# Growing revenue using carbon shelterbelts

## Case Study 4, Lameroo

26 August 2022

Australian Government
Department of Agriculture, Water and the Environment

Future Drought Fund

Ai CARBON
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- *This report provides pricing scenarios to help understand potential revenue returns. We use four pricing scenarios:*
    - *Auction price of \$17.35/t$CO_2$e - the average price in the last ERF auction in April 2022*
    - *Low price \$32.00 - \$51.00/t$CO_2$e*
    - *Base price \$35.00 - \$71.00/t$CO_2$e, Compound Annual Growth (CAG) of 2.8 % over 25 years*
    - *High price \$42.00 - \$105.00/t$CO_2$e, or Compound Annual Growth (CAG) of 3.3 % over 25 years.*

- *The Low, Base and High scenarios are based on pricing information obtained from Reputex, which provides a subscription service to market participants and governments on carbon market dynamics, trends and outcomes. The pricing was current on 22 July 2022. More information about Reputex can be found at https://Reputex.com.*

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- *This report uses carbon yields calculated using the Clean Energy Regulator's carbon assessment tool (FullCAM), the outputs of which may vary depending on a range of input variables. Carbon yields cannot be finalised until any Australian Carbon Credit Units (ACCU) volumes have been approved by the Clean Energy Regulator (CER) and/or project auditor. As such, carbon yields per hectare should be considered as estimates at this stage.*

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## 1. Introduction

The Murraylands and Riverland region of South Australia is a dryland agricultural area with an average rainfall of 300-400mm, but is prone to reduced rainfall during El Nino events. Farms in the area have recently suffered a run of dry seasons. This project was funded by the Department of Agriculture, Water and Environment and the Future Drought Fund to investigate whether carbon shelterbelts could provide a useful income source during dry times.

The simplest approach to engaging in the carbon market is to use methods that conform to Australian Government carbon methods. The approach that relates best to shelterbelts is the Reforestation by Environmental or Mallee Plantings Method (Clean Energy Regulator 2022a) which uses a computer model (Full Carbon Accounting Model, FullCAM) to estimate carbon yield based on location (Department of Climate Change, Energy, the Environment and Water 2022). For projects registered with the Australian Clean Energy Regulator, carbon yields can then be converted to yield in tonnes of carbon dioxide equivalent ($tCO_2e$), with 1 $tCO_2e$ of greenhouse gas storage or abatement generating one Australian Carbon Credit Unit (ACCU, Clean Energy Regulator 2022b).

The aim of this project was to identify 10 case study sites across the Murraylands and Riverland region, then develop a planting layout, use FullCAM to model carbon sequestration, and estimate costs and revenue associated with the planting. The project targeted all six council areas in the Murraylands and Riverland where typical 'mixed farming' occurs, namely, The Coorong, Karoonda East Murray, Mid Murray, Murray Bridge, Southern Mallee and Loxton Waikerie council areas.

There was significant farmer interest in how carbon shelterbelts would affect the farm carbon account if carbon credits are not sold, but are instead used to offset farm emissions. This interest was driven both by a desire to contribute to the effort to reduce global warming, and because farmers may in future be required to offset emissions to avoid tariffs in some markets (e.g., the EU, see Martin 2021). In response, case studies were expanded to include a simple farm carbon account, and consideration of how sequestration in shelterbelts may impact net farm emissions.

## 2. Case Study 4 – Background

Case study 4 is a 3,600 ha mixed farm located 190 km east of Adelaide near Lameroo in the southern Mallee of SA. Average annual rainfall is approx. 350 mm and soils are mostly well drained sands and sandy loams over clay.

The sheep enterprise is based on a self-replacing flock of 2,000 Merino ewes grazing lucerne/veldt grass pastures and cereals. The cropping enterprise is based on approx.

2,000 ha of wheat, barley, beans, vetch, hay and lupins. Over the long term, cereal yields have averaged around 2 t/ha, although yields have been lower in recent years.

