



Sustainable Business Australia Limited trading as
Business Council for Sustainable Development Australia
ABN 48 052 135 609
Level 27
20 Bond Street
SYDNEY NSW 2000
+ 61 2 8005 0780
bcsda@bcsda.org.au
www.bcsd.org.au

Submissions
Climate Change Authority
GPO Box 787
Canberra ACT 2600

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Dear Climate Change Authority

International Offsets Review – BCSD Australia

Thank you for the opportunity to provide this submission to Climate Change Authority's consultation on International Offsets Review. Our submission is below.

A handwritten signature in black ink, appearing to be "Andrew Petersen", with a long horizontal line extending to the right.

Andrew Petersen
CEO | **Business Council for Sustainable Development Australia**
andrew.petersen@bcsda.org.au | 0412 545 994

Question	Response
<p>Q1: What considerations should guide the use of international offsets in Australia?</p>	<p>Fundamentally, international offsets are based on a logic which does not hold in the long term. In order to be able to offset one's emissions, someone else needs to have "extra" emission reductions available to sell.</p> <p>Yet, the Paris Agreement requires all countries to reduce emissions as much as they can. This means that there is no room to offset, because there are no "extra emission reductions" available when countries are already doing their maximum.</p> <p>At a global level, we should strive to reach a balance of zero net emissions, as negative emissions through various sinks will compensate for small amounts of residual positive emissions. But as each country or region aims to achieve net zero emissions, there will be little to no "extra" reductions which can be bought by other countries. So, while positive and negative emissions will balance each other out in national accounting, it is difficult to see how there will be space for large scale offsetting initiatives.</p> <p>This means that the carbon market system must evolve and ultimately mature towards something better than offsetting. It should aim to accelerate the transition, rather than offering a cheap way out and replacing somebody's efforts with that of someone else.</p> <p>The first order of preference in the world should move away from offsetting mechanisms and towards financing climate projects that truly drive the zero-carbon transition. One way of achieving this is to use existing carbon markets to disburse climate finance by buying carbon credits and cancelling them, without claiming the actual emission reductions. This and other alternatives to foster finance flows will need to be further elaborated in the coming years to transition beyond offsetting.</p>
<p>Q2: What is the role of offsets in Australia's transition to net zero emissions and how might this change over time?</p>	<p>Offsetting could be part of a time limited term low-cost climate change policy, but until there is a clear, robust and long-term energy and climate policy in Australia, offsetting will probably be required initially because there will be emissions certain sectors cannot eliminate due to the lack of available technology, at least in the short term. So, at this stage the only viable option is to deal with these emissions. So, targeted policies that create momentum towards net-zero emissions in Australia by 2050 can be more ambitious and achieved at lower cost if they include some role for offsetting.</p>
<p>Q2(a) Does this vary by offset type (e.g. sequestration vs emissions reduced or avoided?)</p>	<p>Australia's governments should be clear about the role of offsetting in each policy they implement in pursuit of net zero. They should take an 'avoid emissions first' approach, set clear rules, maintain high standards of integrity, and be clear about why offsetting is necessary.</p> <p>As policies begin to drive demand for offsetting, governments should step back from being the major buyers of offsetting units, and focus on underwriting the development of technologies and practices to remove carbon dioxide from the atmosphere.</p> <p>Imports and exports of offsetting units will become more important as all countries move towards net zero.</p>

