

Department of Climate Change,  
Energy, the Environment and Water  
Climate Active Program Direction  
Consultation

**submission**

December 2023





# Department of Climate Change, Energy, the Environment and Water: Climate Active Program Direction

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## submission

The Carbon Market Institute (**CMI**) welcomes this opportunity to provide feedback to the Department of Climate Change, Energy, the Environment and Water (**DCCEEW**) on its Climate Active Program Direction 2023 Consultation Paper (**Consultation Paper**).

CMI is an independent member-based institute accelerating the transition to net zero emissions. CMI's 2025 Strategy, 'Accelerating Climate Action', sets forth our vision towards a prosperous negative emissions, nature positive world and organisational mission to accelerate the best practice use of market-based solutions to support decarbonisation and limit global warming to 1.5°C.<sup>1</sup> Well-designed carbon markets complemented by ambitious targets and adequate regulation will play a crucial role in directing and leveraging investment to better align with the Paris Agreement goals and international cooperation.

CMI's 150-strong membership includes organisations from across the entire carbon value chain, including First Nations organisations, primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies.

CMI's Board annually updates the CMI's Policy Positions in consultation with, but independent of, members.<sup>2</sup> CMI also administers the Australian Carbon Industry Code of Conduct (**ACI Code**), which was established in 2018 to promote and steward consumer protection and market integrity.<sup>3</sup> The positions put forward in this submission are CMI's views, independent of members, and do not represent any CMI individual, member company or industry sector.

## Strategic outlook

CMI appreciates the important role Australia's Climate Active Program (**Climate Active**) has played since its establishment in 2010, in supporting voluntary climate action by businesses and organisations to measure, reduce, offset, and publicly report their emissions. Climate Active's delivery of more than 700 certifications through till October 2023 is a testament to its ability to build capacity amongst Australian businesses and organisations to more effectively manage the risks and opportunities associated with climate change.

We also recognise that international best practice guidance on net zero transition and demand-side integrity in the use of carbon markets is rapidly evolving and converging<sup>4</sup>. Expectations regarding corporate transition

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<sup>1</sup> CMI 2022, 'CMI's 2025 Strategy: Accelerating climate action', <https://carbonmarketinstitute.org/app/uploads/2022/12/CMI-2025-Strateglc-Plan.pdf>.

<sup>2</sup> CMI's Policy Positions were updated in November 2023. See: CMI 2023, 'CMI Policy Positions', [https://carbonmarketinstitute.org/app/uploads/2023/11/CMIPolicy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMIPolicy-Advocacy-Positions_FINAL-2023.pdf); CMI 2025 Strategy: Accelerating climate action, <https://carbonmarketinstitute.org/app/uploads/2022/12/CMI-2025-Strateglc-Plan.pdf>.

<sup>3</sup> More information can be found on the ACI Code website: <https://carbonmarketinstitute.org/code/>.

<sup>4</sup> See for example Net Zero Tracker Stocktake (12 June 2023), Available at <https://zerotracker.net/analysis/net-zero-stocktake-2023>.



planning<sup>5</sup> is maturing and will be supported and entrenched in Australia from as early as July 2024, with the Government moving to mandate corporate climate-related disclosure and transition plans.<sup>6</sup> It is logical that Climate Active, as a voluntary program certifying climate action, is updated to align its requirements with this direction of travel. Expectations on the credibility and integrity of private sector claims and actions are also increasing, most notably with the release of the Voluntary Carbon Markets Integrity Initiative (**VCMI**) Claims Code of Practice<sup>7</sup> and the International Organization for Standardization (**ISO**)'s Net Zero Guidelines<sup>8</sup>.

When governed by high-integrity frameworks and used in addition to broader decarbonisation strategies, CMI believes that voluntary investment in carbon credits can make a meaningful contribution to the Paris Agreement goals and the UN Sustainable Development Goals.

Beyond compliance market obligations, voluntary investment in carbon credits can enable companies to:

- address their emissions now as they pursue science-aligned interim decarbonisation targets, particularly in hard to abate activities if the technology is not yet available;<sup>9</sup>
- deal with residual emissions as they reach net zero; and
- finance carbon removals to support a negative emissions economy in the longer term.

At the recent UNFCCC COP28, the Presidency brought together integrity standard setters including the Science Based Targets Initiative (**SBTi**), the VCMI and the Integrity Council for Voluntary Carbon Markets (**IC-VCM**) to establish an end-to-end integrity framework covering the voluntary carbon market value chain, with mutual endorsement of respective roles and a clear guide for corporates embarking on their net-zero journey.<sup>10</sup> CMI considers that the improvements and commitments made at COP28 should improve market integrity and governance and allow further and deeper scrutiny of credited climate actions and corporate decarbonisation commitments.

Government policy and regulation can also play a key role in guiding the net zero emissions commitments and actions of non-state actors, ensuring these actors' decarbonisation strategies align with international best practice guidance, and ultimately support the achievement of the Paris Agreement goals.

As a government-back certification program, Climate Active presents a unique opportunity to drive high integrity and high ambition approaches to voluntary climate action and the use of carbon markets.