The owners of the property are interested to know if carbon yields could be sufficient to fund extensive shelterbelt plantings, which would:

- return more vegetation to the landscape
- provide habitat for wildlife
- provide extra shade and shelter for sheep, particularly lambing ewes.

The owners are also interested to know if they could earn extra income from carbon sequestration in shelterbelts, or if shelterbelts could enable them to qualify as low emissions producers, potentially providing access to low carbon markets in future.

## 3. Shelterbelt design

A theoretical shelterbelt design for the Lameroo property is shown in Figure 1. Only two blocks of land were considered for shelterbelts (the blocks nearest to home, totalling 804 ha), and only these are shown in the Figure. Factors taken into consideration when designing the layout were:

- protection for lambing ewes from cold winds (usually from the south and west)
- planting along existing fences to improve biosecurity and reduce fencing costs.

The species chosen were 'mallee eucalypt species', since local mallee trees are drought and fire resistant (due to their lignotuber), maximise carbon yield, and are easier to establish than many shrubs (Noble and Bradstock 1989). Planting density was set at <1500 stems/ha.

Shelterbelts were designed to be 24 m wide, allowing 5 rows of trees to be planted 4 m apart (the minimum spacing between rows) and keeping the outer row 2 m from fences. This design is consistent with the Reforestation by Environmental or Mallee Plantings Method wide linear planting geometry. The total area allocated to shelterbelts was 50 ha, representing 1.4 % of the farm area.

