

# Climate Change Authority

Review into the use of international  
offsets under Commonwealth programs

**submission**

April 2022





# Climate Change Authority: Review into the use of international offsets under Commonwealth programs

## CMI submission

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### Introduction

On 7 March 2022, the Climate Change Authority opened public consultation on its review into the use of international offsets under Commonwealth programs, including Climate Active and the Indo-Pacific Carbon Offsets Scheme (IPCOS). The Authority is conducting this review at the request of the Minister for Industry, Energy and Emissions Reduction, the Hon Angus Taylor MP. CMI welcomes the opportunity to provide feedback to support the Authority's review.

As noted by the Authority in its consultation paper, this review is timely. It comes at a critical juncture in the evolution of carbon markets, as well as the verification and crediting of emissions reduction and removal. Demand for high-quality carbon credits for use as offsets is rising in Australia, with growing numbers of organisations setting net-zero 2050 and interim emissions reduction targets. At the same time, countries are gearing up to use carbon markets to meet their Nationally Determined Contributions (NDCs) under the Paris Agreement following the finalisation of the Article 6 Rulebook at COP26. But the carbon markets are also facing integrity challenges here and abroad.<sup>1</sup> This increased scrutiny is a natural consequence of the growing public spotlight on carbon markets and their role in driving climate action – particularly at a time when the need for urgency and scale in such action is clear. Such challenges should not come as a surprise, nor are they necessarily cause for alarm. They should, however, be taken seriously as an opportunity to increase scheme transparency and efficiency, improve governance and integrity safeguards around projects and carbon credits (including their use as offsets), and ultimately build public trust in the carbon markets.

Over the last decade, Australia has developed significant experience and expertise in carbon crediting, including land sector and nature-based projects that bring with them important related environmental, social, cultural and economic benefits. In facing up to current challenges, it is vital that Australia's industry and regulators cooperate to build and improve guardrails around project and scheme integrity, here and in Indo-Pacific partner-host countries. This will help build the reputation of these carbon markets and allow them to continue financing on-ground emissions reductions and behavioural changes that are urgently needed to drive an equitable net-zero transition. As part of this process, ongoing review, revision, updates and market improvements informed by all stakeholders in an inclusive and transparent manner are crucial. For host countries, clarity on social and environmental benefits as well as informed consent will be vital to sustained support. It is with these interests in mind that CMI welcomes the opportunity to provide this submission to support the Climate Change Authority's review into the use of international offsets.

It is important to note that this review is being conducted while the rules, modalities and procedures for global carbon markets under the Paris Agreement are taking shape. Decision makers considering changes to

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<sup>1</sup> See for example: ['Australia's carbon market a 'fraud on the environment''](#) (2022), ANU Law School.



Australia’s domestic markets – such as updates to ACCU methodologies, the introduction of a new credit type under the Safeguard Mechanism, or any changes to eligible offset units or eligibility criteria for Climate Active or IPCOS that may arise out of this review – should keep this global context in mind.

CMI has consulted with many of its members to develop this response to the [Climate Change Authority’s Review of International Offsets consultation paper](#). Rather than responding to specific guiding questions, CMI has provided feedback and positions that respond broadly to all aspects of the Authority’s review. The submission is structured such that CMI’s six Summary Positions are introduced first (pages 4–6). The body of the submission then follows (pages 7–14), elaborating on each of the Summary Positions in greater detail. We note that the positions put forward are not representative of any CMI individual, member company, or industry sector.



## Summary Positions

### **1. To support the net-zero transition, international offsets must be used with demand-side integrity and accompanied by deep cuts to industrial emissions**

- a. The role of international offsets in driving Australia's net-zero transition is threefold: to incentivise emissions reductions and removals, drive climate finance investments (particularly in developing economies), and accelerate overall global mitigation ambition.
- b. All types of carbon offsets (reduction/avoidance, removal/sequestration) are needed to enable and drive the net-zero transition – provided they are permanent and/or appropriately hedged with conservative assumptions, risk of reversal buffers and other integrity mechanisms. Offset investment is also critically required to accelerate early-stage finance into R&D to scale carbon removal technologies.<sup>2</sup>
- c. Beyond offsetting for unavoidable emissions in the short term, offset investment should be undertaken alongside credible actions that avoid and reduce organisational emissions (scopes 1, 2 and 3), in line with the mitigation hierarchy of “avoid, reduce, offset”. It should be noted that some companies looking to a high-integrity pathway to net-zero are not only neutralising (offsetting) remaining emissions, but also compensating (with offsets) for past emissions.

