in forest plantations," *Forest Ecology and Management* 433 (2019/02/15/ 2019), <https://doi.org/https://doi.org/10.1016/j.foreco.2018.11.019>, <https://www.sciencedirect.com/science/article/pii/S0378112718312970>.

⁴⁵ Carbon Farming Foundation, *Plantation Forestry Guide* (August 2022), https://carbonfarming.org.au/wp-content/uploads/2022/10/CFF-Plantation-Forestry-Guide_V1.pdf.

Figure 4: Aligning incentives to achieve a sustainable forestry and forest product industry



4 Specific Barriers and Reform Options

In addition to the overarching strategic issues and themes outlined above, participants identified a number of more specific barriers and opportunities that will influence the future growth and sustainability of the Tasmanian forest carbon market.

Key barriers, risks, and opportunities for reform identified by participants related to:

- Managing long-term project risk;
- Modelling carbon sequestration;
- Simplifying project administration;
- Establishing a more efficient risk-based auditing and compliance framework;
- Creating new methods and reforming existing methods; and
- Enhancing industry and community awareness.

Several of the barriers and recommendations raised by participants were also identified by Keenan, Ryan and Stewart (2020) in their *Climate Change and Carbon Policy Assessment Report*.⁴⁶ Many also align with the findings of a forthcoming research paper by Shaun Suitor, David Hadley, Fabiano Ximenes and Penny Baalman.⁴⁷ Key barriers to expanding forest carbon projects as well as reform options identified in the workshop are outlined below and summarised in Table 2.

⁴⁶ Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*.

⁴⁷ Shaun Suitor et al., *Is the forest sector the sleeping giant of Australia's carbon market? A systematic literature review of the options for forest sector participation in international carbon markets, 2024*.

4.1 Managing long-term project risk

Many participants identified the long permanence periods applied to forest carbon projects as a barrier to participation, largely because of natural disturbance risks such as bushfire, pests, disease, and droughts, particularly in the context of climate change. Participants said that because it is typically too costly to insure forest projects, proponents bear the responsibility for paying back ACCUs or restoring a forest project if a natural disturbance occurs that results in loss of carbon storage. Some workshop participants deliberately retained accumulated project ACCUs as a hedge against bushfire risk.

Moreover, participants pointed out that land use and management practices on neighbouring properties often contribute considerably to fire risk in particular but also pest and disease outbreaks in ways that are impossible for land managers to mitigate.

Participants suggested farmers and land managers might be more willing to participate if some level of insurance or support could be provided to remove some of this risk. Another suggestion was more investment in and better coordination of prevention, detection, management and response to fire, pests, disease, and other potential impacts of climate change. More coordinated and strategic land-use planning would also help mitigate this risk.

4.2 Modelling carbon sequestration

Several participants expressed concern that the Full Carbon Accounting Model (FullCAM) – a landscape-scale carbon modelling tool developed to estimate land-sector emissions for Australia’s greenhouse gas inventories – is not suited to the smaller, project-level estimation task of forest-sector ACCU projects. Several specific issues were raised on this point:

- The growth parameters and usage assumptions underpinning FullCAM’s treatment of some plantation types and products are inaccurate or insufficiently nuanced. For example, the model mischaracterises long-rotation hardwood sawlogs grown in Tasmanian *E. nitens* and *E. globulus* plantations as export pulplogs, resulting in a significant underestimation of their lifespan and sequestration potential as harvested wood products (HWPs).
- The existing rules that govern crediting for carbon storage in HWPs do not account for products in landfill, even though carbon stored HWPs can remain sequestered in landfill for many decades (or even indefinitely, depending on the landfill system) before being emitted. Recent research has shown that carbon loss via decay for HWPs in landfill is as low as 1.4%,

meaning that the inclusion of an ‘end-of-life storage’ pool for HWPs in FullCAM modelling of ACCU projects could increase their credited abatement by as much as 15%.⁴⁸

- FullCAM is subject to more or less constant revision of assumptions and parameters as scientific understanding of tree growth, decay, fire, and various other factors improves. While revisions typically have a very modest impact on year-to-year carbon estimates, their cumulative impact can be very significant. The fact that a project’s modelled likely abatement at year one will almost certainly be subject to change throughout its life due to model revisions introduces uncertainty and increases risk for project proponents.

