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## **SUBMISSION**

to

**THE CLIMATE CHANGE GROUP**

of

**THE DEPARTMENT OF PRIME MINISTER AND CABINET**

in regard to

**ABATEMENT INCENTIVES PRIOR TO THE COMMENCEMENT  
OF THE AUSTRALIAN EMISSIONS TRADING SCHEME**

Submitted by  
**Natural Recovery Systems**  
to  
**Climate Change Group**  
**Department of Prime Minister and Cabinet**  
**PO Box 6500**  
**Canberra, ACT, 2600**

We are writing to express our concerns in regard to the negative impact that the proposed Early Incentives Initiatives of the Australian Emissions Trading Scheme will have on existing Greenhouse Friendly offset abatement generators.

Natural Recovery Systems (NRS) is a stand alone joint venture between Veolia Environmental Services and the in-vessel technology developers, CR Hudson and Associates. The Dandenong in-vessel composting facility was established in 2000 to recycle food waste and garden wastes which were being disposed to landfill.

The facility uses locally developed, in-vessel composting technology which provides computer controlled conditions within the enclosed composting vessels to ensure optimal aerobic conditions are maintained.

In 2004 NRS was approved under the AGO Greenhouse Friendly Program as an offset abatement provider based on landfill methane avoidance. NRS currently generates abatements of about 20,000t CO<sub>2</sub>e annually, with the current project approval expiring at the end of 2009.

Whilst the diversion of organic wastes from landfill into resource recovery facilities has been a target of governments for many years, in reality, landfill is still the easier and cheaper option in most cases. This results in facilities such as ours struggling for suitable feedstock and unable to command gate fees commensurate with the operating costs of an advanced recycling facility.

As such our financial performance since commencement of operations has been extremely poor to the point that we would not have continued to support the business without the revenue inputs from the abatement offsets.

Since 2000 we have invested in excess of \$4M in the facility, hence it is clear that our returns are extremely poor. We certainly do not have any problems in meeting the "financial additionality" criteria of the Greenhouse Friendly program.

The growth of the business to a point of financial sustainability has also been hampered by the extended drought conditions in Victoria. Despite this, we believe in the long term future of the business and have been prepared to support it through these difficult financial times with the help provided by sale of the offsets.

Whilst we understand that the detail of the Emissions Trading Scheme, together with early action incentives, is yet to be finalised, we see little hope of benefiting from the system once our current project terminates in 2009.

If this is the case, it is highly unlikely that we would continue to support the NRS business for further years until it reaches financial sustainability.

The net result of such an action would be that the food wastes we process would return to landfill and the green waste would either return to landfill or be processed at a facility that could not guarantee consistent aerobic conditions that prevent methane generation. As such, at least 20,000tCO<sub>2</sub>e would return to the greenhouse gas emissions inventory annually.

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We doubt that it is the intent of the Scheme to cause such deleterious effects, however, many operations such as ours are financially marginal and are unlikely to survive in a market that provides no rewards for greenhouse abatement for such operators.

The greenhouse benefits associated with a controlled aerobic composting process reach further than just the avoidance of methane from landfilling of organic wastes. Whilst not yet fully quantified, the use of the compost in agricultural applications has several greenhouse benefits which include:

- conservation of moisture resulting in a reduction in irrigation requirements,
- reduction in fertiliser needs resulting in energy savings associated with reduced fertiliser manufacture,
- improved soil structure resulting in a less frequent requirement for tilling,
- improved soil and plant health leading to reduced pesticide usage and resulting in energy savings from reduced pesticide manufacture,

Advanced aerobic composting systems such as the NRS technology, are targeted to play a key role in government strategies across Australia for the diversion of organic wastes from landfill and into greenhouse abatement processes. The Emission Trading Scheme will undermine this initiative if processors are excluded from access to abatement rewards based on factors such as size, date of commencement and whether the waste management industry is a covered or non-covered activity.

Again, we understand that much of the detail of the Scheme is yet to be developed, however, all indications to date are that operations such as ours will be negatively impacted. Whilst we may not be a large operation, together with other such operators, we make an important contribution to the reduction of greenhouse gas emissions as well as providing a range of other environmental benefits.

We look forward to having the opportunity to discussing these matters with you in greater detail as the consultative process evolves.

**November 2007**