	<p>The Federal Government should introduce rules to prevent double-counting of offsetting activities that take place in Australia but are used to offset emissions overseas.</p>
<p>Q2(b) What are the opportunities and risks presented by international offsets now and into the future?</p>	<p>Opportunities:</p> <ul style="list-style-type: none"> • Carbon credits system that can be traded on a fungible, well-regulated marketplace. • A verifiable market mechanism which validates and measures projects to ensure they produce authentic benefits and are genuinely "additional" activities that would not otherwise have been undertaken. • Project Types possible in Australian context, including land-use (e.g., improved forestry management), methane capture, biomass sequestration, renewable energy, industrial energy efficiency. • Beyond reducing greenhouse gas emissions projects may provide benefits such as ecosystem services or economic opportunities for communities near the project site. • Implementation of certification regimes <p>Challenges:</p> <ul style="list-style-type: none"> • Unequal prices of carbon in the economy, which can cause economic collateral damage if production flows to regions or industries that have a lower price of carbon—unless carbon can be purchased from that area, which offsets effectively permit, equalizing the price. • Double-Counting • Lack of economic incentive • Homogeneity problems: arise from the non-linear nature of climate change and sensitivity of emissions, which complicate attempts to calculate carbon offsets. • Justice problems: involve issues of dependency and the concentration of wealth among the rich, meaning carbon trading often counteracts attempts to reduce poverty. • Gaming problems: include pressures to promote high-volume, least-cost projects and the consequences of emissions leakage. • Information problems: encompass transaction costs related to carbon trading and market participation and the comparatively weak institutional capacity of project evaluators. • Too many credits available • Delivering an overall mitigation in global emissions (OMGE) • Avoiding perverse incentives that hamper ambition
<p>Q3: Are there lessons to be learned from experience with international carbon markets to date? What are most relevant to this review?</p>	<p>There are many lessons from market experiences over the past few years: there should be fewer free allowances, better management of market-sensitive information, and a recognition that trading systems require adjustments that have consequences for market participants and market confidence.</p>
<p>Q4: Does your company (intend to) use domestic or international offsets and, if so, why?</p>	<p>N/A</p>

<p>Q4(a): What are the most important factors you (will) consider in choosing which international offsets to purchase?</p>	<p>There needs a period of time to ensure the offsets that are purchased are robust and equivalent to the emissions that are seeking to address. Offset products that are accredited according to a recognised standard, are independently verified, provided other environmental benefits are best.</p>
<p>Q5: What criteria and standards should govern the use of offsets in Australia and under Climate Active in particular? What criteria and standards should be adopted by IPCOS?</p>	<p>These are complex, intricate governance debates – for instance regarding methodologies for measuring and producing carbon credits - that often appear to be dissociated from the problem of climate change itself. It is important though that connections are maintained, particularly looking forward to the future when climate change is likely to manifest more clearly, and, for example, attention might increasingly be directed towards offset projects that meet standards for climate change adaptation as well as sustainable development.</p>
<p>Q5(a): Should different criteria and standards apply at different scales (e.g. at the method, project, scheme and trading platform levels)?</p>	<p>There must be a minimum criteria and standard which underpins all offsets.</p>
<p>Q6: What is your view of the criteria and standards currently applied by international offsets programs such as the Gold Standard, the Verified Carbon Standard and the Clean Development Mechanism?</p>	<p>There are two different types of carbon markets: cap and trade schemes (or emissions trading systems, ETS) and baseline-and-credit mechanisms, which we will call offsetting mechanisms (although this is a simplifying characterisation).</p> <p>These two forms of markets do not work in the same way, and do not have the same objective. The fundamental distinction between the two is in what is being bought and sold on the market. In both cases, it's a tonne of CO₂e. However, in an ETS, companies trade pollution permits (often called “allowances”), which allow them to emit one tonne of CO₂e. When a company releases 1tCO₂e, it must give one permit back to the government (“surrender an allowance to the regulator”). In an offsetting mechanism, on the other hand, countries/ companies trade offsets, i.e., emission reduction units, which must represent a tonne of CO₂e which has been reduced already.</p> <p>The timing is therefore crucial to distinguish between ETSs and offset mechanisms: in an ETS, companies trade permits to pollute in the future, while in an offsetting mechanism, the traded emission reductions have already happened (hence are from the past). From this follows a host of other differences.</p> <p>Offsets can only lead to a zero-sum game, because one tonne of CO₂e is emitted somewhere, and one tonne is reduced somewhere else.</p> <p>Hence, they cannot be used to reduce emissions in the long term and are not compatible with the idea of going towards net-zero emissions at a global level. Offsets should only be used to compensate for emissions that cannot be avoided or reduced.</p>
<p>Q6(a): Are there any gaps in the criteria used? What changes and/or additions are needed?</p>	<p>We need the offsets which arise from actual emissions reduction, offsets from emissions avoidance are not going to get us to net zero.</p> <p>The Oxford Principles also state that CCS and CCUS will be required if we are going to get to net zero. We will soon not be able to use</p>

