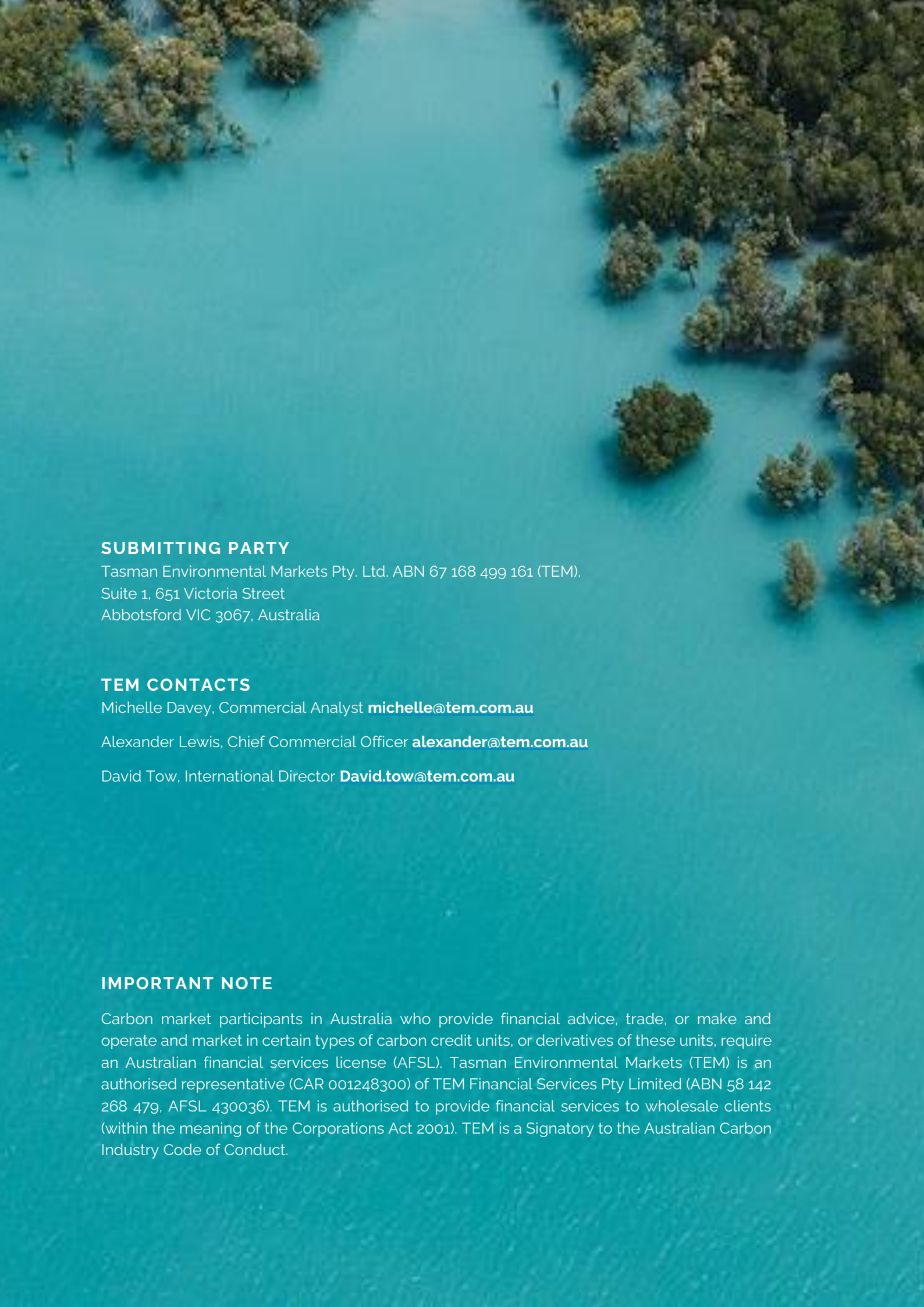
TEM

Response to Climate Change Authority:

Review of international offsets consultation

Tasman Environmental Markets (TEM)

04th April 2022



SUBMITTING PARTY

Tasman Environmental Markets Pty. Ltd. ABN 67 168 499 161 (TEM).
Suite 1, 651 Victoria Street
Abbotsford VIC 3067, Australia