### **2. Stronger policy settings are needed in Australia to catalyse carbon trading opportunities and support demand-side integrity towards the longer-term goal of net-zero 2050. To this end, the Australian Government should:**

- a. Strengthen Australia's 2030 NDC to target a minimum 50% reduction on 2005 emissions;
- b. Evolve the Safeguard Mechanism into a declining baseline and credit scheme that will support the achievement of this stronger interim target; and
- c. Allows for the use of high-integrity international carbon credits, compliant with international provisions under Article 6, to meet increasing demand driven by the above strengthened NDC and Safeguard Mechanism policy settings.

### **3. International offsets used in Australia should be sourced from schemes or standards with built-in guardrails to prevent adverse impacts, ensure informed consent, and guarantee enduring co-benefits and support sustainable development and capacity building for host communities and countries**

- a. CMI notes initial IPCOS processes are examining such guardrails to ensure host country ownership of market development and governance, with Australia playing a supporting, capacity-building role.
- b. IPCOS projects will also need to meet additional criteria (elaborated on in the body of the submission) based on the definition of Internationally Transferred Mitigation Outcomes (ITMOs); these criteria may change over time as countries continue to consider and adopt recommendations on certain aspects of the Article 6.2 mechanism.

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<sup>2</sup> This is now acknowledged as critical to achieving most emissions reduction pathways compatible with 1.5°C (See [IPCC, 'Climate Change 2021: The Physical Science Basis, Summary for Policymakers'](#) (2021), p. 30).



- c. International offsets used under Climate Active should be sourced only from schemes and standards that include similar guardrails to those being examined under IPCOS. The Core Carbon Principles (CCPs) that the Integrity Council for the Voluntary Carbon Markets (IC-VCM) is developing should also provide a useful framework and benchmark for vetting offset eligibility.

#### **4. Voluntary corporate purchase of international offsets should be additional and not counted towards Australia's NDC**

- a. Voluntary corporate action (including Climate Active certifications) is best understood as that which occurs outside and on top of emissions reductions and removals that are stimulated by Paris-aligned NDCs and supporting policies and regulations.
- b. In establishing IPCOS, protocols should be set up to ensure that credits traded under the scheme that attract a corresponding adjustment (CA)<sup>3</sup> can be authorised for voluntary retirement by Australian companies without benefiting Australia's NDC.
- c. International offsets generated and purchased outside Article 6 (i.e. those that do not attract CA) should not be counted towards Australia's NDC, as this would contravene the Paris Agreement by violating the Article 6 Rulebook.

#### **5. Climate Active should continue to evolve to encourage and represent highest-integrity, additional voluntary corporate action**

- a. While supply of credits traded under the Article 6 mechanisms that are currently being established is limited, credits traded outside these mechanisms (that do not attract a CA) should be eligible under Climate Active as long as they meet the additional criteria outlined in Summary Position 3.
- b. The use of these credits should be subject to vintage restrictions that balance the need to ensure supply with the imperative of driving on-ground decarbonisation activities.
- c. Once the rules, modalities and procedures governing the Article 6 mechanisms are established, the Climate Active program should move to permit only credits traded within these instruments to be used by participants; this will ensure Climate Active continues as a world-class voluntary carbon certification scheme of the highest integrity that encourages high-ambition, additional climate action.
- d. The outcomes of the ongoing integrity initiatives from the global carbon markets – in particular, the IC-VCM Core Carbon Principles (CCPs) currently under development – will provide a global benchmark on highest-integrity carbon credits.

