



CARBON MARKET
INSTITUTE

Carbon Market Institute

**Submission - Review of the National Carbon Offset Standard and
Carbon Neutral Program**

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ABOUT THE CARBON MARKET INSTITUTE

The Carbon Market Institute (CMI) is an independent membership-based not-for-profit organisation. Our aim is to assist Australian businesses in meeting the challenges and capitalising on opportunities associated with market-based approaches to emissions reduction and the transition to a low carbon economy.

As the peak body for carbon market participants, CMI has established an important role in the evolution of the compliance and voluntary carbon market in Australia. The Institute facilitates the networks, knowledge exchange and commercial interaction amongst key government policy makers and regulators, industry, financiers and investors, professional services companies and carbon offset providers.

CMI membership represents a broad range of professionals, organisations and industry including leading professional service providers, NGERs reporting entities, secondary market participants, offset providers, academia and international organisations. Individuals within the CMI membership base are some of Australia's most respected carbon market innovators and leaders.

CMI's Working Groups have played a key role in connecting government, bureaucrats and regulators with industry to facilitate the constructive input of member views into policy implementation.

BACKGROUND

CMI's Voluntary Market Working Group connects voluntary market participants, offset providers and project developers and facilitates knowledge exchange between industry and government. The CMI membership and Voluntary Market Working Group represents the majority of Australian voluntary carbon market participants and has focused extensively on developing the voluntary market and raising awareness of carbon offsetting.

In preparing CMI's submission on the Review of the National Carbon Offset Standard (NCOS) and Carbon Neutral Program (CNP), CMI's Voluntary Market Working Group was convened on several occasions to discuss the response to the review and the broader role of the NCOS with Department of the Environment representatives. Working Groups were supported by consultations by the CMI team with nearly all companies and organisations with products, operations or events certified under the NCOS as well as meetings with the Department of the Environment and the Minister for the Environment. CMI also undertook a national survey in March/April 2015 to identify industry views on voluntary emissions reductions and carbon offsetting – the results of which are still being analysed, but have been referred to in this submission.

While the submission reflects these consultations, no comments or viewpoints are attributed to any individual or organisation.

KEY ISSUES AND PRINCIPLES TO CONSIDER

The Terms of Reference for the Review of NCOS centralise around four key themes. The key issues and principles covered in CMI's submission which reflects members' views on these themes are listed below.

1. The overarching objectives of the NCOS and the CNP to ensure they complement broader Government policy.

- The objectives of the NCOS should ensure confidence that actions taken under the standard contribute to mitigating climate change.
- The purpose of the NCOS should be clearly distinguished from the objectives and provide confidence in carbon offsetting and participation in the voluntary carbon market.
- Clarification is required to determine whether the objectives of the NCOS are to achieve abatement beyond what is achieved under domestic mitigation/climate change policies or to purely encourage voluntary carbon offsetting, or a combination.
- The voluntary carbon offset market and core Government emissions reduction/climate change policies should remain separate.

2. The role of the NCOS and the CNP in supporting the voluntary carbon market.

- A Government-developed standard is essential to meeting the objectives of the NCOS and maintaining consumer confidence in the voluntary carbon market.
- An expanded range of offset units should be considered to be eligible under NCOS, provided the integrity of the units is assured.
- The NCOS should be maintained, but updated to appropriately reflect international developments in carbon offsetting.

3. Whether the administration of the CNP provides an effective and efficient mechanism for certification or carbon neutral claims.

- CMI strongly supports administration of the CNP being transferred to an external provider, a view widely supported by existing CNP participants and the broader market.
- CMI would be most credentialed and logical entity to take over the administration of CNP and we would be very keen to progress discussions with Government in this regard.
- A current lack of publicising and promotion of the NCOS and the CNP was one of the most significant issues raised in discussions with existing NCOS participants and voluntary carbon market participants.
- Administration and marketing the CNP program by an external provider will help to increase awareness of the CNP and the NCOS.
- CMI supports maintaining Government oversight of the administration of the CNP and the NCOS remaining a Government certified standard.

- Transferring administration of the CNP to an external provider is consistent with the Government's aim of ensuring the efficiency and cost-effectiveness of the program and its long term viability.
- An external provider, such as CMI, could develop and implement a comprehensive ongoing marketing and education campaign would increase awareness of the CNP and deliver greater recognition to participants.
- Financial support from the Government is required to ensure the effective transition to an administrator and to provide marketing support for the program.

4. Options for streamlining the NCOS and the CNP to ensure they are meeting their objectives efficiently and effectively.

- It is appropriate to consider a materiality threshold for some emissions sources under the NCOS.
- Carbon neutral certification of events offers an additional option for organisations to voluntarily offset emissions and an entry point into the voluntary market.
- If the ERF is to complement the voluntary carbon market, double-counting of ACCUs must be avoided.
- Partial certification may be an option to increase participation in the NCOS, however there are a number of concerns that means the concept must be carefully considered.
- The focus of the CNP should be on communicating the co-benefits of carbon offset projects, as opposed to introducing certification standards.

1. OBJECTIVES OF THE NCOS AND THE CNP

1.1. Alignment with Australia's climate policy

Q 1.1 Can you suggest changes that are required to the objectives of the NCOS to reflect the current needs of the broader community?