TEM CONTACTS

Michelle Davey, Commercial Analyst **michelle@tem.com.au**

Alexander Lewis, Chief Commercial Officer **alexander@tem.com.au**

David Tow, International Director **David.tow@tem.com.au**

IMPORTANT NOTE

Carbon market participants in Australia who provide financial advice, trade, or make and operate and market in certain types of carbon credit units, or derivatives of these units, require an Australian financial services license (AFSL). Tasman Environmental Markets (TEM) is an authorised representative (CAR 001248300) of TEM Financial Services Pty Limited (ABN 58 142 268 479, AFSL 430036). TEM is authorised to provide financial services to wholesale clients (within the meaning of the Corporations Act 2001). TEM is a Signatory to the Australian Carbon Industry Code of Conduct.

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EXECUTIVE SUMMARY

Addressing Climate Change is an international responsibility requiring international solutions. Many Australian businesses have both global and domestic operations and wish to align their offsetting activities with their supply chains to ensure they are investing back into communities where they are having the greatest impact. Businesses should be allowed to make their own decisions regarding these activities, including where and how to invest in emissions reduction projects, both avoidance and removal, without having this choice constrained.

Australia has an obligation to developing nations, through the decision to ratify the Paris Agreement, to support their decarbonisation and enable progress towards the United Nations Sustainable Development Goals. Investment in carbon offset projects and portfolios enable this, by channelling finance into the transformation of communities, industries, and economies, including co-benefit impacts that go far beyond the narrow band of greenhouse gas emissions.

Carbon offset markets should be used to catalyse investment into global climate change mitigation and the subsequent social, economic, and environmental co-benefits often resultant from these projects. Further to this, voluntary markets have done much of the heavy lifting to incorporate climate change action into corporate and governmental activities. International schemes have demonstrated elevated levels of integrity and are the backbone of climate change policies globally. As such, Australian carbon offset markets and schemes should align more with these international schemes as they develop. Doing so will improve market certainty and investor confidence enabling a scaling up of the voluntary market projecting a flow on effect into Australia's ability to decarbonise and mitigate dangerous climate change.

TEM is supportive of the existing governance arrangements in place within international carbon offset market schemes. To ensure continual improvement within Australia's voluntary carbon offset market TEM is supportive of enforcing the requirement that brokers must hold an Australian Financial Services (AFS) License to trade identified carbon offsets and highlights that membership of the Carbon Market Institute Code of Conduct, and B Corporation certified companies provides consumers with additional levels of quality and integrity assurance.

It should also be recognised and understood that cheaper credits are not lesser credits. Within the carbon offset market, price is not an indicator of quality and should not be considered when wholistically reviewing purchase decisions. In fact, some of the highest impact projects that have been developed have produced some of the most low-cost carbon offset. Additionally, schemes should not differentiate preferences between sequestration and avoidance activities. Both hold significant and valuable places within an economy's decarbonisation future.

In Australia's progress toward achieving our Nationally Determined Contributions (NDCs) we observe that voluntary carbon markets have played a pivotal role in scaling and incentivising decarbonisation activities. When it comes to reporting on Australia's emissions reductions activities, many corporates view their carbon offset investment as additional ambition above national targets. Some corporates do not want their actions to be bundled into Australia's general emissions accounting. Should the government take the position to include voluntary action within Australia's National Greenhouse Accounts, this review should consider whether accounting for voluntary action ought to be highlighted as a separate line item within the national accounts.

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GENERAL QUESTIONS

Question 1: What considerations should guide the use of international offsets in Australia?

It is TEM's view that the following principles should drive Australia's engagement with international carbon offset markets.

1. Addressing Climate Change is an international problem

Climate change is a global problem. Greenhouse Gas (GHG) emissions do not stay within a nation's borders nor are they emitted by one country alone. Instead, GHG's are spread and emitted across the planet by every nation. To address the problem, emission reductions need to occur globally, and the mechanisms that incentivise emissions reductions, such as carbon offset markets, also need to provide that global impact. Offsets from a range of countries, have the same contribution to global emissions reductions.