4.3 Simplifying project administration

4.3.1 Interaction with the regulator

Many participants felt that the CER could be more transparent and consistent in its communication and decision-making. Some participants felt that decision-making could be inconsistent at times, and that project approval outcomes varied significantly depending on the specific employee undertaking the assessment. Participants also raised concerns around a lack of transparency, stating that they would like to receive more feedback and explanation when proposed projects are not approved.

While the CER states “if requested, we can review statutory decisions made by our staff” with a “review process” that “aims to test the merits of a decision”, participants felt there is not sufficient scope for review once a decision has been made.⁴⁹ Participants therefore suggested the introduction of a private ruling scheme, similar to that offered by the Australian Tax Office,⁵⁰ where land managers can get timely, binding advice that can be relied upon. Participants also felt that being able to receive advice from the CER prior to submitting applications would improve clarity and understanding of the methods and CER decision-making processes.

It essential that any changes designed to streamline administrative processes or assist proponents to navigate the complexities of the Scheme do not compromise the Scheme’s integrity.

⁴⁸ Ximenes and Thinkstep-anz, *Forests, Plantations, Wood Productions & Australia's Carbon Balance*, 22-23; Sutor et al., *Is the forest sector the sleeping giant of Australia's carbon market? A systematic literature review of the options for forest sector participation in international carbon markets*.

⁴⁹ "Internal review of decisions," updated 25 March 2024, 2024, accessed July 10, 2024, <https://cer.gov.au/about-us/our-policies/internal-review-decisions>.

⁵⁰ "Administratively binding advice," updated 1 March 2017, 2024, accessed 10 July, 2024, <https://www.ato.gov.au/about-ato/ato-advice-and-guidance/ato-advice-products-rulings/administratively-binding-advice>.

4.3.2 Complexity of the scheme

Participants stated that smaller scale project proponents in particular are deterred by the complexity of the ACCU Scheme, and that one requires specialist knowledge to understand and engage with the Scheme. As a result, there is a growing market for carbon brokers who specialise in registering and managing forest carbon projects. While this was described positively by some participants in terms of delivering high quality and rigorous carbon credits, it also adds to the project costs for proponents. As noted above, the complexity of the ACCU Scheme is in many cases necessary and appropriate to ensuring that projects are robust and can deliver promised levels of additional, permanent abatement. Changes aimed at mitigating the deterrent effect of scheme complexity should therefore be focussed on simplifying project administration and helping users navigate and understand the scheme rather than on relaxing its rigour or compromising its integrity.

4.3.3 Delays in project approval

Participants felt that the lead time for projects was too long, with the CER allowed up to 90 days to process crediting applications.⁵¹ Many participants stated this was problematic as it leaves project proponents in flux as they wait to see if they will gain approval, unable to begin works as the newness requirement requires that the project has not yet begun to be implemented.⁵² Participants described CER processes as inefficient, describing circumstances where they have had to resubmit documentation and information multiple times, or submit information that is already available to the CER.

4.4 Establishing a more efficient risk-based auditing and compliance framework

4.4.1 Cost of audits

A key barrier highlighted by workshop participants, particularly for small-scale landholders and farm forestry projects, was high audit costs. Project proponents are required to hire a registered greenhouse and energy auditor to carry out audits of their offsets reports at least 3 times during a project's crediting period. Project proponents are responsible for paying these audit costs, the first of which occurs upfront before any ACCUs have been issued, and which Keenan, Ryan and Stewart (2020) stated range between \$15,000 to \$30,000.⁵³ Some workshop participants noted having received audit quotes of up to \$50,000 for plantation projects of less than 200ha in size, which would represent a very significant impost considering the number and value of ACCUs such a project is likely to accrue. The fact that audit costs are unpredictable and subject to very high levels

⁵¹ "Project reporting and audits," 2024, accessed 11 July, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme/how-participate/project-reporting-and-audits>.

⁵² Carbon Market Institute and Norton Rose Fullbright, *Integrity in the Australian Carbon Market Explainer* (April 2022), <https://carbonmarketinstitute.org/app/uploads/2022/04/Explainer-Integrity-in-Australias-Carbon-Market.pdf>.

⁵³ Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*.

of variability means that proponents can struggle to properly plan cashflow throughout the life of a project. This degree of financial uncertainty can be a considerable barrier to participation in the scheme.

