ENGINEERS
AUSTRALIA

Climate Change Authority
Review of International Offsets consultation
By email: enquiries@climatechangeauthority.gov.au

4 April 2022

Re: Review of International Offsets consultation

Dear Sir or Madam,

Engineers Australia is the peak body representing the engineering profession in Australia. We are the voice of over 110,000 members working in nearly every sector of the economy, with expertise across all disciplines and branches of engineering.

Our outlook on climate change is guided by an engineering approach to problem-solving – paying full regard to the scientific evidence, the lifecycle impacts of engineering endeavours, the risks to communities and natural systems, and the needs of both present and future generations. This perspective compels us to recognise the profound threats to societies, economies, and the natural world presented by the changing climate. Engineers Australia advocates urgent and large-scale actions in every sector to mitigate the causes of climate change, and to adapt and achieve resilience.

Engineers Australia welcomes the opportunity to contribute to the Climate Change Authority's review of assessment principles for international offsets markets. We advocate action at scale to achieve net zero emissions in Australia and internationally at least by 2050, and as soon as is practicable. This should entail action to shift emissions-intensive activities to absolute zero emissions alternatives wherever it is technically and economically feasible to do so - such as in the power sector. However, we recognise that emissions offsets, including international offsets, are required to address hard-to-abate activities in the timeframe required to reach global net zero emissions. Indeed, one notable report suggests that an emissions abatement pathway consistent with limiting global average warming to 1.5°C requires fifteen-fold growth in global voluntary carbon markets by 2030.[1]

The Commonwealth's *Long-Term Emissions Reduction Plan* further acknowledges that domestic offsetting will be required for Australia to reach net zero emissions.[2] Given the plan further assumes that unspecified breakthrough technologies will deliver around 19% of the remaining abatement required,[3] current policy settings may ultimately require a larger quantity of offsets than that projected in the plan - a kind of insurance policy. Higher-than-expected demand for offsets in order to reach net zero emissions would underscore the importance of well-functioning offset markets. If offsets are to effectively fulfil this critical role, markets and certification schemes must adopt stringent requirements to ensure the integrity of all credits. Offsets not representing genuine emissions reductions undermine abatement efforts and may even support increased emissions.[4] The fungibility of high-quality offsets with emissions

[1] Institute of International Finance (2021), '*Taskforce on scaling voluntary carbon markets: Final report*', p. 4. Available at https://www.iif.com/Portals/1/Files/TSVCM_Report.pdf. Accessed 29 March 2022.

[2] Department of Industry, Science, Energy and Resources (2021), '*Australia's Long-Term Emissions Reduction Plan*', pp. 17, 76-77. Available at https://www.industry.gov.au/sites/default/files/October%202021/document/australias-long-term-emissions-reduction-plan.pdf. Accessed 29 March 2022.

[3] Department of Industry, Science, Energy and Resources (2021), '*Australia's Long-Term Emissions Reduction Plan*', p. 15. Available at https://www.industry.gov.au/sites/default/files/October%202021/document/australias-long-term-emissions-reduction-plan.pdf. Accessed 29 March 2022.

[4] World Resources Institute (2019), '*What you need to know about Article 6 of the Paris Agreement*'. Available at https://www.wri.org/insights/what-you-need-know-about-article-6-paris-agreement. Accessed 29 March 2022.

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allowances under any future cap and trade or baseline-credit emissions trading frameworks[5] would further support Australia to meet its emissions reduction targets – and to do so at least cost.

However, both the international offsetting arrangements under the Kyoto Protocol Clean Development Mechanism (CDM) and national arrangements under the Emissions Reduction Fund (ERF) are failing to meet an adequate integrity standard. It is suggested that, for a variety of reasons, two thirds of all offsetting projects accredited under the CDM do not represent legitimate emissions reductions.[6] Domestically, it was recently reported that a large tranche of ERF monies are supporting illegitimate carbon reductions.[7] If true, this is alarming for both Australia's emissions reduction efforts and the integrity of its public finances, given the ERF has received around $2.5 billion in taxpayer funds.[8]

Engineers Australia is pleased to offer further comments in relation to questions posed in the consultation paper as follows.

What criteria and standards should govern the use of offsets in Australia under Climate Active and the Indo-Pacific Carbon Offsets Scheme?

