

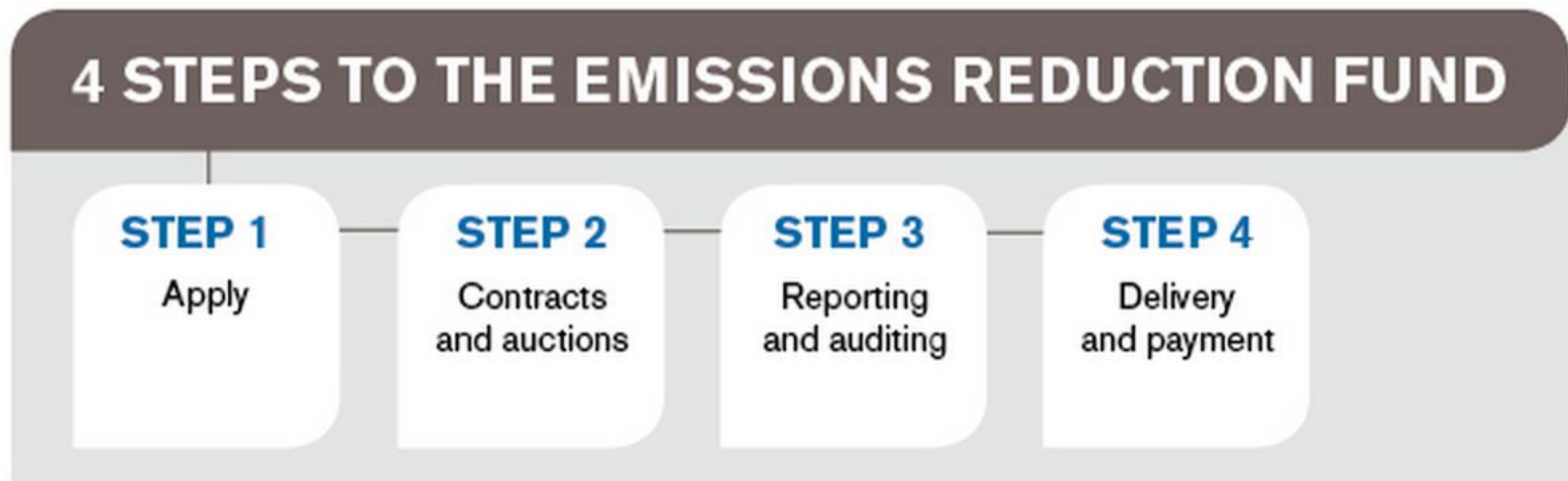
**Can northern beef producers make money  
from the ERF?**

Future Beef Webinar

July 2015

- Part 1 – the Emissions Reduction Fund
- Part 2 – Herd management scenarios
- Part 3 – Project economics

- The ERF aims to provide a financial incentive to adopt new practices & technologies that will reduce greenhouse gas emissions.
- ERF projects issued with carbon credits called Australian carbon credit units (ACCUs).
- 1 ACCU = 1 tCO<sub>2</sub>e reduced or sequestered



# CFI Achievements

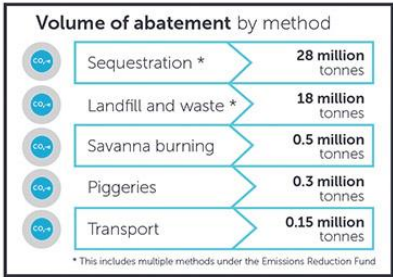
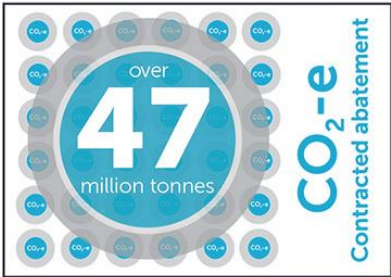
Methodology type	Number of projects	Number of ACCUs
Forests	78	5,414,647
Landfill	82	7,741,613
Piggeries	7	101,212
Savanna fire mgt	33	1,333,943
<b>Total</b>	<b>200</b>	<b>14,591,415</b>

ACCUs issued to 2<sup>nd</sup> February 2015

Value to landholders (ex-landfill) = 6,849,802 x ~\$20/ACCU  
= **\$136,996,040**

- Register your project – must apply approved method
- Auction registration – delivery terms, committed abatement over what time period, using which methods:
  1. Standard contract – 7 or 10 years (depending on project type)
  2. Short duration contract – less than 7 years
  3. Immediate delivery contract
- Auction participation – single \$ bid for your ACCUs
- Contracts awarded based on lowest price
- Gov't buys 80% of volume under Benchmark Price