By reforming Climate Active to better align with maturing international best practice, the Australian Government can help to build investment and community confidence in private sector leadership on climate action and demand-side integrity in the use of carbon markets.

In turn, Climate Active could be drawn upon to support broader international efforts to advance high integrity approaches to corporate net zero transition following recent discourse at the UN level. It could also enable Australia to show regional climate leadership as Asian economies consider their own government policies and programs to ratchet climate ambition.

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<sup>5</sup> See UK Transition Plan Taskforce, Developing a gold standard, Available at <https://transitiontaskforce.net/about/>.

<sup>6</sup> Treasury 2023, 'Climate-related financial disclosure: Second consultation', <https://treasury.gov.au/consultation/c2023-402245>.

<sup>7</sup> See further VCMI Claims Code of Practice (November 2023), Available at <https://vcmintegrity.org/vcmi-claims-code-of-practice/>.

<sup>8</sup> See further ISO Net Zero Guidelines (IWA 42:2022), Available at <https://www.iso.org/netzero>.

<sup>9</sup> CMI uses 'science-aligned' to refer to actions that are aligned to the scale of mitigation required to keep the average global temperature rise to 1.5C within the century, as stipulated by the Paris Agreement. This is distinct from 'science-based', which may imply alignment with the requirements of the Science Based Targets Initiative (SBTi). While SBTi science-based targets are also science-aligned, targets and efforts can be 'science-aligned' without meeting SBTi requirements.

<sup>10</sup> See further Carbon Pulse, COP28: Organisation unite on role of carbon credits for voluntary corporate climate action (4 December 2023), Available at <https://carbon-pulse.com/241839/>.



## Program reform recommendations

To better align Climate Active with emerging international best practice whilst supporting participating businesses and organisations in the program's transition, CMI recommends the Australian Government consider the following recommendations:

1. Continue formal dialogue with the VCM Secretariat to consider the opportunity to pilot the VCM Claims Code through Climate Active to showcase international best practice in corporate voluntary engagement with carbon markets.
2. Consider opportunities to establish a complementary voluntary program to support nature positive commitments, drawing on the foundational work of the Taskforce on Nature-related Financial Disclosures (TNFD) and establishing a formal linkage with Australia's Nature Repair Market.
3. Introduce a two-tiered certification category approach that recognises the importance of science-aligned action while differentiating between small and large organisations based on their capabilities.
4. Under the proposed pathway approach, claims and supporting trademarks/labels should only be available to organisations in the 'certified' phase.
5. In elevating the requirements for certification, discontinue the term 'carbon neutral' to better reflect international best practice on the role of carbon credits in corporate transition. The beta VCM Claims Code of Practice and its 'Carbon Integrity' brandmarks are an example of an alternative approach for describing credible carbon credit use along a science-aligned pathway.
6. Introduce a five-year rolling vintage requirement for international credits and Australian Carbon Credit Units (ACCUs) used to support certification. This requirement should be phased with appropriate lead time of at least three years to ensure existing organisations that have banked credits for future use within the parameters of the current program are not penalised.
7. Review the 'Eligible offset units' list under Climate Active to assess whether they remain fit-for-purpose in incentivising additionality, considering all available international verifications frameworks as they are updated, and the alignment of eligible offset units with the IC-VCM's Core Carbon Principles as it is operationalised.
8. Advance outreach efforts to foster greater awareness and build capacity regarding scope 3 (or 'value chain') emissions to help small organisation participants to understand, measure—and ultimately be in a better position to reduce—these impacts.
9. Set and plan to achieve Australia's NDCs without factoring in projected voluntary action—although under the Paris Agreement and from a nested accounting perspective, abatement associated with voluntary<sup>11</sup> actions in Australia (both voluntary ACCU use and voluntary efforts to reduce at-source emissions) may count towards the NDC.

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<sup>11</sup> See further IC-VCM Core Carbon Principles, Available at <https://icvcm.org/the-core-carbon-principles/>.



10. List the quantum of voluntary ACCU retirements as a separate line item in Australia's annual UNFCCC National Inventory Reports and the Clean Energy Regulator's (CER) Quarterly Carbon Market Reports to support transparency around voluntary participation in the ACCU market.
11. Undertake further consultation on whether the market-based approach should be the only means that participants can procure renewable energy to order to fulfil a mandated renewable electricity percentage requirement.
12. Ensure that oversight of government-recognised climate action, including removals accounted for through both carbon credits and insetting, is administered by common regulatory institutions to provide consistent assurance and enforcement.
13. Increase funding to Climate Active to ensure the program is backed with adequately strong resourcing to support increased needs of both growing numbers of participants and checking and enforcing compliance, in coordination with the Australian Competition and Consumer Commission (ACCC) and Australian Securities and Investment Commission (ASIC).

We elaborate these recommendations in the **Attachment**.

Should you have further questions or wish to discuss CMI's submission in further detail, please contact Gabriella Warden (Manager, Research and Government Relations) at [gabriella.warden@carbonmarketinstitute.org](mailto:gabriella.warden@carbonmarketinstitute.org).