- ***The objectives of the NCOS should ensure confidence that actions taken under the standard contribute to mitigating climate change.***

The objectives of the NCOS should highlight that, at its core, voluntary offsetting and achieving carbon neutrality are actions taken by organisations and individuals to contribute to climate change mitigation. The motivation of many organisations and consumers who choose to achieve carbon neutrality or purchase carbon neutral products primarily surrounds taking action to reduce emissions and therefore contributing to mitigating climate change. The objectives of the NCOS therefore need to adequately reflect the close alignment of voluntary offsetting and climate change mitigation.

- ***The purpose of the NCOS should be clearly distinguished from the objectives and provide confidence in carbon offsetting and participation in the voluntary carbon market.***

While the objectives of the NCOS should centralise around climate change mitigation and the integrity of offsetting, the purpose of the NCOS needs to be understood. The NCOS provides a robust and credible standard to certify carbon neutral claims or verify carbon offsets. The purpose of the standard is to provide confidence to consumers and businesses that voluntary carbon offsetting actions are meaningful and worthwhile. This differs from the objectives as the purpose of the NCOS is linked to demand for carbon offsetting and is crucial to building the voluntary carbon market. While the objectives of the NCOS surround the aim of the standard, the purpose surrounds the reasons why the standard is required.

- ***Clarification is required to determine whether the objectives of the NCOS are to achieve abatement beyond what is achieved under domestic mitigation/climate change policies or to purely encourage voluntary carbon offsetting, or a combination.***

The current objectives of the NCOS include achieving “emissions reductions that are beyond those achieved under domestic mitigation or climate change policies and Australia’s national emissions reduction targets”. While this objective, as described in its current form, differentiates policy-related emissions reductions from voluntary emissions reductions, the NCOS Review discusses the ERF, the Government’s current domestic mitigation policy, as complementary to the voluntary market.

By creating linkage between the voluntary and policy-related emissions reductions, the NCOS Review risks creating confusion surrounding the objectives and purpose of voluntarily reducing emissions. Clear distinction between domestic mitigation policies and voluntary emissions reductions is required in the objectives and discussion of the NCOS.

- ***The voluntary carbon offsetting market and core Government emissions reduction/climate change policies should remain separate.***

Linking with the previous point, the NCOS Review consultation paper mentions that the voluntary market will complement the ERF by providing an alternate market for businesses to sell credited abatement in the form of ACCUs. While ACCUs generated under the ERF will be able to be sold on the voluntary market, linking the two in policy documents influences the *voluntary* focus of the NCOS and carbon offsetting.

As the ERF is relatively new and Australia will soon release its Internal Nationally Determined Contribution under the UNFCCC, the policy landscape surrounding emissions reduction is likely to continue to evolve. By linking major emissions reduction policies such as the ERF with the voluntary market, as discussed in the NCOS Review, the risk arises that the voluntary market will become over-complicated and subject to a changing domestic climate policy environment. Over-complication is likely to reduce the prospect for participation in the voluntary market and may potentially detract from the voluntary nature of seeking carbon neutrality.

2. ROLE AND VALUE OF THE NCOS AND CNP

2.1. Carbon footprint calculation standards

Q 2.1 (a) What role does an Australian Government-developed standard have in supporting consumer confidence in the local voluntary carbon market?

- ***A Government-developed standard is essential to meeting the objectives of the NCOS and maintaining consumer confidence in the voluntary carbon market.***

A Government-developed standard is essential to meeting the first objective of the NCOS – to ensure consumer confidence in carbon offsets and carbon neutrality claims. Government support for the NCOS has also been raised as a crucial element for participants communicating the benefits of carbon offsetting and carbon neutrality to consumers. In a recent survey conducted by CMI, 73 per cent of businesses surveyed agreed a Government certified standard is required to verify carbon offsetting¹. Government recognition of the standard provides the necessary credibility to the NCOS and eliminates concerns over false claims and/or the use of less robust standards.

Q 2.1 (b) Could the NCOS be replaced by an existing standard while still ensuring consumer confidence? Views are sought on which would be the most appropriate standard and why?

- ***Alignment with international standards is important but building on the NCOS for an Australian market is preferred.***

As the voluntary carbon market grows internationally, alignment of standards across jurisdictions will have a range of benefits for market participants.

¹ Carbon Market Institute Voluntary Emissions Reduction Activities Survey, March 2014.

NCOS is now established as a robust standard and should be built on. If alternate international standards are introduced it may also impact existing NCOS participants and businesses providing services such as auditing under the standard. Many have invested considerable time and financial resources in developing their understanding of the standard and setting up processes to calculate and report emissions using the NCOS. There is concern that introducing an international standard may undermine this investment and impose new costs on participants as they familiarise themselves with the any new standard. This may then result in decreased participation in the NCOS or ultimately participants leaving the standard.

Many current NCOS participants have described difficulties explaining and communicating the NCOS to consumers. Clear market communications and raising awareness and understanding of the standard is needed. Given the limited awareness and understanding of carbon offsetting and carbon neutrality among consumers and businesses, a cautious approach must be taken to avoid over-complicating these processes. Introducing an international standard now to replace the NCOS may lead to further confusion and potentially complicate efforts to build support for carbon offsetting and neutrality. This increased complexity is a barrier to assisting consumers to recognise the benefits of carbon neutrality and is likely to undermine efforts to grow the voluntary market.

