

# **The Australian Agriculture and Land Sectoral Plan**

***A response by the Regen Farmers Mutual  
Interim Members Council***

***December, 2023***

The Regen Farmers Mutual Interim Members Council welcomes the opportunity to contribute to the Australian Government's consultation on an agriculture and land sector emissions reduction strategy.

As tectonic shifts in global accounting and economic policy move the boundaries of business as usual, primary producers as land stewards find themselves at the epicentre of significant challenges.

The Regen Farmers Mutual (RFM), co-designed by 70 Australian farmers and land carers, was formed on the basis of all of the issues raised in the government's discussion paper. It was also formed with a keen understanding of the immense market and political power that will be brought to bear as the global economy finally accounts for the 'externalities' of carbon pollution, biodiversity impact, and water use.

Australia is one of the largest exporters of agricultural produce globally (on a per capita basis) with around 72% of our total produce exported in 2023 (ABARES, 2023). The exposure of our farmers to rapid shifts in global economic policy is acute, particularly when that shift sits squarely in the area of environmental sustainability.

Last year, Australia ranked 1st globally for food affordability, and 22nd for overall food security (Economist Impact, 2022). Yet on the same index, Australia scores very poorly for food security policy, strategy and agency, as well as having high volatility of agricultural production relative to other nations (Economist Impact, 2022).

Production volatility due to climatic factors has been a factor here for 234 years and our relative wealth and significant exports which can be redirected domestically has previously allowed Australia to have a very low prevalence of undernourishment, low percentage of children underweight (Economist Impact, 2022) and a very high Human Development Index of 0.951, placing us 5th of 191 nations (United Nations Development Program, 2022).

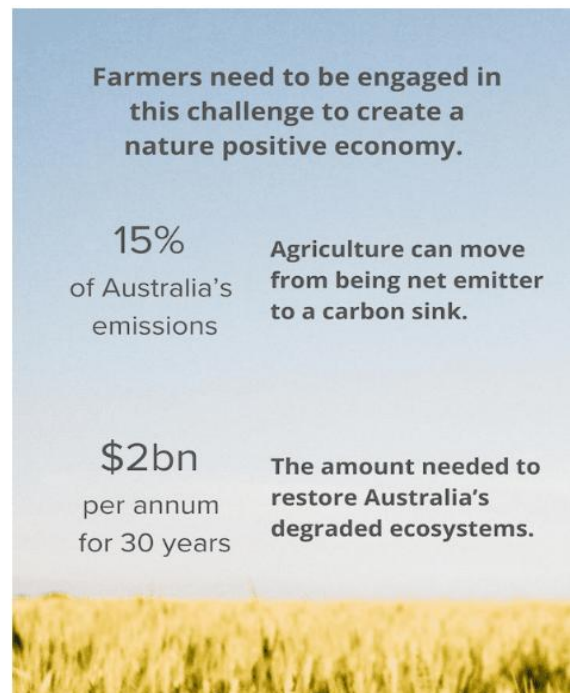
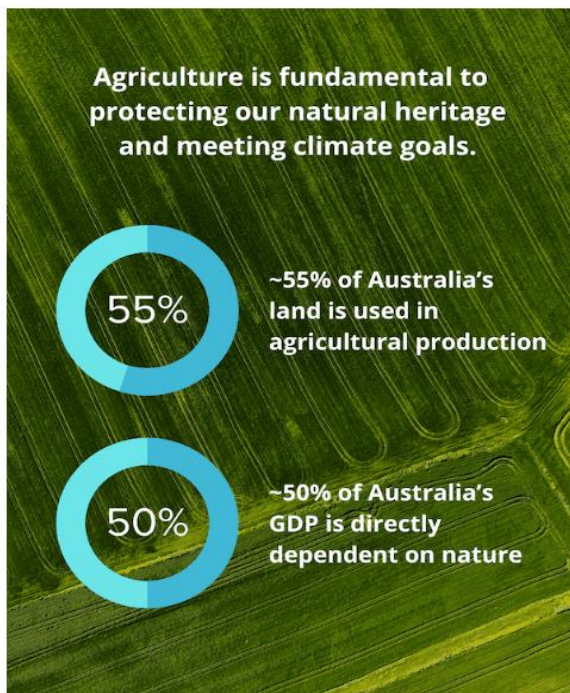
Most Australians take this, and by consequence farmers, for granted.

Our concern is how global shifts in government and supply chain responsibility will affect Australian farmers, as providers of food, fibre, carbon sinks and biodiversity protection.

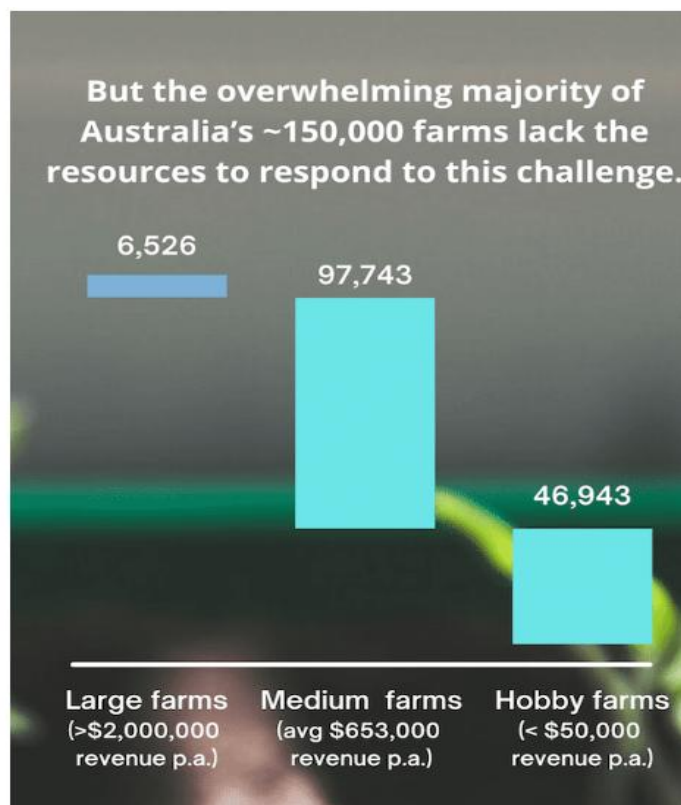
Innovation, capacity building and system enabling are fine pursuits but the Australian government must not be naive about the potentially predatory nature of many of the economic actors aligning to shift all forms of risk onto primary producers.