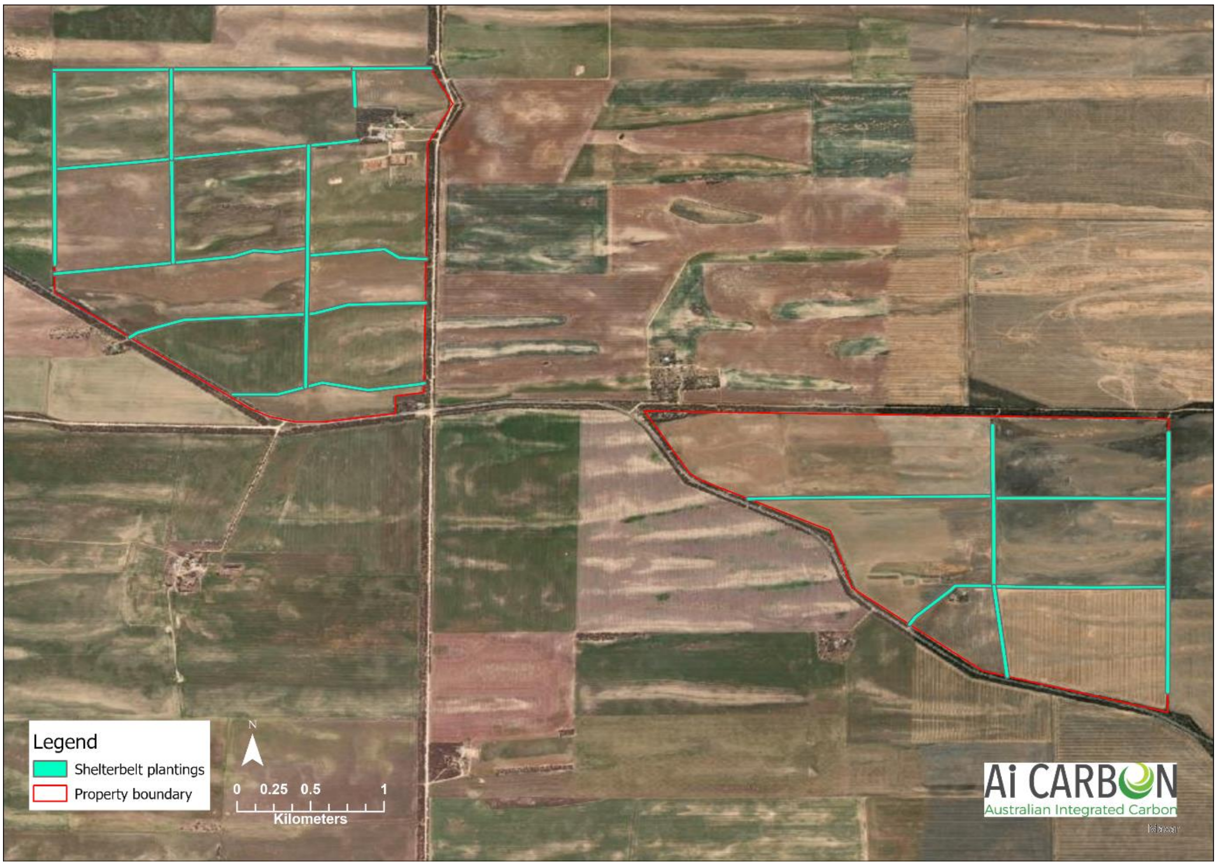


**Fig. 1. Shelterbelt design on two blocks in the Lameroo enterprise, totalling 800 ha. Green lines indicate proposed plantings.**

## 4. *Cost of establishing shelterbelts*

Cost estimates for establishing shelterbelts are shown in Table 1. Fencing costs for the design were based on a contract rate of $5000/km for 22 km of Cyclone and steel post fencing ($110,000), and a cost of $1000/ha was allowed for site preparation and direct seeding 50 ha ($50,000). At these rates, the total cost of fencing and tree seeding would be $160,000. A figure of $10,000 was allowed for post-seeding weed control (spot spraying), and for fence repairs over time.

**Table 1. Cost estimates for shelterbelt establishment.**

| Item | Unit cost | Cost on 50 ha |
|---|---:|---:|
| 22 km fencing | $5000/km | $110,000 |
| 50 ha seeding | $1000/ha | $50,000 |
| Post-seeding weed control, fence repairs | | $10,000 |
| **Total** | | **$170,000** |

Costs associated with developing, registering and auditing the project have not been included. The Clean Energy Regulator is developing a pilot program to assist landholders to enter the carbon market, but at present, this is still in a trial phase (see environmental plantings pilot, Clean Energy Regulator 2022c). It is likely some landholders may require the services of a carbon developer to assist with mapping, carbon modelling, registration, and audits. However, at this stage these costs are difficult to define and have not been included.

The total cost of establishing the project was thus estimated at $170,000. These cost estimates are a guide and will change depending on soil, slopes, condition of pastures and weeds.

## 5. Estimating carbon yield and revenue

The FullCAM model was used to calculate project carbon yield in tC/ha over a 25 year period at four locations within the belt design of the property (see Figure 2 for example FullCAM curve). The four FullCAM yield curves were then converted to yield in $CO_2e$. These four curves were highly similar (Fig. 3), with yields highest in years 2 to 10 when trees grow fastest (approx. 10-18 $tCO_2e/ha/yr$), dropping to 4-10 $tCO_2e/ha/yr$ in later years.

