To:
Department of Climate Change, Energy, the Environment and Water (DCCEEW)

From:
Environmental Markets Australia Pty Ltd

Subject: Climate Active consultation

To DCCEEW,

We appreciate being involved in the Climate Active consultation. Environmental Markets Australia (EMA) develops carbon projects[1] and supplies carbon offsets including for use under the Climate Active scheme[2]. EMA holds an AFSL and EMA's staff has more than 15 years of hands-on experience across the carbon value chain including international carbon and Australian compliance and voluntary carbon. Our staff has delivered millions of carbon offsets. As such, we believe we have a unique perspective understanding both the supply side of carbon offsets as well as the demand side.

We will provide detailed feedback on proposals 4 and 6, and brief comments on proposals 1, 2 and 3. We'll address proposals 1, 2 and 3 later, as they depend on the arguments from 4 and 6.

Proposal 4

We agree that it is important to use high quality carbon offsets under Climate Active. We don't support, however, a 5-year rolling vintage requirement as an indicator of quality. In addition, if the rule is applied to international offsets it should be equally applied to all eligible offsets including ACCUs as the CCA report seems to say[3].

Imagine a project that operates in a similar fashion over a full crediting period and the crediting period is 10 years. The project is considered to generate high quality carbon offsets. The proposed 5-year rolling vintage rule implies this to project developers (and offset buyers): your project is high quality, but your offsets are not always. For instance, on 1 Jan 2023, your offsets

[1] See for example: www.rippleoffsets.com
[2] Buyers of our offsets include UNESCO, the Green Climate Fund and the City of Sydney.
[3] Additionally, project documentation for Australian projects is not made public to the same extent as for international projects. Public project documentation allows for analysis on quality.

from 2018 to 2022 are good. But on 1 Jan 2024, only your offsets from 2019 to 2023 are good. We ignore that your project has not changed and we downgrade your 2018 offsets.

Let's apply this scenario to the bigger picture:

1. Climate change is real and urgent. We need to slash emissions by 45% by 2030 compared to 2010 levels according to the UNFCCC.
2. We share one atmosphere. Any greenhouse gas added, removed or avoided affects the whole planet.
3. A greenhouse gas, once emitted, stays in the atmosphere for many years. This is an important concept because it determines how long a greenhouse gas will continue to contribute to climate change.
4. We have various tools to cut emissions. We must use all tools available to achieve the goal stated under point 1. Carbon finance is one of them. It means paying for projects that reduce emissions elsewhere. Using the term carbon finance is more helpful than just referring to the resulting carbon offsets. Carbon offset schemes were set up to allow for finance to flow to areas where it is easier/cheaper to reduce emissions and claim credit to it somewhere else[4]. This is an important feature because it recognises that larger reductions can potentially be made faster in an area than where capital may be available (bigger bang for your buck; remember point 1, there is a deadline)[5].
5. Projects need time and money to start. They have to be planned, funded, implemented and validated. The early years of a project are the hardest but also the most valuable Remember point 1 and 3: 1 tCO2 never emitted does not stay in the atmosphere.

The proposed 5-year rolling vintage rule works against point 3 and 5 above and therefore discourages early action and devalues carbon projects. The proposed rule then directly contradicts the urgency of the climate crisis and causes delays locking in years of additional warming and irreversible damage. We cannot afford to waste time.

To reiterate, we agree that it is important to use high quality carbon offsets under Climate Active and we explained above why we think a 5-year rolling vintage requirement is not a good proxy for quality. Many factors need to be taken into account when assessing the quality of offsets and usually vintage is not the major influencing factor.

An alternative approach to improve quality is for Climate Active to run a periodic consultation on amending the list of eligible units in Appendix A Eligible Offsets in a more focused and technical way than by applying changes that are too general and counter ultimate climate goals (like the 5-year rolling vintage rule does). In this proposed consultation run by Climate Active, narrow rules can be developed (e.g. explicitly excluding certain methodologies or projects) or broader rules like registration date, double counting rules, baseline setting and whether a project is in a

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[4] E.g. the CDM into the EU ETS

[5] For example, an Australian steel plant may be very efficient and hard to improve and it may be cheaper to invest in a South African steel plant and reduce more emissions there with the same money.

Least Developed Country. For example, we believe registration date is a better proxy for quality than vintage date or monitoring period. As the CCA states, additionality is fundamental to integrity (quality) and this is determined at registration and not when the offsets are issued[6].