Are Australians and our government awake to the consequences of leaving the nation's 150,000 farms to face enormous structural change, added responsibilities, climate variability and razor thin margins to themselves?

Will it 'all be all right, mate' because it has been so far for those who are well fed and secure in urban centres?



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<sup>1</sup> Win-win: plan supports farmers to save Australia's species - UQ News - The University of Queensland, Australia

## **Why a farmer mutual?**

A farmer-owned mutual enables farmers to aggregate their market power – to create a trusted advisor that enables them to better engage in environmental outcomes. By avoiding the middle men, farmers can retain much more value from transactions. Shared ownership of the infrastructure also enables greater efficiencies in training, execution and compliance, and broadens the types of transactions and the value captured from data and provenance.

And importantly, it creates a mechanism to attract private capital to invest in credible and well structured transactions that work for farmers and the environment.

By sticking together, farmers have a unique observation point from which to view emerging issues that will have fundamental effects on the way we produce food and fibre here.

## **The ghost of Christmas future**

Australia's first foray into financialising a natural resource was widely understood to be a "market design car crash".

The damning 2021 ACCC report on Australia's \$26 billion water market found that 'scant rules governing the conduct of market participants, and no particular body to oversee trading activities in fair and efficient markets.'

Farmers for years told authorities something was wrong. They have bitter experience that it is very much in the interests of vested interests to frame huge structural changes or systemic shifts as an individualised problem for the farmer or a 'problem group' with the least market or political power (mostly the same thing in this financialised world).

Family farmers in irrigation districts in the southern Murray Darling basin, whose multi-generational knowledge of hydrology has fed millions of people for many decades, targeted by water barons and high speed traders in the largely unregulated water market were told their misfortune was their fault because they were 'water illiterate'.

What can be demonstrated is a massive transfer of wealth, around \$100 million a year, under the veil of environmental reform.

Water market players have publicly mentioned the "beautiful" structural imbalances in Australian water as the source of their extraordinary returns for shareholders.

All Australians must learn from this experience as the global economy reshapes.

They need to understand the forces and the velocity of change that are not conducive to our continued food security and capacity for Australian farmers to provide it.

A ground-up view of the main players and mis-matches on timing and capacity is an observation point that policy makers must listen to because it is borne from experience.

## The mis-match and more 'beautiful' structural imbalances

Agriculture is the only industry across the whole economy that can have more sinks than emissions. Every other industry is a buyer.

Our natural capacity to have photosynthesis on-farm, draw down carbon from the atmosphere, in the form of plants, soils and biomass, is advantageous. It means **farmers can most likely meet their emissions balance on farm, through changing some practice or form of land use.**

This enables them to shift the commodities from the farm to the supply chain in a recognised carbon neutral way.

Supply chains can recognise Scope 3 emissions reductions through multiple international methods - not all are credible, many are dubious - but farmers in Australia, as of now, can only reduce their emissions via the Emissions Reduction Fund (ERF) or ill-fitting Climate Active programs, while still having those emissions considered part of the Australian GHG inventory and national carbon accounts.

Farmers need to use ERF methods if they receive government funding and if they want to sell to Australian companies under the Safeguard Mechanism. Unfortunately the carbon industry early proponents, and the Government, made the language used by the ERF inaccessible to most farmers.

The ERF Methods usually involve upfront costs like paying for soil tests, trees, labour and fences, then waiting for 5 years before receiving carbon credits.

There is a **5-year gap** between when farmers have to report emissions and when sequestration is counted from their ERF projects in emissions reporting.

Farmers will be reporting emissions in 2024-25 and by then most supply chains will have 2 prices - one based on Certified Net Zero commodities and the other based on commodities that need to be offset by the supply chain.

Farmers that start formal sequestration projects this year, like planting trees, sequestering soil carbon will not generate these CO2E credits until 2028-29.

This perversely results in farmers - the only actors in the economy with photosynthesis on their side - being short on carbon in the immediate future. While at the same time being the only sector that can directly impact carbon drawdown and biodiversity outcomes long term across the millions of hectares farmers collectively steward.

This economic mis-match is a point of significant opportunity for government to support Australian agriculture in the global effort to identify and place the externalised cost of the environmental impact of food production and distribution onto the corporations and companies that take significant profits globally from their participation in the food industry.

Here to exploit this mismatch is a range of powerful players - carbon brokers, supply chains, banks, accountants-as-all-purpose-advisors, and consumers.

## The Carbon Confusopoly

**Confusopoly** (aka Dilbert's **confusopoly**) is confusing marketing designed to prevent the buyer making informed decisions. Dilbert's author Scott Adams defines **confusopoly** as "a group of companies with similar products who intentionally confuse customers instead of competing on price".