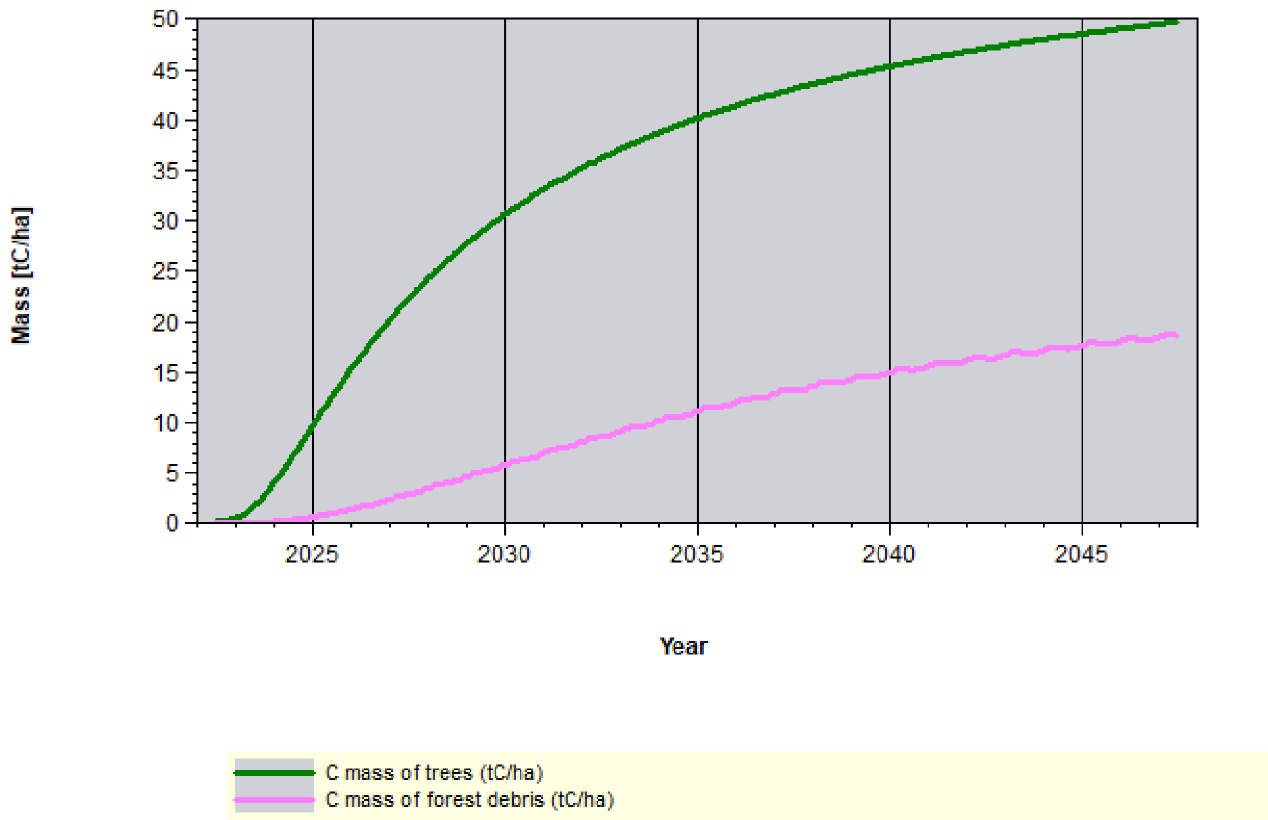


**Fig. 2. FullCAM output from one site at Lameroo showing cumulative carbon yield (tC/ha) over 25 years with mallee eucalyptus species planted in a belt at <1,500 stems/ha.**