Engineers Australia supports adoption of the integrity principles utilised by the *Climate Active Carbon Neutral standard* to guide the certification and use of offsets in carbon markets and certification schemes. That is, all emissions reductions associated with eligible offsets should be additional, permanent, measurable, transparent, account for emissions leakage, verified by credible and independent audit, and publicly registered.[9]

The Department of Industry, Science, Energy and Resources proposes that abatements under the nascent Indo-Pacific Carbon Offsets Scheme should:

- Include buffers and other requirements to account for the risk of reversal,
- Include safeguards to ensure the permanence of abatements after crediting periods, and
- Take a conservative approach to reporting abatement outcomes.[10]

We believe these are appropriate as further criteria to support integrity in offsetting markets and schemes. Accounting for permanency and reversal risks is particularly important given the high likelihood that more frequent, more severe extreme weather events – particularly wildfires and drought - will increase the risk of reversal for projects involving land-based carbon stores.[11]

One example of effective risk management under the CDM is a requirement that 5% of offset units generated by carbon capture and storage projects are deposited into a reserve account to compensate for any future reversal. Further requirements include continuous monitoring of the geological storage site for at least 20 years after units are issued. These are reasonable precautions given the possibility of governance issues.

It is also true, however, that if a well-functioning and liquid emissions trading market existed, risks associated with varying offset quality would be accurately priced in by buyers and sellers and informed by ratings equivalent to those

[5] For example, the mooted Safeguard Crediting Mechanism pilot.

[6] Bloomberg Green (2020), '*These trees are not what they seem*'. Available at https://www.bloomberg.com/features/2020-nature-conservancy-carbon-offsets-trees/. Accessed 29 March 2022.

[7] Australian National University (2022), '*Australia's carbon market a 'fraud on the environment"*. Available at https://law.anu.edu.au/news-and-events/news/australia%E2%80%99s-carbon-market-fraud-environment. Accessed 1 April 2022.

[8] Clean Energy Regulator (2022), '*The evolving carbon market: transitional arrangements for Emissions Reduction Fund fixed delivery contracts*'. Available at http://www.cleanenergyregulator.gov.au/ERF/Pages/News%20and%20updates/News-Item.aspx?ListId=19b4efbb-6f5d-4637-94c4-121c1f96fcfe&ItemId=1068. Accessed 1 April 2022.

[9] Consultation paper, p. 4

[10] Department of Industry, Science, Energy and Resources (2021), '*Design principles to guide the Indo-Pacific Carbon Offsets Scheme*', 2021. Available at https://www.industry.gov.au/news/design-principles-to-guide-the-indo-pacific-carbon-offsets-scheme. Accessed 29 March 2022.

[11] Climate Council (2021), '*Article 6: What is it and why is it so important for COP26?*'. Available at https://www.climatecouncil.org.au/article-6-cop26/. Accessed 29 March 2022.

provided by ratings agencies in conventional financial markets. The market could thereby bear most if not all such risk.

Although strict integrity requirements may increase administrative and transaction costs for businesses providing and purchasing offsets, they are necessary to address the risks associated with less stringent compliance arrangements. The precise scale of credits required to help Australia achieve net zero emissions by 2050 is not certain. But it is clear some activities, including in the strategically critical agriculture and industry sectors, are unlikely to reach zero emissions by mid-century due to technical limitations and/or excessive cost. If these sectors are unable to legitimately offset hard-to-abate activities, Australia may be denied a viable path to net zero emissions within the necessary timeframe.

In any case, strict integrity requirements are also likely to increase offsets' value. Voluntary and compliance-based offset markets in both Australia and abroad demonstrate a preference for derivatives associated with demonstrable and reliable abatement outcomes (as well as co-benefits; see also below).[12] This is so despite the fact that low integrity credits are widely available at a fraction of the price of higher-quality alternatives.

It is also essential that the generation, trade and use of offsets are consistent with Article 6 of the Paris Agreement. Article 6 intends to support integrity and efficacy principles aligned with those detailed above. It includes explicit provisions to prevent 'double counting' of offsets towards the abatement outcomes of both the party that generates an offset and that which purchases it.[13] Furthermore, offsets inconsistent with Article 6 appear ineligible to count towards countries' Nationally Determined Contributions to reduce emissions under the Paris Agreement.[14] Thus, for the purpose of demonstrating compliance with the overarching framework for global emissions abatement, compliance with its provisions is a practical necessity.

What are leading practice approaches for taking into account non-carbon benefits and avoiding adverse impacts?

Engineers Australia strongly supports a just transition to a sustainable economy - cognisant that emissions abatement will expose industries and communities to differentiated vulnerabilities and opportunities. We also support the realisation of the United Nations Sustainable Development Goals. Engineers Australia believes well-designed offsets have a role to play in achieving these goals by conferring environmental, economic and other co-benefits; "*Robust international emissions markets developed by Parties to the UNFCCC could stimulate up to US$1 trillion of new capital investment toward developing countries, improve local sustainability results, and provide incentives for further technological innovation*".[15]

However, it is of the utmost importance that offsets effectively and efficiently support their primary purpose – bestowing a positive benefit to the atmosphere by neutralising the global warming impact of emissions. Engineers Australia notes that the CDM continues to attract criticism for lengthy, high-cost approval processes associated with a strong focus on sustainable development outcomes.[16]

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[12] Department of Industry, Science, Energy and Resources (2021), '*Discussion paper: King review Safeguard Crediting Mechanism*', pp. 16-17. Available at https://storage.googleapis.com/converlens-au-industry/industry/p/prj1a0476576755c81e46e43/public_assets/Safeguard-Crediting-Mechanism-Discussion-Paper.pdf. Accessed 29 March 2022; Reputex Energy (2021), '*How could Safeguard Mechanism Credits impact Australian Carbon Credit Unit prices?*' Available at https://www.reputex.com/research-insights/how-could-safeguard-mechanism-credits-impact-australian-carbon-credit-unit-prices/. Accessed 29 March 2022.