Yours sincerely,

Kurt Winter

**Director, Corporate Transition**



## Attachment

### Showcasing international best practice

Recommendation 1: Continue formal dialogue with the VCMI Secretariat to consider the opportunity to pilot the VCMI Claims Code through Climate Active to showcase international best practice in corporate voluntary engagement with carbon markets.

Following VCMI's release of its Claims Code of Practice, 'Carbon Integrity' claims branding and additional guidance to support Scope 3 Flexibility Claims,<sup>12</sup> CMI considers there is an important opportunity for Climate Active to align with the VCMI Code and test the VCMI Code through a pilot program arrangement. This would demonstrate international best practice in corporate voluntary engagement with carbon markets.

As noted above, Climate Active program reform presents an opportunity to support broader international efforts to advance high integrity approaches to corporate net zero transition following recent discourse at the UN level.<sup>13</sup> It could also enable Australia to show regional climate leadership as economies in the Asia Pacific consider their own government policies and programs to ratchet climate ambition.

CMI identifies strong alignment between the goals of Climate Active and the VCMI Code that would support further consideration of partnership opportunities. The proposed shift in Climate Active's conceptual basis for certification beyond 'Carbon Neutrality' presents an opportunity to explore piloting the VCMI Code requirements within the Climate Active program parameters. There are a range of elements that are aligned at a foundational level between the two frameworks, including on the treatment of the mitigation hierarchy, and on assurance and enforcement—though further discussion would support greater alignment.

Recommendation 2: Consider opportunities to establish a complementary voluntary program to support nature positive commitments, drawing on the foundational work of the Taskforce on Nature-related Financial Disclosures and establishing a formal linkage with the recently established Nature Repair Market.

CMI welcomes the passing of the Nature Repair Bill on 7 December 2023, that establishes a framework for a world-first national, voluntary, legislated Nature Repair Market (**NRM**), enabling private finance to help to repair and protect Australia's unique natural environment and reward landholders for protecting biodiversity. As we highlighted to the Senate Inquiry, CMI shares the Government's view that market-based initiatives have a role to play in repairing Australia's ecosystems.<sup>14</sup>

As we have previously advocated, if the Government wishes to stimulate the NRM before voluntary drivers like the Taskforce on Nature-related Financial Disclosures (**TNFD**) have matured, we recommend further consideration of short-to-medium-term incentives to drive demand and private sector engagement.

<sup>12</sup> See further VCMI Claims Code of Practice, Available at <https://vcmintegrity.org/vcmi-claims-code-of-practice/>.

<sup>13</sup> Again, see further: Carbon Pulse, COP28: Organisation unite on role of carbon credits for voluntary corporate climate action (4 December 2023), Available at <https://carbon-pulse.com/241839/>.

<sup>14</sup> See CMI Environment and Communications Legislation Committee Senate Inquiry: Nature Repair Market Bill 2023 and Nature Repair Market (Consequential Amendments) Bill 2023 [Provisions] (June 2023), Available at [https://carbonmarketinstitute.org/app/uploads/2023/06/2023.06\\_Carbon-Market-Institute\\_NRM-Bill-Senate-Inquiry.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2023.06_Carbon-Market-Institute_NRM-Bill-Senate-Inquiry.pdf).



Alongside access to favourable capital and provisions to allow the ‘stapling of NRM Certificates to ACCUs or carbon projects, Climate Active could play a key role in driving voluntary action through a carefully designed nature-positive voluntary certification.<sup>15</sup> CMI notes that any such standard should clearly drive ‘nature positive’ outcomes, as opposed to providing a vehicle for private entities to compensate for degradation caused by company operations.

### **Supporting and endorsing science-aligned action along a pathway** [Proposals 1, 2, 8]

Recommendation 3: Rather than requiring and aligning gross emissions reductions with Australia’s NDC, operationalised by applying a flat 2.7% annual reduction rate across all certifications, Climate Active should introduce a two-tiered certification category approach that recognises the importance of science-aligned action while differentiating between small and large organisations based on their capabilities. [Proposals 1, 2]

Recommendation 4: Under the proposed pathway approach, claims and supporting trademarks/labels should only be available to organisations in the ‘certified’ phase; organisations in the ‘starting out’ and ‘pending’ stages may not make a claim, but could communicate they are ‘working towards’ Climate Active certification and refer the reader to the program website for more information. [Proposal 8]

CMI supports proposals that Climate Active would require organisations to set and demonstrate progress towards near- and long-term gross emissions reduction targets to achieve and maintain certification. As not above, expectations regarding corporate transition planning<sup>16</sup> is maturing and will be supported and entrenched in Australia from as early as July 2024, with the Government moving to mandate corporate climate-related disclosure and transition plans.<sup>17</sup> It is logical that Climate Active, as a voluntary program certifying climate action, is updated to align its requirements with this direction of travel.

CMI also supports the proposal to introduce a three-stage certification pathway (starting out, pending, certified), under which claims may only be made in the ‘certified’ category. We consider a three-year maximum window for the ‘pending’ stage to be appropriate. Rather than allowing longer timeframes for hard-to-abate organisations, we suggest that Climate Active consider extensions in extenuating circumstances. Organisations in the ‘starting out’ and ‘pending’ stages should not be able to make a claim or display a certification trademark/label but could communicate they are ‘working towards’ Climate Active certification.

