

Australian Government
Independent Review of
ACCUs
submission

October 2022





Independent Review into ACCUs

About CMI

The Carbon Market Institute (CMI) welcomes this opportunity to respond to the Independent Review of Australian Carbon Credit Units (ACCUs) (Independent Review) call for public submissions by commenting on the ACCU Review Consultation Paper, opened for public consultation on 29 August 2022.

CMI is an independent member-based industry association championing best practice for business in the transition to net-zero emissions. CMI's 140+ strong membership includes organisations from across the entire carbon value chain, including primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies.

CMI's Board annually updates CMI Advocacy Policy Positions in consultation with – but independent of – our members. Our positions include supporting policies aligned with Australia's fair share of effort to achieve the high-ambition Paris Agreement goal to pursue limiting warming to 1.5°C, evolving Australia's carbon markets to guide investment and opportunities in the transition, and ensuring rigorous governance, integrity and disclosure on carbon crediting.¹

CMI also administers the Australian Carbon Industry Code of Conduct, that was established in 2018 to promote and steward consumer protection and market integrity².

In preparing this submission, CMI engaged with a broad cross-section of our membership across different sectors. The positions put forward however, constitute CMI's independent view and do not purport to represent any CMI individual, member company, or industry sector.

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¹ CMI 2021 '[Advocacy Policy Position Statement 2021](#)'.

² More information can be found [on the Code website](#).



Executive summary

Strategic outlook

CMI welcomes the Albanese Government's election commitment to efficient emissions reduction supported by a high integrity carbon crediting framework through the Safeguard Mechanism reforms, this Independent Review and other initiatives. We endorse Minister Bowen's intent "to make sure [Australia's carbon crediting framework] remains a strong and credible scheme supported by participants, purchasers and the broader community"³. Through the life of the Carbon Pricing Mechanism (CPM) and then the Emissions Reduction Fund (ERF), Australia's carbon crediting framework under the Carbon Farming Initiative (CFI) Act 2011, has delivered carbon abatement, regional investment and a range of social, environmental and economic co-benefits to Australia. As a sovereign-backed scheme with the Commonwealth providing regulatory and assurance services, as well as being the dominant purchaser from 2015, Australia has a world-leading, highly investable carbon crediting framework.

Australia's carbon crediting framework will need to play a pivotal role enabling investment in industrial decarbonisation and other emission reductions to realise Australia's recently legislated higher ambition 2030 NDC⁴, as well as stronger subsequent NDCs. CMI's submission on the enhanced Safeguard Mechanism calls for ambition and scalability in that reform to ensure accelerating emission reduction through to the next NDC required in 2025, then to net-zero and negative emissions required to limit global warming to 1.5C this century⁵. Similar ambition and scalability will be required to ensure investor and community support as international market trading rules are established under Article 6 of the Paris Agreement. As the Minister has noted, "a strong carbon crediting system will encourage more organisations to take steps to reduce their emissions, help Australia meet its emissions reduction targets and better support our regional economies"⁶.

As Australia's carbon market transitions towards greater private sector demand in response to corporate net zero emissions commitments in alignment with the Paris Agreement and Safeguard Mechanism reforms, the governance framework that underpins Australia's carbon crediting system needs to instil long-term investor confidence. Continued public support for Australia's nascent carbon industry will also be crucial as ERF funding commitments transfer to the Powering the Regions Fund (PRF). The PRF is to continue purchasing ACCUs and the government should consider moving beyond the ERF's "least cost mandate" to maximise medium to longer term carbon as well as other co-benefit outcomes. Ensuring additionality as well as enhancing integrity, transparency and independent institutions will remain critical to maintaining investor and community confidence.

Australia's carbon market is highly regulated and is by no means a simple market for individual landholders, purchasers and related agencies such as native title corporations and banks to navigate. It is important to recognise and assure the roles and responsibilities that professional intermediaries and market advisors play in Australia's carbon market, as they manage participants' risk exposure.

³ See The Hon Chris Bowen MP Minister for Climate Change and Energy, Media Release, 'Independent Review of ACCUs' (1 July 2022). Available at <https://minister.dcceew.gov.au/bowen/media-releases/independent-review-accus>.

⁴ CMI 2021 'Advocacy Policy Position Statement 2021'.

⁵ See further CMI Submission to the Safeguard Mechanism Consultation Paper, Available at https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_Safeguard-Mechanism-Reform-Submission.pdf.

⁶ See The Hon Chris Bowen MP Minister for Climate Change and Energy, Media Release, 'Independent Review of ACCUs' (1 July 2022). Available at <https://minister.dcceew.gov.au/bowen/media-releases/independent-review-accus>.



CMI has supported carbon market development and participation through a range of initiatives, notably our Australian Carbon Farming Industry Roadmap⁷ and Australian Carbon Industry Code of Conduct⁸. CMI and its members have participated in ACCU method development processes and the evolution of the regulatory framework. These initiatives have supported positive and necessary improvements to the Australia's carbon market to date. CMI recognises however, that further action is required to respond to challenges about integrity in aspects of the framework and to ensure it is fit for purpose given domestic and international changes underway.

Summary positions

1. Experience with the ERF

From 2015, the ERF has been an important foundational scheme for the carbon industry after the repeal of the Carbon Pricing Mechanism in 2014. CMI initiatives such as the Carbon Farming Industry Roadmap and the Australian Carbon Industry Code of Conduct have sought to support best practice policy development and industry participation. The CFI crediting framework has created long-term contractual, financial service and other legal responsibilities which are, in general, appropriate with some unavoidable levels of complexity not to be easily discounted.

Additional measures could be implemented, to build scheme robustness, mitigate negative impacts and make ERF or PRF participation more accessible.

CMI recommends consideration of the following:

- a) Establish a Carbon and Biodiversity Landholder Extension Program that supports carbon market literacy among farmers, Indigenous landholders and conservation managers, supporting these landholders to make informed decisions about participating in the ERF and other carbon or biodiversity opportunities. Guidance to land managers should outline the true complexity of operating carbon or biodiversity projects, and the full package of expertise required.
- b) Consult with Native title, land council and other Indigenous organisations on the best means and resourcing of providing advice to Indigenous communities on carbon market land tenure and Native Title considerations. This should include best means of interacting with the Clean Energy Regulator (CER), Department of Climate Change, Energy, Environment and Water (DEECCW) and other relevant carbon market institutions.
- c) Repeal the Agriculture Minister's veto powers in respect to human induced regeneration (HIR) and native forest from managed growth (NFMG), as these breach landholder rights and evidence of negative impacts on agricultural production have yet to be substantiated.
- d) Support the continued development and application of integrity frameworks including the Australian Carbon Industry Code of Conduct.
- e) Sufficiently resource the Emissions Reduction Assurance Committee (ERAC), the CER and the DCCEEW to adequately perform their mandated functions.

2. Governance of the ERF

While CMI considers that the governance arrangements for the ERF scheme have operated soundly to date, it is important that the governance framework reflects regulatory best practice and is above

⁷ See further, Australian Carbon Farming Industry Roadmap, Available at <https://carbonmarketinstitute.org/roadmap/>.

⁸ See further, Australian Carbon Industry Code of Conduct, Available at <https://carbonmarketinstitute.org/code/>



perceptions of conflicts to support scaled investment, robust integrity and instil trust as the carbon market evolves.

