

Hot air won't stop global warming

Submission to the Climate Change Authority's review of international offsets

The Australian Government has identified carbon trading as a means to “work together to bring down emissions” across the Indo-Pacific region and to “help countries meet and report against their NDCs” through the use of carbon markets.

It is unclear how Australia's plans for fossil fuel expansion and pursuit of cheap abatement overseas will bring down emissions or help countries meet their climate targets.

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Summary

The Australian Government's whole-of-economy *Long-Term Emissions Reduction Plan* indicates that international offsets will be required for Australia to reach net zero by 2050. The 'Plan' also assumes that 94 million international offsets will be available to Australian businesses to voluntarily achieve this.

While there are currently no means by which Australia can count international emissions reduction units towards its official climate targets under the Paris Agreement, mechanisms to allow this to happen are being established by the Australian Government.

These mechanisms include the forthcoming Indo-Pacific Carbon Offsets Scheme (IPCOS), a bilateral one-way trading framework being established with Indo-Pacific countries, and voluntary carbon offset purchases by the private sector through the Australian Government's voluntary carbon neutral certification scheme, Climate Active. The expectation by the Australian Government is that Australian businesses will voluntarily purchase emissions reduction units (carbon offsets) via IPCOS and Climate Active that will count towards the national climate target. A review to assess the international offsets that may be used by Australian businesses is now being carried out.

Proponents of carbon markets often credit them with increasing the climate ambition of participating parties, which in turn should lead to overall improved climate outcomes. However, in practice it is very difficult to establish a relationship between the existence of carbon offsets and a willingness to commit to more climate action at a project or system level.

Instead, carbon markets often simply give the appearance of parties doing something about climate change, while legitimising increasing emissions. Importing countries may use carbon credits to operate on a business-as-usual basis, offsetting instead of making reductions, while exporting countries may sell their emissions reductions instead of using them to meet their own targets and/or issue credits to non-additional activity in the interests of maximising revenue. This scenario is further complicated by the fact that carbon trading often occurs between developed and developing economies, a dynamic that has facilitated cheap offsetting in wealthy countries with dubious outcomes for developing countries.

The UNFCCC states that participation in cooperative approaches such as carbon markets must not lead to a net increase in global emissions. It also requires parties to consider their obligations on human rights, the rights of indigenous peoples, local communities, and the right to development.

To be effective, a review of international offsets used by Australia should take the historical outcomes of carbon markets into account, as well as the overarching requirements of the

cooperative approaches under the Paris Agreement. It should also consider Australia's specific stated claims regarding the aims and outcomes of its participation in carbon markets and whether this will be achieved. The Australian Government has identified carbon trading as a means to "work together to bring down emissions" across the Indo-Pacific region and to "help countries meet and report against their NDCs". It has also suggested that IPCOS will deliver "direct finance towards countries that need support for urgent climate change action" and "ensure that real benefits are reaching communities on the ground".

To achieve these outcomes with carbon markets, Australia would need to make dramatic cuts to its domestic and exported emissions. Those Australian industries that genuinely have no choice but to offset would have to be prepared to pay a premium price for a limited number of high integrity carbon credits that result in real reductions and provide genuine social and environmental outcomes on the ground. In addition, Australia would need to look beyond the concept of 'offsetting' (which, at best, only ever maintains the status quo) and finance emissions reductions in developing countries that are not dependent on a 'right to emit' in Australia.

However, in the current context there is the risk that Australia's approach to, and participation in, carbon markets will only benefit Australia and ultimately lead to global increases in emissions.

Australia's emissions are rising across most sectors of the economy. The current Australian Government has no credible strategy to reduce emissions and is actively facilitating the expansion of gas and coal. The Australian Government's 'Plan' states that gas and coal production will continue to 2050 and beyond. Domestically, in the absence of regulation that would see emissions from industry reduced, the government is working actively to increase the supply of carbon credits to industry through the Emissions Reduction Fund (ERF) so that big emitters may 'offset' their emissions rather than reduce them.

In the face of projected gas expansion, Australia is now looking further afield for cheap abatement available to industry and has identified the Indo-Pacific region as the source of this. Two small island developing states, Fiji and Papua New Guinea, have so far signed up to IPCOS.

Despite Australia's stated intention of bringing emissions down across the region and helping Indo-Pacific nations meet their NDCs it is unclear how this will be achieved. PNG, for example, is heavily dependent on fossil fuels with its own expanding gas industry (thanks in part to projects funded by Australian ASX companies and the Australian Government). It has limited means to decarbonise, yet it also has its own emissions reduction requirements under the Paris Agreement. If PNG sells its emissions reductions so that Australia can continue to produce fossil fuels, it gets further away from being able to meet its own targets.

PNG and other countries are already victim to dubious carbon credit projects that appear to be issuing hot air and have questionable legal basis and benefits to customary land holders. Existing carbon credit frameworks, including the ERF, have attracted considerable criticism regarding their integrity. It is concerning that the carbon credits from any of these may be eligible to 'offset' emissions from Australia.

A review of international carbon offsets by the CCA should be guided by whether the global goal of emissions reductions will be achieved through their use, along with whether they will bring the benefits to the Indo-Pacific region that Australia has committed to. It should assess the climate ambition and specific emissions reductions policies of both Australia and the countries supplying offsets to Australia, along with the circumstances facing developing economies who may be at risk of being coerced into entering agreements that are not in their best interests.

Introduction

The Australia Institute welcomes the opportunity to contribute to the Climate Change Authority (CCA)'s review of international offsets. Before addressing the questions and issues raised in the CCA's consultation paper, it is important to set the context in which this review is being conducted.

Australia has no credible strategy to reduce emissions from its transport, agriculture, waste, or industrial sectors and is actively facilitating expansion of gas and coal. The land sector, on which the Australian Government relies so heavily on to mask emissions from industry, is at increasing threat of deforestation and climate change to the point where it may one day become a "source" of emissions not a sink.^{1 2 3} It is unclear how, even with access to any kind of offsets, Australia will meet its Nationally Determined Contribution (NDC) of a 26-28% reduction in emissions by 2030 on 2005 levels.

Australia's own carbon offset system is in turmoil. The former chair of the Emissions Reduction Assurance Committee (ERAC) recently described the vast majority of Australia's domestic offsets as "a sham" and the current ERAC membership is riddled with conflicts of interest and the influence of fossil fuel lobbyists.^{4 5}

It is in this context that Australia is looking to international offsets. The Australian Government's whole-of-economy *Long-Term Emissions Reduction Plan* indicates that international offsets will be required for Australia to reach net zero by 2050.⁶ The plan also assumes that 94 million international offsets will achieve this.