Many Australian businesses have operations internationally. International offsets allow these businesses to invest back into regions where they have an operational impact, or to align their offsetting activities with internal Reconciliation Action Plans (RAPs) and Sustainable Development Goals (SDGs). These businesses want to communicate that they are not just sourcing emissions reductions carbon offsets, they want to communicate and demonstrate how they are supporting local communities linked to their supply chains also effectively.

2. Developed countries must continue to support developing countries to decarbonise

Through Australia's decision to ratify the Kyoto Protocol and Paris Agreement, Australia has signalled the importance of cooperation and international collaboration through the support of international carbon offset units. Australia's engagement with international carbon offset markets must be consistent with this.

When we begin to look beyond the narrowed focus of GHG emission, the image emerges that carbon offset projects are often located in developing countries because the community and economic co-benefits of doing so have extraordinary impacts. The use of international offsets in Australia's climate change schemes allows for private sector investment to flow directly into these projects and subsequent communities and economies enabling progress towards the sustainable development goals.

3. Offsets are transformational

Carbon offsets do not just offset emissions. They enable economic development and transform industries and economies.

Industrialisation. A pathway to economic prosperity, opportunities, and reduced inequalities. Also, often a pathway to increased emissions, pollution and at the detriment of global earth systems. Countries undergoing industrialisation do not have the luxury of relying on the latest, high tech, zero-emissions technologies to do so. The developed world did not progress through their industrial revolution without significant greenhouse gas emissions, and it would be unjust to ask those currently undertaking this revolution to do so without aid, incentives, and technologies transfers. Through investments into renewable energy projects and clean cookstoves businesses enable these economies to emerge, industrialise and experience a life full of possibility while minimising their contribution to climate change.

4. We need to use carbon markets to catalyse the maximum amount of global investment into climate change mitigation as possible

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International offsets are an important avenue to catalyse investments into not only carbon, but also into social, environmental, and economic co-benefits for these countries. Supporting the reduction in emissions from developing countries is highly effective in addressing climate change and is a commitment that developed countries, including Australia, have made through their ratification of the Paris Agreement. Maximising investment into these countries' climate change mitigation is best achieved through efficient carbon markets which support investment in developing countries' emissions avoidance and removal projects.

5. Voluntary markets have done much of the heavy lifting

Australian voluntary markets have evolved greatly. They have been supported by a strong Climate Active framework that enables high quality international offsets. Moreover, the availability of high integrity international offsets has been a significant factor in this success enabling Australian businesses to blend portfolios of Australian and international carbon offsets to meet market needs and their own considerations.

The ability to choose and blend Australian and international carbon offsets has provided for a remarkably successful voluntary sector that is generating substantial climate benefits. The government should continue to support the development of this low-cost market for consumers and for effective climate change mitigation.

6. Existing international schemes have high levels of integrity

Schemes such as the Clean Development Mechanism (CDM), Verified Carbon Standard (VERRA) and the Gold Standard are robust with well-established procedures for project validation, verification, and auditing. These schemes have demonstrated they are able to continually evolve as markets and technologies evolve, and as community expectations change. These international schemes have, in many ways, lead the way in the continual development of integrity and quality.

7. Australian carbon markets should align with international schemes

Alignment between carbon offset schemes improves market certainty, gives investors confidence, and increases transparency. This enables fungibility between schemes making carbon markets more efficient, thus benefiting Australian businesses. Once a business makes a carbon neutrality commitment it is exceedingly difficult for them to go back on that statement. As such, greater market and regulatory stability enables businesses to manage the risks involved with this commitment including price security, availability of supply and due diligence. In turn, this will reduce barriers to market entry and stimulate more voluntary action, scaling the market impact, which results in better outcomes toward Australia's NDC progress.

8. Price does not equal value or quality

One of the most repeated myths by market commentators is that low-cost carbon offsets are of poorer quality. This is simply not true. The expertise of the TEM team, while at and prior to TEM, combines years of cumulative involvement into the development and visitation of many projects across the globe. Contained within these projects are some of the most impactful, and some of the most cost-effective carbon offsets. Ever since the European Carbon Market stopped allowing Clean Development Mechanism Certified Emissions Reductions into their scheme, the market for these carbon offset types dried up and the price dropped, we argue these are simple market economics. Many of these projects were transferred into the Voluntary Carbon Market to secure ongoing commercial viability. Over the past year and prior to, some of these prices have increased over 500%. Same projects, same carbon offsets but more demand, equals price increase.