CMI recommends the Independent Review consider the following actions and reforms:

- a) Improve accountability and transparency in decision-making, including:
 - i. Enhanced transparency on ministerial decision making on method prioritisation, method determinations on advice from ERAC and individual appointments to ERAC and the CCA.
 - ii. Improved project level data availability (see 3 below).
 - iii. Mandatory industry consultation in advance of any decisions to intervene or make changes to the ACCU market, in order to provide appropriate notice to market and to enable the market to have an opportunity to inform fit-for-purpose market design.
 - iv. Requirements that all carbon crediting activities be developed and regulated through common institutions to ensure a consistent and high integrity approach.
- b) Provide greater role clarity for the different government entities involved in managing and regulating the carbon market. Roles and responsibilities across agencies should be clearly delineated and reviewed with an optic of integrity, transparency, accountability and effectiveness.
 - i. Independence of policy development and regulatory implementation should be considered in reviewing the future role of the CER as well as its current mandate as purchaser. Revisions to the PRF which may change least cost abatement purchase mandates may suggest alternative entities that operate at arm's length from the market could be better placed. This would also better enable the CER to exercise competitive neutrality in regulating a mature market.
 - ii. Cooperation between ASIC and the CER should also continue to be improved to ensure effective regulatory oversight of AFSL requirements for carbon market participants.
- c) Review the role of the ERAC to ensure:
 - i. Sufficient resourcing for its role in considering draft methods as well as their subsequent review;
 - ii. Appropriate land management and industrial expertise in technical decision-making, including the potential establishment of separate advisory groups; and
 - iii. Appropriate input from bodies such as the Climate Change Authority, Indigenous entities and the yet to be established Environment Protection Authority.
- d) Increase the transparency of ERAC decisions and decision-making processes. This should include:
 - i. information regarding ERAC considerations, types of information and data reviewed and decision-making processes;
 - ii. disclosure on the process of how methodologies are to be audited and reviewed to maintain alignment with offsets integrity standards.
- e) Improve Indigenous representation within Australia's carbon market governing institutions and processes.
- f) Provide more guidance to, and engagement with, auditors and participants to minimise inconsistencies and inform best practice decision making.
- g) Ensure integrity standards reflect international best practice as it evolves under the UNFCCC and initiatives such as the Integrity Council for Voluntary Carbon Markets, this includes additionality tests as well as additional attributes and potential no net harm criteria.



3. Rigour and Integrity of ERF Methods and Priorities

Method development and revision processes have changed on several occasions over the last decade. CMI has supported recent initiatives to accelerate and broaden industry and community participation conducted by the CER in ACCU method development. Inclusive participation in all stages of method development is crucial and should continue to evolve.

CMI recognises that serious challenges have been made regarding the additionality, administration and implementation of various methods and welcomes processes such as this Independent Review to investigate them. We support our members in providing individual or sectoral responses to claims made regarding specific ERF methods, as well as improvements in data provision and transparency, so that any integrity concerns can be carefully considered and resolved.

Noting our recommendations above on enhancing governance arrangements, resourcing and transparency, CMI would also recommend consideration of the following specific changes:

- a) Undertake industry consultation on additional project-level data variables that could be publicly displayed on the CER Project Registry, without compromising landholder privacy concerns. This data could potentially be held on a protected part of the Registry.
- b) Permit provisions for pilot projects that could be eligible for carbon reduction or removal activity under a future ERF methodology to bypass the project-level 'newness' requirement and avoid penalising early investments.
- c) Require carbon abatement measurement at the project level but establish a technology-agnostic approach to the tools used for this. This will support the development of innovative and cost-effective technologies that measure and monitor abatement at individual projects.
- d) Publish project specific information so that market participants can more easily access information on verified co-benefits with respect to individual projects, either through the CER Project Registry or by explicitly linking it to the CMI Project Marketplace, which CMI is continuing to expand.
- e) Integration of established international methods such as Gold Standard & Verra methodologies subject to similar processes of review for new ACCU methodologies.

4. Co-benefits and other impacts

- a) CMI calls for the development of a meta-standard, or national framework with guideline threshold criteria against which to assess co-benefit standards and certification schemes. This meta-standard should be co-designed through a multi-stakeholder platform and would require government intervention on accompanying market architecture, supporting enablers and capacity-building including:
 - i. The development of an agreed industry taxonomy and catalogue/ categories of co-benefits.
 - ii. Industry research & development around MRV and technology opportunities.
 - iii. Development of industry capacity-building programs, tools and resources.
- b) In the interim, CMI short-term recommendations focus on improving visibility of co-benefits and access to information, under current market conditions. There is a need for clear, consistent, easily accessible information in the market to improve transparency and therefore market credibility and integrity. This has been touched on above under transparency of project information. CMI proposes enhanced carbon + co-benefits visibility options under three broad categories:



- i. Improved access to information (information on registries such as CER, Land Restoration Fund and 3rd-party verification schemes, CMI Marketplace, exchange-traded platforms)
 - ii. Increased disclosure levels (Additional reporting information, CERT reporting, an ACCU Project Disclosure Statement, a co-benefits index)
 - iii. Best practice guidance and standardisation of information (including market taxonomy and definitions, Climate Active guidance and integration, CMI Code of Conduct linkages and on Indigenous consent)⁹.
- c) As noted in CMI’s submission to the National Biodiversity Market consultation, certification for environmental improvements should be based on high-integrity assessments of improvement in environmental outcomes, not merely activities that assume these outcomes will take place. Anything less than this is very unlikely to attract private sector investment at the scale required to provide a genuine basis for reversing the ongoing decline of biodiversity in Australia.¹⁰

5. Relationship to Voluntary Climate Active Certification

- a) On the specific 20% ACCU purchase requirement for carbon neutral certification, CMI urges careful consideration and consultation with industry. The abrupt imposition of this quota has significant material impacts and could undermine broad participation in the Climate Active scheme. CMI has not advocated for specific quotas as this may not be in Australia’s long-term interests as a potential exporter of carbon credits.
- b) The government also should seek to improve market access for small organisations unable to access ACCUs due to limitations on criteria to purchase them as a wholesale product.

6. Future

CMI recommends the government clarify how it intends to manage the transition from a taxpayer funded ACCU market to one with greater private sector investment. CMI recognises the enhanced Safeguard Mechanism and Powering the Regions Fund (PRF) as part of this but notes that the ACCU market will likely require continued additional government investment. Longer term planning should commence for how negative emissions technologies and outcomes will be supported after the attainment of net-zero emissions.

In developing a future-facing policy framework for Australia’s carbon market, the government should:

- a) Clarify its complete climate policy suite and publish a National Carbon Market Strategy, as recommended by the Climate Change Authority. Further policy detail is needed on:
 - i. How supportive policies and programs will complement the Powering Australia Plan and ensure that Australia’s growing carbon markets are effective.
 - ii. The role and definitions of the voluntary and compliance markets in Australia and their interaction with Australia’s national greenhouse inventory and contributions to the NDC.
 - iii. The role and use of international voluntary standards and their application in Australia, particularly provisions for corresponding adjustments under Article 6 of the Paris Agreement

⁹ In particular, the *Indigenous Carbon Industry Network Seeking Free Prior and Informed Consent from Indigenous communities for carbon projects guidance*.

¹⁰ <https://carbonmarketinstitute.org/app/uploads/2022/09/National-Biodiversity-Market-CMI-Submission-Sep-2022.pdf>



- iv. More broadly, what equitable share of Australia's economy-wide 2030 NDC is intended to be achieved by each policy element and how these elements will work together.
- b) Commit to continuing Commonwealth-funded ACCU purchases through biannual reverse optional contract auctions, at least for an interim period.
- c) Target complementary PRF grant funding towards emerging abatement and removal technologies to help commercialise these methods and grow new markets.
- d) Explore additional policies to drive land-based sequestration compliance markets alongside the enhanced Safeguard Mechanism.
- e) Ensure adjacent markets, notably the emerging biodiversity market, work in concert or are integrated with the carbon market and do not create competing incentives or challenges to the integrity of supporting carbon credits.
- f) Develop a national environmental information data sharing platform that enables the sharing of sensitive, but de-identified, project level biodiversity, agricultural and carbon information to improve external analysis of impact and issues.
- g) Consider the interaction of data transparency recommendations made in the Samuels Review of the EPBC Act alongside any recommendations resulting from this Independent Review to ensure alignment.