¹ Hannam (2021) 'Carbon bomb': Queensland reveals big jump in land clearing, *The Guardian*, <https://www.theguardian.com/environment/2021/dec/31/carbon-bomb-queensland-reveals-big-jump-in-land-clearing>

² Luo, Wang & Sun (2021) Soil carbon change and its responses to agricultural practices in Australian agro-ecosystems: A review and synthesis, *Geoderma*, <https://www.sciencedirect.com/science/article/abs/pii/S0016706109004170>

³ Moyce, Gray, Wilson, Jenkins, Young, Ugbaje, Bishop, Yang, Henderson, Milford & Tulau (2021) NSW eastern forest soil condition report: Determining baselines, drivers and trends of soil health and stability in New South Wales forests, *The SEED Initiative*, <https://datasets.seed.nsw.gov.au/dataset/nsw-eastern-forest-soil-condition-report>

⁴ Long (2022) Potential conflicts of interest abound in Australia's carbon credits market, *Australian Broadcasting Corporation*, <https://www.abc.net.au/news/2022-04-02/carbon-credit-conflicts-of-interest-in-clean-energy-regulator/100952758v>

⁵ Hemming, Campbell, Ogge & Armistead (2022) Come clean: How the Emissions Reduction Fund came to include carbon capture and storage, *The Australia Institute*, <https://australiainstitute.org.au/report/come-clean-how-the-emissions-reduction-fund-came-to-include-carbon-capture-and-storage/>

⁶ Department of Industry, Science, Energy and Resources (2021) *Australia's Long-Term Emissions Reduction Plan*, <https://www.industry.gov.au/data-and-publications/australias-long-term-emissions-reduction-plan>

The CCA's consultation paper asks "Are there lessons to be learned from experience with international carbon markets to date? What are most relevant to this review?" (Guiding question #3). While many lessons will be discussed below, the most important lesson in setting the context for the review is the fact that sourcing offsets from developing nations has traditionally benefited wealthy countries such as Australia, with questionable benefits and outcomes for developing economies. Prices were often low and integrity standards dubious, and this facilitated cheap offsetting.⁷

This dynamic of wealthy countries benefiting at the expense of developing countries is set to continue, particularly given that all countries now have nationally determined contributions (NDCs) to meet under the Paris Agreement (we note the CCA's Guiding question #8). Historically these developing countries did not have climate targets so there was no opportunity cost for them when exporting their emissions reductions.⁸ This has now changed. This means that host (exporting countries) countries will need to consider whether they can afford to sell their emissions reductions without risking their ability to meet their own targets.

A good example is Papua New Guinea. The country is already the target of dubious offsets projects, and it is still heavily dependent on fossil fuels – partly as a result of Australian fossil fuel companies setting up LNG developments there (indeed, the PNG LNG project was part-financed by the Australian Government).⁹ As a result, PNG will have difficulty meeting its own climate targets even without exporting their emissions reduction units to countries such as Australia.

As the term 'offset' is used throughout the Climate Change Authority's consultation document, it is our understanding that the intention is that carbon credits are being used to compensate for emissions in Australia, not necessarily drive overall emissions reductions. It is worth noting that in recognition of the overreliance on offsetting by big emitters, both domestically and internationally, regulatory bodies are increasingly turning their attention to the integrity of Net Zero claims being made by the private sector using offsets.^{10 11}

⁷ Lang (2009) New report exposes Australia's REDD offsets scam, *REDD-Monitor*, <https://redd-monitor.org/2009/11/29/new-report-exposes-australias-redd-offsets-scam/>

⁸ UNFCCC (1997) *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, <https://unfccc.int/documents/2409>

⁹ Hemming & Babon (2022) Carbon cowboys and cattle ranches: Submission on the proposed REDD+ project in Oro Province of Papua New Guinea, *The Australia Institute*, <https://australiainstitute.org.au/report/carbon-cowboys-and-cattle-ranches/>

¹⁰ United Nations (2022) *Expert Group on the Net-Zero Emissions Commitments of Non-State Entities*, <https://www.un.org/sg/en/node/262784>

¹¹ Mason & Wootton (2022) 'Sham' carbon credits, banks in ACCC's sights, <https://www.afr.com/policy/energy-and-climate/sham-carbon-credits-banks-in-accs-sights-20220324-p5a7kp>

Our submission raises the issues of:

- the integrity and independence of the review itself
- the policy objective and climate ambition of Australia as a buyer of offsets
- implications for countries selling Australia their emissions reductions
- mechanisms Australia will be using to import offsets
- integrity issues with existing offset frameworks

Unless these issues are similarly addressed by the Australian Government, it is difficult to provide appropriate advice that may inform the government's decisions around the acquisition of international offsets and also assist the government in meeting its goal of "work[ing] together to bring down emissions" across the Indo-Pacific region or "help countries meet and report against their NDCs".^{12 13}

The UNFCCC states that participation in "cooperative approaches" such as carbon markets "shall not lead to an increase in global emissions" and that regard should be paid to the right to health, the rights of indigenous peoples and of local communities.¹⁴ We hope that the CCA will consider the issues we raise in this submission and genuinely consider whether the use of international offsets by Australia will lead to increased or decreased climate ambition by trading parties, and whether the outcome will ultimately be an increase in global emissions.

¹² The Hon Angus Taylor MP (2021) *Comments at the launch of the Indo-Pacific Carbon Offsets Scheme, COP26 Glasgow*, <https://www.minister.industry.gov.au/ministers/taylor/transcripts/comments-launch-indo-pacific-carbon-offsets-scheme-cop26-glasgow>

¹³ Department of Industry, Science, Energy and Resources (2021) *Australia's Long-Term Emissions Reduction Plan*, <https://www.industry.gov.au/data-and-publications/australias-long-term-emissions-reduction-plan>

¹⁴ UNFCCC (2019) *Matters relating to Article 6 of the Paris Agreement: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement*, <https://unfccc.int/documents/197878>

Integrity of the review

As mentioned above, key organisations that govern Australia's offsets system face serious conflict of interest challenges. This extends to the Climate Change Authority, and the Australia Institute has significant concerns about the independence of any review carried out by the Authority, particularly in relation to carbon markets.

As an independent statutory authority, the CCA is seemingly best placed to provide independent advice to the government on matters relating to climate. In this vein it has carried out a number of reviews of government climate programs including a review of the Emissions Reduction Fund every three years as required by the Carbon Credits (Carbon Farming Initiative) Act 2011 (Cth) (CFI Act).¹⁵

The CCA has now been tasked by Energy and Emissions Reduction Minister, Angus Taylor, to provide advice on the principles and criteria to apply to the future use of international offsets by Australia in the context of the Paris Agreement.¹⁶

This review was announced by Angus Taylor in December 2021 in an address to a carbon industry association event.

I know that Grant King and his fellow authority members will bring a forensic and principled attention to detail in this review, which is especially timely as we embark on developing the Indo-Pacific Carbon Offsets Scheme.