## Emissions Reduction Fund 15 - 16 April 2015 Auction Results Released 23 April 2015

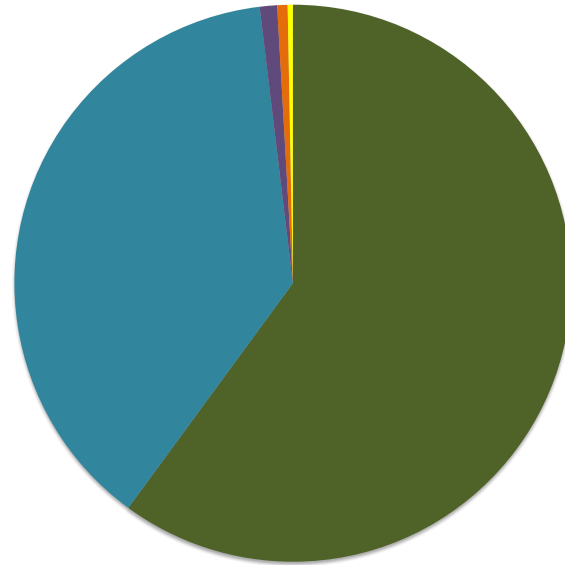


Source: Clean Energy Regulator

# Auction Analysis – Project Types

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- Volume of abatement by project type
  - Forests & soils – 60%
  - Landfills & waste management – 38%
  - Savanna burning – 1.0%
  - Piggeries – 0.6%
  - Transport – 0.3%



# Auction Analysis – Project Types

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- Livestock producers benefit via sequestration projects:
  - 47 avoided deforestation projects, most on grazing properties in central/western NSW
  - 5 contracts for increasing soil carbon in grazing systems
  - 17 contracts native forest regeneration and planting projects, some expected to be on grazing properties

- ~50% ERF Auction 1 value to livestock producers:

**\$330,000,000**



# Method Development

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- All ERF projects must apply an approved method

Feb 2013	June 2015
Savannah burning above 1000mm	Nitrate supplementation
Avoided deforestation	Soil carbon measurement methodology
Managed Regrowth of Native Forests	Avoided clearing of native forest regrowth
Environmental Plantings	Savannah burning 600-1000mm
Piggery manure management	Whole herd management
Fats & Oils in Dairy	Soil carbon modelling methodology
	Savannah sequestration – late 2015

*Livestock enteric methane methods are new to carbon markets*

Questions?

## **PART 3: Project economics & selling ACCUs**

# Carbon Expenses

- What does it cost to get involved?
- Estimated carbon related expenses:

Project Development Costs		
Initial Registration	\$10,000	per project
Monitoring/Sampling	\$3,500	per project/per year
Reporting	\$5,000	per project/per report

Audit Costs			
Methodology	Initial Audit Fee	On-going Audit Fee	Site Visit Fee
Cattle projects	\$13,250	\$9,000	\$1,000
Savanna & Sequestration	\$11,250	\$9,000	\$1,000

Total Carbon Expenses		
Methodology	Cost	Years
Cattle projects	\$100,000	7 years
Avoided clearing/managed regrowth	\$150,000	25 years
Savanna fire management	\$200,000	25 years

# Financial Performance (1)

- Scenarios analysed varied significantly in their financial performance.

Herd Management Method				
Scenario	Total ACCUs	Total Revenue	Total Expenses	Net Income
1. Kimberley: 70% weaning, 10,000 breeders	21,000	\$292,950	\$100,000	\$192,950
2. VRD: 70% weaning + heavier weaning weight	35,000	\$585,900	\$100,000	\$485,900

Nitrates Method				
Scenario	Total ACCUs	Total Revenue	Total Expenses	Net Income
1. 30,000 breeders	9,250	\$130,000	\$100,000	\$30,000

Avoided Clearing Method				
Scenario	Total ACCUs	Total Revenue	Total Expenses	Net Income
Jundah (QLD) avoided clearing 1,000Ha	13,350	\$150,000	\$150,000	\$0

Native Forest from Managed Regrowth Method				
Scenario	Total ACCUs	Total Revenue	Total Expenses	Net Income
Laura (QLD) managed regrowth 1,000Ha	125,000	\$1,000,000	\$150,000	\$850,000