CMI has carefully considered the guiding questions raised in the Consultation Paper and we elaborate our feedback in the **Attachment**.

Should you have questions about CMI's submission, please contact **Gabriella Warden**, Manager, Research and Government Relations, at gabriella.warden@carbonmarketinstitute.org.



Attachment: CMI responses to Guiding Questions

1. Your experience with the ERF scheme

Australia's ACCU framework has grown over 10 years to be a world-leading, highly investable carbon crediting framework. The crediting framework is a sovereign backed scheme, with the Commonwealth providing regulatory and assurance services as well as being the dominant purchaser from 2015. However, as compared with other more mature markets in terms of financial scale, Australia's carbon market is still considered "nascent" or emerging and is rightly subject to regular review, including by the Climate Change Authority¹¹ and this Independent Review.

Australia's ACCU market operates through a regulated scheme established under the *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act) that is overseen by the CER. Approved methodologies under the Act must meet the legislated Offsets Integrity Standards and the ACCUs generated by registered projects are regulated as financial products under the Corporations Act 2001. This means there are financial licencing requirements for organisations that sell or provide advice about ACCUs.¹²

Australia's carbon market is by no means a simple market for individual landholders, purchasers and related agencies such as native title corporations and banks to navigate. As with other regulated markets, such as energy and financial services, Australia's carbon market entails substantial complexity, including long-lived obligations, multi-faceted risk considerations (funding, counterparty, price and credit, yield), monitoring and reporting obligations. Accordingly, while efforts to assist landholders and purchasers engage directly are welcome, it is important to recognise the role of professional intermediaries and market advisors in Australia's carbon market who undertake due diligence, engage in market trading and provide expert advice to individuals to effectively manage their risk exposure.

CMI has supported carbon market development and participation through a range of initiatives and events, including the following:

- Australian Carbon Farming Industry Roadmap, produced in 2017 and updated with version 2 in 2022.¹³ The Roadmap identifies clear and defined actions for the carbon farming industry's primary stakeholders groups (government, finance and industry, communities and regions and carbon service providers) to help catalyse four critical pillars of industry development (optimising policy frameworks and market design, unlocking finance and investment, quantifying co-benefits and creating new markets and communicating benefit and building capacity). CMI continues to work in partnership with these key stakeholders to advance the program of actions identified.
- Australian Carbon Industry Code of Conduct¹⁴. Established by CMI in 2018, the voluntary Code promotes and stewards market integrity, including engagement between carbon service providers and other participants, including Traditional Owners, Indigenous groups, farmers and other landholders, as well as local communities.¹⁵ The Code enhances the existing regulatory framework and operates to support Australia's carbon market in the following ways:

¹¹ The Climate Change Authority (CCA) is required to review the ERF every three years; the 2014, 2017 and 2020 ERF reviews are available [on the CCA website](#).

¹² See more information about the legislative checks and balances embedded in Australia's carbon crediting scheme in: CMI & Norton Rose Fulbright 2022, '[Integrity in the Australian Carbon Market Explainer](#)'.

¹³ See further, Australian Carbon Farming Industry Roadmap, Available at <https://carbonmarketinstitute.org/roadmap/>.

¹⁴ See further, Australian Carbon Industry Code of Conduct, Available at <https://carbonmarketinstitute.org/code/>.

¹⁵ More information can be found [on the Code website](#).



- Code signatories are obliged to conducting business in line with industry best practice and engage with clients and stakeholders in a professional, ethical manner. It thereby helps ensure that participants in Australia’s carbon market are acting with integrity.
- Since becoming fully operational last year, one of the Code Administrator’s functions is investigating complaints and alleged breaches. This allows stakeholders to confidentially report and resolve concerns and complaints over projects – acting as a grievance mechanism that can support the application of ‘do no harm’ principles and avoidance of adverse consequences.
- The Queensland and New South Wales governments have made Code signatory status a requirement for project developers to apply for funding under the respective Land Restoration Fund (LRF) Primary Industries Productivity and Abatement Program (PIPAP).¹⁶ This provides additional assurance with respect to the participants of their programs.
- Carbon Farming Scorecard Report¹⁷, launched in 2022 as part of our broader CMI Research program. Produced in partnership with KPMG, the Report:
 - Presents a snapshot of how Australia’s states, territories and the federal government are supporting carbon farming and its associated benefits.
 - Evaluates their progress on fostering growth and ambition across the domestic carbon farming industry, whilst implementing consistent and predictable policies to ensure transparency and integrity and facilitate clear demand signals that provide supplier confidence and encourage private investment.
- Carbon Farming Forum¹⁸. As a key annual industry event, the forum provides a platform for stakeholders to gather, consider latest developments and progress key actions in CMI’s Roadmap.

CMI members are active in supply, demand and intermediary aspects of the carbon market. CMI and its members have participated in ACCU method development processes and the evolution of the supporting regulatory and administrative framework as well as making substantial investments in ACCU purchases.

These initiatives have supported positive improvements to the development of Australia’s carbon market to date. Recent arbitrary and poorly consulted decisions have however impacted investor confidence and placed unnecessary bureaucratic hurdles in the way of investors.

CMI recognises that continual scheme review and improvements are critical and that further action is required to respond to challenges about integrity and to ensure the framework is fit for purpose given domestic and international changes underway.

Additional safeguards could be implemented to better prevent adverse or unintended consequences and more could be done to make participation in Australia’s evolving crediting framework more accessible. CMI recommends that the government:

- Establish a Carbon and Biodiversity Landholder Extension Program that supports carbon market literacy among farmers, Indigenous landholders and conservation managers, supporting these landholders to make informed decisions about participating in the ERF and other carbon or biodiversity opportunities..

¹⁶ More information on the QLD LRF and NSW PIPAP can be found in: CMI & KPMG 2022, ‘[Carbon Farming Scorecard Report](#)’, pp. 14-15.

¹⁷ See further, CMI Carbon Farming Scorecard Report (April 2022) Available at <https://carbonmarketinstitute.org/app/uploads/2022/04/Carbon-Farming-Scorecard-Report.pdf>.

¹⁸ See further, CMI Carbon Farming Forum, Available at <https://carbonmarketinstitute.org/carbon-farming-forum/>.



- Consult with Native title, land council and other Indigenous organisations on the best means and resourcing of providing advice to Indigenous communities on carbon market land tenure and Native Title considerations. This should include best means of interacting with the CER, DEECCW and other relevant carbon market institutions.
- Repeal the Agriculture Minister's veto powers in respect to human induced regeneration (HIR) and native forest from managed growth (NFMG), as these breach landholder rights and are unnecessary.
- Support the continued development of integrity frameworks including the Australian Carbon Industry Code of Conduct.
- Resource ERAC, the CER and DCCEEW adequately to perform the vital functions of agencies administering the carbon market.

We also provide further recommendations on avoiding adverse or unintended consequences from carbon projects through potential amendments to the Offsets Integrity Standards under Section 2 below.