In April 2021 Grant King, former chief executive of Origin Energy and former president of the Business Council of Australia, was appointed to chair the Climate Change Authority. Prior to this King had been commissioned in 2019 to investigate opportunities to incentivise low-cost abatement from across the economy and make recommendations on how Australia's Emissions Reduction Fund (ERF) – the mechanism overseeing the generation of carbon credit activities in Australia – could facilitate this.¹⁷

It is under Mr King's leadership that the CCA review of international offsets is occurring. The Australia Institute has significant concerns about the independence and integrity of a review relating to carbon credits or offsets carried out in this context. Not only because of Mr

¹⁵ Federal Register of Legislation, *Carbon Credits (Carbon Farming Initiative) Act 2011 (C'th)*, <https://www.legislation.gov.au/Details/C2017C00076>

¹⁶ Climate Change Authority (2022) *Review of international offsets – consultation open*, <https://www.climatechangeauthority.gov.au/consultations/open-consultations/review-international-offsets-consultation-open>

¹⁷ Department of Industry, Science, Energy and Resources (2020) *Examining additional sources of low cost abatement: expert panel report*, <https://www.industry.gov.au/data-and-publications/examining-additional-sources-of-low-cost-abatement-expert-panel-report>

King's association with, and advocacy for, the gas industry, but because he is also the chair of the board of Australia's largest carbon aggregator, GreenCollar.

It is unclear whether Mr King's position at GreenCollar is remunerated, but the Climate Change Authority Act 2011 clearly states:

A Board member must not engage in any paid employment that conflicts or may conflict with the proper performance of his or her duties. ¹⁸

While we do not allege any impropriety by Mr King or the Authority, this clause in the Act brings into question the legality of his appointment to the CCA. It also raises concerns about findings and outcomes of any kind of review that will benefit GreenCollar. GreenCollar is a domestic carbon offset project developer, however the business also operates internationally. According to its website GreenCollar:

...now offers a complete service for the design, preparation and registration of projects and ongoing support for registered projects, as well as the procurement of international carbon offsets. ¹⁹

GreenCollar's website also claims to have staff that "authored many of the standards and methodologies upon which the market is based" and to have "projects underway in Asia, the Pacific and Africa". More specifically, GreenCollar has designed carbon credit methods for the Verified Carbon Standard (also known as Verra), an international offset framework, and is running a carbon credit project under another VCS method in Vanuatu. ^{20 21} The VCS framework issues offsets eligible for use under the Australian Government's carbon neutral certification scheme Climate Active, and which may become eligible under the Indo-Pacific Carbon Offsets Scheme. According to the VCS website, GreenCollar is also part of an Advisory Committee on Jurisdictional and Nested REDD+ (a mechanism for earning carbon credits through avoided deforestation). ²²

Again, the Australia Institute makes no allegations of impropriety by GreenCollar. However, there is clear potential for a perceived conflict by a review of carbon offsets chaired by the chair of a commercial carbon market participant.

¹⁸ Federal Register of Legislation, *Climate Change Authority Act 2011 (C'th)*, <https://www.legislation.gov.au/Details/C2011A00143>

¹⁹ GreenCollar (2021) *Global project development and credit sourcing*, <https://greencollar.com.au/partner-with-us/buyers/international-development-and-sourcing/>

²⁰ Verra (2016) VM0010 Methodology for Improved Forest Management: Conversion from Logged to Protected Forest, v1.3, <https://verra.org/methodology/vm0010-methodology-for-improved-forest-management-conversion-from-logged-to-protected-forest-v1-3/>

²¹ Greencollar (2021) GreenCollar pioneers mechanism for plastic waste reduction, <https://greencollar.com.au/greencollar-pioneers-market-based-mechanism-for-plastic-waste-reduction/>

²² Verra (n.d.) *Advisory Committee on Jurisdictional and Nested REDD+*, <https://verra.org/project/advisory-committee-jursidictional-nested-redd/>

For the public to have confidence in the CCA as an independent and credible organisation it must demonstrate that it is both independent and credible. It is surprising that the Minister and Cabinet that oversaw these appointments were not aware of, or concerned by, these apparent conflicts of interest. There has been limited public explanation of how Mr King's actual or perceived conflict of interest have been, or will be managed, in future.²³

²³ Long (2022) *Potential conflicts of interest abound in Australia's carbon credits market*, <https://www.abc.net.au/news/2022-04-02/carbon-credit-conflicts-of-interest-in-clean-energy-regulator/100952758>

Climate ambition and carbon markets in context

Carbon markets and carbon offsets are promoted heavily by governments and corporations as effective mechanisms to drive emissions reductions and increase climate ambition.^{24 25} However, the mere existence of a carbon market does not automatically lead to positive climate outcomes, and in fact, the opposite is often true.

Rather than carbon markets driving ambition, the outcomes of carbon markets are entirely dependent on the existing ambition of the parties buying and selling carbon credits. To date, this ambition has been low, and carbon credits have been cheap and abundant enough that it has been easier for governments and industry to carry on burning fossil fuels and simply 'offset' the resulting pollution. Furthermore, a significant number of carbon credits globally have been found to not even represent their claimed CO₂-e reduction.²⁶ The inevitable outcome of such a situation has been a delay in transitioning away from fossil fuels and a worsening of emissions.^{27 28}

In instances where carbon credits do represent real and permanent emissions reductions, 'offsetting' by its very nature, never achieves anything beyond maintaining the status quo. Unless carbon markets are accompanied by comprehensive emissions reduction requirements and enforcement, frameworks that keep the price and availability of offsets prohibitive enough to motivate reductions in the first instance, and a commitment to

²⁴ Clean Energy Regulator (2020) *Participating in Australia's carbon markets to meet corporate climate goals*, http://www.cleanenergyregulator.gov.au/DocumentAssets/Pages/Participating_in_Australia%E2%80%99s_carbon_markets-March_2020.aspx

²⁵ McKinsey Sustainability (2020) *How the voluntary carbon market can help address climate change*, <https://www.mckinsey.com/business-functions/sustainability/our-insights/how-the-voluntary-carbon-market-can-help-address-climate-change>

²⁶ Elgin (2020) *These Trees Are Not What They Seem*, *Bloomberg*, <https://www.bloomberg.com/features/2020-nature-conservancy-carbon-offsets-trees/>

²⁷ Hemming, Merzian & Schoo (2021) *Questionable integrity: Non-additionality in the Emissions Reduction Fund's Avoided Deforestation Method*, *The Australia Institute and the Australian Conservation Foundation*, <https://australiainstitute.org.au/report/questionable-integrity-non-additionality-in-the-emissions-reduction-funds-avoided-deforestation-method/>

²⁸ Carbon Market Watch (2018) *The Clean Development Mechanism: Local Impacts of a Global System*, <https://carbonmarketwatch.org/publications/the-clean-development-mechanism-local-impacts-of-a-global-system/>

purchasing carbon credits without using them as offsets, it is unlikely they will achieve the climate outcomes their advocates suggest.²⁹

A review of international carbon offsets by the CCA will be largely pointless if it does not take the above factors into account, along with the specific climate ambition and emissions reductions policies of both Australia and the host countries supplying offsets to Australia. Also important to consider is the global accounting framework of Article 6 of the Paris Agreement, which will impact how trading countries and businesses can account for offsets in their targets.