#### **6. Robust, predictable governance of the criteria governing Climate Active offset eligibility, including regular public and transparent review of these principles to ensure they keep pace with evolving global best practice, is required to lend some predictability to voluntary corporate actors in the uncertain and evolving context of global carbon markets in the post-Paris era**

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<sup>3</sup> According to the Article 6 Rulebook, 'corresponding adjustments' (CAs) are required to prevent double counting of ITMOs; for more detail, see Decision 2/CMA.3: [COP26 Report, UNFCCC](#) (2021), pp. 11-24.



- a. Eligibility criteria should be reviewed regularly in a communicated time frame to lend predictability to the Climate Active program that will allow forward-supply planning and other longer-term strategic decision making among participants.
- b. The next review should be no more than in the next three years as Article 6 frameworks are established and the next NDCs are developed by parties.
- c. Decisions to amend or introduce new eligibility criteria must be communicated in advance and phased in; a three-year notice period would be consistent with the current rules under Climate Active that allow formally approved offset units to be banked for use for up to three years from the date of retirement.<sup>4</sup>

The body of the submission begins over the page and elaborates on the six Summary Positions presented above.

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<sup>4</sup> See [Climate Active 'Technical Guidance Manual'](#) (2021), p. 50.



## Review of international offsets

### 1. To support the net-zero transition, international offsets must be used with demand-side integrity and accompanied by deep cuts to industrial emissions

The role of carbon credits, in their use as offsets and vehicles for climate finance more broadly, is to support Australia's net-zero transition. They do so by incentivising emissions reductions, directing finance into emissions-reduction and removal activities and technologies (particularly in developing countries), and ultimately accelerating overall global mitigation ambition.

To meet the objectives of the Paris Agreement and keep global warming well-below 2°C in pursuit of a 1.5°C cap, the world must reach net-zero emissions by 2050.<sup>5</sup> With limited time remaining, we need all available mitigation solutions on the table, including both emissions reductions and removals. Therefore all carbon credits have a role to play in driving on-ground decarbonisation, whether they do so by incentivising less carbon-intensive behaviours that go beyond business as usual, or by attracting early-stage finance for R&D to scale carbon removal technologies – the latter is now recognised as critically needed under most 1.5°C-compatible mitigation pathways according to the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment Report (AR6).<sup>6</sup>

Instead of favouring one type of carbon credit over another, what is important is ensuring that these credits represent additional emission reductions or removals. It is also important that these reductions or removals are permanent and/or appropriately hedged with conservative assumptions, risk of reversal buffers, and other mechanisms. Proper application and regular review of project methods against appropriate criteria and standards to ensure supply-side integrity can help guarantee this.<sup>7</sup>

Moreover, while carbon credits of all types are needed so that organisations – and ultimately the Australian economy – can reach net-zero by offsetting those emissions that are currently unavoidable, offsets cannot fulfil this role on their own. To effectively support Australia's net-zero transition, offsetting must be accompanied by rapid cuts to industrial emissions. This is because if credits are used on their own to compensate for emissions arising from business as usual, then offsetting risks cannibalising longer-term decarbonisation outcomes and ultimately undermining the net-zero transition.

This means that organisations that use offsets to achieve carbon neutrality must practise demand-side integrity. For claims – including Climate Active carbon neutrality – to have integrity, those using and investing in carbon credits must do so alongside credible action to avoid and reduce organisational emissions (scopes 1, 2 and 3) in line with the mitigation hierarchy of “avoid, reduce, offset”.

In the international offsetting space, the Voluntary Carbon Market Integrity Initiative (VCMI) is working to support and foster greater demand-side integrity. The [VCMI's Roadmap](#) outlines its plan to fill Voluntary Carbon Market (VCM) governance gaps by providing best practice guidance to ensure that claims such as carbon neutrality represent credible, net-zero aligned offsetting actions, and that these claims are transparent, credible and widely understood.

<sup>5</sup> [IPCC 'Special Report on Global Warming of 1.5°C'](#) (2018).

<sup>6</sup> IPCC, 'Climate Change 2021: The Physical Science Basis, Summary for Policymakers' (2021), p. 30; [The Energy Transitions Commission's recent 'Mind the Gap' report](#) similarly underscores carbon removals as a “necessity” for limiting warming to 1.5°C.