	<p>avoidance offsets (energy efficiency, renewable energy, avoided savannah burning etc) as proxies for emissions reductions. It may be that these considerations will form part of additionality arguments going forward, or they may just dictate what methodologies are accepted into schemes</p>
<p>Q6(b): What is your view of the standards applied to ensure an offsets credit represents a real reduction in greenhouse gas emissions (e.g. permanence, additionality, measurement, reporting and verification (MRV) standards)?</p>	<p>The ERF definition of additionality was very weak and based on whether a project was new or not. The CDM required economic additionality which said you needed to demonstrate your project would not go ahead without the income from the offsets.</p> <p>We are moving into a world where NDCs form the basis of additionality, so offsets can be created, if reductions are delivered in excess of a country's NDC.</p> <p>Globally this would require NDC ambition to be essentially equivalent, and not only in 2050, rather in 2030 and 2040. It would suggest that offsets would not be fungible if your NDC lacks ambition. It remains to be seen how this will play out in the plethora of bilateral agreements which might underpin what happens next.</p> <p>In summary the key considerations are as follows: Additionality, Vulnerability, Robust quantification of emission reductions and removals</p>
<p>Q6(c): What is your view of the standards applied for taking into account co-benefits?</p>	<p>Currently sub-optimal.</p>
<p>Q6(d): What is your view of the standards applied to avoiding and addressing adverse impacts?</p>	<p>Currently sub-optimal.</p>
<p>Q7: Should the age of units (their vintage) be considered in the criteria for eligible offsets in Australia?</p>	<p>When we talk about the vintage of carbon offsets, we refer to the time period in which the associated emission reduction or avoidance occurred. Typically, it refers to a specific calendar year. Offsets do not expire – they're valid until the company that purchased the carbon offsets retires them to make environmental claims.</p> <p>There's no overarching guidance dictating when organizations need to retire the offsets they've purchased. As a result, the purchasing organization can hold on to the offsets for as long as they like and retire them in accordance with their emissions reductions plans (for example, annually or every five years). The caveat, however, is that certain reporting protocols may have different requirements regarding eligible vintages or deadlines for when the offsets need to be retired. Depending on which third-party standard a company reports against, they need to be aware of the individual reporting guidelines of that organization.</p> <p>Additionality is a component of the carbon offset project itself – it is not impacted by vintage. Carbon offsets that are sourced from a project that's deemed to be additional, typically through a third-party certification standard, will automatically have additionality associated with them.</p>
<p>Q8: In the context of the Paris Agreement, how important is it to</p>	<p>Overall program governance: Good program governance is an important safeguard for the quality of credits. This includes whether the carbon crediting program has transparent rules and procedures in place that regulate how the program is governed to effectively</p>

<p>consider the governance and institutional arrangements in place for the generation, trade and use of offsets?</p>	<p>support its mission, and whether there were past cases of non-compliance with program standards and procedures, fraudulent conduct or conviction of key personnel.</p>
<p>Q9: What are the key elements of good governance arrangements? Are there elements missing from current offsets programs such as the Gold Standard, the Verified Carbon Standard and the Clean Development Mechanism?</p>	<p>Key Elements:</p> <ol style="list-style-type: none"> a. Overall program governance b. Robust third-party auditing c. Transparency and stakeholder consultation
<p>Q10: How important is it that offsets also produce co-benefits?</p>	<p>Offsets are more than carbon. While carbon offset projects prevent, reduce or remove greenhouse gas emissions from being released into the atmosphere - that's not all they do.</p> <p>Often these projects have other benefits such enhanced biodiversity, habitat protection, creating employment, helping people to live and work on country, improving health and education, and providing access to clean and affordable energy.</p> <p>Co-benefits include many aspects of life:</p> <ul style="list-style-type: none"> • Environmental benefits include increased biodiversity, maintaining habitat for native animal and plant species, improved local air and water quality, avoiding vegetation clearance, re-establishing vegetation on previously cleared areas, and improved environmental management. • Social and cultural benefits are the positive aspects for communities where a project is based such as employment for local people, living and working on country, capacity building, improved health and education, and access to clean and affordable energy. • Economic benefits occur when income from the sale of offset credits flows to the community where a project is located and often translates into employment and community support, improved infrastructure, technology transfer, and increased economic activity.
<p>Q10(a): How important is it that IPCOS produces co-benefits in partner countries?</p>	
<p>Q11: What are the range of co-benefits that might result from the production of offsets?</p>	<p>Educational co-benefits</p> <ul style="list-style-type: none"> - local educational benefits - campus educational benefits <p>Environmental co-benefits</p> <ul style="list-style-type: none"> - air quality benefits