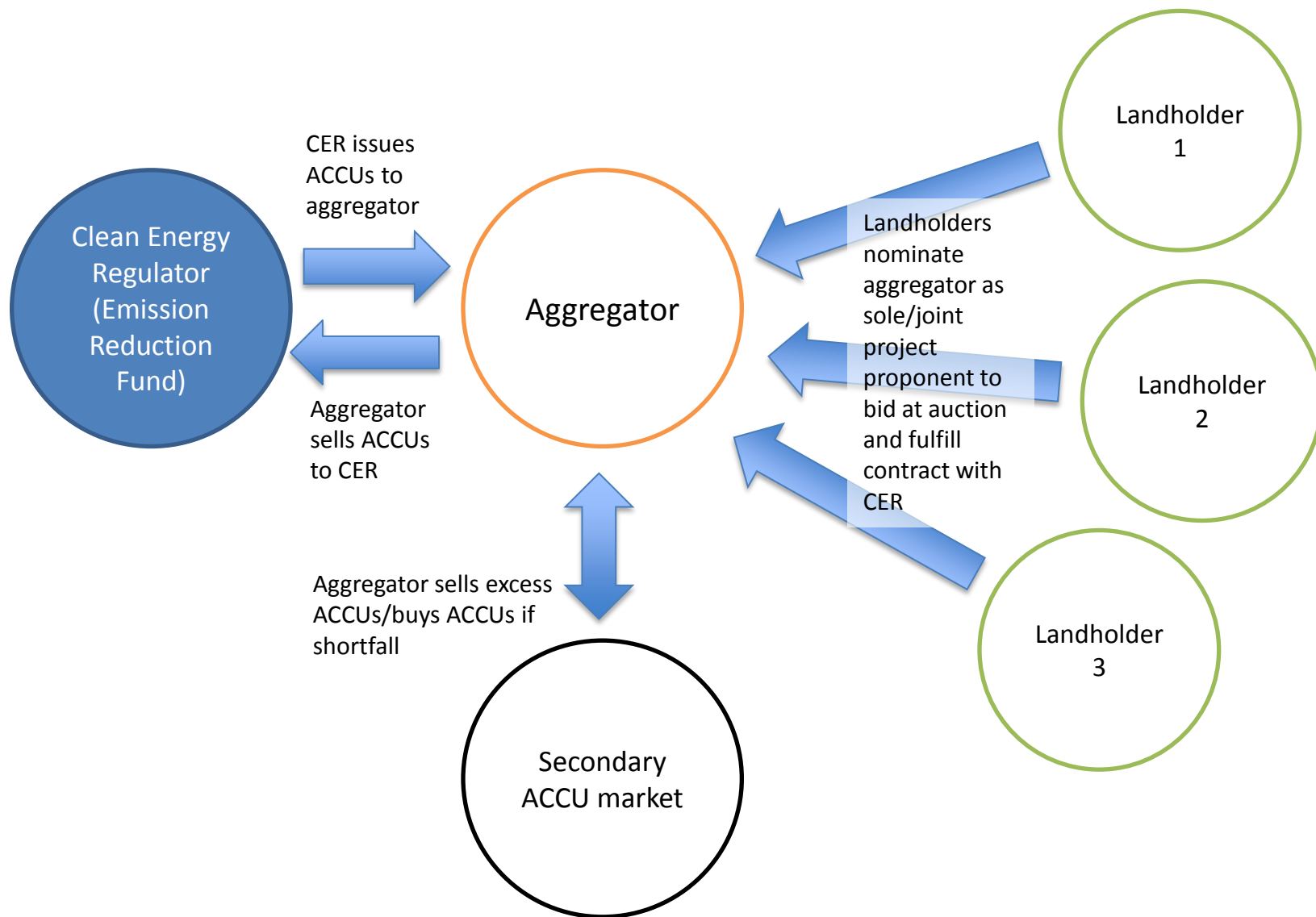
*Note: Herd management and nitrates scenarios are based on a 7 year crediting period; avoided clearing, native forest regrowth and savanna burning scenarios are based on 25 year crediting periods.*