In the next phase of the operation of NCOS it would be beneficial to draw on the lessons learnt from the application of voluntary carbon offsetting standards in other jurisdictions. In particular, lessons learnt and strategies to educate and grow the market can be gained from a constructive engagement with the International Carbon Reduction and Offset Alliance (ICROA).

2.2. Establishing the eligible offsets list

Q 2.2 (a) Feedback is sought from businesses and community groups on new offset units which could be considered by the Government for inclusion in the NCOS eligible offsets list.

- ***An expanded range of offset units should be considered to be eligible under NCOS, provided the integrity of the units is assured.***

The flexibility participants have to support projects which align to their broader organisational goals (such as social or environmental outcomes) is important for encouraging participation in the NCOS. By allowing participants to achieve multiple benefits through carbon offsetting and neutrality, the concept of voluntary emissions reduction is of greater appeal. A more extensive list of eligible offset units under the NCOS would therefore be conducive to increasing participation in the standard.

The current offset units eligible under the NCOS allow a range of project types to be supported. This is a highly beneficial element of the voluntary market as it allows participants to select units which support particular projects which align with broader organisational goals and desired co-benefits.

There is particular support from Australian voluntary market participants to allow New Zealand Units (NZUs) to be eligible under the NCOS. As NZUs are the primary domestic emissions units of the New Zealand emissions trading scheme and are issued by the New

Zealand Government, they are credible emissions units. In addition to the credibility of NZUs, permitting their use under the NCOS creates linkage with the New Zealand carbon market, thus enhancing the international linkage of the Australian voluntary market.

In addition to NZUs, Greenhouse Friendly (GHF) units should be considered for eligibility under the NCOS. GHF units are robustly assessed carbon units as each GHF project had its own audited and verified methodology, with little use of default factors or approximations. GHF projects are Australian projects that provided a vital market development role in establishing carbon markets in Australia, and generated significant abatement in the process. Allowing GHF units under the NCOS supports locally-generated abatement from Australian projects. Supporting Australian projects – and in turn Australian jobs – is a valuable co-benefit of GHF units which enhances the efforts of NCOS participants in promoting carbon offsetting.

Beyond the particular considerations of specific offset units, a broader range of eligible units increases options for emissions reductions and potentially leads to a greater quantum of abatement. While it is important that the goal of achieving abatement does not undermine ensuring the integrity of eligible offsets units, increasing the units eligible under the NCOS will potentially increase the participation rate and the subsequent quantum of abatement delivered.

Q 2.2 (b) Would your organisation support aligning the NCOS with ICROA approved offset standards? Would there be any exceptions or additions to the ICROA list?

CMI acknowledges that the International Carbon Reduction and Offset Alliance (ICROA) promotes best practice in voluntary carbon management and offsetting. ICROA has proved to be a valuable forum for discussion of a range of issues in the development of the voluntary carbon market, innovation in monitoring, reporting, and verification. Following the NCOS review, there should be a regular dialogue between the administrators of NCOS and ICROA.

The ICROA endorses offsets certified under the Clean Development Mechanism, Joint Implementation, CarbonFix Standard, Climate Action Reserve, Gold Standard, Verified Carbon Standard and American Carbon Registry. In principle, we would support alignment of the NCOS with these ICROA approved offset standards. However we would seek to establish a dialogue with Australian offset providers and ICROA to ascertain the potential implications and opportunities for the use of each of the standards and to identify if there are any exceptions or additions to the list.

Q 2.2 (c) Would your organisation be interested in a mutual recognition arrangement? If so, with which international carbon neutral certification scheme?

- ***The NCOS should be maintained, but updated to appropriately reflect international developments carbon offsetting.***

It is important that the NCOS be regularly updated to reflect international developments in carbon neutrality and offsetting, reflective of international carbon neutral certification schemes. The NCOS should however be maintained as a separate and independent

standard. Regular updating is important for ensuring the NCOS is up-to-date and in line with the international community.

- ***The NCOS could serve as a certification for other, credible carbon neutral certifications.***

Recognising the NCOS should be maintained as an independent standard, there is opportunity for exploring elements of mutual recognition to avoid duplication for organisations already certified under an alternate scheme. This could take the form of the NCOS playing a role as an overarching certification for other carbon neutral certification schemes. This would ensure other schemes are credible, but remove duplication of certification. This concept would need to be fully assessed to determine how best it could be implemented without introducing confusion or conflict between certifications; however there is merit in considering such an arrangement.

Where an existing carbon neutral certification scheme exists in Australia, such as the NoCO₂ certification scheme, there is an opportunity to explore how the program could become NCOS compliant. This would lead to being able to enhance and leverage the market activity and promotion of carbon offsetting and carbon neutrality through a number of providers of services. Further investigation of the model of how other credible carbon neutral schemes could be incorporated under NCOS should be undertaken.

3. ADMINISTRATION OF THE CARBON NEUTRAL PROGRAM

3.1. Administrative responsibility for the Carbon Neutral Program

Q 3.1 (a) Do you or your organisation have a preference for the Government (through the Department of the Environment or another body) retaining administration of the Carbon Neutral Program? What are the benefits or costs of this approach?

