

3 October 2023

Department of Climate Change, Energy, the Environment and Water

Lodged electronically

To whom it may concern,

### **Climateworks Centre submission on the ACCU Review Discussion Paper.**

Climateworks Centre welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water's consultation of its *ACCU Review Discussion Paper* (the Discussion Paper). Climateworks Centre bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. Climateworks develops specialist knowledge to accelerate emissions reduction, in line with the global 1.5°C temperature goal, across Australia, Southeast Asia and the Pacific.

Our submission draws on Climateworks' in-depth review of the literature related to offsets to identify appropriate principles for the use and design of offsets. It also draws on our analytical and modelling work on the scale and pace of change required for decarbonisation, and our analysis that shows that decarbonisation solutions are available in all sectors. Our submission focuses on Section 1 of the *ACCU Review Discussion Paper*: Improving governance and transparency.

### **Submission summary**

#### **Recommendations:**

Considering the above elements, Climateworks recommends that the Department makes a number of changes to the ACCU Scheme Principles to enhance their integrity:

- Amend the existing principles to capture key elements that are currently not specified:
  - **Integrity:** clarify that the rigorous approach to *design, independent appraisal and assurance* includes robust quantification of emissions reductions
  - **Transparency:** specify that the transparency Principle pertains to all relevant information, including making data publicly available so that emissions calculations, environmental impacts, and emissions reduction calculations can be verified by third parties
  - **Equitable access, participation, and benefit sharing:** highlight that clear, accurate and accessible information is essential to ensuring the integrity of offset creation, as is free prior and informed consent for all peoples potentially impacted by a decision
  - **Environmental and regional sustainability:** specify that carbon abatement projects aim to enhance the ecological, cultural and agricultural value of the land

- **Respect for First Nations:** include a requirement of free, prior, and informed consent when engaging with First Nations Australians; the provision of both shared economic benefits and social benefits for community from the ACCU Scheme; a requirement that cultural heritage be preserved and protected; a requirement that land and environmental protection plans should be developed collaboratively with First Nations communities where applicable, and that respectful engagement may require regular and ongoing cultural competency training.
- Add further principles to to enhance the integrity of existing ACCU Scheme Principles:
  - **Prioritise emissions reductions** and optimise the use of offsets
  - **Tracking via an electronic registry**
  - **Address the risk of lack of permanence** of biological removals.
- Climateworks also recommends that the Department sets an expectation that all ACCU Scheme Principles will need to be met when making decisions, unless it is otherwise shown why they are not applicable.
- Climateworks recommends that disclosure also be strengthened to enhance ACCU scheme transparency.

## Context

Australia needs to increase carbon sequestration to meet its obligations under the Paris Agreement. The ACCU Scheme can help incentivise such sequestration. However, limits to its role should be informed by the imperative of entities to reduce emissions. Climateworks' research shows that solutions are available for substantial emissions reductions in all sectors on least-cost pathways in line with the goals of the Paris Agreement (Climateworks Centre 2020 and Climateworks Centre and Climate-KIC Australia 2023). Climateworks notes that an offset scheme is just one of a suite of mechanisms that can enhance land based sequestration.

Climateworks also notes that the ACCU Scheme needs to function as part of an ambitious, aligned and consistent set of policies to drive the net zero transition. This includes ensuring that the objectives and processes of the ACCU Scheme are complementary to other initiatives, such as the Nature Repair Market.

## ACCU Scheme Principles

This section relates to Section 1.1 *Maximising ACCU Scheme transparency* and question 1: *Are the proposed principles fit for purpose and how should they be applied to improve ACCU Scheme governance and integrity?*

### Climateworks' principles to support high integrity offsets

There is extensive literature and research related to the principles of offsets integrity. Climateworks is currently examining this research and would welcome further discussions with the Department about our findings and how our principles inform our work. Further, we welcome the Department's exploration and consideration of this literature.

Climateworks assesses offset integrity based on four elements:

- integrity of the how the scheme is operating overall
- integrity of how offsets are created
- integrity of how offsets can be used
- optimising co-benefits and managing risks of perverse outcomes from offset projects.