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Question 2: What is the role of offsets in Australia's transition to net zero emissions and how might this change over time?

a. Does this vary by offset type (e.g., sequestration vs. emissions reduced or avoided)?

All forms of offset types are important to enable an economy to decarbonise. One type of offset is not lesser than the other and defining one such poses the risk of creating perverse impacts. If only future actions are valued, there is no longer an incentive to sustain historical climate action and environmental protection. Moreover, most avoidance projects will survive well beyond carbon markets, continuing to produce emissions reductions and support sustainable economic development.

It is important, therefore, that schemes such as Climate Active and Indo-Pacific Carbon Offset Scheme (IPCOS), support equal investment into avoidance carbon offsets as they do for removals. Additional restrictions regarding offset types are not required to continue strong investment into sequestration carbon offsets, as more broadly we have seen companies price carbon removal offsets more highly than carbon avoidance offsets. This will naturally underpin more investment into sequestration carbon offset projects.

b. What are the opportunities and risks presented by international offsets now and into the future?

As aforementioned, the opportunities presented by international offsets are numerous. These projects transform economies and livelihoods and enable Australia to align its actions with its obligations as a signatory to the Paris Agreement. All international schemes currently recognised by Climate Active have high levels of integrity in addressing climate change impacts and include provisions to ensure permanence, additionality, measurement, reporting and verification.

Although there have been some recent examples of criticism of international projects (e.g., the recent Australia Institute review of the Kanaka Management Services REDD Project in PNG), we note that such projects rarely, if ever, successfully progress through the validation stage, let alone progress through detailed audit reviews. The Kanaka project cited above is in exactly this position – pre-review and unlikely to progress any further. TEM fully supports the maintenance of high integrity and rigorous validation and auditing processes by Verra and other international offset registries.

Question 3: Are there lessons to be learned from experience with international carbon markets to date? What are most relevant to this review?

International carbon markets have demonstrated their longevity and their ability to respond to advancements in technologies. International collaboration within carbon markets has brought knowledge, experience, and intellectual strength to the development of core global schemes, such as the CDM, Verified Carbon Standard, and the Gold Standard. These schemes have established a strong baseline for the development of climate change policy globally across all nations and jurisdictions.

We have experienced within international carbon markets that if rules are continually changed and proper consultation does not occur, this has dire effects on the ability for the market to be effective and efficient. As such, alignment with international schemes mitigates against short-term national level decision-making.

USE OF OFFSETS BY AUSTRALIAN COMPANIES

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Question 4: Does your company (intend to) use domestic or international offsets and, if so, why?

a. What are the most important factors you (will) consider in choosing which international offsets to purchase?

TEM supports the use of domestic and international offsets through our extensive client base. As Australia's largest buyer of voluntary Australian Carbon Credit Units (ACCUs) and among the largest buyers of high-quality international offsets globally, TEM inherently understands the complexities of the voluntary carbon offset market. It is TEM's position that the integrity of offsets within the carbon offset markets is vital to ensuring extraordinary impact. TEM is satisfied through many years of experience and the trading of millions of international offsets that the existing international schemes have extremely high integrity.

We know that our corporate clients expect a multitude of outcomes from their carbon offsetting portfolios. All our clients consider important factors when constructing portfolios such as the access to and availability of low cost, high integrity units which enable them to tell a compelling story of their impacts and align with both their international and domestic markets and supply chains. It has been important for all our major corporate clients to align their carbon offset portfolios with the company's aims. The ability to access the diversity and depth of choice which international markets offer is vital in enabling this. Businesses do not want their offsetting strategy choices to be unnecessarily restricted.

CRITERIA AND STANDARDS

Question 5: 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 (Indo-Pacific Carbon Offset Scheme) IPCOS?

a. Should different criteria and standards apply at different scales (e.g., at the method, project, scheme and trading platform levels)?