- ***CMI strongly supports administration of the CNP being transferred to an external provider, a view widely supported by existing CNP participants and the broader market.***

CMI strongly supports transferring the administration of the CNP to an external provider while retaining the NCOS as a Government certified standard. This view is widely supported among existing CNP participants and the broader market. Transferring the administration of the CNP to a well networked, connected and informed industry body would enable the CNP to be expanded through greater market linkage, marketing and promotion. Combining this with the expertise and market position of the industry body would also ensure the long term viability of the CNP and broaden industry participation.

Administration of the CNP by an appropriate external party would also allow greater commercial, market friendly and entrepreneurial oversight of the program which may recognise areas of efficiency and productivity gains which could in turn lead to reduced costs for participants. This commercial and entrepreneurial oversight would also provide the flexibility to adapt to changing circumstances, further enhancing the resilience of the CNP.

- ***CMI would be most credentialed and logical entity to take over the administration of the CNP and we would be very keen to progress discussions with Government in this regard.***

As the peak body for carbon market participants, CMI has established an important role in the evolution of the compliance and voluntary carbon market in Australia. CMI is the most credentialed and logical entity to take over administration of the CNP through our membership, market connections and internal expertise.

CMI membership represents the considerable majority of carbon service and offset providers as well as a broad range of industries. Individuals within the CMI membership base are some of Australia's most respected carbon market innovators and leaders.

CMI facilitates networks, knowledge exchange and commercial interaction amongst key government policy makers and regulators, industry, financiers, and professional services and technology companies. CMI's membership and market position is increasing, most significantly through connecting government, business and the international community through major events, such as the annual Australian Emissions Reduction Summit, and ongoing high level dialogue.

Internally, CMI has explored the prospect of taking over administration of the NCOS to Board level. The CMI Board of Directors supports CMI taking over administration of the CNP, under an appropriately negotiated agreement, and recognises the many opportunities to leverage to build the CNP and increase participation (refer question 3.4(e)). CMI would look to leverage the expertise of the Board and membership to determine the best course of action to improve and build the NCOS and CNP.

- ***CMI supports maintaining Government oversight of the administration of the CNP and the NCOS remaining a Government certified standard.***

CMI supports maintaining Government oversight of the administration of the CNP and the NCOS remaining a Government certified standard through performance, monitoring and oversight processes.

Retaining the NCOS as a Government supported standard is essential for maintaining consumer confidence in the brand and the integrity of offsetting and carbon neutrality claims. To further ensure consumer confidence, it is important to define a level of accountability to the Government and investigate any conflicts of interest. Any external provider administering the CNP should be accountable to the Government for maintaining high quality service and standards. If CMI were to be appointed the administrator we would look to use established relationships with the Department of the Environment and Minister to maintain accountability. Similarly, CMI would undertake a process to identify and assess any conflicts of interest prior to progressing transfer of the administration of the CNP.

- ***Financial support from the Government is required to ensure the effective transition to an administrator and to provide marketing support for the program.***

As discussed earlier, administration of the CNP by an external provider is strongly supported by CMI. To allow this transfer to be completed most efficiently and effectively, and for the critical marketing required in the next phase of the development of NCOS, the Government

should consider providing financial support for the transition to the administrator. This investment by the Government would minimise disruption for existing participants, provide the external provider with the required resources and enable communication of the change in administration to the marketplace. Provision of funding support for the transfer of administration would set the foundation for increasing participation the NCOS and CNP and ensuring long term viability. We suggest that a transition plan be developed which would include the appropriate financial and human resources required to effectively establish the role and operational capacity of the new administrator.

In any transition, it would also be important to retain the knowledge of the operation of the scheme and the understanding of the issues faced by current participants. It would make sense in any transition plan to second existing staff for a period of time to effect the smooth transition.

Based on the expected feedback from this review supporting the transfer to an external administrator, CMI strongly suggest that a process to expedite the transfer of the administration of the NCOS and the CNP, to an organisation such as CMI, be undertaken without delay.

Q 3.1 (b) What would be the benefits or costs of having the Carbon Neutral Program administered by an external provider?

- ***Administration by an external provider will increase awareness of the CNP and the NCOS.***

The key benefit in transferring the CNP to an external party such as CMI would be increase the uptake and education of the market. Transferring administration of the CNP to an industry body such as CMI will enable our well-established market position, extensive networks and in depth understanding and contribution to climate policy to be leveraged to increase awareness and participation in the NCOS. If CMI were to administer CNP, we could use well established national communication and networking channels as well as national events, such as the annual Australian Emissions Reduction Summit, to promote the aim and benefits of the NCOS and the CNP.

As outlined in responses to question 3.1 (a), coupling the policy-oriented attributes with commercial and entrepreneurial prowess will in turn drive long term growth in participation and the quantum of emissions offset under the Program.

- ***Transferring administration of the CNP to an external provider is consistent with the Government's aim of ensuring the efficiency and cost-effectiveness of the program and its long term viability.***

In consultations with NCOS participants, many raised financial and administrative costs as an issue for current participants and a barrier to participation for other organisations. Reducing these costs was seen as an imperative and transferring administration to an external provider was viewed as the optimum means through which this could be achieved. As outlined in question 3.1 (a), administration by an external provider would introduce greater commercial and entrepreneurial oversight which may increase efficiency and lead to reduced costs for participants.