<sup>7</sup> See Section 3 for CMI's position on criteria relating to supply-side integrity for offsets.



As it is not just the offset unit itself that integrity is dependent on, but also the claims (carbon neutrality) which it is used to support, CMI recommends that the Climate Change Authority consider the work of the VCMI in its review of the use of international offsets when it comes to offset use guidance under the Climate Active program.

## **2. Stronger policy settings are needed in Australia to catalyse carbon trading opportunities and support demand-side integrity towards the longer-term goal of net-zero 2050**

The same principles of demand-side integrity should apply whether those using carbon credits are organisations seeking Climate Active carbon neutral certification, or the Australian Government pursuing its 2030 NDC or net-zero 2050 target. With Australia's current low-ambition 2030 NDC target and policy settings, CMI notes that some countries may be reluctant to trade offsets with Australia using the Paris Agreement's Article 6 market mechanisms.

To remedy this situation, maximise global carbon trading opportunities and harness the full potential of carbon credits in driving Australia's net-zero transition, the Australian Government should introduce measures that complement existing incentives for generating and trading Australian Carbon Credit Units (ACCUs) with stronger compliance requirements for heavy emitters. The Government should:

- (a) Strengthen Australia's 2030 NDC to target a minimum 50% reduction in emissions, based on 2005 levels;
- (b) Evolve the Safeguard Mechanism into a declining baseline and credit scheme to encourage industrial decarbonisation towards achieving this stronger target; and
- (c) Allows for the use of high-integrity international carbon credits, compliant with international provisions under Article 6, to meet increasing demand driven by the above strengthened NDC and Safeguard Mechanism policy settings.

Ratcheting down baselines for Safeguard-covered facilities would encourage these entities to pursue operational decarbonisation alongside and ahead of offsetting by increasing demand for carbon credits. This would more effectively enforce the mitigation hierarchy on compliance-covered entities, putting the economy on a decarbonisation trajectory and creating a pathway to achieve a net-zero emissions Australia in 2050.

In evolving the Safeguard Mechanism, decision makers must carefully consider and manage impacts for facilities undertaking Emissions-Intensive Trade-Exposed (EITE) activities, to prevent carbon leakage and ensure a just transition for Australians employed by these industries. If EITE sectors are not carefully factored in and the impacts of ratcheting down baselines are too harsh, operators may shut down and relocate their Australian facilities to regions and countries where they will remain unregulated. This would cause job losses for Australian workers in these industries. It would also render the domestic decarbonisation outcomes of this policy action for global mitigation under the Paris Agreement redundant by simply shifting the location of emissions instead of encouraging and supporting EITE sectors in the transition.

Allowing for the use of high-integrity international carbon credits (compliant with international provisions under Article 6 and emerging quality principles under global schemes) could further support decarbonisation efforts under stronger Australian domestic policy settings driven by declining Safeguard baselines and a strengthened NDC. This provision could also increase global investment in emissions reductions and removals at the scale required this decade, and provide additional compliance flexibility for liable entities to meet their obligations under a strengthened Safeguard Mechanism.





**3. International offsets used in Australia (under both IPCOS and Climate Active) should be sourced from schemes or standards whose governance frameworks include guardrails to prevent adverse impacts, ensure informed consent, and demonstrate enduring co-benefits that support sustainable development and capacity building for host communities and countries**

The criteria that international offset units must currently meet to be eligible for use under the Climate Active Carbon Neutral Standard are based on Australia's legislated Offsets Integrity Standards.<sup>8</sup> These existing principles provide a strong foundation for ensuring supply-side integrity and are an appropriate starting point for the Climate Change Authority to build on in its review of international offsets. While a strong foundation, these criteria should be subject to regular review and update to ensure the offsets eligible for use under Commonwealth programs keep pace with evolving best practice and emerging Article 6 requirements.

