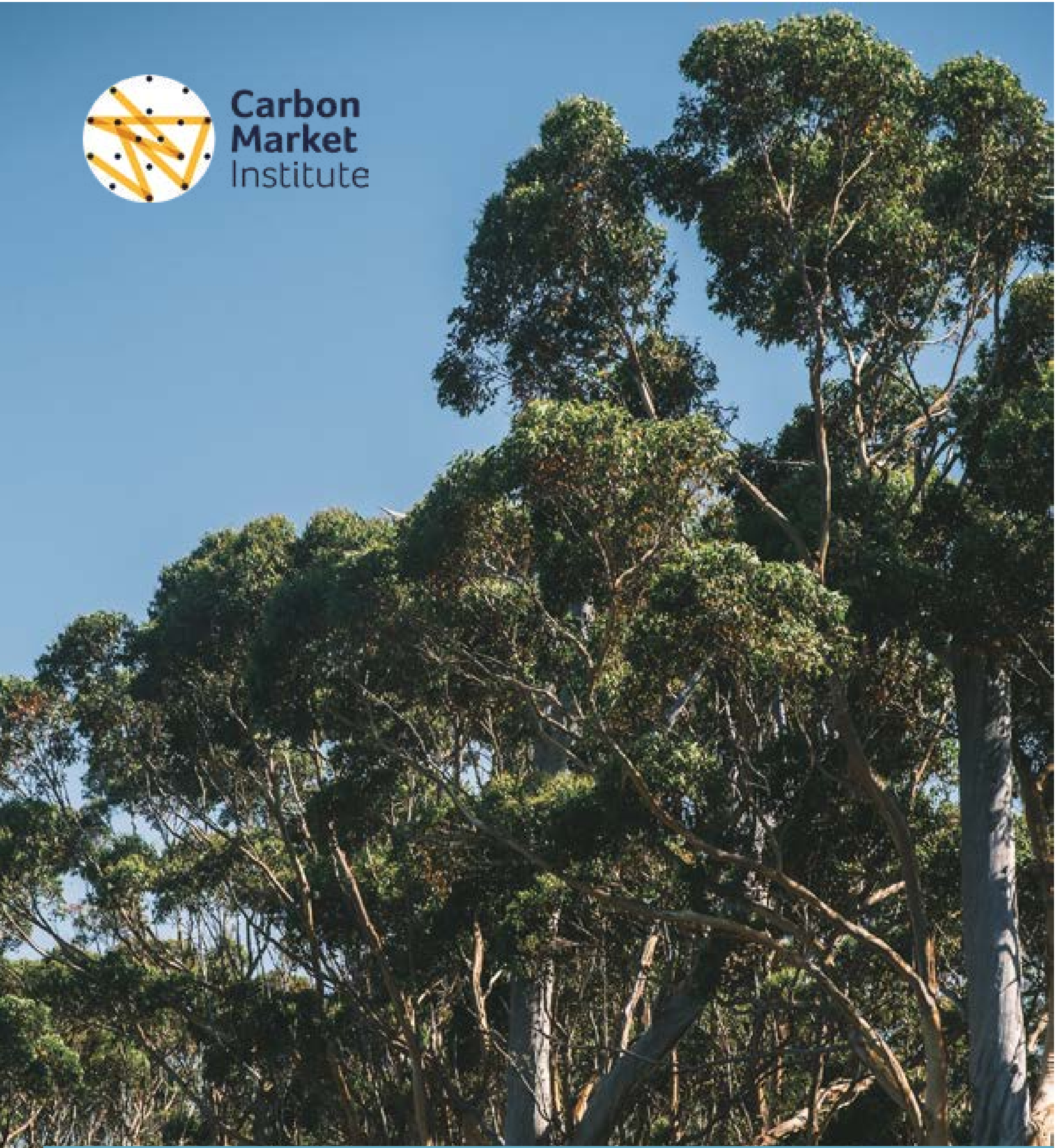

Carbon Market Institute

Chubb Review: Recommendations and next steps

market brief

February 2023

Post-Chubb Review: How Australia's carbon market will change

Executive summary

The Independent Review of Australian Carbon Credit Units (ACCUs), led by Professor Ian Chubb AC, was commissioned by the new Government to ensure the crediting framework was fit for purpose for intended reforms to the Safeguard Mechanism, and to respond to concerns raised that most Australian carbon credits didn't represent legitimate abatement.

The Independent Review did not accept those claims, finding from the evidence presented to it (see examples in Appendix), that the level of abatement has not been overstated, and that the ACCU regime is 'sound'.

