$200m tipped into landfill firms by government's Direct Action dubbed a 'waste'

Peter HannamJune 29, 2016, 6:26 p.m.

AGL, one of the big three landfill operators, collected $14 million from taxpayers for no additional climate action. Photo: Rob Homer

The country's biggest operators of landfills have pocketed almost $200 million from the Abbott-Turnbull government's Emissions Reduction Fund (ERF) without having to prove the funds reduced their greenhouse gas production.

LMS, Energy Developments and AGL were the largest beneficiaries, collecting the lion's share of some $194.5 million of taxpayer funds handed to 39 landfill projects.

These projects already receive payments for generating electricity from captured methane under the Renewable Energy Target (RET), according to a former landfill employee familiar with the industry's operations who estimated the payments based on contracted tonnage and average auction results.

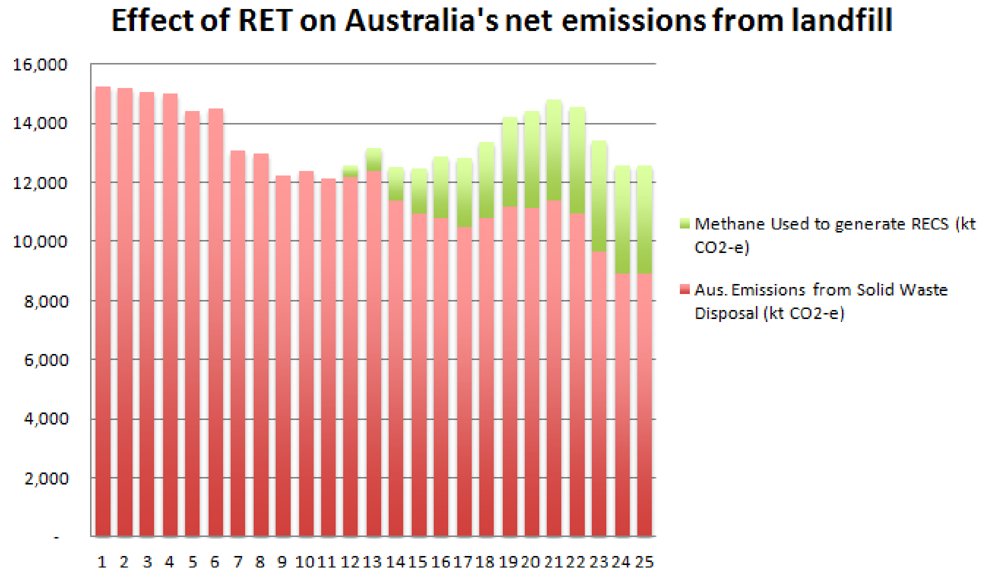
"The plain fact of the matter is they are using the same molecules of methane to be credited under both schemes," said the former employee, who requested anonymity because they still work in the industry.

"While it is great that the creation of electricity using landfill gas avoids the escape of fugitive methane emissions, it does not represent additional abatement," the person said. "The project proponents, therefore, stand to achieve windfall gains."

Landfill operators have long had incentives to capture methane gas. These incentives range from regulations to limit odour and gas build-up, to the renewable energy certificates and payments they generate by selling electricity generated from burning the methane.

Paul Burke, an economist at the Australian National University, said the landfill industry "has clearly got a very good deal" out of existing schemes such as the RET.

(See chart below based on government data showing, in kilotonnes, how much RET landfill emissions savings from 2000 onwards.)



'Stunning result'

Environment Minister Greg Hunt has hailed the $2.55 billion ERF as the centrepiece of the Abbott-Turnbull government's climate policies as "outstanding" and a model for the United Nations.

"This is a stunning result for Australia, a stunning result for the government and a stunning result for the environment," Mr Hunt said in April 2015 after the first round paid out $660 million. The fund still has $816 million to allocate after three auction rounds.

Fairfax Media sought comment from Mr Hunt about whether the landfill gas industry had "double dipped" by getting payments for emissions abatement that they would have done without the ERF.

"The independent Emissions Reduction Assurance Committee ensures that all ERF methods, with which all projects must comply, deliver additionality," a spokesman for Mr Hunt said. "The landfill gas methods were first made under the [Carbon Farming Initiative] - under Labor."