A NOTE ON CARBON CREDITS VS CARBON OFFSETS

In our submission we would like to clarify the distinction between carbon credits and carbon offsets which may give some insight into the basis of which this review sits.

While the two terms are often used interchangeably, they are not synonymous. A carbon credit represents avoidance or reduction of one tonne of carbon dioxide equivalent (CO₂-e). A carbon offset is essentially a carbon credit that is used to compensate for a tonne of carbon dioxide equivalent emitted elsewhere. This distinction is important because the climate outcomes differ, depending on which approach is taken by the buyer.

If every tonne of carbon dioxide equivalent emitted was successfully offset, net zero emissions would be achieved. However, this still implies that, at best, carbon offsetting is a zero-sum game.

This review seeks input on international offsets exclusively, as distinct from carbon credits more broadly, suggesting that credits bought by Australian businesses are intended to be used to compensate for emissions, and raising the question of whether Australia is genuinely supporting overall emissions reductions through the purchase of international carbon credits.

Carbon credits can be purchased to support emissions reductions activities without being used to make a claim of offsetting. Purchase and retirement of a carbon credit with no offsetting is increasingly referred to as a “climate contribution” or “contribution claim”.³⁰ These climate contributions are intended to happen on top of other measures to minimise emissions and support overall emissions reductions.

²⁹ Climate News Australia (n.d.) *The Vast Majority of Carbon Offsets Do Not Help to Combat Climate Change*, <https://climatenewsaustralia.com/the-vast-majority-of-carbon-offsets-do-not-help-to-combat-climate-change-ext-visuals/>

³⁰ Carbon Market Watch (2020) *Above and Beyond Carbon Offsetting – Alternatives to compensation for Climate Action and Sustainable Development*, <https://carbonmarketwatch.org/publications/above-and-beyond-carbon-offsetting-alternatives-to-compensation-for-climate-action-and-sustainable-development/>

Under Article 6.4 of the Paris Agreement, 2% of all emissions reduction units traded via the forthcoming Sustainable Development Mechanism (a new global carbon market) will be automatically cancelled without being used to achieve an “overall mitigation in global emissions”.³¹ This is in recognition by all signatories to the Paris Agreement that zero-sum offsetting is no longer acceptable nor ambitious enough. However, under Article 6.2, bilateral trades of emission removal credits are exempt from this mandatory cancellation, with parties instead being strongly encouraged to voluntarily cancel a proportion of units. Again, this leaves some uncertainty around whether international carbon credit purchases will be used exclusively for offsets or whether Australia will facilitate investment in emissions reduction projects as climate contributions.

GLOBAL ACCOUNTING FRAMEWORK UNDER THE PARIS AGREEMENT

Under the Paris Agreement, all signatories are required to declare and commit to their own nationally determined contributions (NDCs), regardless of their contributions to global emissions. Accordingly, robust accounting must be implemented when emissions reductions are traded between parties either via bilateral agreements or through the Sustainable Development Mechanism (SDM) to ensure that all reductions are accounted for. To avoid ‘double counting’ (both parties claiming the same emissions reduction) a ‘corresponding adjustment’ is required when one country sells an emissions reduction to another. That is, the host country must authorise the export of the reduction and then adjust its own accounts. The host country is then further away from meeting its NDC and must find the emissions reductions elsewhere in their economy.

This is a change from the Kyoto Protocol's Clean Development Mechanism (CDM), where reduction commitments were only required of highly emitting developed (Annex I) countries. Previously, when emissions reductions were sold to developed and developing countries (non-Annex I) parties, the non-Annex I parties did not have reduction commitments and so were not required to adjust their own accounts.

This new arrangement has implications for countries buying and selling emissions reductions. While the classification of countries may have changed with the introduction of the Paris Agreement, the economic situation of many has not. The dynamic created by the CDM continues, with wealthy economies relying on developing economies as the primary source of affordable carbon offsets.

Unfortunately, the CDM failed to provide the income, low emissions infrastructure and technology transfer that should have, in theory, created cleaner, more prosperous

³¹ UNFCCC (2015) *Paris Agreement*, Article 6.4, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement/key-aspects-of-the-paris-agreement>

economies and made the subsequent task of reducing their emission under the Paris Agreement easier. Many developing countries are still heavily dependent on fossil fuels and lack the infrastructure and funding to decarbonise their economies, yet they are now expected to meet their own climate targets.³² Similarly, developed economies are also – arguably by choice – still reliant on fossil fuels for energy combustion, transport and export income.

This creates a tension where developed countries want access to emissions reduction units to compensate for their continued fossil fuel production, while developing countries are dependent on the (often unrealised) promises of developed countries claiming that they will help to finance ‘low emissions’ technologies and infrastructure in exchange for the developed countries’ emissions reductions.^{33 34 35}

Ultimately the onus will be on the developing country to decide whether the short-term economic gain is worth the long-term loss of sacrificing emissions reductions so that wealthy countries can continue to emit.

This situation is relevant to the CCA’s review as Australia is one such country that is increasing fossil fuel production and who has also identified a number of developing economies from which to source carbon offsets.

AUSTRALIA’S NDC AND CLIMATE AMBITION

The Australian Government has committed to reducing its emissions by 26-28% on 2005 levels by 2030 under the Paris Agreement.

In Australia’s September 2021 National Statement to the General Assembly Prime Minister Scott Morrison said:

We exceeded our Kyoto commitments.

Our emissions in the year to March 2021 were 21 per cent below 2005 levels.