<https://en.wikipedia.org/wiki/Confusopoly>

[Confusopoly - Wikipedia](#)

A Confusopoly means a couple of 'majors' in a sector agreeing to fill the space so full of jargon and acronyms that they make 'price discovery' hard on purpose. This then enables all the majors better margins and the ability to extract super-normal profits.

Confusopoly is epitomised by the Australian carbon market over the past decade.

This isn't by accident. Markets like this is where brokers, backed by the hungriest of private equity, thrive due to information asymmetry.

## The Brokers

Sitting between farmers on the supply-side and customers with a huge appetite for environmental goods and services on the demand-side is a range of barriers including: scale, accepted methods, scientific and transaction skills, farmer-friendliness and brokers.

Making these barriers harder to overcome are brokers.

While the supply and demand side are not communicating with each other, the brokers make above market returns. It is not in the brokers' financial interest to help the demand and supply sides connect better, share a common agreement, distribute risk or work together in understanding issues like additionality, durability and leakage.

This situation doesn't help anyone but the brokers.

The Customer pays inflated prices while farmers pay 40%-50% in brokerage fees.

Specific terms in some cases are unethical.

It is common, for example, for brokers to be paid in full and take their cut first before farmers are paid. It is often the case for brokers to take the majority of future appreciation via re-valuation while sharing **no** risk in the case of depreciation via re-valuation.

Brokering in the emerging environmental goods and services market is already a lucrative business, and is set to grow even bigger. That is already being supported by large private equity who have identified significant returns available in the natural capital brokerage sector.

Yet as farmers watching the game closely, we believe the Confusopoly is not the main concern. It has been replaced by something potentially more harmful to Australia's food growing and climate mitigation ambitions.

## Supply Chains

It is not just farmers who should be on the lookout for bad deals put up by the supply chains, government must acknowledge that the national emissions account will be affected by the actions of supply chains seeking their own advantage.

It is entirely in the supply chains' self-interest to push the costs of climate and environment onto farmers - their Scope 3 are a farmer's Scope 1 emissions.

Given this departure point, supply chains will provide farmers a "solution". A solution which means they can use their preferred carbon accounting methods, a solution that binds the farmer to the supply chain, and a solution to the supply chains' problems (not necessarily the farmers' problems).

Up-stream actors in the supply chains are not that far removed from major polluters in their requirement to source secure volume into the future.

Farmers and governments should also understand that supply chains and polluters will compete for their carbon sequestration and nature positive capacity. When they do compete - it is the polluters that have deeper pockets than supply chains.

It stands to reason that supply chains must not only lock in secure supply but try to dictate to their supply shed the method of carbon accounting, nature-related risks reporting and sustainability standards each farmer needs to adhere to.

For them, the dual benefit is that it keeps it off the ACCU market where the polluters may compete on price.

**The double whammy of supply chain emissions sits in the farmers' supply chains.** The emissions footprint of a farmer's inputs will be reflected in a significant cost increase for energy, fertiliser and chemicals.

When cost increases for inputs are coupled with the economic mis-match of farmer offsetting potential, the resultant bias again **pushes farmers toward supply chain solutions**

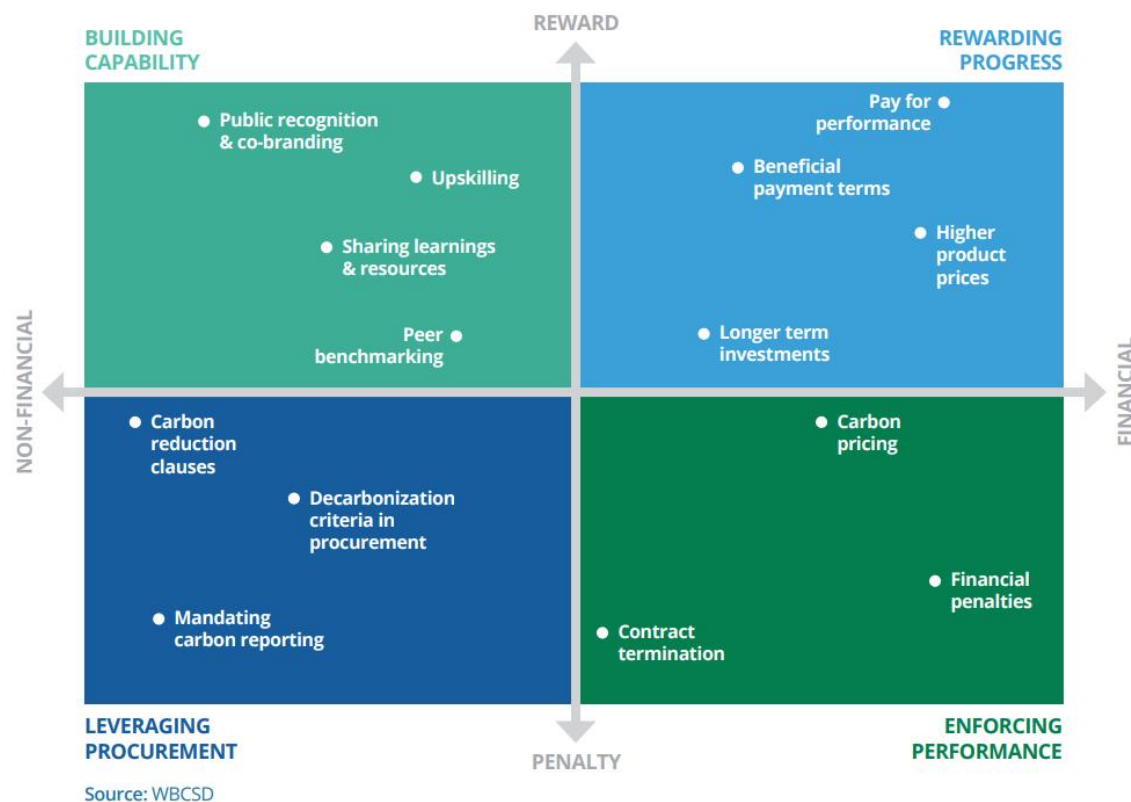
which significantly reduce Australia's potential as a global supplier of carbon positive sequestration projects.