Instead of aligning gross emissions reduction requirements with Australia’s NDC, CMI recommends a two-tiered certification category approach that recognises the importance of gross emissions reductions and science-aligned action, while differentiating between large and small organisations based on their resourcing and capabilities as follows (see further detail on this concept in Figure 1):

- **Climate Active ‘first tier’**: organisations must set and demonstrate progress towards science-aligned gross near- and long-term targets, addressing remaining emissions with eligible carbon credits. CMI

<sup>15</sup> CMI has advocated for the consideration of a nature positive certification standard under Climate Active in: CMI 2023, ‘Setting, tracking and achieving Australia’s emissions reduction targets submission’ (Recommendation 13), [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf).

<sup>16</sup> See UK Transition Plan Taskforce, Developing a gold standard, Available at <https://transitiontaskforce.net/about/>.

<sup>17</sup> Treasury 2023, ‘Climate-related financial disclosure: Second consultation’, <https://treasury.gov.au/consultation/c2023-402245>.



considers Climate Active should explore opportunities to pilot the VCMI Code within this first tier by reference to VCMI’s Carbon Integrity Claims Tiers.

- **Climate Active ‘second tier’:** optional category for small organisations only; requires organisations to set near- and long-term gross emissions reduction targets and demonstrate progress towards these, addressing remaining emissions with eligible carbon credits, however without requirement for ‘science-aligned’ targets. In any lower tiers, there may also be an opportunity to draw upon VCMI’s Scope 3 Flexibility Claim.<sup>18</sup>

CMI considers that a two-tiered approach would be a more equitable and durable approach to mandating gross emissions reductions in the program than prescribing a flat, NDC-aligned 2.7% per annum reduction rate for all program participants. Prescribing a flat, NDC-aligned reduction rate presents a range of drawbacks, including that it:

- does not recognise the unique sectoral challenges and emissions reduction opportunities that different organisations within the program may face,
- would perversely make it harder for organisations that have taken ambitious steps to reduce their initial carbon footprints within the existing Climate Active program to maintain certification, and
- is cumbersome, uncertain and lacks durability; for example, certified entities would have difficulty setting and planning to achieve longer-term targets because Climate Active would need to update the prescribed reduction rate at the start of each five-year NDC cycle.

Further thinking may be required on appropriate thresholds and/or tests to distinguish between ‘small’ and ‘large’ organisations. Moreover, as broader climate and carbon accounting literacy increases across the private sector with the establishment of Australia’s mandatory climate disclosure framework, it may be appropriate for Climate Active to phase out the ‘second tier’ certification category.

**Figure 1: ‘Two tier’ Climate Active certification concept**

CATEGORY	CLIMATE ACTIVE ‘FIRST TIER’	CLIMATE ACTIVE ‘SECOND TIER’ (SMALL ORGANISATIONS ONLY)
<b>ELIGIBILITY</b>	Large organisations; open to small organisations by choice	Small organisations only
<b>REQUIREMENTS</b>	<p>Organisation must set and be on track to achieve gross, science-aligned near- and long-term targets</p> <p>Remainder of emissions compensated for with high quality carbon credits</p>	<p>Gross near- and long-term targets (do not have to be science-aligned)</p> <p>Remainder of emissions compensated for with high quality carbon credits. Requirements could also reflect the Scope 3 flexibility claim framework developed by VCMI.</p>
<b>HOW TO OPERATIONALISE</b>	<p>Agnostic approach to science-alignment, however evidence must be provided to show how near- and long-term targets align with a 1.5C trajectory and this must be third-party verified.</p> <p>Climate Active could point to globally recognised approaches and tools to guide</p>	<p>Similar to existing gross emissions reduction strategy requirement, except monitor and enforce it</p> <p>Organisations set a gross emissions reduction strategy and are required to keep to it if they want to maintain certification</p>

<sup>18</sup> See further VCMI Scope 3 Flexibility Claim Beta Version (November 2023), Available at <https://vcmintegrity.org/wp-content/uploads/2023/11/Scope-3-Flexibility-Claim-Beta.pdf>.