1.1. Carbon and Biodiversity Landholder Extension Program to improve carbon market literacy

As noted above, CMI considers that information about the ERF scheme, its purpose and application could be improved. CMI recommends that the government establishes a Carbon and Biodiversity Landholder Extension Program.¹⁹ In establishing a model for these services, the government could look to the former Carbon Farming Futures Program (CFF).²⁰ Funding for this could be sourced, inter alia, from the fixed carbon abatement contract (CAC) release dividend, to recommit these funds towards supporting Australia's emergent carbon markets. Existing Natural Resource Management, Landcare and native title representative bodies should be leveraged for this program.

CMI does not dispute the complex socio-political realities in areas where the carbon farming industry is growing. For example, the increase in project registrations in South West Queensland is causing community tensions with some concerned about ongoing community viability, potential land use competition and management of fire and feral species. Others highlight carbon farming benefits including diversified income streams supporting sustainable agricultural productivity, improved climate resilience as well as existing requirements to manage fire and feral species.

CMI supports examination of the impacts of carbon farming projects and on how to prevent negative impacts, including through evidence-based approaches:

- By way of example, CMI is currently supporting a comprehensive study into the impacts of carbon farming in South West Queensland. The study is being led by the South West Queensland Regional Organisation of Councils in close partnership with the Commonwealth and Queensland Governments. This study will identify, compare and document the impacts – benefits and disbenefits – arising from ERF regeneration projects currently registered in South West Queensland.
- A separate study was recently conducted by Southern Queensland Landscapes, which sought to understand the barriers and opportunities of carbon farming in the region by surveying local land managers on their perceptions and experiences with the carbon markets. Among other findings, the study found that 95% of land managers surveyed were concerned by conflicting and complex information about the ERF scheme.²¹

¹⁹ See more: CMI 2022, '[Post-election Briefing: 5 priorities for climate action and carbon markets](#)', p. 7.

²⁰ More information on the CFF program can be found [on the Landcare Australia website](#). The CFF ran from 2012-17 and was set up to support the original Carbon Farming Initiative under the Carbon Pricing Mechanism. It included agricultural extension providers to support landholders' understanding of the carbon markets and how to participate.

²¹ More information about the Carbon Farming Study can be found [on the SQ Landscapes' website](#).



1.2. Indigenous and native title considerations

CMI has observed that Indigenous communities may not always have adequate access to advice with respect to carbon projects and their interaction with Native Title interests. Established carbon market institutions are not necessarily well placed to advise Indigenous communities, due to limited experience with Indigenous engagement, lack of trusted relationships and the need to provide bespoke site-specific advice with respect to Native Title.

CMI also notes that there is some inconsistency between the process for obtaining Indigenous consent over extinguished Native Title areas under the CFI Act and the Native Title Act and various State based legislative requirements. We understand that the CFI Act does not currently provide for a process of mediation in the context of Indigenous consent with respect to individual projects. Given that carbon projects can deliver material benefits to Indigenous communities, it may be appropriate to establish a consistent process under the CFI Act so that Indigenous communities can negotiate beneficial outcomes with landholders and industry.

CMI recommends that native title, land council and other Indigenous organisations should be adequately consulted and resourced on the best means of providing advice to Indigenous communities on carbon market land tenure and Native Title considerations. This should include best means of interacting with the CER, DEECCW and other relevant carbon market institutions and guide consideration of land tenure and native title, including alignment between the CFI Act and Native Title Act. CMI notes the recent ICIN report [Mapping the Opportunities for Indigenous Carbon](#) in Australia and welcomes consideration of the recommendations made in the report.

We also elaborate further recommendations on Indigenous representation under Section 2 below that addresses governance of the ERF.

1.3. Agriculture Minister veto powers

Arrangements introduced by the previous government that give the agriculture minister veto powers over certain human induced regeneration (HIR) and native forest from managed regrowth (NFMR) projects are an example of an inappropriate way of preventing adverse or unintended consequences from carbon farming projects.

- There are existing safeguards against unintended consequences on agricultural productivity and regional communities enshrined in relevant methodologies under the CFI Act, as well as under state and territory legislation. These powers are unlikely to offer additional protection and were a disproportionate response resulting in a concentration on decision making powers and eroding of individual, landholder rights.
- The changes were made without industry consultation and no substantial provision of evidence of the alleged problems. To the contrary, CMI members can demonstrate on various projects that proponents can retain or increase grazing production levels while implementing HIR activities over whole properties.

CMI maintains these powers are an extraordinary intervention into landholders' decision-making and should be removed and maintains the positions behind this in our submission on the then proposal.²²

²² A detailed summary of CMI's position on these ministerial veto powers can be found in: CMI 2022, ['Proposed Carbon Credit Rule changes submission'](#).



2. Governance of the ERF

Until recently the dominant purchaser of ACCUs has been the Commonwealth government via the CER, through the ERF auctions. Existing governance structures and agencies such as ERAC, ASIC and DCCEE have supported this. However, the market is transitioning to include voluntary private demand for ACCUs, compliance purchasers through the Safeguard and state and territory demand and may also need to accommodate retail purchasers in the future. Australia's ACCU crediting scheme is evolving, and the carbon market needs governance structures that can support this change and instil long-term investor confidence.

Maintaining public confidence in the ACCU means identifying and mitigating risks through continual improvement. Existing frameworks need modification to meet new requirements of the market while growing a robust carbon industry.

While not always in agreement, e.g regarding changes to fixed carbon abatement contracts, CMI has had a valued and constructive relationship with the CER and its staff. In our experience CER has sought to respond to integrity issues with serious intent. Allegations of fraudulent or similar behaviour are, in our experience, extreme, unwarranted and without justification proportionate to such claims. Furthermore, the CER has demonstrably improved and accelerated ACCU draft method development subsequent to its expanded mandate in this regard in 2020.

Nevertheless, to ensure that Australia's carbon crediting system supports scaled investment as the carbon market evolves, it is important that the governance framework reflects regulatory best practice.²³ In this regard, it is critical that the regulatory framework clearly delineates regulatory and policy and government procurement functions and provides robust accountability and transparency to guard against any perceptions of competing interests. In line with this, we would recommend a range of reforms that:

- Improve accountability and transparency in decision-making;
- Clearly delineate different government functions and responsible entities;
- Engage independent industry expertise in technical decision-making;
- Increase Indigenous representation within Australia's carbon market governing institutions;
- Improve guidance for auditors and participants to minimise inconsistencies; and
- Ensure integrity standards reflect international best practice.

2.1. Improving accountability and transparency in decision-making

We recommend the regulatory framework requires greater transparency in ministerial decision-making on method prioritisation, method determinations on advice from ERAC and individual appointments to ERAC and the CCA.

We would recommend that the regulatory framework require that Ministerial determinations and reasons be published to support transparency and market confidence.

We note that ERAC plays an important role in assessing the compliance of methodology determinations against the Offset Integrity Standards set out in the Act to ensure the ongoing integrity of the ERF. ERAC undertakes periodic method reviews and consultations on proposed new and varied methods and advises the Minister on whether to make, vary or revoke methods based on their assessment. While ERAC's advice is

²³ See OECD, The Governance of Regulators (2014), Available at <https://www.oecd.org/gov/regulatory-policy/the-governance-of-regulators-9789264209015-en.htm>

; Recommendation of the Council of Regulatory Policy and Governance (in force) OECD/LEGAL/0390 Adopted 22/03/2012 Available at <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0390#adherents>.



published on the Departmental and CER websites, the opaque nature of ministerial decisions that may diverge from ERAC advice has the potential to impact market confidence.