It is only through the participation of government policy and incentives that Australia can capitalise on an opportunity to be paid by the global food and agricultural industry giants while we transition our farmers from ecology destroying practices to regenerative and landscape repairing practices on a national level.

## Supply chain incentives vs penalties - who decides? (tip: it's always about shareholder value)

The following figure is a snapshot of the World Business Council for Sustainable Development's understanding of current and future activities by supply chains to incentivise primary producers.

Have a really good look at it.



<https://www.wbcsd.org/download/file/13278>.

It might be an exciting and lucrative time for farmers, as they are supported to 'do the right thing', now that we all are accounting for previous economic externalities, if farmers work together and with the government to protect and capitalise on the opportunity.

The greatest risk to Australia and Australian farmers will be realised if the government chooses to take a "hands off, market forces" approach to this opportunity. If supply chains



are able to coerce farmers into 25 year contracts of low to nil benefit, while having to accept the majority of the climate and performance risk, the resultant decimation of Australian farming will be to the huge benefit of brokers and global agrifood business.

It is worth understanding the incentivisation levers now while we're all still friends.

An exertion of hard power, these levers impose monetary payments as a result of inaction or under performance or perhaps a gap in the required supply of cheap or below-cost carbon offsets from primary producers.

The levers include:

**Carbon price:** Carbon pricing directly applies a cost to carbon emissions. This shifts the accountability for emissions towards the suppliers who are not only responsible for those emissions, but who also have the ability to address them. Through implementing carbon pricing across a supply chain, organisations can not only encourage lower carbon behaviours, but can also channel further investment into decarbonisation activities.

**Financial penalties:** Related to the lever of carbon reduction clauses, organisations can include the prospect of financial penalties if these agreed targets or milestones are not met. These penalties could lead to an automatic reduction in fees due or discounts on purchased products.

**Contract termination:** If suppliers do not meet the decarbonisation requirements written into their contract, a buyer can reserve the right to terminate the agreement. Levers included under the 'enforcing performance' strategic area, tend to be incorporated alongside other incentivisation levers. For example, financial penalties and contract termination would be attached to mandated carbon reporting and carbon reduction clauses, as penalties for non-compliance.

# Accountants

Biggest shift in financial reporting for more than a century.....



## Compatible standards to meet investors' needs



\* Integrated Reporting Council advise IASB and ISSB on connectivity via fundamental concepts/guiding principles of integrated reporting

Source: Value Reporting Foundation



Melior Presentation

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Slide from Tim King presentation at Trading in Regen

The following is a timely and insightful comment from agrifood sustainability specialist Chris Cosgrove. It is relevant to both carbon and nature related disclosure requirements.

*"I support the intent of TNFD (Taskforce for Nature Related Disclosure) and have been working for over a year to align client reporting to it. At the same time, I'm really concerned it's part of a bigger shift to mandatory sustainability reporting and auditing that will see a **massive transfer of resources away from nature and society into the pockets of consultants and auditors.***

*TNFD is complicated. Really complicated. There are 546 pages in the three core TNFD guidance documents. That's not counting multiple additional background documents. Following TNFD to the letter while juggling #SDGs, #SBTi, #SBTN, #GRI, #ISSB, #ISO, #SEEA, #GHGP etc etc balls will be very hard for any corporation or financial institution with global value chains.*

*Now consider some numbers.*

*The mandatory European Sustainability Reporting Standards (ESRS), which largely embeds TCFD (and GRI and ISSB) into reporting, will apply to over 50,000 companies from January 2024. 50,000 companies. Just in Europe.*

*KPMG says 75 percent of businesses feel they don't have the policies, skills and systems in place to meet ESG assurance requirements. That means 75% of companies will need to buy skills through new people, consultants, or software platforms. Just to*

*be assurance ready.*

*I have no idea what assurance of something as complicated as TNFD will cost. But a 2022 survey found US-based companies spent an average of US\$82,000 on assurance related to climate. For Europe's 50,000 companies, that would be US\$4.1 billion. Just climate. Just assurance. Per year.*

*(And don't think this is a European problem: Treasury should soon publish an Exposure Draft of amendments to the Corporations Act 2001 that will include recommendations for what level of assurance Australian companies need on climate disclosures. Or looked at another way ... audit firms will soon find out how many hundreds of millions or billions of dollars Australian corporations are required, by law, to transfer to them each year for climate audits).*

*Now scale that figure up to the cost and time needed to be assurance ready for climate. And then scale it up again to the cost and time needed to prepare broader sustainability disclosures and then to have them assured.*

***Imagine if all that money was spent on nature and society.***

*Imagine if all that time and intellectual effort was spent on actual coordinated, collaborative, pre-competitive sustainability actions instead of reporting on what you might do.*

*Imagine all the companies who will do the bare minimum, or will look to bend the rules, because it's all too hard and expensive.*

*Don't get me wrong. TNFD is important. There has to be a way for entities to align with TNFD in a pragmatic but robust way that allows for resources to be targeted at priority action where it's needed instead of transferring those resources into the pockets of consultants and auditors."*

These significant compliance costs indicate the complexity of environmental management that farmers have always managed on behalf of modern society. The fact that farmers have maintained "clean and green" credentials of any sort indicates the significant value that farmers, particularly family farmers, have always placed on the health of our landscape. A value we have often felt overlooked, misunderstood or dismissed by global corporate agri-food and governments alike.