However, it made 16 recommendations to update governance, transparency, and integrity arrangements. This brief provides background on the ACCU scheme and summarises the Review's recommendations.

It also examines the ramifications for key ACCU methods, including vegetation regeneration and landfill gas projects.

Reactions to the Chubb Review

The Government has accepted all of the Review's recommendations in principle and will be consulting on their implementation. Groups including the Wentworth Group of Concerned Scientists, Australian Academy of Science and WWF Australia have also supported the recommendations.

The Carbon Market Institute (CMI) welcomed the recommendations and will work to ensure their implementation is investible, sustainable and durable. CMI believes the improvements can boost Australian investor and community confidence in the carbon crediting scheme, and efforts to help achieve timely net zero and negative emissions.

The back story

The ACCU regime was established in 2011 through the *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act), which developed bi-partisan support with its adaptation to back the Coalition's Emission Reduction Fund (ERF).

The CFI Act incorporates several measures to reduce the risk of over-crediting of ACCUs. They include:

- Restrictions on the circumstances in which the Clean Energy Regulator (CER) can declare a project as authorised to earn ACCUs;
- An independent statutory committee is required to approve all new ACCU method determinations;
- All ERF projects require at least 3 audit reports including an audit report the first time each project claims ACCUs;
- CER powers to revoke projects if they aren't producing genuine abatement;

- CER powers to request information about a project to ensure that it is functioning correctly;
- CER powers to request or conduct audits to ensure project compliance with the CFI Act;
- CER internal review processes and an Administrative Appeals Tribunal review process; and
- Compliance with the Offsets Integrity Standards.

Australia's carbon market framework is also unique in that ACCUs are recognised as a tradeable financial product. Carbon market advisors and traders must hold an Australian Financial Services Licence and comply with the *Corporations Act 2001*.

ACCUs have been a consistent feature throughout major changes in carbon policy over the last decade – in particular following the 2014 repeal of the Carbon Pricing Mechanism.

For those two years that the Carbon Pricing Mechanism was operating, it was businesses – not the government – that purchased ACCUs.

After the repeal of the Carbon Pricing Mechanism, the ACCU regime was then largely kept operational through taxpayer-funded purchases of ACCUs by the CER, under the ERF. However, potential legislative changes, coupled with corporate responsibility trends in recent years, have seen a resurgence in private ACCU demand.

Private sector buyers are increasing in numbers and are becoming more active in the market, acquiring ACCUs both to help meet their voluntary commitments, and in preparation for complying with strengthened Safeguard Mechanism requirements.

Unpacking the Independent Panel's key recommendations

1. ***The duties of the Clean Energy Regulator should be narrowed***

Currently, the CER is responsible for a broad range of activities within the scheme, including the purchase of ACCUs and the development of new methods for earning them (although final determination remained with the Minister). It also provides secretariat support for the Emissions Reduction Assurance Committee (ERAC) which recommends methods for approval to the Minister, the authorisation and supervision of ACCU-generating projects, and disciplinary action for misreported abatement.

The Review recommended that the CER no longer be responsible for purchasing ACCUs, or method development, to remove any perception of conflicts of interest.

Instead, another agency (yet to be determined) will be responsible for ACCU purchases. Whether this agency will formally incorporate co-benefits of projects, technology development or support for regions into pricing determinations also remains to be determined. The ERF previously had a mandate to purchase at least cost and as such, these additional attributes did not have an explicit financial value.

Purchases will be done through the new Powering the Region Fund, alongside its other areas of focus, including supporting some trade exposed facilities with extra liabilities under the enhanced Safeguard Mechanism.

2. *The committee advising on requirements for earning carbon credits should be enhanced*

The Chubb Review recommended that the ERAC be replaced with a new body called the Carbon Abate-mentIntegrity Committee (CAIC) with a full-time, rather than part-time Chair.

It recommended that the CER no longer provide secretariat support to the ERAC, which provides recommendations to the Minister on methods for earning carbon credits. Instead, it recommends an independent secretariat be resourced to support the functions of the CAIC.

The Review has further recommended that the CAIC have at least one First Nations member, in recognition of the integral role of Indigenous participants in the carbon market.

Resourcing for the CAIC to dynamically perform the role of review and development of methods will be important. CMI also encourages the appropriate resourcing and use of technical advisory panels to support the CAIC and its major responsibility of assuring method integrity.

3. *Procedures for developing new or revised methods for earning ACCUs should change*

Currently, the CER and ERAC have an annual focus on a small shortlist of new methods for earning carbon credits, which has been decided by the responsible Minister.