Building a high-integrity Indo-Pacific Carbon Offsetting Scheme (IPCOS)

Following consensus on the rules governing the Article 6 market mechanisms at COP26, countries are exploring opportunities and partnerships for emissions trading. The Article 6 provisions for emissions trading were included in the Paris Agreement with the aim of raising overall global mitigation ambition by improving the efficiency of emissions reductions. However, it is vital that cooperation using its two market mechanisms occurs within high-integrity governance frameworks that ensure informed consent and stakeholder engagement, avoid adverse impacts, and only allow mitigation outcomes to be exchanged in the case of demonstrable, durable co-benefits that support sustainable development in host communities. Projects that support adaptation outcomes will also become increasingly important, particularly as the IPCC has recently highlighted the importance of climate resilient development that pursues adaptation and mitigation outcomes simultaneously.<sup>9</sup>

While the rules, modalities and procedures governing the Article 6.4 mechanism that will replace the Clean Development Mechanism (CDM) aren't due for finalisation until 2030, Article 6.2 is operational for countries to begin trading emissions under bilateral partnerships – such as those Australia is looking to set up with Fiji and Papua New Guinea with IPCOS.<sup>10</sup>

CMI notes that the initial, exploratory phase of IPCOS is currently underway. As part of this process, project and standard guardrails are being carefully examined to ensure that IPCOS is set up to prevent adverse impacts and ensure informed consent, as well as equitable exchange of mitigation outcomes for demonstrable, durable co-benefits for host communities. IPCOS will also provide in-kind benefits in the way of carbon trading capacity. In setting up the scheme, Australia will leverage its experience in carbon crediting and trading to facilitate skills and knowledge development in Indo-Pacific partner countries. This will build local governance and administration capacity, setting up host country ownership of market development and scheme governance.

To avoid adverse impacts, CMI recommends that IPCOS incorporates the 'no net harm' principle as an eligibility requirement for project registration and credit issuance. The draft Core Carbon Principles (CCPs) released by the Taskforce for Scaling the Voluntary Carbon Markets (TSVCM)<sup>11</sup> last year outline how 'no

<sup>8</sup> The offsets integrity principles are outlined in [Climate Active Carbon Neutral Standard for Organisations](#) (2019), pp. 6-7; The Offsets Integrity Principles are outlined in the [Carbon Credits \(Carbon Farming Initiative\) Act 2011](#).

<sup>9</sup> The Working Group II contribution to the IPCC's Sixth Assessment Report on Impacts, Adaptation and Vulnerability highlights the need to implement mitigation and adaptation outcomes together to support climate resilient development – see [IPCC AR6 WGII Summary for Policymakers](#) (2022), p. 30

<sup>10</sup> See [CMI's 'COP26 Key Takeaways Article 6 Explainer'](#) (2021)

<sup>11</sup> See draft CCPs in the [TSVCM Phase 2 Report](#) (2021), p. 65.



net harm' can be operationalised through including the following mechanisms. These mechanisms could be considered as eligibility requirements for projects seeking registration under IPCOS:

- Prior and ongoing impact assessment
- Ongoing stakeholder consultation
- Safeguards – which can be used to identify, prevent and mitigate negative, unintended consequences to the environment or community
- Grievance mechanisms – which should be in place before project registration and allow for feedback from employees, local communities, and regional and national authorities that is easily accessible to the public and sufficiently advertised.<sup>12</sup>

In addition to governance requirements, credits eligible for trade under IPCOS will need to comply with the emergent Article 6.2 definition of Internationally Transferred Mitigation Outcomes (ITMOs) that may be traded between cooperating partner countries (and entities within them who may have international mitigation obligations, such as voluntary actors or airlines with CORSIA<sup>13</sup> obligations). At present, the additional criteria required are as follows:

- Credits are generated from emissions reductions or removals undertaken from 2021 onwards; and
- Upon transfer, credits attract a corresponding adjustment (CA) by the host country to avoid double counting.<sup>14</sup>

While the rules, modalities and procedures of Article 6.2 are mostly set up, these two criteria may change or be added to over time as countries consider and adopt further recommendations on other aspects of this bilateral carbon trading mechanism.