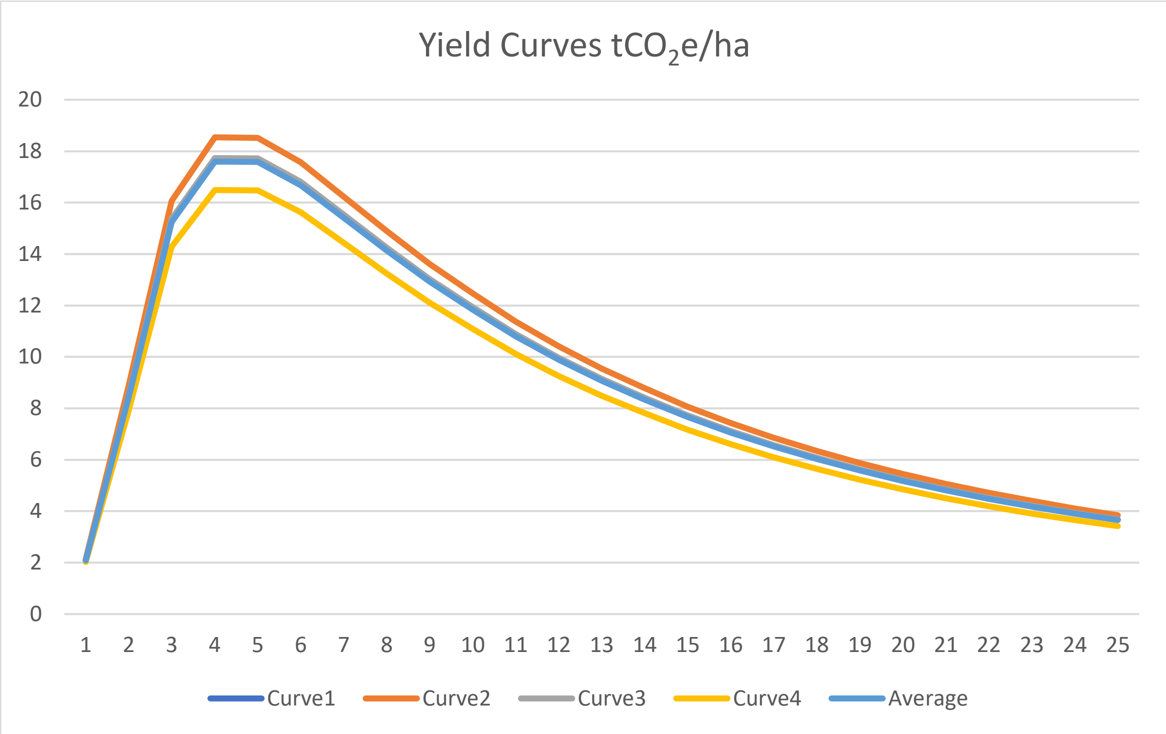


**Fig. 3. Yield curves ($tCO_2e/ha$) at 4 different locations at Lameroo over the 25 years of the project.**

An average of the four curves was used to calculate project yield across 50 ha. These calculations included the 25 % yield reductions applied to 25 year vegetation projects (5 % risk reversal buffer and 20 % permanence buffer, Clean Energy Regulator 2022d, 2022e). Cumulative project yield was estimated to be 8,591 $tCO_2e$ (Fig. 4), equating to 344 $tCO_2e/yr$ (Fig. 5), or 6.9 $tCO_2e/ha/yr$.