TEM acknowledges that there may be additional regional development objectives which the Australian government sees merit in pursuing. Considering this, it is TEM's position that IPCOS should align, as much as possible, with existing international offset schemes. Existing schemes provide for integrity, options for co-benefits and options for layering of certification such as Verra's Sustainable Development Verified Impact Standard (SD Vista) and Verra's Climate, Community & Biodiversity Standards (CCBS).

The Climate Change Authority should take caution when imposing additional bespoke criteria and standards beyond what is required in existing schemes as this will increase costs associated with a project thereby lowering the amount of investment into their projects and their valuable co-benefits.

It is TEM's belief that Australia should seek to align the IPCOS scheme with the criteria and standards required by the International Carbon Reduction and Offset Alliance (ICROA) which has extensive experience and promotes best practice in the voluntary carbon offset market. Several Australian corporates already signal their preference to make use of international offsets within the Indo-Pacific region. As such, there are opportunities for the Australian Government to promote the use of regional offsets within the Australian economy without mandating this investment.

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Question 6: 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?

a. Are there any gaps in the criteria used? What changes and/or additions are needed?

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)?

c. What is your view of the standards applied for taking into account co-benefits?

d. What is your view of the standards applied to avoiding and addressing adverse impacts?

All international schemes have high levels of integrity in addressing climate change impacts and include provisions to address issues of permanence, additionality, measurement, reporting and verification. Additional layers of scrutiny in relation to co-benefits and adverse impacts are available within these schemes through additional accreditation levels. It is appropriate for businesses to be able to make decisions regarding what they want their projects to achieve. Businesses will choose and price those projects accordingly. At the end of the day the core function of carbon markets is to address climate change.

Question 7: Should the age of units (their vintage) be considered in the criteria for eligible offsets in Australia?

In noting that the emissions reductions which have occurred from a project do not diminish with age, it is TEM's view that a rule for Climate Active eligible offsets should have a tail of 10-years which progresses annually. This timeframe enables projects to ensure enough income is generated through the project to cover verification and validation costs and considers the timeframes required for offsets to be generated, monitored, verified, issued, traded, and retired. Furthermore, these projects make investment decisions based on the assumption that they can sell their offsets. To prevent increasing barriers to entry, regulators should ensure clarity and certainty regarding any changes now and into the future regarding changes to vintage requirements.

GOVERNANCE ARRANGEMENTS

Question 8: In the context of the Paris Agreement, how important is it to consider the governance and institutional arrangements in place for the generation, trade and use of offsets?

The consideration of governance and institutional arrangements regarding the trade of carbon offsets is particularly important. Most corporates using carbon offsets in Australia act within the voluntary carbon offset market. As such, their purchase and use of carbon offsets are as a reputational product, and these consumers deserve a level of consumer protection. Several industry organisations and legal requirements within the industry ensure the trade of high-quality and high-integrity carbon offset. Climate Active currently has a list of verified and endorsed carbon accounting consultancies who can provide GHG accounting to corporates. Extending this list to cover companies which provide corporates with carbon offset, and ensuring these firms have the following certifications, will help ensure high integrity of carbon offset used within Australia's voluntary carbon offset market:

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- The Australian Carbon Industry Code of Conduct, administered by the Carbon Market Institute, signatories
- B Corp certification
- Australian Financial Service Licence (AFSL) holders

The **Australian Carbon Industry Code of Conduct (the Code),** administered by the Carbon Market Institute (CMI), is a world-leading domestic consumer protection code for Australia's carbon offset industry. This voluntary and industry-led Code aims to promote market integrity, consumer protection and appropriate interaction with carbon offset project stakeholders. Signatories to the Code are committed to developing and conducting their business in line with industry best practice and interacting with their clients and other stakeholders in a professional and ethical manner. As such, the Code ensures that provision of carbon offsets by signatories to consumers are of high quality and high integrity.

B Corp Certified companies meet ambitious standards of verified performance, accountability, and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials. To achieve certification a company must: demonstrate high social and environmental performance, make a legal commitment by changing their corporate governance structure to be accountable to all stakeholders, not just shareholders, and exhibit transparency by allowing information about their performance measured against B Lab's standards to be publicly available.