	<p>companies approaches to setting targets, such as the ISO Net Zero Guidelines.<sup>19</sup></p> <p>To streamline Climate Active with existing science-aligned certification frameworks, the Government could create a whitelist of recognised frameworks—such as the Science Based Targets Initiative’s (SBTi) Corporate Net-Zero Standard<sup>20</sup> or the Voluntary Carbon Markets Integrity Initiative Claims Code of Practice (VCMI Code) and newly released ‘Carbon Integrity’ framework<sup>21</sup>—to allow organisations with existing targets to bypass the third-party verification requirement.</p>
<p><b>JUSTIFICATION</b></p>	<p>Large entities undertaking voluntary climate action should be required to undertake high-ambition, science-aligned efforts.</p> <p>Science-aligned action is needed to limit warming to 1.5C; should not be afforded reputational benefit of certification for doing less.</p> <p>As well as requiring large entities to undertake high-ambition efforts to achieve recognition and certification under the Climate Active program, this certification recognises the significant level of effort</p> <p>Moreover, entities undertaking this top level of effort should receive ‘first tier’ certification that communicates the effort and impact of their actions as being top.</p>
<p><b>CERTIFICATION LABEL</b></p>	<p>Smaller entities have fewer resources and capabilities than their large corporate counterparts to invest in climate action. However, they should still be encouraged to understand and address their impacts, and receive recognition for these efforts.</p> <p>A ‘second tier’ certification category would encourage small organisations to reduce gross emissions and address remaining emissions.</p> <p>This ‘second tier’ category may also serve as an on-ramping pathway for small organisations to first tier Climate Active certification down the track, as carbon literacy and in-house capabilities mature over time.</p> <p>Label should visually communicate that the certified organisation is taking climate action at the highest ambition available under the program. Consumer research should inform label design.</p> <p>This should be clear without side-by-side reference to the ‘second tier’ certification label—for example, in the way that Australian Energy Rating Labels<sup>22</sup> denote the efficiency of a household appliance using a number of stars, or the VCMI Code’s ‘Carbon Integrity’ labels differentiate between silver, gold and platinum.<sup>23</sup></p>

<sup>19</sup> ISO Net Zero Guidelines (December 2022), Available at <https://www.iso.org/netzero>.

<sup>20</sup> Science Based Target Initiative (SBTi) 2023, ‘The Corporate Net Zero Standard’, <https://sciencebasedtargets.org/net-zero>.

<sup>21</sup> See further VCMI Claims Code of Practice (November 2023), Available at <https://vcmintegrity.org/vcmi-claims-code-of-practice/>.

<sup>22</sup> See: Energy Rating 2023, ‘Understand the Energy Rating Label’, <https://www.energyrating.gov.au/consumer-information/understand-energy-rating-label>.

<sup>23</sup> See further VCMI Scope 3 Flexibility Claim Beta Version (November 2023), Available at <https://vcmintegrity.org/wp-content/uploads/2023/11/Scope-3-Flexibility-Claim-Beta.pdf>.



## Discontinuing Climate Active ‘carbon neutral’ certification [Proposal 7]

Recommendation 5: In elevating its requirements for certification, Climate Active should discontinue the term ‘carbon neutral’ to better reflect international best practice on the role of carbon credits in corporate transition. The beta VCM Claims Code of Practice and its ‘Carbon Integrity’ brandmarks are an example of an alternative approach for describing credible carbon credit use along a science-aligned pathway. [Proposal 7]

A ‘carbon neutral’ claim is typically made when an organisation has measured and then offset or ‘balanced out’ its carbon footprint with equivalent carbon credits. Certifications describe an ‘end state’ and apply to a fixed time frame, usually a calendar or financial year. While entities are encouraged to prioritise gross emissions reductions ahead of offsetting, this is not typically required or enforced.<sup>24</sup>

The Government is proposing to update the Climate Active standard to require entities to set and demonstrate progress towards near- and longer-term gross emissions reduction targets before attaining certification, as well as addressing remaining emissions with carbon credits. In this case, CMI would recommend that a new term is introduced to describe the certification claim associated with these elevated requirements.

Introducing a new certification term would also signify the Climate Active program’s new direction to consumers, and separate future claims from those historic claims made by organisations under the previous Climate Active Carbon Neutral Standard.

As well as introducing a new certification term, Climate Active’s certification vernacular should be updated.

The global focus on greenwashing has raised questions about the appropriateness of carbon neutrality claims. In Europe, the US and Australia we have seen a groundswell of legal complaints and regulatory action against companies claiming carbon neutrality.<sup>25</sup> And in Europe, the EU Parliament and Council have reached a provisional agreement to prohibit claims based on offsetting unless they are based on the actual lifecycle impacts of the product in question, and not based on greenhouse gas emissions offsetting outside the product’s value chain.<sup>26</sup>

<sup>24</sup> According to Climate Active, “Broadly...to achieve [Climate Active Carbon Neutral Standard] certification you must measure emissions, reduce these where possible, offset remaining emissions and then publicly report on your achievement” without the requirement; see: Climate Active 2019, ‘Certification’, <https://www.climateactive.org.au/be-climate-active/certification>.

<sup>25</sup> See for example ‘Delta Air Lines faces lawsuits over \$1bn carbon neutrality claim’ Guardian (30 May 2023), Available at <https://www.theguardian.com/environment/2023/may/30/delta-air-lines-lawsuit-carbon-neutrality-aoe>; ‘Greenwashing’ lawsuit against KLM to proceed, Dutch court rules’, Reuters 8 June 2023, Available at <https://www.reuters.com/business/aerospace-defense/greenwashing-lawsuit-against-klm-can-proceed-dutch-court-2023-06-07/>; ‘Greenwashed? Australian parents take energy giant to court’, LSJ Online (18 September 2023), Available at <https://lsj.com.au/articles/greenwashed-australian-parents-take-energy-giant-to-court/#:~:text=AP4CA%20is%20seeking%20a%20declaration,similar%20statements%20to%20describe%20the>; ‘Greenwashing complaint lodged against Ampol carbon-neutral fuel claims (30 August 2022), Available at <https://www.edo.org.au/2022/08/30/greenwashing-complaint-lodged-against-ampol-carbon-neutral-fuel-claims/>.