Participants argued this requirement limits participation as it leads to a minimum requirement for scale, as these high fixed costs are only affordable for projects with larger volumes of carbon abatement. This was identified as a barrier particularly in Tasmania, where participants stated the size of landholdings and farms tends to be smaller than mainland jurisdictions, resulting in smaller scale projects. This is reiterated by Keenan, Ryan and Stewart (2020), who stated “farms in Tasmania are typically small relative to farms in other states or territories”. While it can sometimes be possible to aggregate several smaller landholders into a single project to share audit fees, participants described these projects as being complex to manage.

While the CER states they adopt a “risk-based approach to audits to streamline audit requirements while upholding the integrity of ACCUs”,⁵⁴ workshop participants believed these could be streamlined further, particularly when it comes to smaller and lower-risk projects. This echoes the recommendations of Keenan, Ryan and Stewart (2020) that forest certification audits could be made dual purpose, especially for plantation forestry projects which they deem low risk “given the high level of regulatory scrutiny of plantations from other sources, such as the FPA and forest certification audits”.⁵⁵

Participants noted that the provision of support for training or capacity/capability building for auditors would help the market for audit services mature more rapidly, keep pace with demand, and drive price competition.

4.4.2 Timeline of ACCU delivery

Workshop participants supported the concept of compressed crediting, particularly in the plantation forestry method. Currently, crediting under Schedule 2 and Schedule 3 plantation projects is smoothed out or ‘compressed’: “FullCAM modelling calculates the number of ACCUs to be issued, which will then be issued evenly across the first 15 years” of the project.⁵⁶ Participants suggested this approach could also be used with Schedule 1 projects where a new plantation is established, to provide more ACCUs earlier in the project and help bridge the gap between revenue and upfront costs.⁵⁷

⁵⁴ Clean Energy Regulator, "Project reporting and audits."

⁵⁵ Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*.

⁵⁶ Carbon Farming Foundation, *Plantation Forestry Guide*.

⁵⁷ Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*.

4.5 Creating new methods and reforming existing methods

4.5.1 Limited number of methods

Participants argued there are limited opportunities for certain parts of the forest and land sector that can provide additional long-term sequestration to participate in the carbon market due to a lack of ACCU methods. Specific activities which participants recommended for consideration in the ACCU methods were:

- Native forest management activities;
- Fossil fuel substitution with bioenergy from forest residues;
- Biochar creation and utilisation; and
- Wood vaults.

Some participants were particularly concerned that without active management, native forests might become sources of emissions rather than stores, due to bushfires, senescence, or other natural disturbances. Therefore, they proposed the development of carbon methodologies to incentivise management in native forests that they believe increases sequestration or reduces emissions, such as ecological thinning.

However, it is important that any methods added to the ACCU Scheme are additional and incentivise behaviour change, not simply reward existing good practice.⁵⁸

Participants were optimistic that this barrier may be addressed through the new expression of interest (EOI) process, through which stakeholders can propose new ideas for methods or changes to existing methods.⁵⁹ Some participants were, however, concerned that the EOI process will only result in a limited number of new projects and methods due to perceived limited capacity within the CER to review and develop applications.

4.5.2 Restrictive eligibility criteria

Participants felt that some methods contained overly specific or restrictive eligibility criteria, one of the key areas of concern being age restrictions within plantation methodologies. Participants felt that the requirements for converting short to long rotations are too restrictive, and suggested that the baseline rotation length should be determined on a case-by-case basis.

Many participants were concerned that if eligibility criteria for existing plantations to participate (Schedule 2, 3 and 4) are too strict, more plantations are likely to be converted to non-forestry uses, resulting in significant carbon emissions. Some participants recommended that the CER introduce

⁵⁸ Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*.

⁵⁹ "Developing new ACCU Scheme methods," n.d., accessed 11 July, 2024, https://www.dcceew.gov.au/climate-change/emissions-reduction/accu-scheme/developing-new-methods#submitting-an-expression-of-interest-eoi_2.

a regular review process for existing methods, giving proponents an opportunity to provide advice to feed into ongoing improvement and refinement of the methods.