[13] SP Global (2021), '*Paris accord Article 6 approval set to jump-start evolution of voluntary carbon market*'. Available at https://www.spglobal.com/commodity-insights/en/market-insights/latest-news/energy-transition/111721-paris-accord-article-6-approval-set-to-jump-start-evolution-of-voluntary-carbon-market. Accessed 29 March 2022.

[14] Carbon Market Watch (2021), '*FAQ: Deciphering Article 6 of the Paris Agreement*'. Available at https://carbonmarketwatch.org/2021/12/10/faq-deciphering-article-6-of-the-paris-agreement/#vcm;%20https://www.iisd.org/articles/paris-agreement-article-6-rules. Accessed 29 March 2022.

[15] International Emissions Trading Association (2021), '*Article 6 can generate up to $1 trillion a year of financial flows to achieve Paris goals, study shows*'. Available at https://www.ieta.org/page-18192/11967121. Accessed 29 March 2022.

[16] International Institute for Sustainable Development (2021), '*The Paris Agreement's new Article 6 rules*'. Available at https://www.iisd.org/articles/paris-agreement-article-6-rules. Accessed 29 March 2022.

We suggest that offset markets and certification schemes should require suppliers to provide regular reporting as to how offsets support the realisation of environmental, economic and other co-benefits. Reporting obligations should be designed to guard against 'gamed' outcomes; that is, co-benefits must be genuine. These reports should be made public through a register or similar. Given strong demand for offsets that deliver co-benefits,[17] such a requirement should provide a clear incentive to deliver offsets meeting these criteria. Equally, a reporting obligation should not unreasonably restrict the availability of offsets nor unduly raise their cost.

There is also a case for other measures to ensure offsets do not cause adverse non-emissions outcomes (as opposed to supporting non-emissions benefits).

Does your company use domestic or international offsets and, if so, why? What are the most important factors you consider in choosing which offsets to purchase?

Engineers Australia has substantially reduced its emissions footprint in recent years and is determined to reach net zero emissions in the near future. We intend to realise this goal by directly reducing our scope one (direct) and scope two (indirect from procured power) emissions to the greatest extent possible. For example, we purchase electricity from retailers using renewable energy wherever possible and have installed LED lighting across all ten of our offices.

However, we also purchase offsets to partly address emissions arising from hard-to-abate activities - notably gas consumption and air travel by staff. These credits are generated by a non-profit entity engaged in reforestation in Australia and New Zealand. Reforested areas are selected based on low probability of reversal from wildfire or human activity over the next century. The supplier plants native vegetation exclusively.

In selecting our offsetting partner, Engineers Australia is chiefly motivated by the availability of information to provide strong assurances about the integrity of emissions reduction outcomes associated with the product. The offsets purchased satisfy the *Climate Active Carbon Neutral Standard*'s integrity requirements. We are also interested in the co-benefits of native reforestation and the opportunity to support an Australian organisation engaged in climate positive work. The offsets we purchase are considerably more expensive than what we judge to be products of lower integrity and offering fewer co-benefits. Indeed, some such products are around 90% cheaper than the units Engineers Australia elects to purchase.

Engineers Australia will soon complete a comprehensive audit of its remaining emissions with a view to determining a definite pathway and date by which to achieve net zero emissions.

[17] Department of Industry, Science, Energy and Resources (2021), '*Discussion paper: King review Safeguard Crediting Mechanism*', pp. 16-17. Available at https://storage.googleapis.com/converlens-au-industry/industry/p/prj1a0476576755c81e46e43/public_assets/Safeguard-Crediting-Mechanism-Discussion-Paper.pdf. Accessed 29 March 2022; Reputex Energy (2021), '*How could Safeguard Mechanism Credits impact Australian Carbon Credit Unit prices?*' Available at https://www.reputex.com/research-insights/how-could-safeguard-mechanism-credits-impact-australian-carbon-credit-unit-prices/. Accessed 29 March 2022.

More information

Engineers Australia welcomes the opportunity to engage further on the Climate Change Authority's international offsets consultation, and with other projects related to offsetting. Please direct any queries to Mark Bonner, Head, Climate Smart Engineering via mbonner@engineersaustralia.org.au or 0439 343 117.

Sincerely,

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Engineers Australia