	<p>- biodiversity benefits</p> <p>Economic co-benefits</p> <ul style="list-style-type: none"> - creating an inclusive economy - job creation and increase in livelihood <p>Social co-benefits</p> <ul style="list-style-type: none"> - promoting gender equality
<p>Q11(a): Are some co-benefits more valuable than others, and if so, which?</p>	<p>Buyers often have preferences for carbon credits which offer more than just a carbon offset, with many increasingly seeking to include credits with social and environmental co-benefits in their portfolios. There is evidence of this occurring in some voluntary environmental goods markets (i.e., National Carbon Offset Standard), with wide variation in prices between different credit types and apparent price premiums associated with projects producing desirable co-benefits. Quality conscious buyers can also shun credits with negative co-benefits. For example, the negative co-benefits from ‘native forest waste materials’ credits previously generated under Australia’s renewable energy trading scheme attracted strong market discounts.</p> <p>Valuing these co-benefits is a challenge, because they are infrequently traded in markets and are frequently hard to quantify. One approach would be to quantify co-benefits from a particular project using simple metrics (e.g., employment numbers, biodiversity index), where buyers could seek their desired levels of carbon and co-benefits. However, this would require buyers to quantify and express trade-offs between carbon and the various co-benefits. But this is difficult given the non-monetised nature of most co-benefits. With a large number of projects and a high degree of heterogeneity in co-benefits it would quickly become infeasible for participants to clearly express their preferences and provide associated signals to the market.</p> <p>Recognising co-benefits greatly complicates the mechanisms for exchange. Many public procurement auctions consider more than one attribute (e.g., infrastructure projects value price, delivery time, track record etc.), but these typically end up as a hybrid model of auction and negotiation. Hybrid models may work well with limited numbers of participants, but transaction costs can be high relative to the overall value of the market.</p>
<p>Q11(b): Are there specific offsets activities that might have a particularly positive impact?</p>	<ul style="list-style-type: none"> • Methane gas capture in a landfill. • Creation of wind farms. • Forest conservation. • Clean cookstoves. • Solar energy. • Hydropower.
<p>Q12: In your view, what are the most appropriate and effective approaches for supporting, recognising and valuing co-benefits associated with</p>	<p>Efficiently valuing co-benefits will require a carefully designed mechanism because there exists a trade-off involved in accurately arriving at a market valuation of the respective attributes of carbon credits, and the transaction costs of doing so. In other words, we are looking for an efficient mechanism which best facilitates exchange in the market.</p>

<p>offsets, and ensuring the delivery of co-benefits in local communities?</p>	<p>Markets take many different forms. Consider for example how we buy a cup of coffee (a fixed posted offer), a house (a negotiable posted offer, or an ascending bid auction) or trade shares (a call auction when the market opens, followed by a continuous double auction). The exchange mechanisms which underpin these markets reflect social choices which often, but not always, will arrive at a desirably efficient and equitable set of outcomes.</p> <p>Auctions are generally considered to be most effective mechanism to efficiently bring together buyers and sellers, but this may not always be the case. Where the market involves heterogeneous goods, which are high-value and low-volume (e.g., real estate) the activities of brokers effectively match of buyers and sellers, and efficiently promote exchange. However low-value markets have less scope to bear the transaction costs of having attribute differences recognised and valued. In a carbon market, the premiums available to developers for distinguishing their project co-benefits may not cover the costs of brokerage.</p> <p>Efficiently arriving at a value for goods which are heterogeneous and low value has been made possible by digital platforms like eBay (i.e. a passive digital broker), which have dramatically reduced the costs of matching buyers and sellers for the exchange of small volumes of goods. But in markets with many different types of carbon credit, buyers and sellers may struggle to match effectively and fail to establish the values of co-benefits.</p>
<p>Q13: What are the range of adverse impacts that might result from the production of offsets?</p>	<p>Offsetting responsibilities: Providing carbon offsetting options to public has public relations value for companies, allowing them to gain green legitimisation without having to significantly reduce their greenhouse gas emissions. This form of elective carbon offsetting shifts the responsibility for greenhouse gas reductions onto individuals and away from institutions, corporations and governments, whose actions can make a more significant difference.</p> <p>The problems with plantations: Many of these offsets are of dubious value in terms of genuine greenhouse gas reductions. Planting trees as offsets is particularly problematic.</p> <p>Offshoring offsets: Offsets that are located in countries that have already committed to greenhouse gas reduction targets are likely to be double counted, first as an offset and second as a reduction in the total national greenhouse gas inventory, a reduction that would have had to happen anyway.</p> <p>Buying up cheap offsets in developing nations at US\$3.50 per tonne in 2013 is a short-term solution that only postpones the necessary phasing out of fossil-fuel dependence in wealthy nations, at a time when such action is becoming urgent. Cutting greenhouse gas emissions in poor countries is not enough to prevent further global warming. We should be giving first priority to becoming less dependent on fossil fuels in Australia through changing the way we generate electricity and making manufacturing less energy intensive, as well as promoting alternatives to automobile travel and truck freight.</p>