³² Greiner (2021) How colonialism’s legacy makes it harder for countries to escape poverty and fossil fuels today, *The Conversation*, <https://theconversation.com/how-colonialisms-legacy-makes-it-harder-for-countries-to-escape-poverty-and-fossil-fuels-today-159807>

³³ Ends Report (2009) *International offsets: poor value for money?*, <https://www.endsreport.com/article/1569613>

³⁴ Corbera & Jover (2012) The undelivered promises of the Clean Development Mechanism: insights from three projects in Mexico, *Carbon Management*, 3:1, 39-54, DOI: 10.4155/cmt.11.74 4

³⁵ Davies-Venn (2021) How COP26 can keep its promises, *IPS*, <https://www.ips-journal.eu/topics/economy-and-ecology/how-cop26-can-keep-its-promises-5527/>

That is a strong record of achievement.³⁶

In truth, Australia has made minimal progress in actively reducing emissions and its emissions trends are among the worst in the developed world. Australia relies on coal for a majority of its power generation and is the third largest fossil fuel exporter in the world.³⁷

The Australia Institute has published numerous pieces detailing the methodology the Australian Government uses to make the misleading claim of a 21 per cent reduction — which is essentially using accounting that takes credit for emissions reductions from unrelated events, exogenous shocks, and the policies of subnational governments.^{38 39 40 41}

Australia has a long and significant history of strenuously campaigning for fossil fuel expansion, avoiding meaningful domestic climate policy, and obstructing international climate negotiations. Even within the current Australian Government several members of the Coalition continue to deny that climate change even exists. Yet Australia persists in positioning itself as a global leader on climate.⁴²

Despite committing to Net Zero by 2050 in November 2021, the Australian Government has also expressed its long-term ideological and material support for gas and coal expansion in Australia. Public subsidies for fossil fuels hit \$11.6 billion in the 2021-2022 financial year.⁴³

The Australian Government has no policies or regulations that require meaningful emissions reductions by industry. Rather than acknowledge the role that fossil fuels have played in the climate crisis, the government has framed fossil gas as a low emissions transition fuel to justify its continued production in Australia. Similarly, ‘the low emissions technologies’ it has identified (and significantly funded) include carbon capture and storage and hydrogen made from fossil fuels. These technologies will increase emissions, not decrease them.

³⁶ Prime Minister of Australia (2021) *Virtual Remarks to the United Nations General Assembly*, <https://www.pm.gov.au/media/virtual-remarks-united-nations-general-assembly>

³⁷ Swann (2019) High Carbon from a Land Down Under: Quantifying CO2 from Australia’s fossil fuel mining and exports, *The Australia Institute*, <https://australiainstitute.org.au/report/high-carbon-from-a-land-down-under-quantifying-co2-from-australias-fossil-fuel-mining-and-exports/>

³⁸ Merzian & Hemming (2021) Banking on Australia’s Emissions: Why creative accounting will not get us to net zero emissions, *The Australia Institute*, <https://australiainstitute.org.au/report/banking-on-australias-emissions/>

³⁹ Climate Analytics (2019) *Kyoto carryover in Madrid: Australia’s creative climate accounting at COP25*, <https://australiainstitute.org.au/report/kyoto-carryover-in-madrid/>

⁴⁰ Grudnoff & Merzian (2018) Stay on Target: Australia to miss Paris Target, *The Australia Institute*, <https://australiainstitute.org.au/report/stay-on-target-australia-set-to-miss-paris-target/>

⁴¹ <https://australiainstitute.org.au/report/back-of-the-pack/>

⁴² Prime Minister of Australia (2021) *Remarks, Leaders’ Summit on Climate*, <https://www.pm.gov.au/media/remarks-leaders-summit-climate>

⁴³ Campbell, Littleton & Armistead (2021) Fossil Fuel subsidies in Australia, *The Australia Institute*, <https://australiainstitute.org.au/report/fossil-fuel-subsidies-in-australia/>

Australia’s fossil fuel companies are among the businesses identified by the Australian government whose “commitments, and the action taken to meet them, are key to Australia’s ability to meet its national 2030 emissions reduction target and net zero by 2050 target.”⁴⁴ Yet no fossil fuel company is actually planning any kind of meaningful decarbonisation or suggesting it will stop producing fossil fuels.⁴⁵ Many are intending to increase their production and continue to explore for new fossil fuel deposits. Furthermore, many of the ASX fossil fuel companies that have committed to net zero are also simultaneously continuing to invest in fossil fuels projects overseas in low-income countries, including those that they are, or planning to, buy offsets from.⁴⁶

New fossil fuel projects under development in Australia would result in 1.7 billion tonnes of greenhouse gas emissions each year – equivalent annual emissions of over 200 coal-fired power stations, twice as much as global aviation.⁴⁷ Even if Australia was somehow able to source over a billion carbon credits every year so that the fossil fuel industry could offset its emissions, the use of offsets in this context is not even enabling a ‘businesses as usual’ approach, it is facilitating an increase in fossil fuel production. Also worth noting is that no fossil fuel company is even proposing offsetting the entirety of their emissions (extraction, production, and combustion). Facilities and entities captured by the Safeguard Mechanism are only required to report and offset their scope 1 emissions (*if* they are in excess of their safeguard limit). Others have taken a piecemeal approach by proposing to offset some of their products voluntarily.

The UNFCCC states that participation in cooperative approaches must not lead to a net increase in emissions.⁴⁸ It is difficult to see how Australia’s approach to offsetting will not lead to a net increase in emissions.

HOST COUNTRY NDCS AND CLIMATE AMBITION - PNG

Papua New Guinea – one of the countries Australia has identified as a source of offsets – has both climate commitments and is facing increased emissions through gas expansion and

⁴⁴ Climate Change Authority (2022) *Review of international offsets: Consultation paper*, <https://www.climatechangeauthority.gov.au/consultations/open-consultations/review-international-offsets-consultation-open>

⁴⁵ E&T (2022) Clean-energy pledges by fossil-fuel giants not reflected in investments, *Engineering and Technology*, <https://eandt.theiet.org/content/articles/2022/02/clean-energy-pledges-by-fossil-fuel-giants-not-reflected-in-investments/>

⁴⁶ ActionAid (2018) *Undermining Women’s Rights: Australia’s global fossil fuel footprint*, <http://actionaid.org.au/resources/undermining-womens-rights-australias-global-fossil-fuel-footprint/>

⁴⁷ Ogge, Quicke & Campbell (2021) *Undermining Climate Action: The Australian Way*, *The Australia Institute*, <https://australiainstitute.org.au/report/undermining-climate-action/>

⁴⁸ UNFCCC (2019) *Matters relating to Article 6 of the Paris Agreement: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement*, <https://unfccc.int/documents/197878>

deforestation. While exporting its emissions reduction units may offer a short-term source of material income, PNG may not be able to afford to give up those emissions reductions from a climate perspective.

Papua New Guinea is one of two host countries that has so far signed up to the Indo-Pacific Carbon Offsets Scheme, Australia's bilateral carbon trading agreement.

In a somewhat conflicted joint announcement with Angus Taylor at the UN Climate Conference in November 2021 the PNG Minister for the Environment, Conservation and Climate Change, Wera Mori, praised the opportunity to participate in IPCOS but also described the impact that climate change is already having on the Pacific:

Small island communities are seeing the small jetties and wharves that they depend on are now being washed away. Overheating of our oceans, the greater Pacific. They've seen greater concentrations and over saturations of carbon dioxide that's making our oceans becoming more acidic. We are losing our fish and tuna stock.

