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Questions To Ask a Soil Carbon Service Provider

Before signing a contract with a carbon service provider, consider asking some of the following questions

#1 – Who is the project proponent?

The project proponent is the person, group or organisation that bears the risk and legal responsibility of the carbon project. This risk may include loss of soil carbon leading to a loss of carbon credits, or ACCUS, which is commonplace during droughts. In some regions in Australia, droughts will occur more often under future climates. The project proponent will also be issued carbon credits from the project.

If your service provider is the proponent, it should make the process easier and less risky for you. However, the commission and fees paid to the service provider are likely to be higher.

Find more information on being a project proponent here: cleanenergyregulator.gov.au/csf/how-it-works/Pages/Being-a-project-proponent-information-for-landholders.aspx

#2 – What upfront and ongoing fees or commissions will be charged with the project?

Fees and commissions will impact the income from your carbon project. These should be considered against the scale of the project and estimated financial returns. Fees and commissions can be charged by your service provider and the project can encounter audit fees; this amount will vary widely. Fees will vary with each provider. Providers can charge a flat rate, deduct fees from the carbon income or can provide a 'zero cash' loan but can deduct up to 30 per cent of your ACCUs.

Access Dr Matthew Harrison's Webinar, *Soil Carbon Markets: Science or Snake-Oil?*, for more information on project fees here: youtu.be/KL4yqgozAZk

Figure 1. Ongoing and up-front fees can apply to your carbon project. Knowing what fees and commissions may be charged before you engage a project can assist in making your decision.

Australian Government
National Landcare Program

The Soil Carbon in Pastures sub-project is supported by NRM North, through funding from the Australian Government's National Landcare Program

#3 – Who will trade my carbon credits and where will they be sold?

The service provider will usually sell the credits for you. You should consider asking them where they are selling the credits. Credits can be sold at government auctions which are generally held twice per year. This is where you or your service provider 'bid' for a contract with the government. This contract will allow the government to purchase either all or some of the carbon credits.

Find more information about government auctions here: cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund/Step-2-Contracts-and-auctions/participating-in-an-auction

There are options available for you or your service provider to sell the carbon credits privately, such as to businesses or the state government. These are called voluntary markets. These options can include a fixed commercial agreement or an on-the-spot market sale at the market price. Purchases in these instances are likely looking for carbon credits to meet emission reduction targets or offset their emissions.

At the time of writing, carbon sold on the voluntary market is worth more than that sold to the Australian Government. However, carbon sold to the latter is more credible.

For more information about carbon marketplaces, follow the link: cleanenergyregulator.gov.au/Infohub/Markets/Pages/Buying-ACCUs.aspx

#4 – What costs or liabilities will I face if I want to exit or change the project contract?

Permeance periods can be either a 25 or 100-year obligation. A 'permanence' period means that the carbon is stored and out of the atmosphere for an extended period.

Like a fixed-term loan with a bank, if you wish to leave or make changes to your registered project before your permanence period has ended, you may have to pay fees or give back the carbon credits you received. If you have already sold credits, you may have to buy some to give them back to the government as a consequence. When a farm is sold with a carbon project registered with the Australian Government on the property, the purchaser can choose to terminate or continue the project.

For more information on permanence periods, go to: cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-the-land-sector/Permanence-obligations

Figure 3. Permanence periods start when you receive credits.

#5 – What services will you perform?

Services can include soil sampling, testing, auditing, reporting, mapping, land management strategy, forward abatement estimates, and more.

The more services performed on your behalf will likely increase your costs. Cost savings may be made if you perform services yourself. However, some of these services are highly complex or must be done by a third party, such as soil core sampling.

Service provider costs will vary widely. As an example, services can cost approximately $40,000 per 1000 hectares. This process will need to be completed every 5 years and a minimum 25 year term is required under a carbon project. Therefore, it can cost approximately $200,000 to engage a service provider for the project. Some service providers will charge less, however, in these cases, ACCUs will be retained in lieu of fees.

Soil sampling costs can range between $30 - $175 per core, with a minimum of 9 samples required for a soil carbon project. These costs can also be reduced through 'zero cash' loans where 15 – 30 per cent of your ACCUs earnt will be retained by the provider.

Therefore, the total cost of soil carbon sampling can range from $15 to $60 per hectare.

As an indicator for earnings, a soil carbon project can gain anywhere between <0 - 0.8 t C ha/year leading to a financial return of <$0 - $24/ha/year.

In the Australian Government soil carbon method, changes in soil carbon can be modelled (using the Full Carbon Accounting Model [FullCAM]), measured or both (hybrid method).