Another alternative approach could be to only apply a rolling vintage rule to projects not in Least Developed Countries (LDCs). Most concerns related to project quality don't apply to projects in LDCs.

Some additional comments related to proposal 4:

- The standards and rules of the Paris Agreement, including the transition and new accreditation rules, are not clear and may not be for some time. Closer alignment to uncertain rules may leave a void for several years preventing (early) action. In the meantime, projects under the CDM, VCS and the Gold Standard are operating. Additionally, the Paris Agreement does not void the CDM or CERs. In fact, a lot of CDM projects are being transitioned from the CDM to Article 6.4 at the moment[7] and this includes projects that have been operating for more than 5 years. What does a rolling vintage requirement say about projects like this?
- We reject the concept that the vintage rule "would discourage speculative 'unit banking', which would divert units away from their primary purpose of enabling greenhouse gas mitigation" for the following reasons. The purpose of carbon finance is to make capital flow from where it is available to where it is needed. Whether the resulting offsets are sold or not does not mean that the emission reductions haven't occurred. Selling or banking the offsets does not affect the mitigation outcome. We acknowledge that projects may struggle to continue if the resulting offsets don't fetch a sufficient price. This is a separate issue from the timing of offset use and should be addressed through other means. It is also not clear who is doing the speculative banking and why unit banking may be bad to achieve emission reductions?
- We recognise that some buyers have a vintage preference. Buyer preference such as this is not excluded under the current Climate Active rules. Other buyers don't have this vintage preference. We also note that some buyers don't believe vintage is a proxy for quality (in the same way as we do).

Proposal 6

The voluntary carbon markets developed to a large extent because individuals and organisations were concerned that governments, including the Australian government, did not do enough to combat climate change. Voluntary markets have served as a valuable complement to compliance based measures. In this context, we believe it is important to

[6] For example, imagine a hypothetical solar project in Namibia with a 2015 registration date. While it is common today to implement solar projects, it was not common so many years ago including in developed countries like Australia.

[7] The CDM is expected to be the closest approximation to the potential Article 6.4 mechanism.

distinguish between voluntary action and government-led efforts when considering Australia's progress towards its NDC.

Considering Australia's historical emissions trajectory, simply counting ACCUs surrendered under the Climate Active scheme towards the NDC wouldn't fully reflect the country's progress. Instead, we agree with the consultation paper that the NDC target should be seen as a floor, and that Australia should prioritise real emission reductions through all available tools and incentives, both voluntary and regulatory, focused on achieving tangible reductions, not simply accounting adjustments. At best, the Australian government can ask the relevant Climate Active accredited organisation for its permission to allow the Australian government to count their ACCUs towards Australia's NDC. Please apply the pub test.

Proposal 1, 2 and 3

We understand and agree with the rationale put forward in the consultation paper for setting and progressing towards an emissions target. Proposals 1 and 2 raise the following question however:

- Is it better to provide customers the opportunity to offset their emissions, and enable carbon finance, or not?

This question is especially important in industries where it may be very hard or against incentives to meaningfully reduce emissions in the short or medium term. It also requires consideration of a typical technology transition cycle (which may run counter to reducing emissions significantly before 2030).

We are in a transition phase which is important to consider since combating climate change is urgent and early action prevents greenhouse gases from going into the atmosphere in the first place. The perfect may be the enemy of the good since we don't have much time.
Sub-questions can include:

- Is it better to offset and so provide finance to projects that reduce emissions vs not offsetting and push emission reduction efforts further into the future?
- In a country where most vehicles are ICE vehicles, is it better to offset the resulting emissions and finance emission reduction projects or wait until electric vehicles are dominant (which may not be before 2030)?
- For the airline industry, where meaningful emission reductions outside of SAFs are unlikely in the short term, is it better to offset the resulting emissions or do nothing?
- For energy retailers where LGCs may have been sold, is it better to offset the resulting emissions or do nothing? Can you count the LGCs generated, but sold, towards an emissions target?

For proposal 3 we believe that scope 3 emissions are important for some accreditations. For example, excluding scope 3 emissions for the supply of fossil fuels does not make sense[8] whereas for other accreditations excluding scope 3 emissions does not make a material difference[9]. Therefore, we propose a flexible approach that requires mandatory inclusion only for accreditations where scope 3 emissions are material.

We appreciate your attention to our feedback and we invite you to contact me if you have any questions or comments on our suggestions.

Kind regards,

Schalk Meliëzer

[8] Since a large amount of emissions are classed as scope 3. .
[9] For example in the cement/ concrete industry where most emissions are in scope 1 and scope 2.