4.5.3 High fixed costs and other barriers to entry for smaller landholders

The high upfront and fixed costs of establishment, registration, and auditing and compliance for forest-based ACCUs mean that smaller-scale potential projects which could offer large cumulative abatement are uneconomic. This situation has resulted in the creation of an effective minimum project size that poses a barrier to many smaller landholders. Moreover, this issue affects Tasmania disproportionately due to the smaller-than-average size of Tasmanian agricultural landholdings. The development of methods and compliance frameworks that make forest-based sequestration projects more accessible to smaller landholders could potentially improve participation in the scheme in Tasmania and make a meaningful contribution to overall sequestration.

4.5.4 Method stacking

Under existing rules, it is not possible to operate more than one ACCU project on a single piece of land. While the reasons for this are understandable (maintaining public confidence in the integrity of the scheme, streamlining compliance, preventing abuse or rorting), the development of new methods in areas like soil carbon and the proposed biodiversity market, for example, mean that restrictions on ‘method stacking’ may actually be limiting sequestration in both new and existing projects.

Participants suggested that method stacking or ‘integrated carbon farming methods’ could be introduced for forest projects, citing the Integrated Farm and Land Management (IFLM) method currently under development as an example.⁶⁰ The IFLM method will allow separate land-based – soil and vegetation – sequestration methods to be combined or ‘stacked’ on the same land and in a single method.⁶¹ It is hoped that streamlining the registration of multiple carbon projects on the same property will reduce the administrative burden on land managers and reduce the per-ACCU transaction costs.⁶²

⁶⁰ "Proposed Integrated Farm and Land Management Method," n.d., accessed 11 July, 2024, <https://www.dcceew.gov.au/climate-change/emissions-reduction/emissions-reduction-fund/methods/integrated-farm-and-land-management>.

⁶¹ Angus Taylor, "New ERF method and 2022 priorities announced," news release, 2021, <https://www.minister.industry.gov.au/ministers/taylor/media-releases/new-erf-method-and-2022-priorities-announced>; Department of Climate Change Energy, "Proposed Integrated Farm and Land Management Method."

⁶² Keenan, Ryan, and Stewart, *Climate Change and Carbon Policy Assessment Report*; "Method stacking is coming. Here's what it means for your business," 2022, accessed 11 July, 2024, <https://greencollar.com.au/method-stacking/>.

4.6 Enhancing community and industry awareness

4.6.1 Addressing the legacy of the Managed Investment Scheme

Participants stated many land managers and farmers are hesitant to engage in the ACCU Scheme because of the negative legacy of the forestry Managed Investment Schemes (MIS). The MIS program, introduced in 1988, aimed to encourage “agricultural diversification following the decline of the local forestry industry”⁶³ and led to the establishment of most of Australia’s hardwood plantations.⁶⁴ However, flawed planning and poor management saw a significant number of these plantations established in unviable locations, subject to poor growing conditions, too far from processors, or on land more suited to other agricultural uses.⁶⁵ The forestry MIS collapsed following the global financial crisis, which resulted in financial hardship and “deep pain and suffering” for the “hardworking Australians” who had invested in the scheme.⁶⁶ Participants stated that trust needs to be rebuilt with land managers and farmers who had negative experiences under the MIS program if they are to consider becoming involved with the ACCU Scheme.

4.6.2 Limited understanding of the scheme among land managers

Participants expressed that many land managers and farmers have limited awareness and understanding of the ACCU Scheme and of carbon markets, and that some are not aware of the benefits of planting trees on agricultural land or are sceptical of planting trees as an investment.

Participants suggested this could be addressed through investment in education and extension in formats that are accessible and useful for land managers, taking into account their widely varying levels of experience with tree planting and carbon markets.

4.6.3 Difficulty accessing independent and clear information

While the CER website publishes information and guides aimed at project proponents regarding the different ACCU methodologies, eligibility requirements, and crediting timelines,⁶⁷ participants

⁶³ Senate Economics References Committee, *Agribusiness managed investment schemes - Bitter Harvest* (Parliament of Australia, 11 March 2016), https://www.aph.gov.au/parliamentary_business/committees/senate/economics/mis/~/media/Committees/economics_ctte/MIS/Report/b03.pdf.

⁶⁴ Senate Economics References Committee, *Agribusiness managed investment schemes - Bitter Harvest*.

⁶⁵ Andrew Macintosh et al., *Integrity Problems with the ERF's 2022 Plantation Forestry Method*, The Australian National University, ANU College of Law (2022), <https://law.anu.edu.au/files/2024-01/Short%20-%20Integrity%20Problems%20with%20the%20Plantations%20Method%20120822%20final.pdf>.