Indicative costs and income figures for soil carbon markets were sampled from Dr Matthew Harrison's webinar, *Soil Carbon Markets: Science or Snake-Oil?*, find that webinar here: youtu.be/KL4yqgozAZk

#6 – Has the complete list of credit reductions/discounts been included in the credit estimate?

The reductions and discounts include permanence changes, variability in carbon sequestration and increases in your carbon emissions.

Take note of the deductions in credits that you are likely to be charged with, and ask if a commission will be levied on pre-deduction credit estimates or the number of credits you will receive.

Follow this link for more information on credit estimates:
https://www.cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund/Step-1-Apply/Forward-abatement-estimates

#7 – Who will be responsible for the credits or have insurance in case of a natural disaster affecting the project?

An event that causes a serious reduction in stored carbon could incur penalties, such as needing to return credits. For example, bushfires will cause carbon loss in trees and soils, while droughts or loss of ground cover will cause losses of soil carbon stocks. Under your proposed contract with the service provider, how will you insure against this?

The Australian Government will issue a 20% discount on ACCUs sequestered for 25-year contracts. This is called a 'reversal buffer'; in case of soil carbon losses in these events.

For more information on carbon maintenance obligations:
cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-the-land-sector/carbon-maintenance-obligations

Figure 2. Natural disasters, such as bushfires (above), can impact your project. Would you have to pay penalties if this happened?

#8 – Are you a signatory of the Australian Carbon Industry Code of Conduct?

The Carbon Market Institute has a code of ethics for signatories to abide by. The Code guides carbon service providers undertaking carbon projects including those under the Emissions Reduction Fund and other Voluntary Offset Schemes.

Find more information about the Code of Conduct here: carbonmarketinstitute.org/code/

#9 – What is the length of my contract term?

If you choose a 25-year project, the permanence period starts when you first receive credits. If your service provider has the contract, the length of the contract term varies. For example, it could mean you will wait five years before receiving credits. The end of your permanence period is therefore 30 years away

Find more information here: cleanenergyregulator.gov.au/ERF/Want-to-participate-in-the-Emissions-Reduction-Fund/Step-2-Contracts-and-auctions/contract-duration

#10 – Are you proposing to sell my ACCUs domestically, internationally, or both?

Carbon credits sold into Australian markets from Australian farms will be contributing towards Australia's national emissions reduction target. International markets won't contribute to this.

See Fact Sheet 2 in this series for more information on carbon credits.

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#11 – Will you give me a fixed or floating price for ACCUs?

No one can accurately predict how prices will change over time. A fixed-rate may be the preferred option for those seeking stability, whereas a variable rate may offer higher returns, but greater risk. It is important to seek advice based on your financial position.

#12 – What happens to ACCUs in case of insolvency?

If you are the project proponent, ACCUs will be in your registry account. If your service provider is the project proponent, it will be in their account.

For more information about ACCUs and property rights, follow the link: cleanenergyregulator.gov.au/OSR/ANREU/types-of-emissions-units/australian-carbon-credit-units

#13 – What is the nature of any permanence obligations that will be on my land title?

A carbon project will be registered on the land title, but permanence obligations begin after ACCUs have been received. If selling the land, the purchaser must decide whether to continue the project (and accrue ACCUs) or potentially hand back ACCUs and exit the project. This may affect the land price.

For more information on permanence obligations follow the link: cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-the-land-sector/Permanence-obligations

#14 – What kind of co-benefits can be stapled to my ACCUs?

Examples of co-benefits include improving water and soil quality and health through revegetation, improving farm resilience through diversification, and increasing biodiversity and habitat for native species.

Co-benefits can bring advantages in the private market due to the additional value they can provide to businesses or individuals needing to meet sustainability commitments.

It must be noted that although there are significant co-benefits to increasing soil carbon on-farm, there are trade-offs. For example, improving soil carbon can increase pasture growth, enabling an increase in stocking rates. This will inherently increase the enteric methane emissions per hectare which have the potential of negating the additional carbon you have captured. This is also known as pollution swapping.

#15 – What constraints or flexibility apply if I want to adjust/alter the project?

If the landholder is the project proponent, adjusting/altering the project will be up to them and the Clean Energy Regulator.

For more information on the flexibility and constraints of permanence periods, go to: cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-the-land-sector/Permanence-obligations

More Information

The Carbon Farming Series Fact Sheets have been produced to support carbon farming literacy. Download more in the series from nrmnorth.org.au/resources/

Dr Matthew Harrison's webinar, *Soil Carbon Markets: Science or Snake-Oil?*, is another resource to support your soil carbon understanding: youtu.be/KL4yqgozAZk

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