The reporting requirements incumbent on cooperating partners under Article 6.2 is one such aspect that lacks detail, beyond the requirement for countries to submit an initial report. This initial report should explain how partner countries' cooperation contributes to sustainable development outcomes, including an acknowledgment that countries should respect, promote and consider their respective obligations in a range of areas including human rights and the rights of indigenous peoples.<sup>15</sup> There is a lack of further elaboration on what form this report may take. However, building guardrails around preventing adverse impacts and ensuring co-benefits into IPCOS governance frameworks, as well as building capacity for in-country project administration and crediting, will support Australia and IPCOS partner countries speak to the sustainable development outcomes the scheme is supporting when preparing these reports.

### Upholding Climate Active as a high-integrity voluntary carbon neutral program

International offsets used under Climate Active should be sourced only from schemes and standards that include similar high-integrity guardrails to those being set up under IPCOS to prevent adverse impacts, ensure lasting co-benefits, and support sustainable development. This could be done by also including the 'no net harm' principle in the offsets eligibility criteria under Climate Active.

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<sup>12</sup> For more information, see: [TSVCM Phase 2 Report](#) (2021), p. 82

<sup>13</sup> CORSIA – the 'Carbon Offsetting and Reduction Scheme for International Aviation' – is an international treaty that requires airlines in signatory countries to offset growth in emissions; for its initial pilot phase (2021-23), the baseline year above which additional emissions must be offset is 2019. [See more information on CORSIA here.](#)

<sup>14</sup> In accordance with Decision 2/CMA.3: [COP26 Report, UNFCCC](#) (2021), pp. 11-24.

<sup>15</sup> Ibid.



Consideration and verification of co-benefits is already a growing focus for many certification bodies domestically and abroad, including in the voluntary carbon market (VCM). In Australia, the [Aboriginal Carbon Foundation's Core Benefits Verification Framework](#) verifies that certified projects create environmental, social and cultural core-benefits for Indigenous communities through the ethical trade of carbon credits – including through the verification process itself being led by Traditional Owners. In the VCM, [Verra's Climate, Community & Biodiversity Standard \(CCBS\)](#) provides the option for an additional layer of co-benefit certification for emissions reduction projects that also contribute to local communities and biodiversity, while its newer [Sustainable Development Verified Impact Standard \(SD VISTa\)](#) certifies specific sustainable development benefits. Similarly, the [Gold Standard for the Global Goals \(GS4GG\)](#) builds co-benefit contributions into the carbon project standard itself by requiring that Gold Standard-registered activities contribute to the Sustainable Development Goals (SDGs), with additional safeguards to prevent adverse outcomes.

While recommending the Climate Change Authority consider these in its review, CMI does not explicitly recommend the inclusion of such additional certification standards as an offsets eligibility requirement under Climate Active. However, the IC-VCM's soon-to-be-released CCPs should provide a useful framework for vetting offset eligibility under Climate Active. The Climate Change Authority should consider the CCPs as they emerge in the coming months, as it is likely these principles will inform the market benchmark for credit quality and integrity going forward.

Moving to only allow the use of offsets certified by schemes and standards that meet the CCPs would ensure that Climate Active upholds its status as a world-class, high-integrity voluntary carbon neutral certification scheme. Only allowing Climate Active participants to source offsets from standards where project registration is contingent on a high level of transparency and information provision would also give these voluntary actors greater certainty that they are supporting high-integrity, quality projects only. This would further enhance the value proposition of the Climate Active program for Australian businesses looking to sign on.

#### **4. Voluntary corporate purchase of international offsets should be additional and not counted towards Australia's NDC**

By definition and design, voluntary corporate action (including Climate Active certifications) is that which occurs outside and on top of emissions reductions and removals that are stimulated by Paris-aligned NDCs and supporting policies and regulation. It is therefore inappropriate for the Australian Government to rely on voluntary corporate action – including carbon credits purchased by Climate Active participants – to meet its NDC. In line with this, carbon credits purchased by companies to fulfil voluntary Climate Active commitments should not automatically be counted towards Australia's NDC.