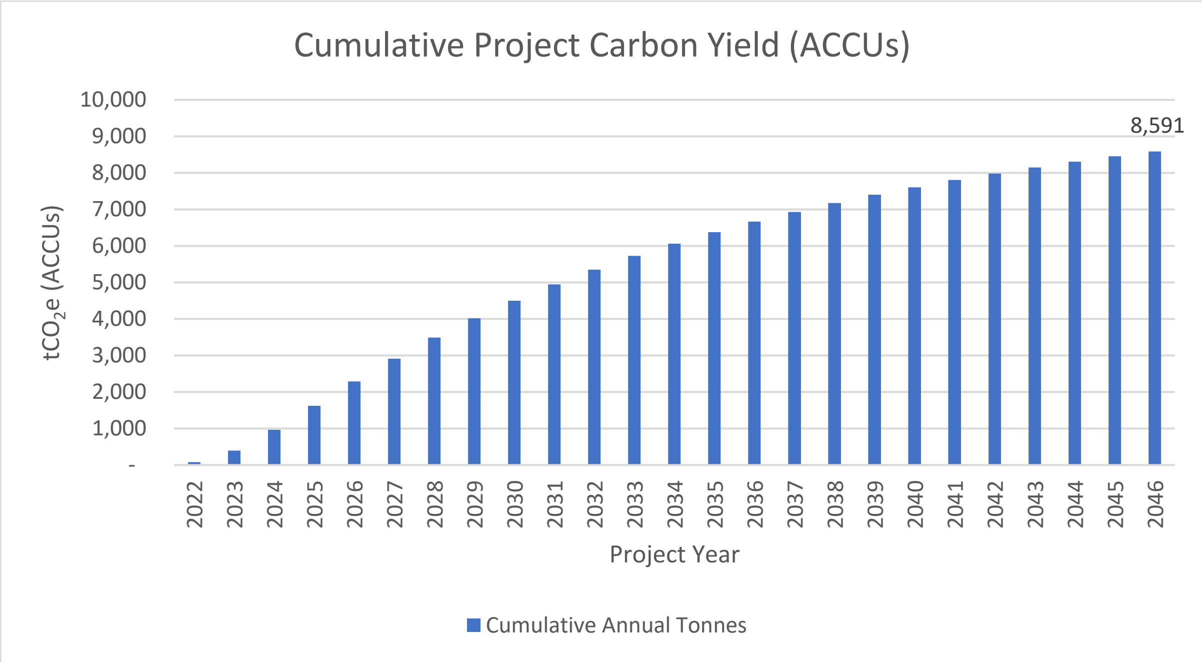


**Fig. 4. Cumulative carbon yield from the 50 ha carbon estimation area at Lameroo over 25 years.**

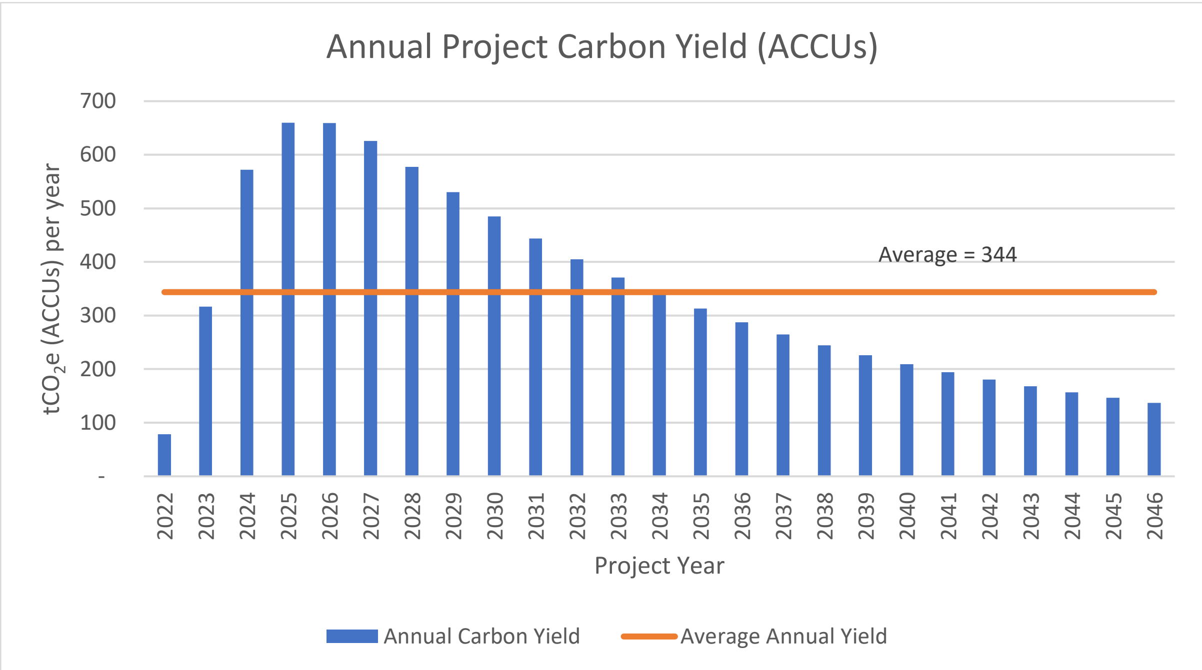


**Fig. 5. Annual carbon yields ($tCO_2e/yr$) calculated from 4 different locations at Lameroo over 25 years, and average annual yield across all years.**

Project revenue calculations were based on average carbon yield and flat, low, base and high carbon prices projected over 25 years (Table 2). Carbon prices were based on information from Reputex (https://Reputex.com) on 22/7/2022. The flat price was $17.35/t, the average carbon price in the last ERF auction (April 2022); the low price was $32/t (current spot price) increasing to $51/t and averaging $46.74/t; the base price was $35/t increasing to $71/t averaging $63.94/t; and the high scenario was $42 increasing to $105 averaging $93.62/t.

Revenues under the low, base and high pricing scenarios totalled $170,000, $458,000, $626,000 and $917,000, respectively, and annual incomes of $6,800, $18,300, $25,000 and $36,700. Because annual carbon yields were at their highest in years 2 to 10, revenue was also greatest in those years ($12,000-$61,000/yr).