The Review found the current method development process impedes timely and effective emissions reductions. It recommended an open "proponent-led" process, with the CAIC involved in setting priorities for method endorsement and approval. Proponents could include research bodies, NGOs, governments, and project developers.

It is recommended that the Minister only be able to make or revise methods recommended by the CAIC, and any adjustment would need to show compliance with the Offset Integrity Standards and proposed ACCU Scheme principles (see further detail below)

The Review recommended Department of Climate Change, Energy, the Environment and Water (DCCEEW) support this method development, including supporting community and NGO participation.

4. *Offsets Integrity Standards should be more clearly defined and supplemented*

Already incorporated into the CFI Act are the Offsets Integrity Standards (OIS). These require that ACCUs only be earned for measurable and verifiable abatement that isn't just from business-as-usual actions, and that has been confirmed by the provision of "clear and convincing evidence".

However, the Review found the OIS could have more plain English definitions, supported by a suite of "ACCU Scheme Principles".

The Panel noted that international experience and initiatives, such as the Integrity Council for the Voluntary Carbon Market's (IC-VCM) Core Carbon Principles, are consolidating views on best practice scheme principles and should be taken into account in defining these principles.

5. *There should be a much higher level of market transparency*

The Review recognised that many of the concerns around the perceived functioning of the ACCU market were related to data transparency and accessibility.

Recognising that a lack of access to data has led to misconceptions regarding the ACCU market's performance, the Review recommended a default to transparency, including for carbon estimation areas, that the government explore a national platform to share information about the ACCU scheme.

The Samuel Review of the Environment Protection and Biodiversity Conservation Act (EPBC) recommended the establishment of a similar environmental data platform, and the Chubb Review notes that these could operate in conjunction with each other.

Data proposed to be published include:

- CER decisions and rulings;
- Method development processes; and
- Site-specific measurement data

The review also suggested that efforts be made to improve transparency about the unique characteristics — especially co-benefits — of projects.

6. *Rural communities should be better supported to participate and benefit from the scheme*

The Review recommended that the government continue to support capacity-building among rural stakeholders so they can fully participate in the scheme.

The Government's $20 million commitment over four years to a landholder extension program will facilitate greater participation among farmers, Indigenous groups and conservation land managers. However, the commitment will need to be increased to ensure the scope is broad and the program is-well informed.

The Review's recommendations on project co-benefits should also align with developments as part of the government's Nature Repair Bill to ensure both schemes complement each other.

7. *Procedures to ensure ACCU projects take place only with free, prior, and informed consent should be strengthened, as should procedures to acknowledge the rights and interests of First Nations Australians*

The Review recommended that the practice of conditionally registering projects on Native Title lands be discontinued. This means that all projects will be required to demonstrate that they have obtained free, prior and informed consent (FPIC) with Native Title holders before proceeding with a carbon project.

Currently, ACCU projects can be conditionally registered for approval, prior to securing free, prior, and informed consent from Native Title Holders.

The Review also recommended that scheme reforms relating to participation by First Nation Australians be aligned with accepted recommendations of other reviews currently underway. These include the Samuel

Review of the EPBC Act, the Final Report into the Destruction of Indigenous Heritage Sites at Juukan Gorge, the National Agreement on Closing the Gap and COAG's commitments in the Partnership Agreement for Closing the Gap.

CMI has raised the issue of the use of conditional registration in the latest Carbon Industry [Code of Conduct Annual Report] and looks forward to working on the implementation of these reforms, as well as working closely with Indigenous voices and carbon project developers regarding on-ground implementation.

8. *Carbon advisors and service providers should be accredited and regulated*

The Review recommended that carbon advisors and service providers, including agents, need to be accredited, and should have to comply with mandated performance standards.

The Review also found that the CMI-administered Code of Conduct contributes to the integrity of the ACCU scheme. The Code is an existing voluntary framework which requires market participants who sign up to the Code to adhere to best practice standards. Code of Conduct Signatories are subject to a yearly audit as part of their compliance.

The exact nature of potential accreditation will be determined in forthcoming consultations.

9. *The Climate Change Authority should consider potential additional scheme buffers*

The Review recommended that the Climate Change Authority (CCA) determine whether current conservative criteria, including risk of reversal buffers and significant discounting for shorter periods of permanence commitments, behind ACCU entitlements are sufficient or whether there should be some scheme-wide mandatory cancellation percentage buffer for all ACCUs generated by a given project.

10. *Methodologies*

The Review did not suggest any substantial changes to existing methodologies, with the exception of the discontinuation of the avoided deforestation method, which was already due to expire in 2025.

However, it has called for more frequent method reviews by the new Carbon Abatement Integrity Committee.
To further strengthen confidence in the market's integrity, the CAIC will be required to publish its risk assessment frameworks, review priorities, and its findings.