3.2. Financial aspects of the Carbon Neutral Program

Q 3.2 (a) How can the costs of auditing be reduced for participants, while not significantly reducing the credibility of the program?

- ***The materiality of Scope 3 emissions could be re-assessed to reduce the direct and indirect costs for participants.***

The direct costs of auditing were identified as the most significant cost for NCOS participants in consultations with existing participants and CMI members. Indirect costs associated with staff time and organisational resources were identified as an additional cost for participants, particularly when first participating in the NCOS.

The structure of the auditing requirements under the NCOS is as an area with considerable potential for improvement and lowering of costs. The majority of existing NCOS participants noted that calculating, reporting and auditing of Scope 3 emissions is by far the most costly. This is despite, for many participants, Scope 3 emissions comprising only a very small portion of their total emissions.

The disproportionate costs of calculating and auditing immaterial Scope 3 emissions is a significant cost for many NCOS participants and has been identified as a barrier to participation, particularly for smaller organisations less able to absorb these costs.

A number of options exist for reducing the costs of calculating and reporting Scope 3 emissions such as materiality thresholds and offsetting buffers (see response to question 4.2).

Many participants commented on the difficulties faced when first applying under the NCOS surrounding familiarisation with calculation and reporting obligations and the upskilling of staff. To address these costs, many existing participants suggested assistance be afforded to new entrants in the NCOS to facilitate understanding of the requirements and development of in-house expertise.

Examining options to reduce the costs and administration burden for participants will be a key component for any external provider administering the CNP. At present this balance may be towards calculating and reporting less material emissions sources and readjusting will likely lead to reduced costs for participants and increased participation.

Q 3.2 (b) How could a risk-based audit approach be developed for the Carbon Neutral Program which takes into account the profile of the organisation concerned?

- ***A risk-based audit approach could be adopted to increase efficiency and reduce costs for participants.***

There is merit in adopting a risk-based audit approach for the CNP, similar to that in place under the ERF for the CNP. Existing NCOS participants have identified the current auditing framework as a significant cost to participation. A number of participants have had products or services consistently certified under the NCOS for a number of years. Among these

participants there is support for reducing audit costs by adopting a risk-based approach which could, for example, recognise those participants with a proven track record.

A risk-based approach could also consider the size or circumstance of an organisation and the inherent complexity of its reporting calculations. As discussed in the consultation paper, a similar approach is being implemented under the ERF, a fund which, due to its use of taxpayer funds, requires highly diligent management. Given a risk-based approach is accepted for safeguarding the allocation of taxpayer funds through the ERF, it is worthwhile considering this approach for auditing under the CNP.

Q 3.2 (c) How has your organisation managed the challenges of entering the Carbon Neutral Program and how could this process be improved, particularly for small businesses?

- ***There is a need to provide assistance and support for new NCOS participants to reduce the administrative burden early on.***

As described in the responses to preceding questions, many existing NCOS participants have identified challenges with learning the calculation methods, reporting and auditing obligations and developing the expertise in the initial stages of participation. Many participants identified these challenges as a barrier to participation in the CNP.

A key element required to address this barrier is for the administrator of the CNP to provide assistance and guidance to new NCOS participants, particularly smaller businesses. Many existing participants voiced concern at the long time lag and limited depth of response to requests for assistance placed with the Department. An external provider taking over administration of the CNP could provide the necessary level of assistance, if resourced appropriately.

In addition to direct assistance from the CNP administrator, guidance for new entrants could also be sourced through building participant networks. From discussions with existing NCOS participants, it was apparent that many organisations regularly communicate and network with one another to discuss the NCOS. An external administrator, such as CMI, with appropriate networks and relationships with existing NCOS participants and voluntary market participants could facilitate these existing networks to be leveraged to assist NCOS participants encountering challenges. This would be particularly relevant to new entrants not yet experienced in the requirements of NCOS.

The direct costs of NCOS such as the annual certification fees, auditing and consultancy costs were identified as significant factors among existing NCOS participants. Exploring ways to reduce these costs, such as changed Scope 3 emissions calculations and risk-based auditing as discussed in responses to questions 3.2(a) and (b) respectively, were strongly supported in our consultations and participants were encouraged by the prospect of an external provider administering the CNP to allow these options to be explored.

3.4. The NCOS Carbon Neutral Program Consumer Trademark

Q 3.4 (a) Do you think the Government or another organisation working with the Government should do more to publicise the NCOS and Carbon Neutral Program? If so, how could this be done?

- ***A current lack of publicising and promotion of the NCOS and the CNP was one of the most significant issues raised in discussions with existing NCOS participants and voluntary carbon market service providers.***

Many existing NCOS participants and voluntary carbon market service providers expressed concern that the NCOS and CNP are not adequately promoted by the Department of the Environment. Many organisations have made significant investments to have products or operations certified under NCOS but do not feel current Government promotional efforts raise sufficient awareness of the NCOS.