<p>Q14: What are the most effective approaches or frameworks for avoiding or otherwise managing adverse impacts, if necessary?</p>	<p>Major carbon offset programs have rules and procedures in place to avoid approving projects that could cause social, economic, or environmental harm. In addition, some carbon offset programs, and third-party certifiers offer supplementary certifications for social and environmental benefits produced by offset projects. Buyers can generally rely on these rules and certifications in evaluating potential offset credit purchases, particularly when it comes to identifying projects with positive co-benefits. In conducting due diligence, it may be useful to examine the following questions to reduce the risk of purchasing from harmful projects. Recommended due diligence questions include the following.</p> <p>Prior to implementation, did the project developers engage and consult with local stakeholders potentially affected by the project? Most – but not all – carbon offset programs require that local stakeholder consultations be conducted prior to a project’s registration. Such requirements can be particularly important in developing countries, where there are often fewer regulatory safeguards. If stakeholder outreach was not undertaken this failure should raise concerns, though the seriousness may depend on the type of project involved and where it is located. Some types of projects pose fewer risks to local communities than others.</p> <p>Has the project received any program- or third-party certifications affirming its environmental or social co-benefits? Generally, such certifications (e.g., from the Climate, Community, and Biodiversity Standard; SOCIALCARBON; or programs themselves) can provide added assurance that a project will not cause harm and ensure that project developers have taken into account the concerns of local stakeholders. Projects that have not received any co-benefit certification do not necessarily pose a high risk of harms, but it may be useful to inquire with project developers about why they did not seek certification, if it was an option.</p>
<p>Q14(a): How can IPCOS best be designed to avoid adverse impacts and address them if they do arise?</p>	<p>What has the project done to minimize risks and reduce potential harm? In general, it is wise to avoid altogether project types that are associated with social, economic, or environmental harms. If such projects are still pursued, then it is crucially important to understand a project’s specific circumstances, how it has addressed potential risks and the concerns of local stakeholders, and what mechanisms it has in place to both avoid harms where possible and compensate for them if they occur. The CCBS, for example, requires ongoing community impact monitoring associated with forestry projects. It is ultimately up to offset credit buyers, however, to decide whether these mechanisms are sufficient. Visiting the project site is usually the best way to identify potential harm caused by a project. If this is not possible, making a request to visit and reading the developer’s reaction can also be revealing.</p>
<p>Q15: How important is community and stakeholder engagement in avoiding adverse impacts?</p>	<p>Transparency and stakeholder consultation: Transparency and engaging stakeholders is essential for good governance. It improves the quality of decision making and can thereby result in carbon credits of higher quality. Crediting programs should facilitate access to relevant information, including ensuring that sufficiently detailed information on all projects is publicly available. Further, procedures should be in place that ensure transparent and consistent decision-making against criteria that are clearly formulated and do not leave room for interpretation. Program requirements should be transparent and be subject to expert review and/or public stakeholder consultation. Crediting programs should also enable stakeholder consultation on projects. For such stakeholder consultations to be effective, it is important that relevant stakeholders have the possibility to comment by means that are appropriate to their context (e.g. literacy), that key information on the credited activity is made available, including project design documents, monitoring and verification reports, issuance requests and host party approvals, and that the comments from stakeholders are duly considered. For example, this could be done through free, prior, and informed consent when traditional (e.g. indigenous) people are affected.</p>