We also recommend the regulatory framework stipulate mandatory industry consultation (ideally of at least four weeks) in advance of any decisions to intervene or make changes to the ACCU market, to provide appropriate notice to market and opportunity to inform fit-for-purpose market design. Industry consultation and notice should also be provided in the context of voluntary market action (for example Climate Active certification required) as elaborated further under section 5. This practice is consistent with other mature markets, for example the National Electricity Market and the rule change consultation process administered by the Australian Energy Market Commission.²⁴

In recent years, we have observed a range of government decisions and interventions that have led to market volatility and ACCU price instability, which has negatively impacted investor sentiment in Australia's carbon market.²⁵ These market sensitive decisions include:

- The announcement of fixed delivery contract optional exit arrangements. While the reason for this was disclosed, the announcement had a significant impact on prices and confidence in the market;
- Climate Active's 20% ACCU purchase requirement for carbon neutral certification; and
- The introduction of the Agriculture Minister's veto powers with respect to HIR projects that cover 30%+ of a property.

Each of these decisions were made in the absence of transparent and public consultation and appropriate notice to market.

It is also important that the regulatory framework continues to provide a unified governance framework for the development and regulation of carbon crediting methods in Australia and does not establish competing regulatory frameworks and institutions that may result in inconsistent approaches to integrity that may not align with the Offset Integrity Standard. Two recent examples of the above are: the proposed National Biodiversity Market and; Climate Active's insetting proposal.

2.2. Clearly delineate different government functions and responsible entities

CMI recommends clear articulation of the different government entities and roles in management of a carbon market. This will increase transparency, assure independence of functions and build public confidence. We recommend the CER's role be clarified to strengthen its function as the independent regulator of Australia's carbon market, with consideration of whether purchasing and/or method development should remain in its mandate.

Independence of policy development and regulatory implementation should be considered in reviewing the future role of the CER as well as its current mandate as purchaser. Revisions to the PRF which may change least cost abatement purchase mandates may suggest alternative entities that operate at arm's length from the market could be better placed. This would also better enable the CER to exercise competitive neutrality in regulating a mature market. Clearly delineating government functions and responsible entities would guard against any perceptions of conflicts of interest and is consistent with other mature markets, for example the

²⁴ See further Australian Energy Market Commission, Changing the energy rules- a unique process, Available at <https://www.aemc.gov.au/our-work/changing-energy-rules>; Australian Energy Market Commission, The rule change process: a guide for stakeholders, available at https://www.aemc.gov.au/sites/default/files/2020-12/A%20guide%20to%20the%20rule%20change%20process_20201208.pdf.

²⁵ See CMI 'ERF changes could impact investor & community confidence in growing carbon market' (4 March 2022) Available at <https://carbonmarketinstitute.org/2022/03/04/erf-changes-could-impact-investor-community-confidence-in-growing-carbon-market/>.



National Electricity Market. This approach would also better align with the CER's important role in regulating the enhanced 'baseline and credit' Safeguard Mechanism.

We note that the CER currently fulfils a broad range of administrative, regulatory and policy functions with respect to the ERF, including:

- Project registration and ACCU crediting;
- ACCU contracting – purchasing through Carbon Abatement Contracts (CACs) on behalf of the Commonwealth government
- Compliance and assurance activities in relation to the CACs
- Administration of the Australian National Register of Emissions Units (ANREU)
- Method development (after this function was moved from the Department).

The CER fulfils these functions alongside its broader regulatory functions, including with respect to the:

- National Greenhouse and Energy Reporting Scheme²⁶;
- Renewable Energy Target²⁷;
- Australian National Registry of Emissions Units²⁸; and
- Safeguard mechanism²⁹.

CER decisions can have a significant economic impact on Australia's carbon market participants, and by extension investor confidence in the market. It is therefore important that the CER is seen to be acting with impartiality and exercising competitive neutrality. Empowering the CER with policy development (method development), regulatory and government procurement functions in the running of and procuring ACCUs through government auctions risks contributing towards perceptions of conflicts of interest.

We recommend that the government procurement functions in terms of Commonwealth auctions (and PRF grants) would be better placed outside of the CER's remit so that they are fulfilled in alignment with government policy priorities but at arm's length from market regulation. This may obviate the need to return draft ACCU method development to DCCEEW.

Other government entities also fulfil important functions with respect to Australia's carbon market:

- As a financial market, the Australian Securities and Investment Commission (ASIC) is mandated to regulate Australian financial service license (AFSL) holders in Australia's carbon market, assess how effectively the market is complying with legal obligations, and administer and enforce a broad range of legislation applying to business entities, including the *Corporations Act 2011*³⁰. CMI recommends the government improve cooperation between ASIC and the CER to ensure effective regulatory oversight of AFSL requirements for carbon market participants.
- The Climate Change Authority has conducted reviews of the scheme, however their recommendations are rarely implemented and their role could be augmented.

However, specific roles and responsibilities across government entities, particularly those where the carbon market is not their primary function is unclear, and mostly publicly inaccessible. We recommend roles and responsibilities are clearly delineated, defined and publicly available.

²⁶ *National Greenhouse and Energy Reporting Act 2007*.

²⁷ *Renewable Energy (Electricity) Act 2000*.

²⁸ *Australian National Registry of Emissions Units Act 2011*.

²⁹ National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015.

³⁰ See further ASIC, [laws we administer](#).



We elaborate further on the need to delineate government functions as part of a National Carbon Market Strategy in section 6 below.

2.3. Engaging independent industry expertise in technical decision-making

2.3.1. Method development and review

Alongside consideration of the CER's method development function, we recommend the Government establish an industry reference group that can support the prioritisation and development of new methodologies, or indeed a Steering Committee under a regulatory instrument to the CFI Act, as recommended by the CCA³¹.

CMI welcomed the previous government's move for the Minister to prioritise five methods annually. However, we would welcome greater clarity and transparency around the method prioritisation process, as well as potential public avenue/consultation to help inform this process so that it is not an opaque, top-down process.

We consider it important that Australia's method development process continues to promote co-design with industry to leverage industry innovation and create new opportunities for carbon abatement which are required to build scale and participation in the scheme. It is essential that the method development process be adequately resourced, both financially and with subject matter expertise. We note that there are other method development options that should be explored (as recommended in the King Review – 6.1³²) additional to the current top-down approach. Modelling on and cooperation with international voluntary standards, the California ARB, the UN and other actors should be explored.

Alongside method development, operational methods need to be regularly reviewed to generate and incentivise new abatement technologies. Some ERF methods in the commercial and industrial sectors have not been reviewed in over 7 years. This has made them outdated, and less likely to be used. ERAC should develop a publicly available framework for prioritising periodic reviews of methods assessing against criteria such as current and future uptake, compliance against the Offset Integrity Standards, and technology or legislative changes.

2.3.2. ERAC

CMI considers ERAC to be a critical body to the integrity of the Australian carbon market. In addition to careful selection of ERAC members, the support put in place for them is key to independent and effective advice.

We recommend legislative change and or guidance is provided regarding the parameters around due process for selection and appointment of appropriate candidates for ERAC, including a diversity: skills and experience matrix, and ongoing governance checks and balances to ensure independence.

To enable ERAC to fulfil its legislative advisory and review functions, the Committee needs to be supported by relevant expertise from across the spectrum of potential emissions reduction abatement opportunities, including Indigenous representation.

Accordingly, CMI recommends that technical sub-groups be established and resourced under ERAC, that would be mandated to provide relevant technical expertise across different expert disciplines to ensure ERAC advice and reviews on methods are well-informed. It may be appropriate to constitute separate technical sub-groups for industrial and land-sector methods to attract relevant expertise.