PNG has NDC targets for both its land (land use, land use change and forestry – LULUCF) and energy sectors in acknowledgement that the two combined made up 38% of PNG's reported net emissions in 2015.⁴⁹ The country's mitigation strategy involves conserving forest and enhancing "the level of renewables in the energy mix from 30% (2015) to 78% by 2030 for on-grid connection".⁵⁰

PNG's land sector has historically been a carbon sink but became a net emitter in the 2010s due to agricultural expansion and commercial logging. The country's 2020 NDC document states that "the LULUCF sector in PNG makes up significantly higher levels of emissions (13,574.04 Gg CO₂ eq in 2015) but these are offset by removals within PNG's current approach to reporting leaving a relatively small net emission of 1,716.46 Gg CO₂ eq".⁵¹

Papua New Guinea is also dependent on oil and gas production with limited means to transition to clean energy. The PNG LNG project operated by ExxonMobil Limited started producing fossil gas in 2014 and has led to a significant increase in PNG's emissions. Despite Australia's stated support for climate outcomes in the Pacific, the Australian Government's

⁴⁹ PNG Climate Change and Development Authority (2020) *Papua New Guinea's Enhanced Nationally Determined Contribution 2020*, <https://www.cdda.gov.pg/document/papua-new-guinea%E2%80%99s-enhanced-nationally-determined-contribution-2020>

⁵⁰ PNG Climate Change and Development Authority (2020) *Papua New Guinea Revised Enhanced NDC 2020 Implementation Plan (2021 – 2030)*, <https://www.cdda.gov.pg/document/papua-new-guinea-revised-enhanced-ndc-2020-implementation-plan-2021-%E2%80%93-2030>

⁵¹ PNG Climate Change and Development Authority (2020) *Papua New Guinea's Enhanced Nationally Determined Contribution 2020*, <https://www.cdda.gov.pg/document/papua-new-guinea%E2%80%99s-enhanced-nationally-determined-contribution-2020>

export credit agency Efic made its largest-ever loan of \$500 million to ExxonMobil, OilSearch, Santos and the PNG government in 2009 to help fund the project.⁵²

Emissions from fossil fuels are only going to increase in PNG. In addition to the seven existing gas projects in PNG, four new gas projects have been proposed. One of these is the development of the P'nyang gas field as part of a \$20 billion liquefied natural gas (LNG) expansion project by ExxonMobil and partners.⁵³ There are over 50 Petroleum Prospecting Licences covering PNG and estimates of gas reserves go up to 14 trillion cubic feet.⁵⁴

PNG's increasing deforestation and dependency on gas makes it hard to see how it can meet its own climate targets without a rapid transition away from fossil fuels and significant conservation efforts. Renewable energy and forest preservation and regeneration are two ways to do this. However, there is the risk that Australia will use its regional influence to make any assistance it gives to PNG in these areas dependent on PNG selling the resulting emissions reductions back to Australian businesses needing to offset their growing emissions. The outcome of this is that PNG may still be no closer to meeting its own climate targets and Australia will make no reductions of its own.

Such an arrangement may be seen as exploitative and disingenuous, especially if it is being framed (as Australia has claimed) as giving "direct finance towards countries that need support for urgent climate change action" and ensuring "that real benefits are reaching communities on the ground".⁵⁵

Will carbon markets disincentivise ambition on the ground in PNG?

The question is also raised of whether the prospect of revenue from Australian investment in carbon projects - rather than increase climate ambition in PNG – will act as a disincentive to ensuring the integrity of these projects to maximise how many credits can be issued to a project (and subsequently sold).

For example, in comments given to an Australian carbon industry event in April 2022, the Governor of Oro Province Gary Juffa stated that "the Mangalas Plateau, PNG, where there are 360,000 hectares [sic] of forest, will be put aside for sustainable land management and potentially carbon trading".

While this statement implies that the Managalas Plateau will be protected in *future* by the presence of conservation activities and carbon projects, the 360k ha area was declared a

⁵² Export Finance Australia (n.d.) *PNG LNG*, <https://www.exportfinance.gov.au/customer-stories/png-lng/>

⁵³ PNG Department of Petroleum & Energy (n.d.) <https://petroleum.gov.pg/>

⁵⁴ PNG Investment Promotion Authority (n.d.) *Petroleum*, <https://www.ipa.gov.pg/agriculture/peroleum/>

⁵⁵ Department of Industry, Science, Energy and Resources (2021) *Australia's Long-Term Emissions Reduction Plan*, <https://www.industry.gov.au/data-and-publications/australias-long-term-emissions-reduction-plan>

legally designated conservation area in November 2017 by the PNG Government. Governor Juffa was present the announcement.^{56 57 58}

While the exact provisions of the Managalas management plan are unknown, if an area is already protected by law and has a management plan under legislation requiring reforestation or other restoration activities, questions about the integrity of carbon projects being established are raised.⁵⁹ If a carbon project activity (such as preserving forest) is already required by law or regulation, or there were plans to carry out an activity (such as restocking or reconvertng forest) then the carbon project would not be additional or meet accepted integrity criteria for carbon credits.^{60 61}

The understandable need of the leaders of developing economies to accelerate and increase external sources of revenue to communities and landholders on the ground, raises concerns about whether integrity issues will be overlooked in order to facilitate this.⁶²

HOW MUCH ARE WE WILLING TO PAY?

If Australia neglects to implement any effective domestic emissions reduction policies and continues to support the fossil fuel industry's expansion it will need an enormous supply of carbon offsets to reach net zero. Assuming all planned fossil fuel projects go ahead and the corporations in this industry follow through with their net zero commitments, the cost to offset the expected emissions from Australia's fossil fuel sector could be billions of dollars a year. Woodside, for example, plans to rely mostly on the use of carbon offsets to meet its Scope 1 emissions reduction targets for its Pluto LNG facility (which is only a fraction of Woodside's overall emissions), which would be extremely costly.