Many companies pursuing voluntary actions such as Climate Active carbon neutral certification do so with the intention of these commitments being additional and with the purpose of enhancing overall climate ambition. Indeed, some CMI members have voiced concerns that counting voluntary action under Climate Active towards Australia's NDC may cause participation to decline. This is because those organisations who choose to undertake voluntary commitment do so with the intention of making an impact that goes



above and over Australia's currently low-ambition 2030 NDC, which does not align with Australia's 'fair share' of emissions reductions.<sup>16</sup>

IPCOS therefore should include protocol that ensures that ITMOs traded under the scheme – that is, credits that attract a CA (to prevent double counting, in accordance with the Article 6 Rulebook<sup>17</sup>) – can be authorised for retirement by Australian companies to meet their voluntary commitments (including for Climate Active) without benefiting Australia's NDC. For example, IPCOS host countries could authorise credits for use towards "other international mitigation purposes" (outside and above an NDC).<sup>18</sup> If, however, Climate Active participants elect to purchase IPCOS credits authorised for use inside Australia's NDC, there should be clear rules to prevent the double claiming that would occur if the offset was claimed by both the Climate Active participant *and* the Australian Government.

It is likely that international credits will continue to be generated and traded alongside and outside the Article 6 mechanisms. If organisations elect to use these credits – which will not attract a CA – to meet their voluntary offsetting commitments, they should not be counted towards Australia's NDC, as this would contravene the Paris Agreement by violating the Article 6 rules.

## **5. Climate Active should continue to evolve to encourage, and represent, highest-integrity additional voluntary corporate action**

While the rules, modalities and procedures associated with Article 6 – Article 6.4 in particular – are under development and projects are still coming online, supply of "other international mitigation purposes" ITMOs generated under IPCOS and other Article 6 credits will be limited. Voluntary actors in Australia will likely be competing with other markets and demand sources for these units (e.g. airlines covered by CORSIA obligations).

Therefore, for an interim period (while Article 6 mechanisms, projects and IPCOS governance frameworks are under development), credits traded outside the Article 6 mechanisms – i.e., credits that will not attract a CA – should continue to be eligible for voluntary use under Climate Active. However, these credits should only be eligible if they meet the additional criteria outlined under Summary Position 3 and should be subject to vintage restrictions that balance the need to ensure supply with the imperative of driving on-ground decarbonisation outcomes as follows:

- CMI recommends considering a rolling five-year validity window for credit vintages;<sup>19</sup> and
- Considerations could be made to allow the purchase of older vintage credits from projects that continue to generate credits, such that the sale of older credits is financing the continuation of the project and its future emissions reductions or removals.

Although these credits will not attract a CA, voluntary actors purchasing them will still provide an important source of finance for emissions reduction and removal activities abroad, thereby helping the

<sup>16</sup> [Climate Action Tracker, 'Australia'](#) (2021)

<sup>17</sup> See Decision 2/CMA.3: [COP26 Report, UNFCCC](#) (2021), pp. 11-24.

<sup>18</sup> For more information on the ITMO 'authorisation' process, again see [CMI's COP26 Key Takeaways Article 6 Explainer](#) (2021); for information on how CA authorised ITMOs (credits) may fit/integrate into the broader architecture of the global carbon markets (including interactions with the VCM), see [IETA and ICROA's Article 6 Analysis](#) (2021).

<sup>19</sup> The [Climate Neutral program in the United States](#) uses a rolling vintage approach to offset unit eligibility, while the [Gold Standard](#) have recommended a similar 'use-by date approach' to vintage eligibility rather than a latest start date.



world deliver critical decarbonisation. At the same time, these projects may produce additional co-benefits such as supporting biodiversity outcomes as well as sustainable and climate resilient development in project communities. These co-benefits are, as outlined in Summary Position 3, increasingly important.

Many projects that will initially trade outside the Article 6 market mechanisms may eventually be eligible to transition onto the Article 6.4 mechanism when its rules, modalities and procedures are finalised (by 2030).<sup>20</sup> Purchase of these credits will thus help finance them in the meantime and ensure that they remain operational and viable – and eventually contribute to mitigation outcomes under the Paris Agreement. The Climate Active program should then consider moving amending offsets eligibility criteria to permit only credits traded within the established Article 6 mechanisms. This will ensure that Climate Active continues as a high-integrity carbon neutral certification scheme that encourages high-ambition, additional climate action among a coalition of voluntary actors cooperating to raise the global ambition of the Paris Agreement beyond Australia’s NDC obligations.

