



Australian Banking
Association

30 September 2022

Independent Expert Panel
Review of Australian Carbon Credits

By email: ACCUREview@dcceew.gov.au

Dear Panel

Independent Review of Australian Carbon Credit Units

The Australian Banking Association ('**ABA**') welcomes the independent review of Australian Carbon Credit Units. We note that the pathway to achieving net zero is through reducing direct emissions and that carbon markets are an important supplement to the primary effort, especially for hard-to-abate sectors. Carbon markets are an important mechanism in Australia's transition to a low carbon economy. Therefore, trust and integrity in the units traded are critical to the success of the carbon markets and Australia's contribution to decarbonisation.

Australian Carbon Credit Units ('**ACCUs**'), issued by the Clean Energy Regulator ('**CER**') are widely regarded as best in class. ACCUs benefit from a government regulated carbon market with a level of governance and methodology transparency that affords credibility and confidence in the high quality of offsets generated. The banking sector supports the development of a liquid and transparent domestic carbon market in Australia. Additionally, Australian banks are instrumental in supporting their customers in mobilising the supply of ACCUs.

Over time, we anticipate a convergence in global carbon markets, especially as Article 6 of the Paris Agreement is scoped and implemented. Continued access to high integrity local and global carbon markets will be important for banks as they seek to implement their operational decarbonisation plans. Therefore, we support the development of an ecosystem of interoperable global carbon markets that are underpinned by robust standards and governance to ensure environmental integrity and avoidance of double counting.

The annexure contains further responses under the specific themes for which feedback has been sought. We would be pleased to respond in detail if required.

Kind regards

Head of Economic Policy

ANNEXURE

Experience with the ERF scheme

(a) Carbon Farming Ecosystem

We note the proliferation of brokerage services promoting their credentials in the development of ACCU generating carbon farming techniques for farmers and landowners. These brokerage services operate on a commission basis and require significant financial costs to farmers and landowners on top of the scheme establishment costs. As with all markets, we see a broad spectrum of capability and quality of such service offerings. There have been, at times, issues raised with the quality of the schemes entered into by farmers and landowners on advice from agents.

To help inform landowners and farmers of their rights, obligations, pitfalls, and the structure of the ACCU scheme, state-based resources have been developed. For example, the 'Carbon Farming Resource Handbook'¹, a collaboration of the Queensland Farmers Federation and the Queensland Government, is a helpful resource for people considering carbon farming in that state. We also note a similar resource produced for farmers and landowners in NSW.

The ABA sees the need for nationwide support tools such as those of Queensland and NSW. We strongly suggest the development of national carbon farming handbook be developed and regular education campaigns be conducted. Additionally, to aid with the growth and maturation of the market, it may be now appropriate to introduce accreditation for brokers such as the requirement to hold an Australian Securities and Investments Commission ('ASIC') issued Australian Financial Services License ('AFSL').

(b) Land valuation

One of the issues facing financial institutions, and the valuation industry, is how to achieve standardisation in our approaches to land valuation on properties that have carbon projects. Enhanced transparency in the areas highlighted in this submission (e.g., regulator decisions and views about current and emerging methodologies) may be helpful in that regard.

(c) Responses to questions

Are you able to get sufficient information about the scheme, its purpose and application?

- Further information on the criteria of acceptable offsets would be valuable when performing due diligence. Currently a lot of one-on-one engagement with offset producers is required to validate the model they have used, the verification approach they adopted, and the activities which supported the regeneration (for example, fencing vs rotation vs removal of feral animals).
- All application documents, risk assessments and audit reports should be made publicly available to ensure integrity of credits issued.

How have you or your community benefited from the scheme? In what ways?

- Some banks participate in the ERF scheme as voluntary buyers of offsets. This has enabled banks to achieve carbon neutral certification under Climate Active.
- Some bank clients utilise the scheme in areas such as vegetation/soil carbon sequestration, with certain sectors also working towards specific reductions in water, fertiliser usage etc. Benefits to date have been twofold: in the form of income landowners are receiving that would not normally be generated off country that is less productive and improved sustainability practices and ecological impacts.

¹ https://www.qff.org.au/wp-content/uploads/2021/03/Carbon-Farming-Handbook_NRMROFF_2021.pdf

How might negative impacts of carbon abatement projects be avoided or reduced?

- Carbon abatement projects require an increased level of due diligence combined with improved transparency. Due diligence should also capture data, governance, risk assessments and audited reports to better qualify and quantify the validity of these projects.