<p>Q16: Does the use of international offsets under Climate Active have any broader implications in Australia? (For example, for other offset schemes, for corporate reporting and for the development of carbon markets and carbon trading platforms.)</p>	
<p>Q17: What are the lessons learned from carbon markets to date?</p>	<p>There are many lessons from market experiences over the past eight years: there should be fewer free allowances, better management of market-sensitive information, and a recognition that trading systems require adjustments that have consequences for market participants and market confidence.</p>
<p>Q18: Outside of Climate Active and IPCOS, where else might offsets criteria be relevant in Australia? Are there different considerations in those cases?</p>	
<p>Q19: To what extent should international offsets used by Australian companies towards their targets also count towards Australia’s national targets?</p>	
<p>Q20: Are there other matters the Authority should consider in undertaking the review?</p>	<p>The Oxford Principles for Net Zero Aligned Carbon Offsetting (the “Oxford Offsetting Principles”) outlineS how offsetting needs to be approached to ensure it helps achieve a net zero society.</p> <ol style="list-style-type: none"> 1. Cut emissions, use high quality offsets, and regularly revise offsetting strategy as best practice evolves, 2. Shift to carbon removal offsetting, 3. Shift to long-lived storage, 4. Support the development of net zero aligned offsetting
<p>Follow Up</p>	<p>Please let us know if you would like us to arrange a briefing from the professional at WBCSD and Natural Climate Solutions Alliance.</p>
<p>About WBCSD Natural Climate Solutions</p>	<p>“Natural Climate Solutions” (NCS) help nature do what it’s been doing for millions of years: sequester and store carbon. New research shows that these solutions could deliver 37% of the emissions reductions needed to limit global warming to 2°C. However, despite their massive potential, they only make up 1% of the climate conversation. We’re changing that by boosting awareness across the business community and helping the private sector invest in nature.</p> <p>Read more here: https://www.wbcd.org/Programs/Climate-and-Energy/Climate/Natural-Climate-Solutions</p>

<p>About WBCSD/WEF Natural Climate Solutions Alliance</p>	<p>Supporting nature positive, cost-effective climate actions To meet the Paris targets, decarbonization needs to take place across the whole economy and needs to be supported by carbon sinks to balance against non-abated emissions.</p> <p>Natural climate solutions (NCS), such as maintaining and restoring healthy forests, agricultural land and coastal ecosystems, can provide around 30% of the emissions reductions needed to limit global warming to 2°C. In addition, they provide many socio-economic & environmental benefits, such as the preservation and restoration of biodiversity, provision of ecosystem services and support sustainable livelihoods. But despite their vast potential, NCS attract very little public and private investment.</p> <p>Read more: https://www.wbcsd.org/Programs/Climate-and-Energy/Climate/Natural-Climate-Solutions/The-Natural-Climate-Solutions-Alliance</p>
<p>The NCS Investment Accelerator</p>	<p>The NCS Investment Accelerator is a multi-stakeholder initiative driving investment in NCS emission reductions and removals credits. The NCS Investment Accelerator galvanizes corporates to go above and beyond the internal decarbonization required to meet the Paris Agreement by investing in high-quality, high-integrity NCS credits.</p> <p>The NCS Investment Accelerator tracks commitments to retire NCS emission reductions and removals credits made by companies that annually reduce their Scope 1, 2, and 3 emissions in accordance with science-based targets. Corporates generate a positive impact on nature and people, and mitigate negative impacts on the climate, through their investments in NCS credits. The ambition is to reach an aggregate commitment to retire 1 Gigatonne of CO2e emissions from NCS reductions and removals per year by 2025.</p> <p>Read more: https://www.wbcsd.org/Programs/Climate-and-Energy/Climate/Natural-Climate-Solutions/The-NCS-Investment-Accelerator</p>