<sup>26</sup> See further Proposal for a directive of the European Parliament and of the Council amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and better information (COM(2022)0143 – C9-0128/2022 – 2022/0092(COD)), (7 November 2023), Available at [https://www.europarl.europa.eu/meetdocs/2014\\_2019/plmrep/COMMITTEES/IMCO/AG/2023/11-28/1289669EN.pdf](https://www.europarl.europa.eu/meetdocs/2014_2019/plmrep/COMMITTEES/IMCO/AG/2023/11-28/1289669EN.pdf).



Interest is building towards reframing the role of carbon credits as ‘contributions’ to projects that are reducing emissions elsewhere in the economy, complementing material decarbonisation within an organisation’s value chain rather than compensating or offsetting. This is evident in the framing of the VCMI Claims Code of Practice and is also reflected in other international guidance including the recommendations of the UN High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities<sup>27</sup> and the ISO Net Zero Guidelines<sup>28</sup> that both recommend carbon credits not be applied to organisations’ interim emissions reductions targets and that only those removal-based offsets and credits counterbalancing residual emissions should count towards its net zero target.

While this shift may improve the integrity of corporate claims and net zero transition pathways, it should not be seen to deflect the important role voluntary corporate investment in carbon credits should continue to play in global efforts to address climate change as companies progress on their transition pathway. Their role should be recognized as two-fold: in complementing and supporting more ambitious decarbonisation strategies by companies; and in facilitating finance to developing economies in line with global ambitions on climate finance. New evidence based on CDP reporting suggests that businesses purchasing voluntary carbon are more likely to report lower gross emissions year-on-year, and invest more in emissions reductions, than companies not engaged in carbon markets.<sup>29</sup> And according the VCMI, some estimates have shown that, if companies start to invest in voluntary carbon markets as part of their transition plans today, over \$50 billion could be unlocked by 2030 to finance activities to mitigate or adapt to the impacts of climate change.<sup>30</sup>

When the new standard is launched, CMI recommends the Government provision funding to educate consumers about what the ‘Climate Active’ label means so they better understand the choices they are making when buying products or services from organisations in displaying its landmark.

In terms of what to call the new certification claim, CMI points towards the newly released beta version of the VCMI Claims Code of Practice<sup>31</sup> and its ‘Carbon Integrity’ landmarks as inspiration. As noted above, the Australian Government could seek to pilot the VCMI Claims in the reformed Climate Active, thereby demonstrating global leadership on voluntary engagement with carbon markets.

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<sup>27</sup> UN High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, ‘Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions’(December 2022), Available at <https://www.un.org/en/climatechange/implementing-high-level-expert-group-report>.

<sup>28</sup> ISO Net Zero Guidelines (December 2022), Available at <https://www.iso.org/netzero>.

<sup>29</sup> See further Ecosystem Marketplace, ‘New Research: Carbon credits are associated with businesses decarbonizing faster’ (10 October 2023), Available at <https://www.ecosystemmarketplace.com/articles/new-research-carbon-credits-are-associated-with-businesses-decarbonizing-faster/>.

<sup>30</sup> See VCMI Press release, New VCMI Guidance Opens Door for Corporate Carbon Credit Claims (28 November 2023), Available at <https://vcmintegrity.org/new-vcmi-guidance-opens-door-for-corporate-carbon-credit-claims/>.

<sup>31</sup> See further VCMI Claims Code of Practice (November 2023), Available at <https://vcmintegrity.org/wp-content/uploads/2023/11/VCMI-Claims-Code-of-Practice-November-2023.pdf>.

**Rolling vintage requirement for international carbon credits** [Proposal 4]

Recommendation 6: Climate Active should introduce a five-year rolling vintage requirement for international credits and Australian Carbon Credit Units (ACCUs) used to support certification. This requirement should be phased with appropriate lead time of at least three years to ensure existing organisations that have banked credits for future use within the parameters of the current program are not penalised [Proposal 4]

Recommendation 7: The Government should review the 'Eligible offset units' list under Climate Active to assess whether they remain fit-for-purpose in incentivising additionality, considering all available international verifications frameworks as they are updated, and the alignment of eligible offset units with the IC-VCM's Core Carbon Principles as it is operationalised.

CMI has previously recommended that carbon credits used under the Climate Active program should be subject to a five-year rolling vintage. In our view, this would be a more durable approach than the current static 'post-2012' vintage requirement. A rolling vintage window will give participating organisations certainty about the credits they can use, and also not require updating as frequently as static 'post-year' approaches to vintage restrictions. without requiring periodic updating.

As the Climate Change Authority concluded in its 2022 Review of International Offsets,<sup>32</sup> a five-year rolling vintage window would provide a range of benefits, including:

- mitigating the risk that any problematic units could flood the market and adversely impact confidence in integrity long term; and
- discouraging speculative 'unit banking', which impedes liquidity and diverts units away from the primary purpose of enabling mitigation.