⁶⁶ Senate Economics References Committee, *Agribusiness managed investment schemes - Bitter Harvest*; Sarina Locke, "Losing billions in agricultural MIS projects," *ABC News* (Online), 21 December 2012, <https://www.abc.net.au/news/rural/2012-12-21/losing-billions-in-agricultural-mis-projects/6151334>.

⁶⁷ See for example the following guides: Clean Energy Regulator, *Understanding your forestry project* (2024), <https://cer.gov.au/document/understanding-your-plantation-forestry-project-simple-method-guide.>, and Clean Energy

argued that the information that is available is often complex, inaccessible, and inconsistent. Participants stated that land managers and farmers lack access to reliable, independent, and consistent information about carbon markets and how to participate in them. This echoes the finding of Keenan, Ryan and Stewart (2020) that current knowledge is often not in a useful format to help forest managers and farm foresters make decisions. Therefore, participants recommended the CER produce engaging and easy to understand resources in an appropriate format for potential project proponents.

In addition to this, land managers are often unsure where they can go to receive independent and trustworthy advice. As already noted, participants therefore recommended introducing a private ruling scheme which provides land managers reliable and binding advice.

4.6.4 Social license in the broader community

The ACCU Scheme has faced public criticism in recent years particularly focusing on the Scheme's most popular methods: human-induced regeneration, avoided deforestation, and landfill gas. Critics have expressed concern that carbon credits have been issued to projects that do not represent real or additional reductions in emissions.⁶⁸ Without public trust and support, the Scheme risks losing social license to operate, and casts doubt on all methods regardless of their credibility or integrity.

Workshop participants expressed concern that social license pressure may influence policy decisions that do not reflect best environmental or forestry practice. Participants felt that better awareness in the community about forestry and carbon is needed to address misconceptions and enable informed discussions and decision-making, such as about what types of forest management lead to the best carbon outcomes. Participants suggested that this could be achieved by improving education about carbon in forestry and carbon markets in the community, including among policymakers.

4.7 Additional Barriers

4.7.1 Land availability

While this is a barrier faced by the broader forestry and forest products sector and is not specific to the ACCU Scheme, plantation establishment is often limited by availability of and competition for suitable land. Tree planting often takes place in agricultural landscapes and it can be difficult to access land for carbon farming and growing timber in areas that are also suitable for producing

Regulator, *Participating in the Emissions Reduction Fund - A guide to the feeding nitrates to beef cattle method* (n.d.), <https://cer.gov.au/document/guide-to-feeding-nitrates-to-beef-cattle-method-pdf>.

⁶⁸ Adam Morton, "Australia's carbon credit scheme 'largely a sham', says whistleblower who tried to rein it in," *The Guardian* 2022, <https://www.theguardian.com/environment/2022/mar/23/australias-carbon-credit-scheme-largely-a-sham-says-whistleblower-who-tried-to-rein-it-in>.

food and other agricultural products. Plantation establishment supported by ACCUs is only likely to represent the best use of more marginal grazing land with *Greenwood Strategy* estimating that approximately 37,000 hectares of agricultural land in Tasmania would be suitable for conversion to plantation.⁶⁹

4.7.2 Caveats/titles

One condition to participate in the ACCU Scheme is that the landowner needs to demonstrate that they have the ‘legal right to carry out project activities on the land nominated as the project areas as well as receive ACCUs from these activities, that no person can lawfully claim’. Otherwise, if there is another person or entity with an eligible interest, the landowner must get consent to carry out the project. An eligible interest can refer to a caveat that is registered on the land.⁷⁰

During the workshop, participants commented that historic caveats or instances on property title that remain in place (although not enforceable) from Gunns on their properties has created a barrier for participation in the ACCU Scheme. Despite participants noting that these are no longer enforceable, due to the deregistration of Gunns, the CER ‘takes issue with this’.