**Table 2. Project revenue from the Lameroo Case Study at different pricing scenarios.**

| Yr | Calendar | Annual Tonnes | Auction Scenario | Low Scenario | Base Scenario | High Scenario |
|---|---|---|---|---|---|---|
| | | | Flat $17.35 | $32 to $51 (avg $46.74) | $35 to $71 (avg $63.94) | $42 to $105 (avg $93.62) |
| 1 | 2022 | 89 | $1,548 | $2,855 | $3,122 | $3,747 |
| 2 | 2023 | 361 | $6,266 | $13,002 | $15,169 | $20,225 |
| 3 | 2024 | 652 | $11,308 | $25,418 | $32,588 | $46,274 |
| 4 | 2025 | 752 | $13,050 | $30,840 | $40,618 | $57,166 |
| 5 | 2026 | 752 | $13,039 | $31,563 | $42,084 | $61,624 |
| 6 | 2027 | 713 | $12,371 | $31,373 | $43,494 | $60,607 |
| 7 | 2028 | 658 | $11,425 | $29,632 | $40,827 | $61,240 |
| 8 | 2029 | 604 | $10,484 | $28,401 | $40,487 | $60,428 |
| 9 | 2030 | 553 | $9,589 | $27,081 | $37,030 | $56,373 |
| 10 | 2031 | 506 | $8,781 | $25,812 | $35,934 | $53,142 |
| 11 | 2032 | 462 | $8,012 | $23,550 | $32,786 | $48,486 |
| 12 | 2033 | 423 | $7,335 | $21,561 | $30,016 | $44,390 |
| 13 | 2034 | 388 | $6,725 | $19,769 | $27,522 | $40,701 |
| 14 | 2035 | 357 | $6,185 | $18,182 | $25,312 | $37,434 |
| 15 | 2036 | 327 | $5,681 | $16,698 | $23,246 | $34,378 |
| 16 | 2037 | 302 | $5,235 | $15,388 | $21,423 | $31,682 |
| 17 | 2038 | 279 | $4,833 | $14,206 | $19,777 | $29,248 |
| 18 | 2039 | 258 | $4,473 | $13,149 | $18,305 | $27,071 |
| 19 | 2040 | 239 | $4,139 | $12,168 | $16,939 | $25,051 |
| 20 | 2041 | 221 | $3,841 | $11,291 | $15,719 | $23,247 |
| 21 | 2042 | 206 | $3,571 | $10,495 | $14,611 | $21,608 |
| 22 | 2043 | 192 | $3,324 | $9,772 | $13,604 | $20,118 |
| 23 | 2044 | 179 | $3,099 | $9,110 | $12,683 | $18,756 |
| 24 | 2045 | 167 | $2,895 | $8,509 | $11,846 | $17,518 |
| 25 | 2046 | 156 | $2,708 | $7,959 | $11,081 | $16,387 |
| **Total** | | **9,794** | **$169,917** | **$457,786** | **$626,223** | **$916,902** |
| **Average** | | | **$6,797** | **$18,311** | **$25,049** | **$36,676** |

## 6. Costs and benefits

- Project costs and benefits are summarised in Table 3. Project feasibility is assessed using the base scenario, which assumes that ACCUs are sold, resulting in $626,000 total carbon revenue.
- For the purposes of this case study, establishment costs were estimated at $170,000, noting that costs could be greater in some landscapes or if consultants were employed.
- Carbon income was estimated to be $456,000 greater than cost of establishing and maintaining the shelterbelts. The ratio of revenue to establishment costs was 3.7:1. Based on the revenue flows shown in Table 2, and assuming carbon was sold at the base rate, establishment costs would be recovered after 6 years.
- Though shelterbelts do take land out of production, and compete with adjacent pastures and crops, this impact can be offset by increased pasture and crop production due to reduced windspeeds across the farm (Bulman and Dalton 2000).
- A co-benefit from extra shelter on the Lameroo property may be improved lamb survival (Gregory 1995, Summers et al. 2019). A 3 % improvement in lamb survival per year could increase returns from lamb production by $9,000 per year (60 lambs @ $150), or $225,000 over 25 years, if stocking rates were maintained at current levels.
- Other co-benefits would include reduced dryland salinity risk, and improved animal welfare and production (Bulman and Dalton 2000), but are harder to quantify.