³¹ See Climate Change Authority, [2020 Review of the Emissions Reduction Fund](#),

³² See Australian Government [2020 Report of the Expert Panel examining additional sources of low cost abatement](#)



2.4. Increase Indigenous representation within Australia's carbon market governing institutions

CMI recommends the government take action to increase Indigenous representation within Australia's carbon market governing institutions and processes. Indigenous peoples play an integral role in Australia's carbon market as world leaders in land management practices that contribute toward carbon abatement, market participants and indeed beneficiaries of the growing carbon market.

Establishing greater indigenous representation within Australia's carbon market governing institutions will enable the market to build upon indigenous perspectives and expertise, creating further opportunities for innovative carbon abatement solutions whilst facilitating beneficial outcomes for indigenous peoples.³³

2.5. Ensure integrity standards reflect international best practice

CMI considers that the legislative framework, including the Offsets Integrity Standards, is currently fit-for-purpose and in line with current international best practice.³⁴ However, we recommend that the government consider future amendments to ensure they evolve alongside international best practice and guidance, including under the UNFCCC and initiatives such as the Integrity Council for the Voluntary Carbon Market's (IC-VCM).

Project requirements under the emergent Article 6.4 Mechanism³⁵ as well as the IC-VCM draft Core Carbon Principles (CCPs)³⁶ include sustainable development tools and safeguards. CMI suggests that the government consider how similar requirements such as a 'no net harm' principle could be introduced into the Offsets Integrity Standards in the future. This would help ensure that ERF methodologies deliver net positive outcomes and do not lead to adverse or unintended consequences.³⁷

We provide further comment on the Offsets Integrity Standards and how they are applied at the individual project level – particularly regarding the principle of 'additionality' – in Section 3 of this submission.

³³ See further, Indigenous Carbon Industry Network, Mapping the Opportunities for Indigenous Carbon in Australia Identifying Opportunities and Barriers to Indigenous Participation in the Emissions Reduction Fund (September 2022).

³⁴ Again, see: CMI & Norton Rose Fulbright 2022, '[Integrity in the Australian Carbon Market Explainer](#)'.

³⁵ CMI 2021, '[COP26 Key Takeaways: Article 6 Explainer](#)'.

³⁶ IC-VCM 2022, '[Part 2: Core Carbon Principles](#)' (draft).

³⁷ CMI advocated for the introduction of a 'no net harm' principle as an eligibility requirement under the developing Indo-Pacific Carbon Offsets Scheme (IPCOS) in its submission to the Climate Change Authority's Review into International Offsets: CMI 2022, '[Review of international offsets CMI submission](#)', pp. 9-10.



3. Rigour and integrity of ERF methods and projects

CMI regularly engages in the method development and revision process to ensure Australia's ERF methods remain fit-for-purpose in delivering additionality, both with respect to existing methods and expanding Australia's carbon crediting framework into innovative areas. Our engagement has included making recommendations on methodologies and methods development priorities and facilitating co-design workshops between the CER and our member-based taskforces.

CMI is generally supportive of the method development and revision process. As noted in the governance section above, CMI supports the continuation of ERAC as an important independent check on ministerial decision-making with respect to technical emissions reduction methodologies. We consider that greater resourcing should be provided to establish technical sub-groups under ERAC, that would be mandated to provide relevant technical expertise across different expert disciplines. We also consider that greater transparency could be provided in Ministerial decision-making, and the regulatory framework should require that Ministerial determinations and reasons be published to support market confidence.

We particularly value the industry co-design process that has recently emerged and note the importance of inclusive participation of stakeholders where possible. To ensure that methods adhere to best practice and facilitate high integrity carbon abatement, it is important that Australia's carbon crediting methods are subjected to continuous review and improvement from those directly involved and the broader community.

We note industry's recent engagements on the Landfill Gas and Integrated Farm Management (IFM) Methods as examples of this. With respect to the IFM, CMI's member taskforce provided constructive feedback to the method prioritisation and development process, and we look forward to working further with government on how to address this feedback in the final IFM design. In the case of the Landfill Gas Method, we also note industry's desire to work collaboratively with government to ensure the method reflects best practice.

To best support industry innovation and improve transparency in Australia's carbon crediting scheme, CMI would recommend the following specific reforms:

- Permit provisions for pilot projects that could be eligible carbon reduction or removal activity types under a future ERF methodology to bypass the project-level 'newness' requirement to avoid penalising early investments.
- Require carbon abatement measurement at the project level but establish a technology agnostic approach to the tools used in this measurement to support innovative and cost-effective technologies in the measurement and monitoring of abatement at individual projects.
- Publish project specific information so that market participants can more easily access information on verified co-benefits with respect to individual projects, either through the CER Project Registry or by explicitly linking it to the CMI Project Marketplace, which CMI is continuing to improve.

3.1. Regulatory flexibility for pilot projects

In relation to the criteria that apply to a new project, CMI highlights the additional integrity ERF methods have through the two project-level additionality criteria that new projects must meet to be registered: the newness, government program, and regulatory additionality requirements ensure that projects are creating additional abatement that would not occur in the absence of a registered ERF project. When it comes to the 'newness' criterion, while supporting this requirement as helping to uphold the Offset Integrity Standard of additionality at the project level, CMI notes that this requirement limits the ability of pilot projects to progress.



In the interests of supporting early investment, the government should consider relaxing this criterion, in circumstances where certain guardrails have been satisfied (eg. formal registration as a pilot for a new method). This avenue could operate in a manner similar to regulatory sandbox arrangements, as have been establishing in the national electricity market to support continued innovation.³⁸

3.2. Need for technology agnostic approach to abatement measurement requirements

In relation to the technical rules and requirements incumbent on ERF scheme participants with respect to abatement measurement, CMI notes that the current requirements around the use of tools for the measurement of abatement crediting under new ERF methods may limit the deployment of more cost effective and innovative approaches to abatement measurement. We note that this is particularly so in the context of the Integrated Farming Method (IFM) that is currently under development.

Accordingly, CMI recommends the government set guidelines for the measurement of abatement credited under ERF methodologies, but avoid prescribing tools required to be used to measure this and instead adopt a technology agnostic approach to measurement tools.

3.3. Transparency of project information

CMI would also support improvements to transparency of project information, which could be achieved through ensuring that individual project level data is presented in a more accessible manner. This could be achieved by either updating the CER Project Registry or explicitly linking it to the CMI Project Marketplace, which CMI is continuing to improve and populate.

CMI also recommends that, to improve transparency and thus overall scheme integrity, the government could undertake industry consultation on additional project-level data variables that could be publicly displayed on the CER Project Registry without compromising landholder privacy concerns, and which additional project data could be held on a protected part of the Registry. We elaborate further on future data strategy in Section 6 of this submission below.

³⁸ See further Australian Energy Market Commission, Regulatory Sandboxes Market Review, Available at <https://www.aemc.gov.au/market-reviews-advice/regulatory-sandboxes#:~:text=A%20regulatory%20sandbox%20is%20a,with%20appropriate%20safeguards%20in%20place>.



4. Co-benefits and other impacts

CMI believes that there is a significant opportunity to replicate carbon market integrity measures and deliver a co-ordinated and credible approach with regards to co-benefit integration. Australia is at a critical juncture in its positioning around co-benefits as there are many different schemes, initiatives, labels and trading platforms emerging, or in early stages of implementation.

For co-benefits to be appropriately integrated into the Australian carbon market(s), market architecture such as taxonomy, transparency, assurance, agreed standards and frameworks must be established. However, there is currently an absence of any:

- Concrete policy mechanism that recognises co-benefits;
- Australian agreed standard(s); or
- Framework for reporting, tracking, qualifying and quantifying co-benefits.