This lack of awareness has led a number of participants to question the benefits of participating in the NCOS as they are not receiving adequate recognition for the efforts and costs incurred. A lack of recognition increases the risk of participants leaving the NCOS and CNP and serves as a barrier for new organisations to consider participating.

- ***Transferring administration of the NCOS and the CNP to an appropriate external provider would enable greater promotion of the NCOS and lead to increased awareness of voluntary carbon offsetting.***

Transferring the administration of the NCOS and CNP to an external provider is seen by existing NCOS and voluntary carbon market participants as the best way to raise awareness of the standard and increase participation. CMI is viewed as the most suitable entity to administer the CNP.

As discussed in responses to questions 3.1(a) and (b), transferring administration of the CNP to an external party with a well-established market position, extensive networks and an in depth understanding and contribution to climate policy and business trends will enable leveraging of these attributes to increase awareness and participation in the NCOS. Being a credible entity that can educate the market will drive long term growth in participation and the quantum of emissions offset under the Program.

Q 3.4 (b) If you are a Carbon Neutral Program participant or are thinking of becoming one, how much value would you place on the Carbon Neutral Program trade mark? Do you use it in your own marketing?

- ***The current CNP trademark lacks recognition among consumers; however the focus should be on building the voluntary carbon market.***

Many existing NCOS participants and services providers acknowledge the current CNP trademark lacks recognition among consumers. At the same time, others have used the trademark extensively to brand their products or operations as carbon neutral. Any changes to the trademark must therefore be carefully undertaken to avoid any confusion among consumers or damage to the promotional efforts of some existing participants.

While updating the trademark may 'refresh' the NCOS brand, given the lack of awareness of the standard more broadly, a better approach may be to focus efforts on marketing the NCOS to consumers. This would also address concerns over confusion which may arise if the trademark was to be altered. Focusing efforts on promoting and raising awareness of carbon neutrality and offsetting is likely to benefit the development of the voluntary carbon market which in turn will bring with it increased recognition of the NCOS trademark.

Q 3.4 (c) If the trademark was no longer offered, how could your products be distinguished as carbon neutral?

- ***There may be an option for the CNP trademark to be a certification for other carbon neutral standards to broaden carbon neutral branding.***

Recognising the NCOS should be maintained as an independent standard, there is opportunity to explore the CNP trademark serving as a certification for standards offered by other organisations, as outlined in responses to question 2.2 (c). This would avoid duplication for organisations already certified under an alternate scheme and allow a number of trademarks to be associated with carbon neutrality. This concept would need to be fully assessed to determine how best it could be implemented without introducing confusion or conflict between certifications; however there is merit in considering such an arrangement.

Q 3.4 (d) Would you be willing to pay higher fees to participate in the program if the Government did more to market the Carbon Neutral Program and the trademark?

- ***Many existing participants believe greater marketing could be provided with minimal costs through administration of the CNP by an external provider.***

There is widespread support among existing NCOS participants and service providers for transferring the administration of the CNP to an external provider such as CMI. Many participants see increased marketing of the NCOS and CNP as a core benefit of administration by an external provider. However participants would see that the Government should provide any additional funds to market the CNP, rather than contribute more financially through annual fees.

As outlined in responses to questions 3.1(a), 3.1(b) and 3.4(e), an appropriate external provider could leverage its networks, expertise and market reputation to increase awareness of the CNP trademark and the NCOS more broadly. Coupling these attributes with a commercial and entrepreneurial focus would enable the trademark to be marketed with the greatest efficiency, minimising costs for participants.

Q 3.4 (e) Are there other ways that the Government or whoever administers the Carbon Neutral Program could promote the program or deliver recognition to its participants?

- ***Transferring the administration of the CNP to an external provider that could develop and implement a comprehensive ongoing marketing and education campaign would increase awareness of the CNP and deliver greater recognition to participants.***

As discussed in responses to questions 3.1(a) and (b), an external provider with well-developed networks, expertise and market position could use its position to promote the CNP and leverage its market reputation to increase awareness of the standard.

Raising awareness of the NCOS and CNP is important for ensuring participants receive adequate recognition for offsetting emissions to avoid attrition and communicate the benefits to organisations considering carbon offsetting or carbon neutrality.

CMI anticipates that this could be done through developing a comprehensive marketing and market education plan. Some of the initiatives that CMI anticipates could be undertaken under this plan include:

- **Web portal** - CMI has extensive online infrastructure in place which could be enhanced to provide a web portal for NCOS participants to access and share information and expertise.
- **Carbon offset suppliers listing** - CMI has recently taken possession of the Carbon Offset Guide, a major online database and website listing of carbon offset providers, from EPA Victoria. CMI could enhance this facility to create valuable user-friendly elements to update the list the contemporary carbon offset providers, market the CNP and increase consumer understanding of carbon offsetting.
- **Case studies** - Through the CMI membership, a number of case studies on carbon offsetting and participation in the NCOS could be compiled to educate existing and prospective participants.
- **Business case for offsetting** - CMI's expertise and knowledge base through the membership represents an opportunity to effectively communicate the business case for carbon offsetting. We have a session dedicated to this theme at the 2015 Australian Emissions Reduction Summit.
- **How to guides** - CMI has developed a range of how to guides for business covering carbon markets, the former Carbon Farming Initiative and broader market participation. CMI would look to produce a how to guide for participating in the NCOS. This guide could have a number of sections dealing with the different stages of participation, and include a decision support tool.
- **National roadshow** - CMI has recently undertaken a series of national roadshows to educate the business community on the ERF. CMI's ERF sessions were attended by over 700 businesses looking to participate in the ERF. This collection of businesses could be built on through a similar series of roadshows. Roadshows could engage with business to market and explore voluntary carbon offsetting and NCOS participation.
- **Using the annual summit** - CMI's annual Australian Emissions Reduction Summit is the premier business and climate change event in Australia each year. The Summit attracts over 350 delegates from business and government to discuss climate policy, business opportunities associated with emissions reduction and the benefits of voluntary carbon offsetting. The Summit provides CMI with the ideal platform to market the CNP and engage with business to increase participation.