**Table 3. Summary of costs and benefits if ACCUs are sold.**

| Item | Costs or Benefit |
|---|---:|
| **Establishment costs** | $170,000 |
| **Carbon revenue, base case** | $626,000 |
| **Potential profit** | $456,000 |
| **Ratio of revenue to establishment costs** | 3.7:1 |
| **Time until costs recovered** | 6 years |
| **Possible value of extra lambs if lambing survival lifts 4 %** | $225,000 |

## 7. *Offsetting farm emissions*

- Many farmers are more interested in offsetting their own emissions than selling ACCUs because they want to progress towards carbon neutrality. Under this scenario, ACCUs would be generated by the business but then 'retired' (e.g., see Weidemann and Longworth 2021).
- Calculating a full emissions profile for the Lameroo farm was beyond the scope of this study, but most cropping operations emit approx. 0.3 $tCO_2e$ per tonne of cereal grain, and 0.24 $tCO_2e$/t lupins (Western Australian Department of Agriculture and Food 2022) – at this case study farm, this may equate to about 1,200 $tCO_2e$ from cropping. For the sheep enterprise, approx. 80 % of emissions would come from enteric methane, with the remaining 20 % generated from fertiliser use, diesel fuel and electricity supply (Weidemann and Dunn 2021). Using the ESB-GAF accounting tool (Primary Industries Climate Challenges Centre 2022), and assuming the case study farm runs 2,000 ewes producing 2,000 lambs, the sheep likely produce 900 $tCO_2e$/yr.
- With the present project offering the opportunity to offset 344 $tCO_2e$ each year for 25 years, the proposed shelterbelts would offset around 16 % of annual emissions, which could be a useful first step towards accessing low carbon markets in future.
- To achieve carbon neutrality, the enterprise would need further abatement and offset activities – for example, a larger tree planting project, or soil carbon sequestration, anti-methanogenic supplements, solar electricity generation, or replacing some livestock with crops. Alternatively, carbon credits could be purchased from carbon projects registered with the Clean Energy Regulator.

## 8. *Perspective of the landholder*

- The farm owners are interested in the fact that the proposed shelterbelt design offers a way of offsetting 16 % of farm emissions without major impacts on production.
- The owners are also interested in the fact that carbon shelterbelts may enhance farm economic performance if ACCUs are sold, as well as offer co-benefits such as improved animal welfare, landscape function and amenity.
- It is a major financial outlay to establish 50 ha of shelterbelts in one year, and a logistical challenge given lack of experience direct seeding trees and variable rainfall.
- Access to grants from State or Federal Governments, or other organisations that support tree planting or fencing, would increase the chances of the project being established.
- The managers are aware that establishing shelterbelts through direct seeding can be difficult and could fail in a dry year.

## *9. Conclusions*

- Using the base case pricing forecast, carbon revenue from shelterbelts was estimated to be 3.7 times higher than the cost of establishment, with establishment costs recovered after 6 years.
- Once co-benefits such as improved lamb survival and animal production are considered, the proposed carbon shelterbelts project is even more likely to be profitable.
- Other co-benefits such as improved biodiversity, reduced dryland salinity, reduced erosion and improved aesthetics are more difficult to quantify but would also be beneficial.
- Results of this study suggest that carbon shelterbelts provide a viable way of creating extra farm revenue or offsetting a significant proportion of farm emissions.
- Further work and pilot studies are required to better define costs farmers may incur with project registration, auditing, reporting and brokerage, or develop resources to allow farmers to manage projects themselves.

***Acknowledgements: This project was funded by the Australian Government's Future Drought Fund. Case study farmers are also thanked for their assistance in the project.***

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