**Our farmers' key question is: How much of these compliance costs will be devolved back to the farm gate; directly paid by farmers as well as being docked by buyers from farm revenue in order to protect the primacy of 'shareholder value'?**

We are fully aware of the devastating impact this will have on farm gate returns, already marginal in drought and recovery from other disasters.

## The other raging elephant in the accountant's office

The Big Four dominate public company auditing around the world. They offer services that span a diverse range of fields, including public advisory, management consulting, corporate finance, tax, infrastructure, marketing, IT, human resources and the law.

Now employing 1.5 million staff and collecting **USD\$190 billion** in annual revenue globally, the Big Four will be extremely powerful actors in the transfer of wealth as global accounting reconfigures.

## Walking all sides of the street

As prominent economist Marianna Mazzucato and authors Rosie Collington, Stuart Kells and Ian Gow have investigated, governments around the world are some of the biggest direct purchasers of Big Four products and services. Billions are paid for business cases, forensic investigations, policy reviews, stakeholder engagement support, internal audits, asset valuations and project management services.

The Big Four enable the temporary or permanent outsourcing of public sector functions. Mazzucato and Collington posit that the big global consultancies **'infantilise governments and warp economies through the illusion that they are objective sources of expertise and capacity'**.

Government purchases of Big Four services are diverse and extend across all levels of government.

In providing services (such as policy advice, policy development and project management) that have traditionally been delivered by the public sector, the Big Four have become competitors to and substitutes for several functions of government.

As Stuart Kells puts it: "As well as standing alongside public sector clients as trusted advisors, the Big Four sometimes sit on the opposite side of the table, advising corporates and other entities in conflict with government and, sometimes, in conflict with the public interest."

The public interest in our case is growing cheap, clean food at sustainable profit for family farmers and sustaining rural economies.

The Big Four dominate the global tax-avoidance industry with their services estimated to cost taxpayers more than **US\$1 trillion** per year in lost revenue. Why wouldn't they advise on the many and varied ways to ameliorate client costs by shifting risk back to primary producers? <sup>2</sup>

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<sup>2</sup> <https://www.themandarin.com.au/221142-big-four-integrity-for-rent/>

Again, if it pays you to paint farmers as 'water illiterate' you can paint them as 'carbon and nature illiterate' and make it their fault they can't make a go of it.

It is insulting that all the world's accountants and consultants are going to introduce us, the land stewards, to nature.

## Banks

The bank's emissions balance is like that of the supply chain. Both the supply chain and the bank's emissions are the sum of their supply shed or lending book. Our farm emissions are part of our bank's aggregated emissions.

Banks don't want to buy carbon from us. They want to sell it for us.

All the big banks have carbon trading desks and some are moving on biodiversity trading desks.

Banks will use the debt we have with them to influence behaviour.

Banks have a veto power over our farms' ability to get into markets because of the title they hold. All farmers intent on a carbon project under the Emission Reduction Fund terms will require Eligible Interest Holder Consent.

It is not clear if this veto / consent is required for international carbon accounting methods that supply chains may choose to use and report against.

Banks are **always** after an accelerated return.

## Polluters

The big polluters (Coal, Oil and Gas) are compelled by the Safeguard Mechanism to meet their reduction targets. This means they need to secure volume from elsewhere because avoidance is not possible when your product is intended for combustion.

Big polluters will increasingly offer farmers funding to mitigate the upfront costs if they can have the resulting carbon. This is the operating logic of most carbon brokers at the moment. Big polluters with their deep pockets are often happy to pay at the market price down the track.

But do we want to do all the hard work and sell them offsets just so they can ramp up pollution and send us all to climate hell in a 2.7C temperature rise by the end of the century?

**A motley crew of middle men - market manipulators, insider traders, speculators and front runners?**

What we don't know is how 'beautiful' the structural imbalances are going to be for the new and 'reformed' environmental markets and food and fibre related markets in general.

Will they attract and reward main chancers at the detriment of family farmers and rural economies?

The Australian water market kicked open the door to all the world's disaster capitalists and invited them in to predate drought stricken farmers in the Murray Darling southern basin. The worse the farmers' pain, the greater the super profits.

Who will prevent that from happening again?

As long as Australia seeks to deploy a functional market solution to reduce emissions and increase our agricultural land fertility, the key role for the Australian government is to establish the regulatory infrastructure for a carbon market with integrity. Regulators must be well placed and experienced to define the necessary regulatory infrastructure for that kind of market.

The forward-looking farmer has the long term economic motivation to improve their greatest asset by sequestering carbon and reducing their carbon emissions, all they need is equal access to a functional market.

A key element of the regulatory infrastructure of any market is the integrity and transparency of market information.

## **Sticking together**

Faced with a cast of powerful players, a drying climate, volatile commodity prices, high inputs and a fast-approaching reporting cliff the chances of farmers having their natural assets shoplifted is very high.

The solution that works for farmers today is the same solution co-operatives and Single desks used in the past: Aggregate farmers with a common interest and ability to supply and then negotiate with the collective power.

When farmers come together locally and engage with each other they can achieve the scale to negotiate better terms. They can act like a "Neighbourhood Watch" group and keep the shoplifting from happening.

A coordinated group of farmers may be an important on-ground approach to correct the asymmetry present in the dynamic of farmer and broker, farmer and supply chain, farmer and bank.

Coming together as farmers has benefits beyond just negotiating power.