Mr Hunt "is the only person" who thinks Direct Action is a success, Mark Butler, Labor's environment spokesman, said. "This is the only tool that he's got in the toolbox and it's not working."

"Nobody who's had a look thinks the plan is doing anything to constrain or reduce emissions," Mr Butler said, adding that carbon emission are on course to rise 6 per cent between 2015 and 2020 despite "hundreds of millions" being paid to polluters.

Larissa Waters, Greens deputy leader, said "big polluting companies are getting paid millions of dollars in a total waste of taxpayer money for work that was already going ahead anyway".

"Before, we had a carbon pricing scheme where AGL, the owner of the most polluting power station in the country, had to pay for its pollution; and now, under the Coalition, it's getting paid taxpayers' money to operate its landfill facilities."

'Windfall'

In that first round, LMS successfully bid 28 of its projects – with seven of them not yet accredited under the RET – and stood to make a $117 million "windfall", Adelaide media reported at the time.

LMS, half-owned by Sims Metal Management, will collect $111.73 million for the 21 RET-accredited projects that won funding. Energy Developments, formerly ASX listed but now owned by DUET Group, will collect $45.57 million for eight projects, and AGL will get $14.15 million for six projects, the calculations provided show.

LMS and AGL defended their access to the ERF, saying they had invested in the projects as part of previous programs, such as the CFI.

"Our projects would never have been built had these schemes [ERF and RET] and their predecessors not been introduced," LMS chief financial officer Brett Maple said.

The projects had been "built in good faith" and would have had nowhere else to sell the Australian Carbon Credit Units generated under the CFI if the Abbott government had scrapped the program along with the carbon price, Mr Maple said.

The former landfill employee, though, said "it is abatement that happens any way and so therefore is not – or shouldn't be – eligible to create offsets in the form of ACCUs".

AGL, too, said the landfill gas operations "were predominantly set up in the early 2000s under the [NSW] Greenhouse Gas reduction (GGAS) and Greenhouse Friendly schemes, which set out funding timeframes to 2020".

"We reject the use of the pejorative term 'double dipping'," an AGL spokesman said.

A spokesperson for the Environment Department said there had been "no breach of legislation".

"Emissions reductions cannot be counted twice and are not," the spokesperson said. "There are savings from the renewable energy which displaces coal or gas...There is also additional abatement through the avoidance of landfill methane emissions."

The former landfill company employee, however, said ERF payments should only go for methane that would otherwise have been emitted to the atmosphere - which is not the case for the bulk of the landfill gas.

Additionality issue

However, Iain MacGill, an associate professor at the University of NSW, said companies had been beneficiaries of the original flawed design of the GGAS program and were "transitioned" into ERF eligibility.

As one of the first of its kind in the world, it did not perfect the methods to prove abatement activities were additional to what companies would otherwise have done – a problem still not mastered, he said.

"It's actually very hard to prove that [the scheme's] working," Professor MacGill said. "Are we getting value for money – is it driving actual additionality or is it a freebie?"

Andrew Macintosh, an associate professor at the ANU and also chair of the Emissions Reduction Assurance

Committee advising Mr Hunt, said the Abbott government had no choice but to allow projects approved for the CFI to be eligible to apply for ERF funds. To block them would have created a "sovereign risk problem" of changing the rules midway.

Imagine if a new government came in and said to all the ERF recipients: "There are no more projects, no more money," Professor Macintosh said.

Tristan Edis, director of analysis at Green Energy Markets, said the problem of additionality and carbon schemes included also the RET, in which pre-existing hydro power plants benefited from a program aimed at driving new renewable energy supply.

"These windfall gains are unavoidable if we want to keep administrative costs manageable," Mr Edis said. "However, where windfall gains make up a very large proportion of abatement achieved by a program then clearly it's not very effective either environmentally or economically."

Dr Burke noted that many of the landfill gas projects had been operating for years before they tapped into ERF projects. He noted in his recent paper the same issue applied to deforestation projects that had dominated the first two rounds, many of them securing "questionable additionality".

"In my discussions with local stakeholders, Direct Action revenue was referred to as 'cream' and 'too good to be true'," the paper published by The Economic Society of Australia says.

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