4. STREAMLINING AND IMPROVING RULES AND PROCEDURES

4.1. Threshold for small emissions sources

Q 4.1 (a) Would you or your organisation support the introduction of a materiality threshold under the NCOS whereby emissions sources which are estimated to contribute less than a given percentage of emissions could be excluded from the carbon calculations?

- ***It is appropriate to consider a materiality threshold for some emissions sources under the NCOS.***

Calculating and reporting smaller emissions sources are significant administrative and financial costs for NCOS participants. Indirect costs associated with staff time and organisational resources were identified as a significant burden for participants, particularly when first participating in the NCOS.

As discussed in response to question 3.2 (a), balancing the materiality of emissions sources with the benefits of calculating and reporting is an important consideration for ensuring participation and long term viability of the NCOS and the CNP. There is a need to strike the appropriate balance between the administrative burden on participants and credibility of emissions offsetting.

Q 4.1 (c) Are there other options for dealing with materiality?

Please see response to question 4.2.

4.2. Calculating and reporting Scope 3 emissions

Q 4.2 Feedback is sought on the options outlined for simplifying scope 3 reporting, as well as other approaches that participants may be aware of.

- ***Estimating Scope 3 emissions and employing an offset buffer to cover any underestimations could reduce administration and financial costs for participants.***

The majority of existing NCOS participants noted that calculating and reporting of Scope 3 emissions is the most complex and therefore the most costly. This is despite, for many participants, Scope 3 emissions comprising only a very small portion of their total emissions.

As outlined in response to question 3.2 (a), the disproportional costs of calculating and auditing immaterial Scope 3 emissions is a significant cost for many NCOS participants and has been identified as a barrier to participation.

Several options to reduce the costs of Scope 3 emissions may be appropriate where Scope 3 emissions are a minor source of relative to Scope 1 and 2 emissions. A materiality threshold drawn on a percentage of total emissions may be appropriate for organisations with high levels of Scope 1 and 2 emissions and low levels of Scope 3 emissions. An offsetting buffer for Scope 3 emissions applied to total Scope 1 and 2 emissions may be appropriate for other organisations where Scope 3 emissions account for a greater source of total emissions.

These approaches have been recognised among market participants as a means to address the barriers to participation in the NCOS and reduce the costs incurred by existing participants. The expertise within CMI's membership and Board could serve as a valuable resource to explore options for Scope 3 materiality.

4.3. Calculating emissions from an event

Q 4.3 (a) Feedback is sought on whether there is significant interest in certification for events and major projects.

- ***Carbon neutral certification of events offers an additional option for organisations to voluntarily offset emissions and an entry point into the voluntary market.***

Maintaining the option to offset an event under the NCOS is supported by CMI as it broadens the carbon neutral product or service offerings organisations can provide to customers. The option to offset events or major projects also serves as an entry point into the voluntary market for uncertified organisations. Many organisations are not in a position to offset most or all of their operations and the option to offset an event provides a means to offset emissions from some sources.

Together, the benefits of event offsetting provide an entry point to the voluntary carbon offsetting market which some customers or organisations may not otherwise have. This can achieve greater awareness of carbon offsetting and lead to increased participation in the NCOS.

4.4. Meeting the evolving expectations of business and the community

4.4.1 Avoiding potential for double counting of emissions reductions

Q 4.4.1 (a) Do you agree with the proposed approach to avoiding double counting? If not, how would you address the issue?

- ***If the ERF is to complement the voluntary carbon market, double-counting of ACCUs must be avoided.***

The Review of the NCOS and CNP discusses the complementary interaction of the ERF and voluntary market and highlights the voluntary market as a potential source of demand for excess ACCUs generated through ERF projects. The review outlines that the objective of the ERF to achieve Australia's 2020 emissions reduction target, while the objectives of the NCOS state that carbon neutral organisations or products achieve emissions reductions that are beyond those achieved under domestic mitigation/climate change policies. The review also highlights the importance of maintaining consumer confidence that their purchases of carbon neutral products or services have led to additional emissions reductions.

In order to ensure that voluntary offsetting leads to emissions reductions beyond those achieved under domestic mitigation policies and maintain confidence in these emissions reductions, it is crucial to avoid double-counting of ACCUs. The introduction into the CNP Guidelines of the requirement for an organisation that has sold ACCUs created under the ERF in the preceding financial year to add the carbon equivalent of those credits issued to the organisation's carbon footprint calculation is supported.