Farmers who co-operate locally can reduce costs and complexity associated with starting sequestration or nature-based projects. A community of farmers can accelerate successful practice change by sharing successes and failures across the network.

More importantly these farmers can coordinate cross-farm sequestration projects at a scale that has material impact on the landscape. It's the difference between un-coordinated islands of trees being planted across the landscape and a connected biolink, which provides habitat and range at a material scale.

We believe farmers working together can create better outcomes for themselves and the landscapes they are actively managing.

### **Capacity building, innovation and systems enabling**

In August 2023, Regen Farmers mutual invited a who's who of technologists, bankers, land carers, farmers, lawyers and investors to their Trading in Regen Event at Taronga Zoo.

The meeting was a first of its kind and became a forum for clearly articulating both the size of the challenges and opportunities, but also the massively perverse outcomes if we 'leave it up to the market'.

The following is a snapshot of the event's findings.

## Overall

This event brought together diverse stakeholders in the agricultural sector to discuss complex challenges ranging from regulatory issues to environmental concerns, market dynamics, and technological integration. Solutions were proposed across different aspects, such as community-centric planning, technological innovations, legal and financial strategies, and environmental stewardship. Special attention was given to farmer incentives to align them with these solutions, including financial support, education, risk management, and community engagement. The event fostered a comprehensive dialogue, aiming to bridge the gap between policy, practice, and community needs, with farmers recognized as key players in shaping a sustainable and economically viable future for the industry.

## Challenges

The challenges facing farmers and agricultural systems include a complex and centralised regulatory environment, difficulty in carbon accounting, market-related problems, language barriers, environmental integrity concerns, financial viability, equity issues, and a lack of proper training. There are also challenges associated with the integration of modern technology, consumer engagement, meeting carbon targets, and handling the legal and operational complexities of new environmental initiatives. The landscape also includes challenges related to peer-to-peer organisation, real-time modelling of carbon measurement, hydrology considerations, market power dynamics, and complexities in succession and cooperation.

- **Centralization and Top-Down Approaches:** Ignoring local needs and enforcing centralised planning.
- **Complexity of Carbon Accounting and Environmental Integrity:** Problems in measuring and maintaining genuine environmental impacts.
- **Market Issues:** Disconnects between problems and solutions, high costs, unfair distribution, and issues with compliance and regulation.
- **Communication Barriers and Uncertainty:** Differences in language understanding, lack of clarity around investments, and future market scenarios.
- **Technological Barriers:** Challenges in integrating and managing new technologies, ensuring quality data, security, and consumer engagement.
- **Social and Environmental Values:** Concerns with globalisation, regenerative practices, and sustainability.
- **Regulatory Compliance and Financial & Economic Issues:** Meeting government targets, financial pressures, and reporting standards.
- **Supply Chain & Sustainability Issues:** Challenges in maintaining trust in supply chains and engaging large companies in sustainable practices.
- **Legal, Succession Planning, and Operational Challenges:** Complexity in legal structures, planning, technology-driven reporting, and lack of indigenous knowledge appreciation.



## Solutions

Solutions to these challenges involve adopting flexible and community-centric approaches, enhancing public-private collaboration, providing better measurement and assurance, localising data for region-specific solutions, and investing in transparency and integrity. Technological solutions include smart contracts, blockchain, open source collaboration, and regenerative practices to enhance environmental focus. Legal and financial planning, environmental stewardship, and innovative use of technology are also proposed to address specific challenges. Emphasis on peer-to-peer coordination, specific data collection, market aggregation, and innovative approaches to capital and value are also highlighted.

- **Flexible and Community-Centric Approaches:** Building plans around local needs and engaging in public-private collaboration.
- **Enhanced Measurement and Assurance:** Ensuring consistency and transparency.
- **Investment in Policy and Incentives:** Encouraging local, data-driven solutions and connecting different scales of farming.
- **Technology Development and Integration:** Using smart contracts, blockchain, open standards, and community engagement.
- **Education and Consumer Engagement:** Building transparency and educating both farmers and consumers.
- **Emphasis on Regenerative and Holistic Practices:** Addressing soil health, biodiversity, sustainability, and soil carbon.
- **Financial and Supportive Solutions:** Offering green loans, collaborating with farmers, and working on market development and transparency.
- **Legal and Financial Planning:** Educating farmers on legal structures and engaging different financial structures.
- **Utilising Technology and Innovation:** Using GIS reporting, technology, carbon sequestration, and a blended approach to environmental stewardship.

## Farmer Incentives

The incentives for farmers include support for upfront costs, education, risk management, fair compensation, and inclusion in decision-making processes. There are also financial incentives such as access to green loans and opportunities for market access, along with rewards for adopting regenerative practices. Support from specialised teams and collaborations with large corporations, reputation building, and branding are also incentivizing factors. Moreover, farmers are motivated by revenue generation from environmental management, capitalising on offsets, concessional taxation methods, community-driven initiatives, and the vision of creating sustainable operations for future generations.

- **Financial Support:** Assistance with upfront costs, access to discounted green loans, and opportunities to raise total value.
- **Education and Risk Management:** Proper training and risk structuring.
- **Market Opportunities and Fair Compensation:** Access to new markets and fair rewards for environmental contributions.

## **A values engaged response will leverage Australian influence**

A global change as significant as the one we are beginning to see will require popular engagement across society. Gaining stakeholder engagement is accelerated when we find the point of value's engagement common to all.<sup>3</sup>

Farmers are the leading edge of environmental management. We manage, on behalf of broader society including the tens of millions of people we feed across the world, the environmental impact of our food system.

We understand the generational impact of degenerative management or poor decisions. Farmers, particularly intergenerational family farms, hold environmental protection as one of our highest values.