Governance of the ERF

Offset users undertake significant due diligence and do not solely rely on the recommendations of brokers. Due diligence can be a lengthy process. We consider that strengthening the governance of offset programs and registers will simplify the due diligence process and make the following suggestions:

(a) Trust and integrity elements

'Trust' and 'Integrity' are essential market elements. These elements provide offset purchasers comfort that the scope, stated aims, methods, and projected outcomes of a project are verifiable. This would include mechanisms such as:

- A **notification obligation** by the scheme operator to the market and offset holders when they become aware of situations which will change the project's stated outcomes – both positively and negatively.
- **Regular verified reporting** of projects by project owners from inception, duration, and closure is essential. This would include the provision of ongoing updates of project progress, intermediate agreed targets/metrics including co-benefits and outcomes achieved.
- **Consequences for false and misleading** project disclosures, including a requirement for market participants to be informed of such circumstances on a timely basis.

Additionally, the harmonisation of 'trust' and 'integrity' elements across global markets will also build interoperability between different markets and therefore scale and liquidity.

(b) Generally accepted accounting methodologies

Generally accepted account methodologies for several elements should be a feature of offset markets. Elements which could be considered for standardised treatment include:

- **Additionality:** Especially required for accounting for the social co-benefits claimed by the project in addition to accounting for emissions removal/avoidance.
- **Permanence:** A mechanism for adjustments when 'permanence' is no longer deliverable by the project. For example, if after a project has completed, the effects of that project are destroyed or undone (e.g., a forest fire), the offset purchaser will be required to be notified and appropriate adjustments to be made. Clarity about what 'appropriate adjustments' might be, who makes those decisions, timeframes etc would be helpful. For example, ACCU producers and purchasers and others involved in the offset cycle consider risks such as determining the implications if carbon is lost and how would the regulator interpret terms such as 'mitigate', 'human intervention', and 'reasonable steps' in deciding on consequences.

(c) Good Governance elements

Key elements of good governance arrangements include:

- Register audits.
- Transparency of accepted methodologies, accounting methods and cashflows.

- Project reporting of updates including the key risk metrics (and thresholds) and how these are mitigated across the duration of the project.
- Consequence management for projects that do not achieve planned outcomes.
- Standard grandfathering of existing carbon banks (within reason) where policy adjustments are made.

Further, we strongly support calling for enhanced transparency to aid governance, including in areas such as: views of current and emerging methodologies; more detail about reasoning behind decisions of ERAC; clear guidance from CER about expectations for example in monitoring and verification.

(d) Response to questions

Are governance arrangements for the scheme sound and appropriate?

- The concentration of functions performed by the CER could potentially cause a perception of conflicting priorities. It is presently responsible for designing and regulating carbon credit methods, advising and providing the secretariat for the committee that oversees the integrity of the methods, and buying credits on behalf of the government..
- The CER's Service Level Agreement to open an Australian national registry of emissions units (ANREU) account and add individuals to existing ANREU accounts is 90 days. This needs to be addressed for the market to evolve and allow participation by a wider array of organisations. A more appropriate timeframe would be 30 days, in line with international peers.

Rigour and integrity of ERF methods and projects

The ABA supports an alignment with the Paris Agreement and the SBTi Net Zero Standard. The Net Zero Banking Alliance also has guidance on standards for offset use. We suggest consideration be given to the following elements to support alignment of the ERF methods with global standards.

(a) Emissions abatement hierarchy

An emissions abatement hierarchy could be considered. We support offsets used to meet net-zero targets should predominantly be of the carbon removal offset type. While emission reduction (and avoided) offsets are important and to be supported in the interim, by 2030 the majority of offsets created in developed economies, such as Australia, should be of the carbon removal type. To this end, the government has a role to encourage further investment and development of carbon removal solutions in Australia.

The balance of credits created in developing markets is a more nuanced. There is often more pressure on significant carbon sinks in developing nations, with generally less capacity to protect natural reserves and more competing demands for using the natural resources as climate change impacts escalate.

(b) Offset vintages

As a general principle, entities could aim to acquire units with vintages aligned to similar timeframes as the emissions they are offsetting. However, mitigating factors that may need to be considered by entities seeking to purchase credits include: the lag-time for when projects will deliver benefits (e.g., tree plantations) and carbon unit supply issues. Such factors may make it challenging to completely time-align the vintage of the offset to the year in which an entity's operational emissions took place.

Although the Gold standard makes the point that 'as long as it meets the criteria of a reputable standard - it shouldn't matter whether the emission reduction happened this year or five years ago.'² as

² <https://www.goldstandard.org/blog-item/carbon-pricing-why-do-prices-vary-project-type>

regulations and policies change, older vintages may not meet current requirements/criteria. Therefore, grandfathering of offset stores should be incorporated with changes to standards.