Q 4.4.1 (b) Feedback is sought on the proposed wording of the new requirement to be included in the Carbon Neutral Program Guidelines.

The proposed wording of the new requirement: “*At the time of filing an application under the Carbon Neutral Program, where an organisation has sold Australian Carbon Credit Units created under the ERF in the preceding financial year, the carbon equivalent of those credits issued must be added to the organisation’s carbon footprint calculation*” is supported by CMI.

4.4.2 Partial certification under the Program

Q 4.4.2 (a) Is there is a need for a partial certification option?

- ***Partial certification may be an option to increase participation in the NCOS, however there are a number of concerns that means the concept must be carefully considered.***

The need to grow the voluntary carbon market is widely recognised by both industry and NCOS participants. As outlined in the review, partial carbon neutral certification offers the potential to broaden participation by providing an option for businesses not yet able to offset their entire carbon footprint.

There is merit in partial certification for different sized organisations; however care must be taken to avoid confusing consumers, detracting from the efforts made by organisations that have already achieved 100 per cent carbon neutrality or allowing inflated claims of carbon neutrality.

There is limited understanding of the voluntary carbon offsetting and the voluntary carbon market among consumers. This has been compounded by the uncertainty and political debate surrounding national climate policy. Introducing partial certification is likely to add to the existing confusion surrounding voluntary offsetting and lead to reduced participation by business and consumers.

Partial certification poses the further risk of introducing a disincentive for organisations to achieve for 100 per cent carbon neutrality. Organisations that would otherwise select 100 per cent carbon neutral certification may select partial certification instead. This would ultimately detract from the objectives of the NCOS and reduce the contribution of voluntary offsetting to climate change mitigation.

Introducing partial offsetting also increases the risk of organisations which receive partial certification embellishing their carbon neutral claims. This could arise through organisations claiming carbon neutrality for only partially certified products without clearly specifying the degree of partial certification. The limited understanding among consumers of carbon offsetting increases the risk of this issue as many consumers may interpret partial or full carbon neutral claims similarly. This in turn detracts from the efforts of organisations achieving 100 per cent neutrality and may ultimately undermine confidence in carbon neutrality claims.

Q 4.4.2 (c) How could the risks described above of introducing partial certification be managed?

- ***Introducing partial certification must be appropriately managed so as not to detract from full carbon neutral certification.***

Partial carbon neutral certification introduces several risks for both existing certified businesses and those considering carbon neutrality, as outlined in question 4.4.2 (a). These risks primarily surround the dilution of the efforts of organisations already certified as carbon neutral and providing an incentive for businesses to select partial certification where they would otherwise select full certification.

Addressing these risks will require efforts to communicate the distinction between partial and full certification to both consumers and businesses. Branding and marketing the different certifications are two elements which are key to effectively communicating the differences.

Providing a trademark for partial carbon neutrality which is distinct from full carbon neutrality may be an option worth considering to allow consumers to identify products and organisations certified under each. At the same time, the different certifications would need to be marketed to both consumers and businesses to effectively outline the differences between and highlight that partial certification is *partial* and full certification is *full*. In the event partial certification was being considered by the Government, consideration would also need to be given to branding and marketing the different certifications.

4.4.3 Recognising offset co-benefits under the Program

Q 4.4.3 (a) Views are sought on whether co-benefits should be recognised under the NCOS or the Carbon Neutral Program. If so, how can co-benefits best be recognised?

- ***The focus should be on communicating the co-benefits of carbon offset projects, as opposed to introducing certification standards.***

The co-benefits of emissions reductions are well recognised in projects globally. For example, the Clean Development Mechanism administered by the UN uses the generation of emissions reduction units as a means to finance emissions reduction projects in developing countries. Many of these projects focus on social, economic and environmental improvements for the host country and the Clean Development Mechanism has enjoyed significant success through this model.

The co-benefits of domestic emissions reduction projects are assessed and communicated by existing NCOS and carbon market participants. Many promote these co-benefits in the sale of emissions offsets and when promoting their carbon neutral products to consumers. Co-benefits are a valuable component of emissions reduction projects and assist organisations to communicate the broader benefits of carbon offsetting which in turn increases demand for carbon neutrality.

Introducing standards to certify co-benefits of offset projects may be administratively costly and could risk introducing a barrier for businesses participating in the NCOS and CNP. Increasing the administrative burden would likely lead to increased costs for participants,

both administrative and financial, and may, in turn, reduce participation. Many current CNP participants have raised the administrative and financial costs of participation as a key issue in need of addressing. Introducing co-benefit certification standards under the NCOS could be counter-productive to addressing the costs for participants and indeed lead to increased costs.

More work needs to be done in this area and so initial efforts concerning the co-benefits of offset projects should be concentrated on communicating these co-benefits to consumers and businesses in an effort to increase demand for carbon neutral products and ultimately grow the voluntary carbon market.

Q 4.4.3 (b) If co-benefits are to be acknowledged under the Carbon Neutral Program, how should the Carbon Neutral Program select which co-benefits to recognise?

- ***The full suite of co-benefits of carbon offsetting should be effectively communicated.***

As discussed in response to question 4.4.3 (a), more work needs to be done and consultations undertaken on how co-benefits could be acknowledged under the CNP.

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