In Australia it is a legal requirement that organisations who sell Clean Development Mechanism (CDM) Certified Emissions Reductions (CERs) and ACCUs hold a wholesale **Australian Financial Service Licence (AFSL)** when selling to wholesale clients and a retail Australian Financial Service License (AFSL) when selling to retail clients. Currently there are companies operating within the carbon offset market, selling CERs and ACCUs, who do not hold an AFSL. Ensuring that all companies operating within the market do so legally is a key step to safeguarding market integrity.

Question 9: What are the key elements of good governance arrangements? Are there elements missing from current offset programs such as the Gold Standard, the Verified Carbon Standard and the Clean Development Mechanism?

TEM works with these organisations extensively and is supportive of the existing governance arrangements in place within these schemes. The governance arrangements existing for climate change are complex, as is the field. These organisations have developed substantive governance arrangements to address this complexity and as market participants we support these structures.

It is TEM's position that part of good governance is ensuring stakeholders understand what these governance arrangements are and that these arrangements are well communicated and clearly defined.

CO-BENEFITS

Question 10: How important is it that offsets also produce co-benefits?

a. How important is it that IPCOS produces co-benefits in partner countries?

The primary objective of emissions reductions projects is to mitigate the risks of dangerous climate change. Where possible, and without limiting the volume of emissions reductions achieved, IPCOS should support maximising co-benefits as much as possible.

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Question 11: What are the range of co-benefits that might result from the production of offsets?

a. Are some co-benefits more valuable than others, if so, which?

Co-benefits are valued differently based on the industry in which the business operates, and the business objectives. Markets should enable businesses to focus on specific co-benefits within their projects so long as the underlying climate change benefits, which enable a project to be registered, are present. However, this should not be a mandated requirement of market participation.

For example, in the remote tropical savannas of northern Australia's Arnhem Land, Aboriginal traditional owners and rangers use customary knowledge and modern tools to accomplish highly sophisticated fire management. In the absence of this, Arnhem Land is prone to extreme, devastating wildfires that damage the landscape including rock art galleries, cultural sites, and biodiversity. Investing in projects such of these enables corporates to align their offsetting activities with their Reconciliation Action Plans (RAPs) and support the continuation of these projects. A corporate wishing to make this alignment with may value such offset higher than others.

b. Are there specific offset activities that might have a particularly positive impact?

By definition all offset activities have a positive impact. As above, this is dependent on the purchaser.

Question 12: In your view, what are the most appropriate and effective approaches for supporting, recognising and valuing co-benefits associated with offsets, and ensuring the delivery of co-benefit in local communities?

The most appropriate and effective approaches for this are through bespoke schemes such as the additional accreditations which some carbon offset standards have available. So long as there is transparency regarding a projects co-benefits and consistency in defining co-benefits, markets can then accurately price these units.

ADVERSE IMPACTS

Question 13: What are the range of adverse impacts that might result from the production of offsets?

Any major transformation of an economy, society and the environment inherently have impacts. There are few transformations which are as substantial as reshaping global economies to address climate change. The world, as per the Paris Agreement, has determined that the impact of not addressing climate change, of a world in which there is dangerous climate change, is worse than any alternative.

Climate change and carbon offset schemes are fundamentally designed to address climate change. There are impacts from the creation of offsets. How these impacts are framed and whether, on balance, they are adverse depends on the lens from which you view these impacts. Unfortunately, in some circumstances this means there may be adverse impacts, but rarely are these of a nature that outweigh the long-term benefits and cannot be overcome with remedial action. Transparency is required around this, and so any adverse impacts should be clearly disclosed in project documentation, so that market participants can price and decide whether to buy these units accordingly.

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Question 14: What are the most effective approaches or frameworks to avoiding or otherwise managing adverse impacts, if necessary?

a. How can IPCOS best be designed to avoid adverse impacts and address them if they do arise?

IPCOS should be designed to support climate change mitigation amongst our regional neighbours. Any adverse impacts should be clearly disclosed in documentation.

Question 15: How important is community and stakeholder engagement in avoiding adverse impacts?

Engaging with communities and stakeholders who are likely to be affected by a project is an important consideration to ensure complete understanding on how these stakeholders will be affected.