Suggested criteria

Additionally, we suggest the ERF could incorporate criteria on:

- Environmental integrity, including increased accuracy of measuring carbon offsets³.
- Capability requirements for delivering offsetting projects. Many of the companies delivering offsets are newly formed technology companies where experience and proven ability in delivering/operationalising carbon projects is in infancy or not evident.
- Agreed set of operational standards with intermediate benchmarks and metrics to be reported.
- Standard for validating reported progress and outcomes.
- Standards for assessing co-benefits.
- Confirmation that there is no modern slavery in the project or its supply chain.
- Consequence processes for situations where a project fails to meet outcomes.
- Cashflow transparency to enable a view of the underlying investment in carbon removal and associated benefits is key for risk management.

(c) Response to questions

Could improvements be made to the transparency of: information used to support method development and review? How? Crediting of ACCUs? How? Decision making? How?

- We would welcome greater transparency on methods and how they were informed by engagement with scientific community. Transparency on whether a project has a negative ACCU balance (due to reversal events like fire). Additionally, transparency/releasing of the aggregated data itself across all project sites (given current legislation does not prohibit this).
- All application documents and audit reports could be made publicly available to ensure integrity of credits issued.

Could improvements be made to existing approaches: for project reporting, auditing, monitoring, compliance, or enforcement? For developing, approving, and reviewing methods?

- The scheme could benefit from increased transparency for buyers on project auditing, risk assessments, monitoring and enforcement. Civil society engagement on developing, approving, and reviewing methods.

Co-benefits and other impacts

We note the long-established knowledge of the deep interrelationship between biodiversity and climate change response:

‘We cannot address biodiversity loss without tackling climate change, but it is equally impossible to tackle climate change without addressing biodiversity loss. Protecting and restoring ecosystems can help us reduce the extent of climate change and cope with its impact.’⁴ (*European Commission, 2009*)

³ Per suggestions contained in this submission.

⁴ https://ec.europa.eu/environment/nature/climatechange/index_en.htm, Also: (a) the joint report by the IPCC and the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services in June 2021 (b) Pamela McElwee ‘Climate Change and Biodiversity Loss: two sides of the same coin’ (2021) <https://online.ucpress.edu/currenthistory/article/120/829/295/118794/Climate-Change-and-Biodiversity-Loss-Two-Sides-of>

It appears however that the two, climate change and biodiversity loss, are to be treated as two parallel issues. See for example the International Sustainability Standards Board's considerations for two distinct standards to report on climate change and natural capital. A local example is the proposed Biodiversity Market, the consultation for which has been conducted by the Department of the Environment.

Co-benefits, if appropriately measured and valued, can strengthen incentives for private landholders to reduce or remove carbon and enhance natural capital. These benefits are also important for many companies to reinforce broader organisational objectives.

One major challenge is how to build broader investor confidence in these non-carbon benefits. As the CCA review identified, it would be useful to have clearer criteria and standards to enable more transparent and consistent reporting and assessment of these benefits. This should consider any criteria developed as part of various jurisdictions' efforts to regulate biodiversity offsets. It is also important that any changes to the arrangements underpinning ACCUs take into consideration developments in biodiversity markets, so that issues such as credit stacking and supply fragmentation are addressed.

The ABA considers that it would be prudent to consider how biodiversity improvements can be attributed to projects awarded ACCUs. This will require the development of biodiversity targets for Australia and draw direct science-based links to climate change adaptation and mitigation activities for which ACCUs are earned. As well as recognising additional benefits that may come on top of carbon projects, it is important that the process for determining eligibility includes consideration of potential wider environmental and social impacts. Conditions around the maintenance of projects need to reflect the ongoing need to manage these impacts, as does compliance monitoring.

Response to questions

What is your experience with co-benefits from carbon abatement projects?

- While there was qualitative discussion on co-benefits, there was not enough regulation or oversight or criteria on co-benefits to make a robust decision without external research and direct engagement with project managers.

Are current arrangements to manage potential adverse impacts reasonable and appropriate? How might these arrangements be improved?

- Further rigour and transparency on the assessment framework of adverse impacts and controls in place would provide comfort to buyers.