10a. Human Induced Regeneration project assessment and abatement links should be more transparent

Human induced regeneration (HIR) projects will face a more transparent assessment to ensure that sequestration is verifiable, and that the project area will become permanent native forest as a direct result of management. It also clarified expectations on how method criteria should be applied and what data should be provided to CER and auditors.

Criticisms of HIR projects have questioned their abatement additionality, arguing that vegetation in carbon

However, the panel did not accept that a correlation between rainfall and vegetation growth undermines the method. The review stated that while rainfall is necessary to ensure vegetation growth, additional land management practices – of the type described in the HIR method – are required to assure permanent carbon storage that entitles project proponents to ACCUs.

The method should be interpreted as requiring:

- evidence of a causal relationship between the nominated eligible HIR activity or activities and the dominant suppression mechanism (such as feral animals or stock) that occurred through the entirety of the baseline period;
- demonstration that these suppressors are directly addressed by the HIR activity or activities throughout the life of the project; and
- demonstration that the application of FullCAM is consistent with the guidelines.

Importantly, it recommended each project must meet these criteria before future ACCUs may be issued. This applies to current projects.

It also recommended the CER should include nominated suppression mechanisms and eligible HIR activities for new and existing projects on the project register, as soon as feasible, and routinely publish project assessment data and results.

10b. The current Avoided Deforestation method has reached its use by date

The Review has recommended that no new projects be registered under the current Avoided Deforestation method, which rewards non-use of land-clearing certificates issued before 2010.

The Review found that "The length of time that has elapsed since the issue of any remaining unused land clearing permits imply that it would be hard to establish intent to clear land, raising questions about the additionality of any new projects that might be registered under the current method".

The Review noted land clearing has accounted for a significant share of national emissions and recommended developing new methods that incentivise the maintenance of native vegetation that has the potential to become a forest, as well as maintaining existing forests at risk of land-use conversion.

10c. Landfill gas projects should earn fewer ACCUs

The Review recommended that landfill gas projects will still be entitled to earn ACCUs, but at a lower – and declining – rate.

It found that without ACCUs, some landfill gas projects might not be financially viable. However, it also noted that regulatory standards and expectations about controlling landfill gas are likely to become more stringent over time, and that what constitutes a "business-as-usual" baseline will gradually increase in parallel.

The Review therefore recommended changes to the way ACCU entitlements are calculated under this method, to ensure that for all projects the business-as-usual baseline is no lower than 30%.

10d. No recommendations on Carbon Capture and Storage projects

The Review didn't make any recommendations about carbon capture and storage (CCS) projects due to its current limited deployment, and high economic cost. However, despite this, it stated that CCS "is considered to have an important potential contribution to limiting the pace and extent of climate change".

11. Participants in the Climate Active carbon-neutral scheme should be allowed to use any mix of credible carbon credits that they want

The former government had proposed that participants in the Climate Active scheme be required to ensure that the mix of carbon credits they use to achieve carbon neutrality should comprise at least 20% ACCUs.

This proposal received a mixed response, with some concerned that many companies and organisations would find it too costly, as ACCUs trade at a premium to many other types of international carbon units.

The Review recommended that the former government's minimum 20% ACCU quota for Climate Active participants not come into effect.

Conclusion

The Chubb Review found that the Australia carbon market is functioning as intended. Although there is room for improvement, governments, investors and companies alike should be encouraged by the review's confirmation that the market is providing genuine emissions abatement.

The Review has served as a timely reminder of the importance of constant review and reflection to ensure that best practice is implemented across the carbon market supply chain.

CMI will continue to engage with the government as it starts acting on the review recommendations, with the aim of further bolstering scheme governance, transparency and integrity.

Appendix: Additional Resources

Chubb Review findings:

Chubb, I., Bennett, A., Gorring, A., Hatfield-Dodds, S., 2022, Independent Review of ACCUs, Department of Climate Change, Energy, the Environment and Water, Canberra, December. CC BY 4.0.

Additional project-level data submitted to the Chubb Review:

AI Carbon Analysis: Carbon Farming in Rangelands – presentation to ACCU Review.

Climate Friendly Analysis: Our impact: carbon farming regenerating the landscape.

Further Resources & Responses:

Full list of public submissions to the Independent Review of Australian Carbon Credit Units.

The Carbon Market Institute & Norton Rose Fullbright, 2022, Integrity in the Australian Carbon Market: Explainer.

GreenCollar, 2022, Human Induced Regeneration method explained.

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for more information please contact

info@carbonmarketinstitute.org

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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