Here we outline how these four elements underpin high-integrity offsets and evaluate whether they are created and used in a way that will support Australia's transformation to a net zero economy.

Climateworks notes that there is not yet sufficient confidence in the capacity or the integrity of carbon offsets – whether from nature-based or geological projects – compared to the expectations about the roles that offsets can play in net zero plans. Therefore, we recommend that the Department undertake further research and analysis on long-term projections for the generation of and demand for carbon credit units. This work could be undertaken with other agencies, particularly the Climate Change Authority and Treasury, for whom the availability and demand of carbon credit units have significant implications, including for the development of sectoral pathways and plans. Demonstrating the integrity of any carbon offset schemes and their appropriate use by Australian entities will be crucial for Australia’s involvement in international Article 6 measures as part of the Paris Agreement. Such an analysis would be useful for boosting confidence in the ACCU Scheme among businesses and investors - domestically and internationally.

### ***Integrity of offset scheme or mechanism***

Australian Carbon Credit Units, legislated under the Carbon Farming Initiative, is Australia’s formal offset scheme. Organisations with compliance obligations are allowed to use these units in place of required emissions reductions, for example, to cover obligations under the Safeguard Mechanism. Organisations, particularly companies, can also voluntarily choose to buy offsets to demonstrate they are taking action to address the impact of their emissions. Integrity and rigour are essential within these schemes to maintain confidence that the creation and use of carbon offsets are credible. It is therefore important that these schemes have effective governance, independent verification, robust methodologies, and ensure there is no double counting of emissions reductions or removals. Transparency and publicly available information are crucial for enabling confidence in the schemes. Electronic tracking and online access can contribute to this.

### ***Integrity of offset creation***

Addressing integrity of offset creation includes issues such as ensuring offsets represent additional activities and represent permanent changes – or have measures to address possible reversals. Issues beyond quantitative emissions reductions include how unit creation includes non-climate impacts, so consultation with indigenous peoples and local communities will be important parts of integrity, as well as appropriate health and safety and human rights dimensions.

### ***Integrity of offset use***

Climateworks advocates for high-quality disclosure of climate risk accompanied by credible transition plans. Climateworks works with the corporate sector to set standards for credible net zero transition plans in line with the Paris Agreement. We also provide advice and training on their creation. A key element of such plans is demonstrating that offsets will be used with integrity. Climateworks advocates for transition plans that:

- follow the mitigation hierarchy to first avoid emissions and reduce emissions, before using offsets to counterbalance any residual emissions
- quantify emissions across a company’s value chain
- set ambitious net zero and near- and mid-term emissions reduction targets consistent with the Paris Agreement, to show how the mitigation hierarchy will be applied
- provide detailed information about how to achieve stated targets, including the current or expected use of high-quality carbon credits units
- only use carbon offsets certified by a high-integrity offset scheme to compensate for residual emissions.

### ***Co-benefits and risks of negative outcomes***

Projects that create nature-based carbon credit units are most often sited on land that could have alternative uses. These projects have the potential to create co-benefits that go beyond emissions reductions, including benefits for biodiversity, water management, resilience to climate change impacts, and in some cases agricultural production. However, projects also have the potential to create negative impacts or have tradeoffs with alternate objectives. We also see the importance of the

ACCU Scheme explicitly addressing harm minimisation. In our view this would require a risk management approach to address the potential for negative outcomes for productivity, communities and the environment. Some projects or methods may be inherently more risky such that the ACCU Scheme may wish to treat them differently. Climateworks sees addressing these issues, and factoring in broader goals like the Sustainable Development Goals, as central to the integrity of carbon offset schemes and the use of offsets.

## **Suggested amendments to enhance the integrity of the existing ACCU Scheme Principles**

Climateworks notes that the ACCU Scheme Principles touch on many elements outlined above. To further strengthen the ACCU Scheme Principles, we suggest that the Department consider making a number of amendments as outlined below.

### **Integrity**

Climateworks suggests that the Department clarify that the rigorous approach to *design, independent appraisal and assurance* includes the robust quantification of emissions reductions.