BROADER IMPLICATIONS

Question 16: 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).

International offsets are a core part of the transformation of markets to address climate change. As aforementioned, it is TEM's view the following eight principles should drive Australia's engagement with international carbon offset markets. These principles additionally consider the broader implications of the use of international offsets, and are:

- Addressing Climate Change is an international problem
- Developed countries must continue to support developing countries to decarbonise
- Offsets are transformational
- We need to use carbon offset markets to catalyse the maximum amount of global investment into climate change mitigation as possible
- Voluntary carbon offset markets have done much of the heavy lifting
- Existing international schemes have high levels of integrity
- Australian carbon offset markets should align with international schemes
- Price does not equal value or quality

Question 17: What are the lessons learned from carbon markets to date?

As in any commodity market, uncertainty suppresses growth. Increasing regulatory uncertainty within the Australian Carbon Offset Market would result in constraints in investment into and subsequent action on climate change. In the long term, no one wins when the market is stifled by regulatory uncertainty. Corporates are confused, recent market entrants whose projects only became financially viable with price gains experienced within the last 18 months now must reassess their investments and some pipeline projects may now never eventuate.

Carbon offsets markets enable corporates to put an internal, or de facto, price on carbon. In doing so, corporates become incentivised to reduce their emissions where the cost of doing so falls below the price of purchasing offsets enabling corporate decarbonisation.

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Question 18: Outside of Climate Active and IPCOS, where else might offsets criteria be relevant in Australia? Are there different consideration in those cases?

There are two scenarios to consider in relation to this question.

Firstly, if Australia choses to link its Nationally Determined Contributions (NDCs) to Australia's voluntary carbon offset market, these should only be linked to Climate Active and IPCOS.

Secondly, given the Australian Competition & Consumer Commission's (ACCC's) compliance and enforcement priorities for 2022/23 include environmental claims and sustainability there may be an argument that for a business to make a carbon neutral claim in Australia, this claim must be verified and in line with Climate Active.

Question 19: To what extent should international offsets used by Australian companies towards their targets also count towards Australia's national targets?

Nationally Determined Contributions (NDCs) are reflective of a government's direct action to reduce emissions. The voluntary carbon offset market falls outside of this direct scope and some of our clients do not want their voluntary action to be bundled into Australia's general emissions accounting. Their aims are to contribute to additional ambition above our national targets. However, we do recognise for international offsets there are accounting impacts to different economies. As such, if accounting for voluntary action is required within Australia's national targets, these should be separated from other emissions and policy actions.

Question 20: Are there other matters the Authority should consider in undertaking the review?

As addressed in the 'Governance Arrangements' response, the Authority should not just examine the use of international offsets within Australia, but instead analyse whether it is more prudent to address which companies are supplying these offsets and the measures they have in place to ensure offset integrity. Carbon offset suppliers who are signatories to the Australian Carbon Industry Code of Conduct, members of the are a B Corp certified company and hold the appropriate Australian Financial Services Licence (AFSL) will, by their own actions, and as required by membership to these associations, ensure that any carbon offset traded within Australia is of the highest integrity.

A review of this nature, while important, also has an impact on market stability and climate change action. As such, any changes implemented because of this review should provide sufficient lead times for markets to adapt. Sufficient lead times allow corporates to adequately cover their exposure to carbon offset market prices and adjust for any forward contracts that may have already been made, for the purposes of procuring carbon offsets over multiple years to meet their Climate Active requirements in the future. For example, 12-month lead times are not sufficient for corporates that have entered into 3-year forward agreements for the procurement of carbon offsets under current Climate Active eligibility rules. This is true even when taking into account the existence of the banking rule (see Climate Active Technical Guidance Manual p.50), as not all corporates are in a position or capable of purchasing and retiring 3-years' worth of their Climate Active carbon offset volume upfront for certain reasons, such as cash-flow restrictions. The ability to forward contract is an extremely important tool for corporates to be able to manage their price exposure and the cost of being Climate Active in a volatile market, and continually changing eligibility rules limit the ability to manage such risk. Any lead times for proposed future changes should be done with recognition of the above in consultation with industry, as should all proposed changes not directly consulted on within this review.

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