**6. Robust, predictable governance of the criteria governing Climate Active offset eligibility, including regular public and transparent review of these principles to ensure they keep pace with evolving global best practice, is required to lend some predictability to voluntary corporate actors in the uncertain and evolving context of global carbon markets in the post-Paris era**

The changes to eligibility criteria under Climate Active and IPCOS recommended throughout this submission – as well as any future changes to criteria based on evolving global best practice (e.g., the release of the CCPs) – must be communicated in advance and phased in. This will allow forward-supply planning and other longer-term strategic decision making among participants that may otherwise be discouraged from continuing to participate in the program. A three-year notice period would be consistent with the current rules under Climate Active that allow formally approved offset units to be banked for use for up to three years from the date of retirement. This would also provide appropriate and sufficient notice for participants.

Going forward, eligibility criteria should be reviewed regularly in a communicated time frame, rather than on an ad hoc ‘as required’ basis as has been historical<sup>21</sup> – the last review of Climate Active eligibility criteria took place in 2015, and the current requirement that units have a vintage year later than 2012 was a recommendation based on that review that was first adopted five years ago in 2017.<sup>22</sup> In the uncertain and evolving context of the integrating global carbon markets in the post-Paris era, this will lend some predictability to the Climate Active program.

In addition to the need to review eligibility criteria for Commonwealth programs, CMI notes that a number of Australian states and territories have their own separate offsets eligibility criteria and guidance.<sup>23</sup> Therefore, as well as adopting any recommendations to come out of the Climate Change Authority’s review into the use of international offsets, CMI recommends that the Australian Government lead efforts to streamline state- and territory-based offsets guidance towards a unified national approach on what constitutes credibility. This would simplify and reduce confusion for entities that may have cross-jurisdictional or nationwide operations.

<sup>20</sup> See Decision 3/CMA.3: [COP26 Report, UNFCCC](#) (2021), p. 27.

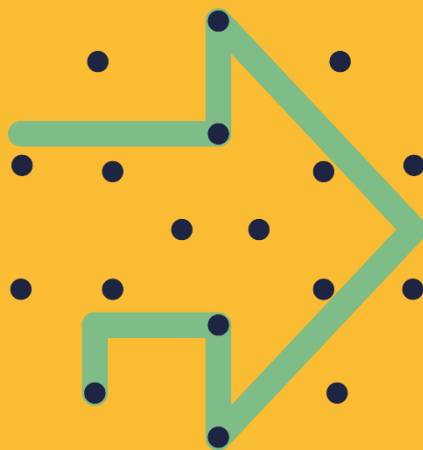
<sup>21</sup> Current [Climate Active Technical Guidance](#), for example, says that the list of eligible offsets “can be updated at any time”.

<sup>22</sup> See 2017 guidance: [‘National Carbon Offset Standard for Organisations’](#) (2017).

<sup>23</sup> See the [Northern Territory Offsets Principles](#) and [WA EPA’s Technical Guidance on Mitigating Greenhouse Gas Emissions](#), for example.



CMI recommends that the Climate Change Authority's next review of international offsets (following this one), including which offset units and/or criteria should be eligible for use under the Safeguard Mechanism and Climate Active program, take place within the next three years and be completed no later than 2025. By this time, the Article 6 frameworks will be further developed, and Australia will be due to set its second NDC. Given the context of the evolving global carbon markets and ratcheting ambition under the Paris Agreement, it would be prudent that this next review is undertaken before, and no later than, the UNFCCC Conference of the Parties in 2025.



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The Carbon Market Institute is an independent industry association and centre of excellence with a 2050 vision of a prosperous, climate resilient, net-zero emissions world. Our mission is to help business manage risks and capitalise on opportunities in the transition to a net-zero emissions economy.