⁵⁶ Francis (2017) Mangalas and the way forward, *The National*, <https://www.thenational.com.pg/managalas-way-forward/>

⁵⁷ Rainforest Foundation Norway (2017) *Papua New Guinea: Rainforest protected against all odds*, <https://www.regnskog.no/en/news/victory-in-the-forest>

⁵⁸ SGP (n.d.) *Mangalas Boundary Mapping Project*, <https://sgp.undp.org/spacial-itemid-projects-landing-page/spacial-itemid-project-search-results/spacial-itemid-project-detailpage.html?view=projectdetail&id=5012>

⁵⁹ Papua New Guinea Consolidated Legislation (n.d.) *Conservation Areas Act 1978*, http://www.paclii.org/pg/legis/consol_act/caa1978203/

⁶⁰ Clean Energy Regulator (2021) *Information Paper on the Offsets Integrity Standards*, <http://www.cleanenergyregulator.gov.au/DocumentAssets/Pages/Information-Paper-on-the-Offsets-Integrity-Standards.aspx>

⁶¹ World Bank (2016) Carbon Credits and Additionality: Past, Present, and Future. <https://openknowledge.worldbank.org/handle/10986/24295>

⁶² Howes (2022) Papua New Guinea's growth conundrum, *East Asia Forum*, <https://www.eastasiaforum.org/2022/01/22/papua-new-guineas-growth-conundrum/>

Climate Analytics has calculated that the cost of offsets could range from could range from USD \$700 million to USD \$2.4 billion by 2050.⁶³

This range was calculated using the International Energy Agency's (IEA) NZE and Network for Greening the Financial System (NGFS) carbon price forecast scenarios. NZE forecast that carbon prices reach between USD \$90-\$130/tonne in 2030 and USD \$200-\$230/tonne in 2050 for major emerging and advanced economies respectively.⁶⁴ NGFS has carbon prices reaching USD \$190/tonne in 2030 and up to USD \$680 USD/tonne in 2050 in its 1.5°C scenario.⁶⁵

By contrast the Australian Government's Net Zero model assumes that international offsets will be available at \$40 AUD a tonne in 2050.⁶⁶ Even if international offsets were available at this dramatically cheaper price, Woodside would still be facing a bill of around AUD \$140 million to offset a single project's emissions.

Faced with such a large carbon liability it seems likely that both Woodside and the governments endorsing the company's gas developments will be pursuing offsets as cheaply as possible.⁶⁷

Accordingly, the consultation paper provided by the Climate Change Authority has identified international carbon markets as "allowing access to the cheapest emissions reductions and removals options", implying that a lowest cost abatement approach will be taken with the purchase of international carbon offsets. The principle of lowest cost abatement is already applied in the Emissions Reduction Fund (ERF), where Australian Carbon Credit Units (ACCUs) generated through emissions reduction activities by businesses are bought on behalf of the Australian Government at the lowest cost.⁶⁸

⁶³ Hare, Maxwell & Chapman (2021) Woodside's Scarborough and Pluto Project Undermines the Paris Agreement, *Climate Analytics*, <https://climateanalytics.org/publications/2021/warming-western-australia-how-woodsides-scarborough-and-pluto-project-undermines-the-paris-agreement/>

⁶⁴ IEA (n.d.) *World Energy Model: Macro Drivers*, <https://www.iea.org/reports/world-energy-model/macro-drivers>

⁶⁵ NGFS (2021) *NGFS Climate Scenarios for central banks and supervisors*, <https://www.iea.org/reports/world-energy-model/macro-drivers>

⁶⁶ Department of Industry, Science, Energy and Resources (2021) *Australia's Long-Term Emissions Reduction Plan*, <https://www.industry.gov.au/data-and-publications/australias-long-term-emissions-reduction-plan>

⁶⁷ Murphy & Hurst (2021) Scott Morrison 'did a jig' following approval of \$16bn gas project labelled a 'disaster' by green groups, *The Guardian*, <https://www.theguardian.com/environment/2021/nov/24/scott-morrison-did-a-jig-following-approval-of-16bn-gas-project-labelled-a-disaster-by-green-groups>

⁶⁸ Clean Energy Regulator (n.d.) *Emissions Reduction Fund*, <http://www.cleanenergyregulator.gov.au/ERF>

Is “lowest cost” counter to high quality?

While pursuing offsets at lowest cost the Australian Government has expressed a desire for the delivery of “high integrity” offsets within a scheme that provides *environmental, climate adaptation and livelihood benefits for communities*.^{69 70}

The terms “high integrity” and “high quality” are both used throughout the consultation document though it is unclear what is meant by “high quality”:

The review will also help inform the design of Australia’s new Indo-Pacific Carbon Offsets Scheme. The scheme is intended to help partner countries generate and trade high integrity carbon offsets under the Paris Agreement.

It also aims to encourage investment in high quality emissions reduction projects to support partner countries and Australian businesses to meet climate goals.⁷¹
[emphasis added]

Integrity criteria of carbon offsets refers to globally accepted principles around permanence, transparency, and additionality. Both the IPCOS design principles and Climate Active Standard echo these principles.^{72 73}

Beyond these standard accepted criteria for carbon offsets, there seems to be the implication that international carbon offsets should also be resulting in other benefits, which is possibly what is meant by “high quality”. The Department of Industry, Science, Energy and Resources says that IPCOS will “offer environmental and social benefits to local communities.”⁷⁴ These benefits are often referred to as ‘co-benefits’, a concept that has become increasingly popular by carbon market proponents.

⁶⁹ Climate Change Authority (2022) *Review of international offsets: Consultation paper*, <https://www.climatechangeauthority.gov.au/consultations/open-consultations/review-international-offsets-consultation-open>

⁷⁰ Department of Industry, Science, Energy and Resources (n.d.) *Supporting climate action in the Indo-Pacific region*, <https://www.industry.gov.au/policies-and-initiatives/international-climate-change-commitments/supporting-climate-action-in-the-indo-pacific-region>

⁷¹ Climate Change Authority (2022) *Review of international offsets: Consultation paper*, <https://www.climatechangeauthority.gov.au/consultations/open-consultations/review-international-offsets-consultation-open>

⁷² Climate Change Authority (2022) *Review of international offsets: Consultation paper*, <https://www.climatechangeauthority.gov.au/consultations/open-consultations/review-international-offsets-consultation-open>

⁷³ Department of Industry, Science, Energy and Resources (2019) *Climate Active Carbon Neutral Standard for Organisations*, <https://www.industry.gov.au/data-and-publications/climate-active-carbon-neutral-standard-for-organisations>

⁷⁴ Department of Industry, Science, Energy and Resources (2021) *Carbon offsets scheme for the Indo-Pacific expanded to \$104 million over 10 years*, <https://www.industry.gov.au/news/carbon-offsets-scheme-for-the-indo-pacific-expanded-to-104-million-over-10-years>

Co-benefits are the positive impacts a carbon offset project may have beyond the carbon reduction itself, such as economic, social, cultural, and environmental benefits to the community where a project exists. Carbon offsets with co-benefits are usually favoured by buyers as they offer a ‘good news’ story for brands looking to enhance their social licence.

However, carbon credits with co-benefits also tend to have a premium price tag. Local community-based projects tend to require more work at a smaller scale than other types of credits being produced at scale (such as renewables or across industry).⁷⁵ They also take more effort to certify, especially if they are based in remote locations.⁷⁶ The outcome is that the carbon credits may be ‘higher quality’ and be benefitting local communities, but they are also more expensive than credits being produced at scale by industry.

Carbon offsets delivering the cheapest abatement are usually from industrial or large-scale renewable projects such as those under the CDM that may not offer co-benefits or contribute to ‘livelihoods’ at a community level.