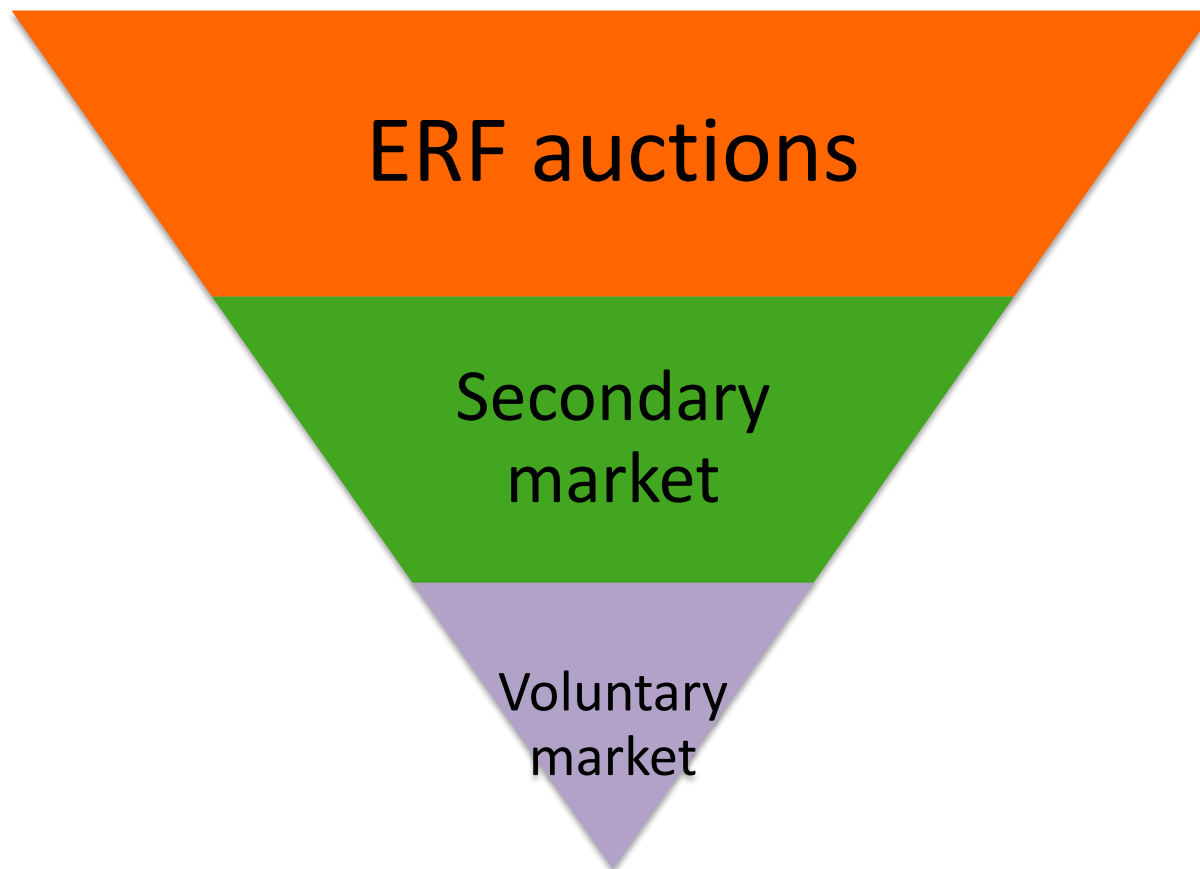
# Financial Performance (2)

Savanna Burning Method				
Scenario	Total ACCUs	Total Revenue	Total Expenses	Net Income
1. Project 1 (Net Area 15,000 km <sup>2</sup> )	285,000	\$2,425,000	\$200,000	\$2,225,000
2. Project 2 (Net Area 8,700 km <sup>2</sup> )	475,000	\$4,000,000	\$200,000	\$3,800,000

*Note: Herd management and nitrates scenarios are based on a 7 year crediting period; avoided clearing, native forest regrowth and savanna burning scenarios are based on 25 year crediting periods.*

# The Role of Aggregators







## ERF auctions

- The main game in Australia → long duration, fixed priced contracts with AAA rated counter party.
- **Challenges:**
  - Fixed volume contracts → some flexibility, but must deliver 100% of contracted volume by end of contract period.
  - Timing → Gov't spent 25% of budget at 1<sup>st</sup> auction...how long will the money last?
  - Transparency → Regulator sets benchmark price, can change between auctions (Projects at ~\$15.50/\$16 missed out on contracts in 1<sup>st</sup> auction).

## Secondary market

- Aggregators and project proponents managing ACCU under or over delivery
- A limited market has already emerged since 1<sup>st</sup> auction
- Could chose to sell exclusively in this market, but currently difficult to determine price and volume demand

# Commercial Strategy

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## Voluntary market

- Annual market in Australia is ~1-2M credits → small and fragmented
- Prices lower because of competition from international projects (\$2 - \$10)
- Savanna burning and sequestration projects have greatest potential

A diagram consisting of two overlapping trapezoidal shapes. The left shape is orange and contains the text "ERF auctions". The right shape is green and contains the text "Secondary market". The two shapes overlap in the middle, with the green shape partially covering the orange one.

ERF auctions

Secondary market

- Move quickly to register projects and participate in ERF Auctions 2, 3 or 4
- Price at break even + reasonable margin
- Be conservative with contracted volume
- Use secondary market to hedge, sell excess or make good

Thank you

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Questions?

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# Disclaimer

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