We note that the five-year rolling vintage eligibility window would need to be phased in with appropriate lead time of at least three years to ensure existing organisations that have banked credits for future use within the parameters of the current program are not penalised.

In introducing a rolling five-year vintage requirement for carbon credits used under Climate Active, the Government should liaise with bodies overseeing adjacent certifications and standards that are commonly layered with Climate Active to ensure alignment, for example the NABERS building rating system.

CMI also encourages the Government to review its list of eligible carbon credit standards under Climate Active to assess whether they remain fit-for-purpose in incentivising additionality. This review should consider previously eligible units, such as Kyoto-era credits, and whether newer certification standards, such as removal credits, could be included. Into the future it may also be prudent to review Climate Active's standards against the IC-VCM's Core Carbon Principles<sup>33</sup>, once these are operationalised across crediting standards internationally.

<sup>32</sup> See further Climate Change Authority, Review of International Offsets (2022), Available at [FINAL - Review of International Offsets 5.8.2022 \(climatechangeauthority.gov.au\)](https://www.cca.gov.au/2022/05/08/5.8.2022-climatechangeauthority.gov.au).

<sup>33</sup> See further IC-VCM Core Carbon Principles, Available at <https://icvcm.org/the-core-carbon-principles/>.



### **Additional guidance on emissions boundaries, including mandating certain scope 3 emissions** [Proposal 3]

Recommendation 8: Advance outreach efforts to foster greater awareness and build capacity regarding scope 3 (or ‘value chain’) emissions to help small organisation participants to understand, measure—and ultimately be in a better position to reduce—these impacts. [Proposal 3]

CMI supports the proposal to standardise the inclusion of certain scope 3, or ‘value chain’, emissions in Climate Active emissions boundaries. This would improve the consistency and comparability of certifications within the program. We note that guidance would likely need to be sector and/or organisation type specific.

CMI has previously advocated for the Government to help mainstream reporting and management of value chain emissions within the private sector by providing for scope 3 reporting under the National Greenhouse and Energy Reporting (NGER) scheme.<sup>34</sup> This would also support NGER-reporting entities’ future compliance under the Government’s mandatory climate-related disclosure framework and the consistency of reporting.<sup>35</sup>

As a complement to the potential for mainstreaming scope 3 reporting through the NGER scheme as a regulatory channel, Climate Active is well-placed to foster greater scope 3 awareness among participating organisations. We encourage Climate Active to consider developing tools and/or other means of supporting participants (particularly small organisations and those in the ‘starting out’ phase) to understand, measure—and ultimately be in a better position to reduce—their value chain emissions.

### **The abatement outcomes of voluntary climate action are nested within Australia’s national greenhouse accounts** [Proposal 6]

Recommendation 9: The Australian Government should set and plan to achieve NDCs without factoring in projected voluntary action—although under the Paris Agreement and from a nested accounting perspective, abatement associated with voluntary actions in Australia (both voluntary ACCU use and voluntary efforts to reduce at-source emissions) may count towards the NDC.

Recommendation 10: To support transparency around voluntary participation in the ACCU market, Australia’s annual UNFCCC National Inventory Reports and the Clean Energy Regulator’s (CER) Quarterly Carbon Market Reports should list the quantum of voluntary ACCU retirements as a separate line item.

CMI shares the Climate Change Authority’s view that subnational and corporate greenhouse gas accounts are ‘nested’ within national accounts.<sup>36</sup> In turn, Australia’s National Greenhouse Accounts are used to track progress towards Australia’s emissions reduction commitments, including the NDC.

Therefore, in the context of the Paris Agreement and purely from an accounting perspective, we support the Government’s proposal that abatement associated with ACCUs used under Climate Active and for other non-

<sup>34</sup> See: CMI 2023, ‘Climate Change Authority: Setting, tracking and achieving Australia’s emissions reduction targets’ (CMI submission), [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf), pp. 11–13.

<sup>35</sup> Treasury 2023, ‘Climate-related financial disclosure: Second consultation’, <https://treasury.gov.au/consultation/c2023-402245>.

<sup>36</sup> Climate Change Authority 2022, ‘Review of International Offsets’, <https://www.climatechangeauthority.gov.au/sites/default/files/Review%20of%20International%20Offsets%20-%20Report%20-%20August%202022.pdf>, p. 19.



compliance purposes will count towards Australia's NDC. However, the Australian Government should not use or rely on voluntary mitigation efforts, or projections of these, to set or plan to achieve its NDCs.<sup>37</sup>

To support transparency around voluntary participation in the ACCU market, CMI recommends that Australia's annual UNFCCC National Inventory Reports disclose the quantum of voluntary ACCU cancellations as a separate line item.<sup>38</sup> The quantum of voluntary ACCU cancellations should similarly be noted in the Clean Energy Regulator's (CER) more regular Quarterly Carbon Market Reports.