### **Transparency**

Climateworks suggests that the Department specify that the transparency Principle pertains to all relevant information, including making data publicly available so that emissions calculations, environmental impacts, and emissions reduction calculations can be verified by third parties. Public data will also help verify company reporting on mandatory risk disclosure and transition plans.

### **Equitable access, participation, and benefit sharing**

Climateworks suggests that the Department amend this Principle to highlight that clear, accurate and accessible information is essential to ensuring the integrity of offset creation, as is free prior and informed consent for all peoples potentially impacted by a decision, including First Nations Australians (see also the *Respect for First Nations* principle below). Equitable access and participation also requires robust and transparent processes for stakeholder feedback to be received and acted on, in a timely fashion.

### **Environmental and regional sustainability**

Climateworks appreciates the Department's statement that carbon abatement projects should contribute to improved land management and resilience to climate change and avoid adverse impacts. We suggest that the Department strengthens this Principle so that carbon abatement projects aim to enhance the ecological, cultural and agricultural value of the land (First Nation Clean Energy Network, 2022).

Projects that strengthen ecosystems have benefits for biodiversity and climate resilience, which can help to reduce the risk of reversing carbon sequestration while protecting existing carbon stocks. For this reason, we recommend that the government prioritise nature-based sequestration solutions that have substantial co-benefits for nature. We also recommend that the Department look to the broad suite of mechanisms at its disposal to incentivise nature-based sequestration, and consider the ACCU Scheme as having a limited role in this context.

### **Respect for First Nations**

Climateworks welcomes the inclusion of Respect for First Nations Australians as an ACCU Scheme Principle, and notes that the existing elements within the principles and our suggestions within the *Equitable access, participation, and benefit sharing* Principle and the *Environmental and regional sustainability* Principle also apply to decisions that affect First Nations Australians.

We further suggest that the Department consider extending the Principle to include:

- a requirement of free, prior, and informed consent when engaging with First Nations Australians
- the provision of both shared economic benefits and social benefits for community from the ACCU Scheme
- a requirement that cultural heritage be preserved and protected
- a requirement that land and environmental protection plans should be developed collaboratively with First Nations communities where applicable, and that respectful engagement may require regular and ongoing cultural competency training (First Nation Clean Energy Network, 2022).

All decisions should be made in line with applicable international human rights law, the United Nations Declaration on the Rights of Indigenous Peoples (UN General Assembly 2007), and International Labour Organisation's (1989) Convention 169 on Indigenous and Tribal Peoples.

## **Additional principles to enhance the integrity of existing ACCU Scheme Principles**

In addition to the amendments outlined above, Climateworks suggests that the ACCU Scheme add the following principles:

### **Prioritise emissions reductions and optimise the use of offsets**

Estimations of projected emissions globally and for Australia far exceed expected capacity for sequestration. Therefore relying on offsets to meet decarbonisation targets is no longer considered good practice, even if the offsets used are of high quality. This is reflected in the principles from other initiatives focussed on offset use, including the Oxford Offsetting Principles (2020), whose first principle is to prioritise reducing an entity's own emissions, thus minimising the need to use offsets.

Climateworks therefore suggests that the Department reflect this best practice and adds an additional ACCU Scheme principle to *Prioritise emissions reductions and optimise the use of offsets*. Climateworks' analysis of emissions reductions across the economy shows that all sectors can achieve substantial emissions reductions (Climateworks Centre and Climate-KIC Australia 2023). The analysis also shows that if Australia is to reach net zero emissions in line with the Paris Agreement there will need to be substantial increases in land based sequestration. This suggests that ACCUs will be an increasingly limited resource. Hence government guidance and policy should ensure that offsets are used where most needed - to offset residual emissions that cannot currently be reduced by other means. We suggest that this is operationalised via the sub-elements we have highlighted in our *Integrity of offset use* section above. We note the findings of the IEA that no new long-lead-time fossil fuel supply fits within their global pathway to net zero by 2050 in line with 1.5C (IEA 2023).