If Government engages this value as a core of policy support, industry protection and incentivisation, the real “on ground” uptake of regenerative practice change will become a beacon in global impact.

## **A Word on Water**

Repairing the water cycle can help mitigate climate change by addressing its interconnected impacts. The broken water cycle exacerbates the effects of climate change, such as intensifying rainfall leading to increased flood damage, worsening droughts, diminished river flows, and threats to watersheds due to bushfires and runoff.

Restoring the water cycle through interventions like rainwater retention, landscape rehydration measures, wetland re-vegetation, reforestation and removing constraints to connecting river systems and floodplains help cool the planet, reduce flooding, stabilise rainfall patterns, and mitigate climate destabilisation effects.

The obsession with carbon discounts the fundamentally important aspects of a viable water cycle. All of the ambitions for sustainable agriculture habitat repair, biodiversity increase and carbon sequestration are based on a functioning water cycle.

Our question is: Are we prepared for the compromises, revaluations, investments and difficult decisions when scarce water is required for food and fibre growing and new environmental goods and services?

An Agriculture and Land Sector Plan must factor in the interconnected nature of water use, carbon drawdown methods and water markets.

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<sup>3</sup> Payne, D., Trumbach, C. & Soharu, R. The Values Change Management Cycle: Ethical Change Management. J Bus Ethics 188, 429–440 (2023). <https://doi.org/10.1007/s10551-022-05306-8>

## Recommendations

Further to the above mentioned incentives outlined at the RFM Trading in Regen event, the RFM steering committee also recommends the following:

- Introduce an aggregation option in the ACCU scheme - but do it in **6 months**, not 3 years.
- Massively simplify Climate Active and reduce its costs to underpin traceability. Remove need for NGER to third party verification.
- Incentives for advice and support on carbon accounting. (Like CFAS but limited to carbon accounting)
- Strongly consider changing GWP100 as a measure of enteric methane emissions - that is a global discussion that Australia can actively promote.
- Invest heavily in education and supply chain traceability. (Incidentally the National Traceability Strategy is NOT enough, it's merely a statement of intent letting current actors follow their bumbling path - triple the effort on this)
- Build a robust credential systems for environmental credentials other than carbon. Go quicker and simpler on the Nature Repair market.
- Tax incentives for environmental-credential products.
- Incentives for advice, simplify ACCU scheme access based on existing methods (they are fine) with a risk-based approach to reduce risk, reduce audit costs or simply make them funded by the ACCU scheme. IFLM method, but if simpler. It seems at the moment to be going down the rabbit hole of enormous complexity.
- Build at least carbon traceability in NLIS for red meat industry.
- In carbon and biodiversity, better balance between practicality and integrity. Don't solve human behaviour with technical solutions or longer legal texts.

## Conclusion

**We have seven harvests until the 2030 international climate goals.**

We don't have time to watch the world's most powerful players find ways to push farmers over the cliff to save some money on a burning planet.

The Regen Farmers Mutual Interim Member Council strongly believes that Australia's agriculture, land sector emissions reductions strategy should prioritise the above solutions including farmer incentives.

The Australian government must listen to the 98,000 operators of Australian medium-sized farms and be vigilant in ways to prevent market power excesses.

We can grow food sustainably, repair nature and drawdown carbon but not on our own.

## Appendix A:

### **Costs, time, complexity and long-term risk reducing farmers' profit and goodwill: A case study.**

The first step in engaging a producer on the natural capital discussion is to define their individual position by accurately quantifying their on-farm emissions, including a detailed explanation of these (Scope 1, 2, & 3), and examples of possible solutions to offset. This is likely to drive action and willingness for the second step to occur - an accurate, reliable, and cost-effective natural capital assessment to be undertaken on their farm inclusive of a recommendation and prioritisation of the available opportunities.

Producers should be encouraged to prioritise projects that can offset their on-farm emissions as opposed to selling ACCUs.

Currently these steps are undertaken by producers under their own steam.

An example is a grower member of Regen Farmers Mutual (RFM) who engaged a professional fee-for-service natural capital assessment of his family's 1,600Ha property.

- The grower's objectives include:
  - Biodiversity: to deploy existing remnant vegetation to its highest and best use
  - ERF Native Plantings & Soil: to generate the equivalent level of Co2e/Ha to offset on-farm emissions. An ERF project is being adopted, as opposed to a Climate Active Insetting, as it provides the option to monetise ACCUs or cancel them to inset/ offset emissions
- To date the costs incurred are ~\$35k inclusive of two site visits, a desktop assessment detailing carbon sequestration and biodiversity opportunities, and soil testing. The grower advises that estimated costs to execute projects incorporating a ERF Native Plantings project and biodiversity projects are \$400k-\$500k. This is required upfront and prior to the receipt of any credit revenues. Regardless of a positive cost/ benefit, this creates a challenge in sourcing the capital – especially in times of challenging commodity prices and dry periods.
- During the natural capital assessment process, the RFM member engaged their banker seeking conditions under which the bank would provide Eligible Interest Holder Consent, a key prerequisite to an ERF project approval. The bank disclosed that they would require the third-party natural capital assessment and verification of the forecast financial modelling of the project by a professional accounting/ advisory firm. This is not an unusual nor unreasonable request, but it does place emphasis on professionally prepared due diligence which in turn requires an elevated level of engagement between customer and banker as compared to traditional farm-gate lending. As such this is likely to require the involvement of third-party advisor to support the producer.
- **Lender Lag and the 'cautious urgency'**: Banks are projecting a complicit public line to adopting net-zero strategies but are equally wary of the impacts of natural capital

projects on the land value which is most often subject to a first ranking mortgage held by the bank. Banks are treading a fine line – they are subjected to the counting of customer scope 1 & 2 emissions as their own scope 3 emissions, such are the conditions of various undertakings made by these organisations. This creates a ‘cautious urgency’ for banks to support customers reduce emissions but at the same time limit deterioration on asset values. Will this ultimately result in reduced loan to value ratios (LVR - the percentage of debt extended against land assets) which may see a requirement for producers to reduce principal as well as fund a natural capital project?