Relationship to voluntary Climate Active certification

The ABA supports the development and maturation of voluntary carbon markets. Further, the flexibility to source offsets from both local and offshore is critical for efficient use of offsets. Given climate change knows no boundaries, we suggest quantity limits not be applied to the use of international offsets for voluntary carbon neutral commitments. This view is informed by the following considerations:

- Use of offsets is tightly aligned with the entity's decarbonization strategy and social impact strategy. For example, one entity may choose to acquire offsets in a selection of international markets in which they have a footprint or Scope 3 supply chain; another entity may choose to acquire offsets which will deliver significant co-benefits that are aligned to that entity's social impact objectives.
- Where a good mix of domestic offsets should be included in the offset mix of entities, this needs to be considered in view of challenges in buying offsets from Australian sources. The quantity of international carbon offsetting projects significantly outstrips the number of domestic carbon



offset projects currently available. By limiting the quantity of international offsets accessible by Australian companies, a growing number of companies in Australia will be competing for a limited number of carbon offsetting projects at a much higher cost.

- The upcoming requirement for Climate Active carbon neutral certification to use a minimum of 20% ACCUs may have several impacts. Ahead of this requirement being implemented, it would be useful to understand the Government's broader approach to carbon markets, including how it sees the use of international units and the role of voluntary markets. There will be a range of demands on ACCUs and clarity about a National Carbon Market Strategy may help to understand and potentially manage these.
- The Climate Active 20% requirement could also exacerbate challenges for smaller operators to access the market. The threshold due to go into effect from July 2023, for Climate Active certifications equal to or greater than 1,000 t CO₂-e, could result in ACCU parcel sizes as low as 200 units. But carbon developers and inter-dealer brokers tend to favour larger parcel sizes and wholesale participants."

Future

(a) Nationally Determined Contributions

We would welcome a National Carbon Market Strategy as the CCA has advocated in its review. This could provide helpful clarity to potential offset generators, such as agricultural customers. It could also contribute to improved price discovery and lower transaction costs for a wider range of market participants. It could do this by articulating a clear regulatory and institutional framework clarifying the respective roles of domestic and international carbon markets in achieving Australia's climate goals. This could help drive the evolution of more suitable transaction venues and types, parcel sizes and registry arrangements than currently exist.

(b) International carbon markets

The lack of transparency when considering many international projects is a concern (we note that this is a factor of the nascency of the carbon markets). For example, the lack of standardised reporting requires the offsetting entity to undertake detailed due diligence of the project. Such processes are lengthy and costly to the offsetting entity. The length of time taken to undertake such due diligence processes has seen cases of Australian banks missing out on those projects as the credits had been acquired by other purchasing entities whilst the bank was undertaking its due diligence of the project.

A specific instance for promoting transparency could be a requirement to disclose cashflows to recipient projects. Confidence in the efficacy of the carbon credits and associated co-benefit claims would be significantly improved if this was a required disclosure. As a tradeable commodity, the buyer has a very limited view on how much of its investment in carbon credits is going towards climate action versus administration, broker margins and trading profits.

Alignment on measurement approach for different technologies is yet to occur. We refer for example the UK government announcement in late 2021 that the British emissions trading scheme will also enable projects which seek to sequester carbon. The measurement of such offsets is unclear; therefore, it is unclear how entities can rely on such credits without undertaking their own extensive due diligence.

We note the increasing use of blockchain technology in the creation and trading of carbon credits. Neither the tokenisation nor the exchanges supporting the trading of the tokens, be they crypto or non-fungible token (NFTs) exchanges, are regulated in Australia. There is opportunity to combine the positive potential of blockchain technologies, to add transparency to projects, prices, supply, and demand, along with appropriate regulation of such frameworks.

Country risk is an overlaying risk which needs to be considered. It is challenging for entities to understand the potential political and governmental considerations prevailing in countries in which projects offering carbon offsets operate.



To develop understanding of country risks, ABA members work through brokers to access international offsets. We support the licensing regime of Australian brokers who are required to hold an ASIC issued AFSL and are supportive of similar requirements for international brokers.

Given the nascent state of the carbon markets, the ABA is supportive of the Clean Energy Regulator taking a more active role in assessing the international carbon markets to smooth out information asymmetry between participants.

(c) International carbon markets

Is the current carbon crediting framework, including the offsets integrity standards, adequate and suitable for future needs and opportunities?

- Offset quality standards, including methodologies for HIR and co-benefits including nature require increased rigour and improvements over time to meet increasing expectations. The process to create ACCUs will need to be streamlined for all stakeholders (project managers, brokers, buyers) to enable higher volume of offset creation and retirement to meet growing demand.

What changes could be made to improve the scheme so that it provides appropriate abatement and other benefits into the future?

- To ensure ongoing integrity to ACCUs, there will need to be an increased level of due diligence combined with improved transparency across data, governance, risk assessments and audited reports to better qualify and quantify the positive impacts and benefits of these projects.