The Australian Securities and Investments Commission (ASIC) is able to consider, as a last resort (although it is not obligated to), an application to withdraw a caveat of a deregistered business. However, a landowner must first try to request to the Land Titles Office directly to have the caveat removed, before they are able to lodge a request with ASIC. These processes can require participants to complete several different forms and contact various authorities, and additionally increases proponents’ costs.⁷¹

4.7.3 Tax Considerations

ACCUs are taxed under Division 420 of the Income Tax Act using a ‘rolling balance’ method. The effect of this approach is that the issuance of ACCUs is treated for tax purposes as income in the year ACCUs are received even if they are retained for longer. Accruing this tax liability presents a major cashflow challenge for smaller projects. Reflecting this, as of 1 July 2023 eligible primary producers (sole traders, partnerships or trusts) are able to defer their tax liability until the ultimate

⁶⁹ *Greenwood Strategy, Access to land and land use policy for plantation forest investment.*

⁷⁰ "How to participate," updated 8 April, 2024, accessed 6 June, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme/how-participate>; "Environmental plantings pilot method," updated 5 June, 2024, accessed 6 June, 2024, <https://cer.gov.au/schemes/australian-carbon-credit-unit-scheme/accu-scheme-methods/reforestation-environmental-or-mallee-plantings-fullcam-method-2014/environmental-plantings-pilot-method>.

⁷¹ With one of these applications costing \$934 (see "A deregistered company has a caveat over your property," n.d, accessed 12 July, 2024, <https://asic.gov.au/for-business/closing-your-company/effects-of-deregistration/applying-to-asic-to-deal-with-deregistered-company-property/a-deregistered-company-has-a-caveat-over-your-property/>.)

sale of ACCUs. While this reform was welcomed by workshop participants, projects owned by corporations or other entity structures are still unable to defer their tax liabilities.⁷²

4.7.4 Avenues for industry input and structured engagement

Some workshop participants noted that engagement with DCEEW and the CER can be challenging due to inconsistency, key-personnel dependency, and the absence of a sufficiently structured forum for ongoing industry dialogue. The creation of standing reference groups (e.g., a Plantation Forest Carbon Projects Network or similar) to conduct formal engagement with the Department would help to overcome these challenges by providing a regular, consistent channel for feedback and input.

⁷² Celeste Black, "The Reformed Safeguard Mechanism and Its Income Tax Implications," *Austaxpolicy: Tax and Transfer Policy Blog*, 4 March 2024, 2024, <https://www.austaxpolicy.com/the-reformed-safeguard-mechanism-and-its-income-tax-implications/>.

5 Summary of barriers and workshop policy recommendations

Barrier	Description of barrier	Recommendations from workshop
Natural disturbance risks	Forests are at risk from bushfires, pests, disease, droughts and other natural disturbances, but insuring forest projects is difficult, leaving proponents liable for loss of income and carbon storage that might occur.	<p>Help project proponents secure insurance for their forests.</p> <p>Invest in and coordinate detection, management, prevention and response to fire, pests, disease, and other potential impacts of climate change.</p>
Market risks	Uncertainty about future ACCU and timber prices and over project life.	<p>Difficult to manage risk through policy or regulation but ACCUs can provide a diversified income stream to help mitigate risk.</p> <p>Stacking and aligning incentives will also reduce market risk.</p>
Modelling abatement	The current tool for modelling landscape-scale carbon emissions, FullCAM, is not ideal for smaller, project-level estimations necessary for forest-sector ACCU projects.	<p>Investigate the potential for including an ‘end-of-life storage’ pool for harvested wood products to more accurately reflect their emissions abatement.</p> <p>Ensure that accurate classifications are available for HWPs produced in Tasmanian plantations (notably sawlogs from hardwood plantations).</p>
Interaction with the regulator	Inconsistency and lack of transparency in CER decision-making, and lack of an adequate review process, limits trust in the regulator.	<p>Introduce a private ruling scheme, similar to the ATO, where land managers can receive timely, binding, and reliable advice.</p> <p>Streamline and/or improve processes for project proponents seeking review of CER decisions.</p>