While there has been significant progress and innovation, the Australian market has also not been able to fully capitalise on opportunities that ‘high-quality’ credits with integrated co-benefits can provide such as increasing market breadth, supply and financial returns, but also catalysing the positive returns for nature, communities and Indigenous communities. Markets for high-quality carbon credits with integrated co-benefits will only persist to the extent that there is credibility and market integrity behind them and to the extent that buyers can have assurance about purchases and claims.

When the CFI Act was established, it initially made allowance for a low-cost, credible and recognisable co-benefit index to be incorporated into the scheme. ‘Multiple benefit accreditation’ was envisaged, and a pathway remains in the legislation for the integration of international standards such as the Gold Standard or Verra’s Climate, Community and Biodiversity. The CFI Act outlines that scheme participants can volunteer “particular information about the environmental benefits, or community benefits, of the project” and record this in the Project Register.

The historical focus of the ERF has been to drive least-cost abatement. However, the ACCU market is already stratified and there is increasing recognition of the potential to leverage carbon markets to produce highest-quality credits with integrated co-benefits.

- Even without current government-endorsed formal recognition or reporting of co-benefits, spot prices for ACCUs generated by different methods clearly show that buyers value some projects over others. ACCUs generated by nature-based methods, such as Human Induced Regeneration (HIR) and those methods that support social outcomes, such as Savanna Burning projects in northern Australia, consistently trade at a premium.
- While in the international voluntary carbon markets, co-benefits are most commonly verified through additional ‘layered’ standards³⁹ that trade at a premium, in Australia, market stratification is much more opaque.

In the absence of overarching policy covering the non-carbon benefits of carbon projects, third-party standards have created a benchmark and provided a level of credibility:

- Private sector initiatives include frameworks such as the Wentworth Group’s Accounting for Nature (AfN) (biodiversity) and the Aboriginal Carbon Foundation’s Core Benefit Verification Framework (CBVF) (social

³⁹ For example, Verra’s Verified Carbon Standard (VCS) – which is the largest voluntary certification standard – has an additional Climate, Community and Biodiversity (CCB) co-benefit standard that can be layered on top.



and cultural) and products such as South Pole's EcoAustralia credits (biodiversity), and GreenCollar's Reef Credits (water quality).

- The co-benefits standard which sits within the Queensland Government's Land Restoration Fund (LRF), is the most comprehensive to date in Australia in terms of the range of co-benefits covered, and because it leverages Australia's regulated ERF scheme, the AfN framework and the CBVF.

These frameworks and standards are undertaking pilot activities, testing both the capabilities and requirements of project proponents, as well as market appetite. There is however a risk that current carbon as well as co-benefit markets could be impacted by poor or non-comparable assurance frameworks.

CMI thus calls for the development of a meta-standard, or national framework with guideline threshold criteria against which to assess co-benefit standards and certification schemes. This meta-standard should be co-designed through a multi-stakeholder platform and requires government intervention on accompanying market architecture, supporting enablers and capacity-building including:

- The development of an agreed industry taxonomy and catalogue/ categories of co-benefits.
- Industry research & development around MRV and technology opportunities.
- Development of industry capacity-building programs, tools and resources.

In the interim, CMI short-term recommendations focus on improving visibility of co-benefits and access to information, under current market conditions. There is a need for clear, consistent, easily accessible information in the market to improve transparency and therefore market credibility and integrity. This has been touched on above under transparency of project information. CMI proposes enhanced carbon + co-benefits visibility options under three broad categories:

- Improved access to information (information on registries such as CER, Land Restoration Fund and 3rd-party verification schemes, CMI Marketplace, exchange-traded platforms);
- Increased disclosure levels (Additional reporting information, CERT reporting, Project Disclosure Statement, a co-benefits index); and
- Best practice guidance and standardisation of information (market taxonomy and definitions Climate Active guidance and integration, CMI Code of Conduct linkages).

In the absence of certified and verified information, it should be clear that self-reported project co-benefits do not engender government liability for any misreporting and that buyers-responsibility is invoked in investigating claims. Enhanced transparency would support buyers to undertake due diligence thus strengthening demand-side integrity, reducing reputational risks associated with procuring credits to support decarbonisation strategies.

Finally, as noted in CMI's submission to the National Biodiversity Market consultation certification for environmental improvements should be based on high-integrity assessments of improvement in environmental outcomes, not merely activities that assume these outcomes will take place. Anything less than this is very unlikely to attract private sector investment at the scale required to provide a genuine basis for reversing the ongoing decline of biodiversity in Australia.⁴⁰

⁴⁰ <https://carbonmarketinstitute.org/app/uploads/2022/09/National-Biodiversity-Market-CMI-Submission-Sep-2022.pdf>



5. Relationship to voluntary Climate Active certification

On the specific 20% ACCU purchase requirement for carbon neutral certification, CMI urges caution and careful consideration and consultation with industry. At the time the decision was made, CMI did not support the requirement for new and ongoing Climate Active certifications equal to or greater than 1,000+ tCO₂-e to use a minimum of 20 per cent ACCUs from 1 July 2023, and for smaller certifications from 1 July 2024. Alongside the lack of appropriate prior consultation, CMI's view was informed by the following:

- ACCUs are more expensive than many options on the voluntary carbon markets due to the legislative requirements associated with the ERF scheme (mentioned in Section 1 of CMI's submission). This cost may be difficult or prohibitive for smaller businesses. This is compounded by difficulties acquiring small quantities of ACCUs (outlined in further detail below);
- Increasing the requirement for ACCUs to be used under Climate Active certifications may contribute to the perception that international credits are of lower quality or integrity – this is not the case, given that the eligibility requirements for international carbon credits used under Climate Active are required to also align with Australia's legislated Offsets Integrity Standards that apply to ACCUs;⁴¹
- International credits play an important role in driving finance into projects in emerging economies that support climate action and sustainable development. Australian businesses are an important channel to support this much needed climate finance flows;
- Aside from price differentials, voluntary actors often have other reasons for using international credits to fulfil their Climate Active requirements, such as wanting to support project types that contribute to certain co-benefits not available under ACCU methods, address emissions from their supply chains that might be in regions outside of Australia with local credits (e.g. a company with some operations in Indonesia might seek to compensate for a portion of their carbon footprint with VERs from a local project); and
- Climate Active is a voluntary scheme – if participation is made too onerous, there is a risk that participants will leave the scheme and pursue external carbon neutral certifications which would undermine the hard work the government has put into the Climate Active brand.⁴²

Any decisions to vary this requirement should be communicated as early as possible and should ideally be informed by targeted consultation.

CMI also recommends the government seek to improve market access for small organisations unable to access ACCUs due to limitations on criteria to purchase them as wholesale product. Current market settings make it difficult to purchase smaller quantities of ACCUs, with the minimum market parcel being 5,000 ACCUs and limited mechanisms for, and much higher costs per tonne associated with, purchasing smaller quantities. The price of ACCUs could also rise with stronger compliance requirements on industrial facilities under the Enhanced Safeguard Mechanism – making the Climate Active scheme further inaccessible, especially for many small- or medium-sized enterprises.

⁴¹ This is outlined in: CMI 2022, '[Review of international offsets CMI submission](#)', p. 9.

⁴² CMI has heard of groups of organisations exploring the option of leaving Climate Active and starting their own parallel voluntary certification standard without the ACCU requirement.