Abatement associated with voluntarily-cancelled ACCUs—as is the case with abatement derived from voluntary at-point emissions reducing activities—is 'nested' within Australia's National Greenhouse Accounts, which are used to measure progress towards the NDC. We do not see any reason for abatement associated with the voluntary use of ACCUs to be treated differently to the outcomes of voluntary efforts to reduce emissions at source. Moreover, allowing for the differential treatment of ACCUs as 'additional' to the NDC could create perverse incentives for organisations seeking to separate their voluntary efforts from the achievement of Australia's NDC to prioritise the use of ACCUs over at-source emissions reductions. This would contravene mitigation hierarchy principles.

### **Mandate a percentage of renewable electricity** [Proposal 5]

**Recommendation 11:** Undertake further consultation on whether the market-based approach should be the only means that participants can procure renewable energy to order to fulfil a mandated renewable electricity percentage requirement.

CMI supports the proposal to mandate a percentage of renewable electricity. Further consultation should be undertaken as to whether the market-based approach should be the only means that participants can procure renewable energy as there are other more time-accurate methods that may be more appropriate and impactful, particularly for those at the large organisation certification category.

### **Insetting**

**Recommendation 12:** Ensure that oversight of government-recognised climate action, including removals accounted for through both carbon credits and insetting, is administered by common regulatory institutions to provide consistent assurance and enforcement

We note that Climate Active is considering recognition of insetting activities within its certification framework. This could, for example, incentivise carbon sequestration from tree plantings within an entity's supply chain and/or operational control as an additional nature-based solution to complement the purchase of carbon credits.

CMI recognises the benefits of this approach in terms of enabling an additional avenue for mitigation action and to facilitate a more complete picture of entities' emissions profiles for the purposes of assessing

<sup>37</sup> See more in: CMI 2023, 'Climate Change Authority: Setting, tracking and achieving Australia's emissions reduction targets' (CMI submission), [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf), pp. 19-20.

<sup>38</sup> See above footnote.



certifications. At the same time, as we previously highlighted<sup>39</sup>, Australia's legal and regulatory framework needs to provide a harmonised governance approach to the recognition and oversight of climate action to ensure integrity.

Given that Climate Active is a government-administered scheme, CMI considers that insetting accounting methods should be regulated with equivalent assurance, investigation, and enforcement powers as applies to carbon crediting under the ACCU Scheme. We note that in circumstances where an entity is required to retire carbon credits to guarantee sequestration permanence, it is unclear how this would be enforced. CMI questions whether Climate Active has sufficient regulatory powers, beyond cancelling certification and removing entities from the Climate Active scheme, to uphold this protection.

Accordingly, we recommend that insetting be regulated by an alternative body with appropriate statutory powers to enforce permanence protections. One option for consideration is for the guidelines to sit with DCCEEW, that also regulates the ACCU methods on which this guideline is based. Aligning these activities with the ACCU Scheme and its regulatory framework should not impact Climate Active's ability to certify entities' use of this approach, as Climate Active certification already considers entities' use of ACCUs for the same purpose. Regulation through the ACCU Scheme could also enable additional permanence protections. For example, the CER could require permanence plans as is required under the ACCU Scheme, which obligate sequestration project proponents to outline how they will ensure permanence of credited abatement.

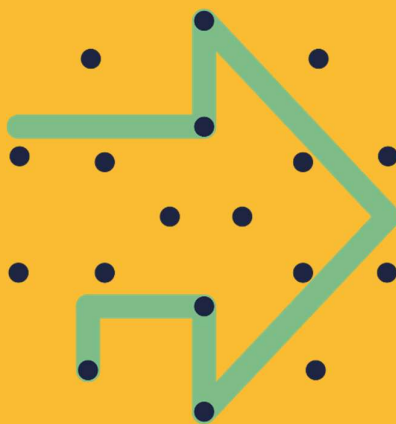
### **Stronger resourcing and enforcement powers to support strengthened Climate Active program requirements**

**Recommendation 13:** Increase funding to Climate Active to ensure the program is backed with adequately strong resourcing to support increased needs of both growing numbers of participants and checking and enforcing compliance, in coordination with the Australian Competition and Consumer Commission (ACCC) and Australian Securities and Investment Commission (ASIC).

We anticipate that growing interest in voluntary corporate climate action and the proposed elevated requirements under Climate Active will necessitate increased resourcing to support timely certification and appropriate compliance monitoring and enforcement with respect to participating organisations.

CMI considers that coordination between the Climate Active team within DCCEEW and other government departments and agencies, such as ASIC and the ACCC, would be appropriate to further support efficient and robust compliance under Climate Active.

<sup>39</sup> See further CMI, Climate Active Consultation Draft Guidelines: Accounting for Carbon Sequestration from Tree Planting (October 2022), Available at [https://carbonmarketinstitute.org/app/uploads/2022/10/FINAL\\_CMI-Climate-Active-Draft-Vegetation-Accounting-Guideline.pdf](https://carbonmarketinstitute.org/app/uploads/2022/10/FINAL_CMI-Climate-Active-Draft-Vegetation-Accounting-Guideline.pdf).



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CMI develops independent, non-partisan, evidence-based and pragmatic policy positions through engagement with its members and broader industry. CMI works constructively with governments to encourage clear, longer-term priorities and enabling policies that support businesses to deliver climate action at scale.