Scheme complexity	Smaller scale project proponents in particular have limited capacity to understand and engage with the Scheme without professional, specialist assistance.	Better, jurisdiction-specific support. Awareness programs to increase public understanding of methods more suitable to smaller land managers (i.e., REMP method).
Delays in project approval	The CER is allowed up to 90 days to process crediting applications, leaving project proponents in flux as they await approval.	Shorten the standard process approval timeframe or expand the newness requirement to include projects that have commenced after applications have been submitted.
Cost of audits	Small-scale projects are more sensitive than larger ones to expensive audit requirements, the first of which occurs upfront before any ACCUs have been issued.	Streamline audits, particularly for plantation forestry projects which are already subject to a high level of regulatory scrutiny. Consider a move to ATO-style risk-based auditing. Consider allowing expedited crediting to help manage cashflow challenges in smaller projects. Short-term low interest loans provided by government could help participants to pay audit costs. This loan could then be repaid from the first or subsequent issuing of ACCUs (either in terms of financial value or as ACCUs). Help build capacity in the audit sector to increase the number of auditors available as costs remain high due to increasing demand with limited auditors available. This could involve education and training to help potential auditors navigate high barriers to entry (i.e., legislative

		requirements, rigorous certification, etc.,).
Timeline of ACCU delivery	Some projects face a delay between high upfront establishment and administrative costs and receiving ACCUs and associated revenue.	Support compressed crediting to average out ACCU issuance over time, providing more ACCUs earlier in the project when many of the expenses occur.
Limited number of methods	There are limited opportunities for some parts of the forest and land sector to participate in the carbon market, particularly the native forest sector, because there are not existing ACCU Methods that recognise activities in those sectors.	Explore the development of new methods, specifically relating to native forest management; fossil fuel substitution with biofuel; biochar creation and utilisation; and wood vaults. Streamline the EOI process for new methods.
Restrictive eligibility criteria	Eligibility criteria is highly specific and may not reflect real practice/actual carbon sequestration impacts, restricting participation and therefore opportunities for genuine emissions abatement.	Reform highly specific eligibility criteria, such as age restrictions for short to long rotation plantation conversions, while maintaining credibility and integrity. Introduce a process for proponents to review and provide feedback on existing methods.
High fixed costs	High fixed costs have effectively created a minimum project size, deterring smaller land managers from participating and limiting potential emissions reduction.	Make forest-based sequestration projects for smaller landholders more accessible through the development of appropriate methods and compliance frameworks.
Method stacking	Land managers are deterred from registering multiple carbon projects on the same property due to administrative burden and expense.	Create integrated carbon farming methods to enable several land-based methods to be stacked or combined on the same land.
The legacy of MIS	Many land managers and farmers are mistrustful of plantation establishment incentive schemes following negative experiences under the forestry MIS.	Ensure provision of high-quality user-friendly information and advice on the benefits of carbon sequestration projects.

Limited understanding of the Scheme among land managers	Some land managers and farmers might have limited awareness and understanding of the ACCU Scheme and carbon markets, and/or the benefits of planting trees on farms or as investments.	Investment in education in formats that are accessible for land managers.
Difficulty accessing clear and independent information	Information and guides published by the CER can be complex, inconsistent, and in a format not useful to help land managers and forest managers make decisions.	Introduce a private ruling scheme with knowledgeable registered agents to provide binding, timely and independent information and advice.
Social license in the broader community	There has been some criticism in the community that carbon credits have been issued to projects that do not represent real or additional abatement of emissions.	Improve education about carbon in forestry and carbon markets in the community.
Land availability	There is limited land available for carbon farming and growing timber.	Comprehensive and coordinated strategic land-use planning is essential to ensure that competition between land-uses is managed effectively and that suitable land is able to be put to its most efficient and productive use.
Caveats and title issues	Caveats on titles can pose difficulties to potential project proponents. The CER may be unwilling to consider a project with a caveat even if that caveat is historical and belonging to a deregistered business. Instead, the proponent must first request the removal of the caveat to the Land Titles Office and, if unsuccessful, to request ASIC to withdraw the caveat, although ASIC is not obligated to do so. This process can be expensive and time-consuming.	Participants at the workshop did not raise any potential solution to this problem. Some noted that, given the critical importance of conveying good title and clearly establishing transparent, unencumbered ownership of projects and their resulting ACCUs, dealing comprehensively with caveats and other title issues may simply be a necessary and unavoidable part of the process.
Tax considerations	The issuance of ACCUs is treated for tax purposes as income in the year they are received, even if they are retained for longer. This sees the	Investigate the possibility of allowing corporations and other entities to defer their tax

accrual of a tax liability that can presents a cashflow issue for smaller projects, although sole traders, partnerships and trusts are now able to defer their tax liability until the sale of the ACCUs.

liabilities on ACCUs until the point of sale.

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