We also suggest that the Department consider the ACCU Scheme as one of several ways to incentivise land based sequestration and recognise the limitations of the role that offsets can play in decarbonisation. The ACCU Scheme's optimisation of offsets should be based on the expectation that companies should minimise their reliance on ACCUs to meet emissions targets. Further, the Department should also consider the relative importance of other mechanisms to incentivise sequestration and protect valuable natural carbon sinks. This perspective should also take into account the quantity of sequestration required and available across the economy to draw down existing emissions and to restore natural carbon sinks.

Additional government support to prioritise emissions reductions and optimise the use of offsets should come in the form of the development of sectoral emissions pathways and their use within corporate reporting in line with international standards. This needs to be underpinned by information architecture to support and track corporate decarbonisation progress against credible corporate transition plans, and a range of information platforms, institutions and data to support emerging requirements for corporate and financial reporting on scope 3 emissions. Climateworks would be pleased to discuss these topics further with the Department.

### Tracking via an electronic registry

We suggest that compliance with the Principles should be part of established and emerging procedures to confirm, uniquely identify, track, and report on Australian authorisation of carbon credit units pursuant to Article 6 of the Paris Agreement. Reporting on these aspects along with the relevant contributions to the Adaptation Fund, and quantified positive SDG impacts by a mitigation activity. This will help build confidence in the integrity of ACCUs and that Australian governments and companies are complying with relevant sections of the Paris Agreement. We also suggest that tracking carbon offsets should be consistent with the standards and accounting system for the Guarantee of Origin scheme being developed in Australia.

### Address the risk of lack of permanence of biological removals

Climateworks recommends that the Department undertakes research on how to ensure that emissions removals through offsets are measured through a rigorous, scientifically-aligned analysis that takes into account risks around lack of permanency and reversibility. This is particularly important in relation to the use of land-based sequestration to offset emissions from fossil fuels. Options to address this issue include but are not limited to, increasing the buffers and discount rate applied to biological removals or potential restrictions on use – as is common in many emissions trading schemes. Climateworks is currently helping to organise a series of workshops on the topic of equivalency between geological emissions and biological removals and would welcome participation from the Department. We note the European Union's and other international entities' evolving position on the use of offsets should also be monitored with regard to potential exclusion from businesses' declarations of carbon neutrality.

### Application of the ACCU Scheme Principles

Climateworks notes the ACCU Review Discussion Paper states that the purpose of the ACCU Scheme Principles is to guide how the ACCU Scheme is administered, rather than creating an obligation that they are met or complied with. The discussion paper states that 'method developers would be asked how their method addresses the ACCU Scheme Principles'. Climateworks advises that a more robust approach is taken, given that integrity is an aggregation of individual principles. We suggest that the Department sets an expectation that all ACCU Scheme Principles (including our suggested amendments and additions) would be met unless it is otherwise shown why they are not applicable.

## Maximising ACCU Scheme Transparency

### Strengthening disclosure to enhance ACCU Scheme transparency

This section relates to Section 1.2 *Maximising ACCU Scheme transparency* and question 3: *What information should be published about ACCU holdings that delivers greater transparency in the market?*

Recognising that market transparency is a key driver for efficient trading and functioning of carbon credit markets, Climateworks suggests the Department implements a robust approach to disclosure. We suggest this disclosure includes:

- information on the individual ACCU holdings such as ownership, identification details and vintage year
- project details including name, purpose, location and ACCUs generated
- details on the verification process
- methodology used to define the total project ACCUs
- any legal, cancellation or retirement information.

Greater transparency on ACCU holdings will also support corporate transparency and accountability of corporations' climate-related disclosures.

## Limiting grounds for exemption

This section relates to Section 1.2 *Maximising ACCU Scheme transparency* and question 5: *Are there other grounds or circumstances where information should be withheld, for example, an exemption for existing projects?*

In order to promote transparency, Climateworks suggests that existing projects should not be excluded from disclosure, nor should there be other grounds for exemption beyond those proposed in the brief.

Thank you for taking the time to consider our submission. We would welcome an opportunity to brief your team to explore our responses in further detail.

Yours sincerely,

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