6. Future

To ensure that Australia's carbon crediting scheme remains fit for purpose, CMI recommends the government clarify how it intends to manage the shift from a taxpayer-funded ACCU market to one with greater private sector engagement. CMI recognises the Enhanced Safeguard Mechanism and Powering the Regions Fund (PRF) as part of this but notes that the ACCU market will likely require continued additional government support. Some options for managing this transition include:

- Continuing biannual, Commonwealth-funded optional contract reverse auctions in the initial two-year phase 1 of the enhanced Safeguard Mechanism;
- Exploring options (during phase 1) for expanding the enhanced Safeguard Mechanism's coverage to the electricity sector and/or smaller industrial facilities from 2025, to further leverage and drive the ACCU market;
- Targeting PRF grant funding towards ACCU purchases in emerging abatement and removal technologies to help commercialise these methods and unlock new markets and further market growth (alongside reverse auctions);
- Committing dividends from the fixed carbon abatement contract exit arrangements to the PRF to top up funding to support the continued growth of the ACCU market and other PRF functions.

6.1. Clarify climate policy suite and publish National Carbon Strategy

CMI recommends the government clarify its complete climate policy suite, including what equitable share of Australia's economy-wide 2030 NDC is intended to be achieved by each policy element and how these elements will work together. CMI reiterates its support for the Albanese Government's more ambitious climate policy agenda outlined in its Powering Australia plan.⁴³ However, supporting policies are needed to complement this framework and ensure that Australia's growing carbon markets are effective in addressing climate change and meeting Australia's updated, more ambitious 2030 emissions reduction target and forthcoming ratcheting Nationally Determined Contributions (NDCs) under the Paris Agreement.⁴⁴

CMI also recommends the government publish a National Carbon Market Strategy (Strategy), as was recommended by the Climate Change Authority's 2022 Review of International Offsets.⁴⁵ The Strategy would elaborate, among other things:

- How the government plans to use carbon markets, both in the context of its economy-wide 2030 target and longer-term through to the next NDC required in 2025, and beyond to net-zero and negative emissions required to limit global warming to 1.5C.
- The government's intended role in purchasing of ACCUs into the future and the associated governance framework that will facilitate this to ensure public confidence and trust.
- The government's intended approach to maturing international carbon markets⁴⁶, including by
 - Deepening the Indo-Pacific Carbon Offsets Scheme (IPCOS) and support for countries in our region to develop high integrity, locally driven carbon crediting arrangements;
 - Enabling the international trade of ACCUs into international carbon markets,

⁴³ See: CMI 2022, '[Post-election Briefing: 5 priorities for climate action and carbon markets](#)'.

⁴⁴ In June 2022, the Australian Government submitted its updated 2030 NDC to the UNFCCC, which targets a 43 per cent reduction in emissions based in 2005 levels, compared to the previous 26–28 per cent NDC target – see: Australian Government 2022, '[Australia's Nationally Determined Contribution Communication 2022](#)'.

⁴⁵ Climate Change Authority 2022, 'Review of International Offsets', pp. 41–42.

⁴⁶ See further CMI 2022, '[Post-election Briefing: 5 priorities for climate action and carbon markets](#)'.



- Fostering demand-side carbon market integrity by supporting the development of corporate investment best-practice codes for Australian voluntary international offset purchases which may not directly assist NDCs;
- development of high integrity global carbon market supervisory agencies and rules;
- Complementary measures including increasing public “climate finance” investments and leveraging further private investments to support nations adapt and respond to climate loss and damage.

6.2. Continuing role for Commonwealth funded auctions

CMI recommends that the government commit to continuing Commonwealth-funded ACCU purchases through biannual optional contract reverse auctions, at least for an interim period which should align with Phase 1 of the Enhanced Safeguard Mechanism.

We consider it likely that, even with the Safeguard reforms, Commonwealth-funded purchases through reverse auctions will be required for an interim period, in addition to the grant funding provided for ACCU purchases through the Powering the Regions Fund (PRF). This is because the PRF has an expanded remit compared to the ERF/Climate Solutions Fund (CSF) it is derived from, whose funds were dedicated to ACCU purchases.⁴⁷

This will ensure investment continues in ACCU projects, given the interaction between SMCs and ACCUs will likely remain uncertain until the Safeguard Mechanism reforms commence from 1 July 2023. Also during Phase 1, the government should commit to exploring options for expanding the Safeguard Mechanism’s coverage.⁴⁸ At the conclusion of Phase 1, the need for continued reverse auctions should be re-examined depending on expanded coverage and ACCU purchases resulting from declining baselines under the Enhanced Safeguard Mechanism.

6.3. Targeted PRF grant funding

CMI recommends the government target complementary PRF grant funding towards emerging abatement and removal technologies to help commercialise these methods and grow new markets.

At the same time, the government should provide clarity on the makeup of this fund – specifically regarding the quantum used for grant funding versus the other areas of its expanded remit. CMI also suggests that the government should recommit recouped funding from the fixed CAC exit arrangements to the PRF fund to ensure it has a steady stream of revenue. Clarity on these areas should be provided in the 2022 October or 2023 May Budget decisions.

6.4. Complementary policies

CMI recommends the government explore additional policies to drive land-based sequestration compliance markets alongside the enhanced Safeguard Mechanism.

Given that the Safeguard Mechanism should ultimately drive in-scheme emissions cuts, it may be prudent to consider additional policies that could support ACCUs generation to realise land-based sequestration

⁴⁷ Alongside grant funding for ACCUs, the PRF’s expanded remit includes: supporting industrial decarbonisation, developing new clean energy industries, and funding supporting workforce development – see: ALP 2021, ‘[Powering Australia](#)’, p. 32.

⁴⁸ Further detail on this recommendation is provided in CMI’s submission to the first Safeguard Mechanism reform consultation period – see: CMI 2022, ‘[Safeguard Mechanism Reform – First Consultation](#)’, pp. 9-10.



opportunities. Expanding the Safeguard Mechanism into an economy-wide emissions trading system may provide some opportunities in this regard.

6.5. Adjacent markets

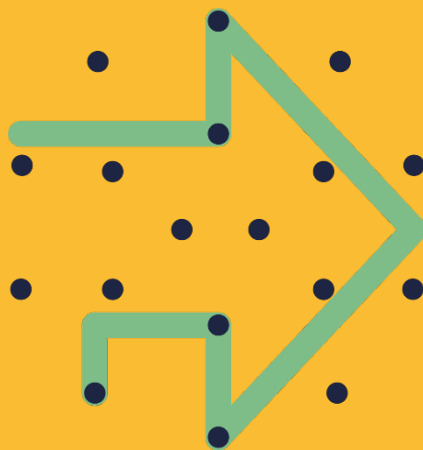
CMI recommends the government ensure adjacent markets, notably the proposed national biodiversity market, work in concert with the carbon market and do not create competing incentives or challenges to the integrity of supporting carbon credits. Further considerations around interaction between this market and the carbon market can be found in CMI's submission⁴⁹. While the Carbon and Biodiversity Landholder Extension Program mentioned under Section 1 of CMI's submission can play a role in clarifying this, it is no substitution for carefully considered policy making so that these two markets complement one another and/or are integrated.

6.6. Data

CMI recommends the government develop a national environmental information data sharing platform that enables the sharing of sensitive, but de-identified, project level information to improve external analysis of impact and issues. As was proposed in the Samuels Review of Australia's national environmental laws, the government could draw upon advances in data infrastructure technologies (including API) to facilitate a national environmental information supply chain that aggregates agricultural, biodiversity and carbon data at property, regional and national levels.

CMI also recommends the government consider the interaction of data transparency recommendations made in the Samuels Review alongside any recommendations resulting from this Independent Review to ensure alignment.

⁴⁹ See CMI 2022 [National Biodiversity Market Consultation submission](#)



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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.



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