- **A ‘labyrinth’ of relative complexity.** There is presently no one-stop-shop or resource available that can present the supply chain of the various natural capital options and requirements of a proponent in a straight-forward inexpensive manner. This has created a market of third parties who prey on the ignorance of producers and extract one-sided deals generally involving the third party assuming the role as project proponent in return for a large proportion of the project returns. In turn this has created a mindset of mistrust and distrust, which combined with the perceived complexities of these initiatives, amounts to it all being discarded into the ‘too-hard-basket’ at the producer level.
- **Long term productivity risk:** The most challenging barrier is the permanence of a decision which results in the sacrifice of existing grazing or arable land to a permanent native forest under a ERF Native Plantings or Climate Active Insetting by Native Plantings. During the natural capital assessment process undertaken by the RFM member, the advice provided by the advisory firm was that any country being set down to a biodiversity or ERF project would be unable to accommodate grazing ever again.
- On account that the biodiversity project is being undertaken within existing remnant vegetation this is more acceptable. Conversely, the ERF Native Plantings project is being undertaken on an area of existing grazing land that will create the equivalent level of Co2e/ Ha to offset the farm emissions over 25-years. The grower has the choice of a 25-year or 100-year permanence period, the former resulting in a 25% discount on ACCUs produced. The latter ties the grower to ongoing obligations on the project area beyond the 25-year project period.
- The grower intends to adopt a 25-year permanence period to align with cash flows from the project and limit the caveat on-title beyond this timeframe. Logic suggests that a 25-year permanence period would enable the native plantings to be removed at maturity and a new project to be undertaken on the same area- ie a recycling of the same area to continue to deliver emissions offsets. When the grower inquired about this, the advice received is that an attempt to remove the project plantings will likely be prohibited by non-clearing legislation. **Urgent clarification is required on this matter.**
- If the native forest is unable to be replaced, then this creates a new set of challenges posed as the following questions:

- I have sacrificed grazing land to enable my farm to be net-zero over the next 25-years. If I am unable to re-use that area again, then it is essentially consigned to as remnant vegetation at a significant discount to original grazing value. What is the real cost-benefit of this project -ie Net Project Return less (Lost Grazing Returns plus Premium/ Protected Discount from Net-zero status) less (Grazing value of project area on start date less Remnant Vegetation value of project area on 25-year anniversary)?
- What will the bank say about this and will there be a requirement to reduce principal to reflect the devalued land?
- In the lead-up to the 25-year expiry of the project 1, given I am unable to clear the project area, I am now required to apportion a second area of grazing country to a new ERF to create ACCUs/ offsets for the subsequent 25-years and so on. Essentially this removes more grazing country which will continue in each 25-year block until the farm is effectively a native forest. Over time this will render my farming business unsustainable and my farm significantly devalued to a native forest value. What are the options to offset my emissions and sustainably run my grazing enterprise?
- Why is there not uniform commercial forestry option available to mitigate this issue? It seems that the ERF legislation is very selective on where forestry is allowed and the terms and conditions are quite onerous.
- Soil and HIR projects have been the most popular ERF projects on account that they compliment grazing systems. With the phasing out of HIR, this leaves soil as the most preferred project option. However, soil is also the most subjective and mysterious (or untrusted) methodology. Currently soil testing involves a probe set to a minimum depth of 30cm in which a sample is extracted. That sample is tested in a lab, with 1 gram of soil being actually being the subject of the test and delivering the soil organic carbon (SoC) metrics from which the base-line and future tests are set. There is no guarantee that SoC will increase on a linear basis which places a producer or proponent in a position on uncertainty as to whether the project will deliver to expectations.
- The Integrated Farm Method (IFM) under ERF is an essential tool to building farmer support for entering projects. A good example of this is the IFM enabling the undertaking of a soil ERF project on the same area as a native plantings ERF, thus effectively creating a dual income stream from the one project area and enhancing the Co2e/Ha and ACCU return.

### Reducing Emissions

- Total Australian emissions account for 1.1% of global emissions
- Agricultural emissions account for 16.8% of total Australian emissions
- 67% of agricultural emissions in Australia are methane produced by ruminant animals (0.12% global emissions). It seems that if this is addressed, the rest of the agricultural emissions will be an easier path to reduction

- There is an increasing focus on seaweed-based feed which could be relevant to the intensive feedlot sector.
- Pricing at the pain point: The majority of ruminant animals are run on native pasture-based farming models. There are some innovations underway to address the practical aspects of applying this technology - [First methane-inhibiting compound for delivery through water medication](#) - Beef Central.
- It more than likely that the pricing of NOP3 and seaweed supplements will be exactly at or above the pricing pain point for farmers, adding cost where ever the commodity value sits. It is unlikely the full cost will be passed down the supply chain or rewarded by premium.
- Again the cost and risk is borne by farmers.
- Logic suggests that the path to addressing the methane issue will one of the following:
  - Offsetting/ insetting/ reducing emissions through on-farm initiatives
  - Deploying proven grazing techniques to intensify livestock efficiencies
  - Reducing livestock

## **Regen Farmers Mutual Interim Members Council**

**December, 2023**