A quest for large amounts of cheap offsets by government has two outcomes: it maintains the status quo in the buying country because it is cheaper for buyers to offset rather than invest in the structural adjustments that would reduce emissions; and it often forces sellers or project owners to choose between quantity and quality of the offsets they produce in order to maximise profit margins. Therefore, a mandate to source “cheapest” reductions may not be compatible with emissions reductions projects aimed to provide adequate income to landholders or thoroughly regenerate ecosystems, the credits from which tend to come at a premium to factor in these costs.

If the Australian Government has to choose between “high quality” and “lowest cost” offsets, which will it choose? And what then are the implications for the host countries who were relying on Australian finance for projects that delivered social outcomes for their communities?

⁷⁵ Fitzgeorge-Parker (2021) Banks eye voluntary carbon markets as Carney’s taskforce gears up, *Euro Money*, <https://www.euromoney.com/article/294jlyv066oki2ehhl4ow/esg/banks-eye-voluntary-carbon-markets-as-carneys-taskforce-gears-up>

⁷⁶ Porras, Wells, Stephenson & Kazis (2016) Ethical carbon offsetting. Guidelines and lessons from smallholder and community carbon projects, *IIED*, <https://pubs.iied.org/16612iied>

Mechanisms for buying international offsets

Currently there is no official framework or functional registry for international emissions reduction units to count towards Australia's climate targets. However, with the rules relating to Article 6 of the Paris Agreement sufficiently agreed upon at COP26 in Glasgow, Australia is now looking to develop the mechanisms that will allow it to import international reductions.

This review seeks feedback on the use of international carbon offsets under two mechanisms: the Indo-Pacific Carbon Offsets Scheme (IPCOS), a bilateral one-way trading framework being established under Article 6.2 of the Paris Agreement, and voluntary carbon offset purchases by the private sector through the Climate Active scheme under Article 6.4 of the Paris Agreement. Both ICPOS and Climate Active warrant some explanation as the way that offsets are imported via either mechanism has implications for the climate, the purchasing businesses, and the host countries where the offsets are sourced.

IPCOS may see the establishment of an entirely new type of carbon credit. There are also a limited number of existing international offset frameworks issuing carbon credits that are available to Australia.⁷⁷ Thorough investigation of these frameworks at a method and project level should be covered by this review.

Note: It is assumed in our submission that offsets being used by Australia "in the context of the Paris Agreement" means that they will contribute to Australia's Nationally Determined Contribution (NDC). That is, Australia intends to use offsets to assist in meeting its official climate targets. It is important to clarify this because it has implications for how others are able to account for the offsets Australia is importing, including compliance and voluntary buyers in Australia and the host countries selling the offsets.

⁷⁷ Carbon Pulse (2021) *Australia's IPCOS seen starting as a boutique option for voluntary buyers*, <https://carbon-pulse.com/144280/>

THE INDO-PACIFIC CARBON OFFSETS SCHEME

The Indo-Pacific Carbon Offsets Scheme (IPCOS), according to the Australian Government, aims to “help partner countries generate and trade high-integrity carbon offsets under the Paris Agreement.”⁷⁸

In its Net Zero plan, the Australian Government states that this scheme will:

...provide access to an established market for offset credits. The Australian Government wants to ensure that, like carbon credits created in Australia, these offsets are credible and robust.

And

...generate a scalable supply of high-quality offsets that help Australian companies meet emissions reduction targets.⁷⁹

The scheme appears to be a one-way flow of offsets from ‘host’ (exporting) countries to ‘investor’ (importing) countries. To date, the Australian Government has signed agreements with Papua New Guinea and Fiji as host countries.⁸⁰ Based on documents from early IPCOS consultation sessions Timor-Leste may have also been identified by Australia as a host country, and other investor countries may include Japan, South Korea, New Zealand, and Singapore.⁸¹ Along with Australia, the climate ambition of these investor countries has been rated as ranging from ‘poor’ to ‘highly insufficient’ by Climate Action Tracker.⁸²

IPCOS is being designed by both the Australian Government and industry, including the fossil fuel industry. In a webinar hosted by the Climate Change Authority during the UN Climate Conference in November 2021, the CEO of Woodside, Meg O’Neill, flagged that Woodside was involved in designing the scheme and also highlighted the value of offsets to be able to label cargoes of liquid gas as ‘carbon neutral’.⁸³

⁷⁸ Department of Industry, Science, Energy and Resources (n.d.) *Supporting climate action in the Indo-Pacific region*, <https://www.industry.gov.au/policies-and-initiatives/international-climate-change-commitments/supporting-climate-action-in-the-indo-pacific-region>

⁷⁹ Department of Industry, Science, Energy and Resources (2021) *Australia’s Long-Term Emissions Reduction Plan*, <https://www.industry.gov.au/data-and-publications/australias-long-term-emissions-reduction-plan>

⁸⁰ Department of Industry, Science, Energy and Resources (2021) *Australia partners with Fiji and Papua New Guinea to reduce emissions*, <https://www.industry.gov.au/news/australia-partners-with-fiji-and-papua-new-guinea-to-reduce-emissions>

⁸¹ Department of Industry, Science, Energy and Resources (2022) Disclosure Log Number: 22/010/70415, *Freedom of information disclosure log 2022*, <https://www.industry.gov.au/about-us/freedom-of-information/freedom-of-information-disclosure-log-2022>

⁸² Climate Action Tracker (n.d.) <https://climateactiontracker.org/>

⁸³ Climate Change Authority (2021) *Establishing a regional carbon bubble in the Indo-Pacific*, <https://www.climatechangeauthority.gov.au/news/establishing-regional-carbon-bubble-indo-pacific>

The Carbon Market Institute (CMI), a carbon industry lobby group is also facilitating the design of the scheme. Woodside is on several of CMI's development and policy 'Taskforces'.⁸⁴

While publicly available information on the scheme's operation is currently limited, it appears that IPCOS will feature the design and establishment of new carbon credit methods and projects, and also tap into existing carbon credit 'frameworks' such as the Verified Carbon Standard (Verra) and Gold Standard.⁸⁵

The Australian Government has made amendments to financial regulations to facilitate the development of IPCOS and to be able to officially import international emissions reduction units into Australia under Article 6.2.

The explanatory statement to the regulations states:

The scheme will build the market architecture to deliver greater amounts of credible abatement for the Australian private sector to potentially purchase in the medium to longer term.⁸⁶

This statement confirms that Australian businesses will be expected to buy carbon offsets and that the carbon reduction will be 'claimed' by Australia. It remains unclear whether offsets will be purchased voluntarily or through a compliance mechanism, with the government's Net Zero plan stating that there is "a targeted role for high-integrity offsets voluntarily purchased from our Indo-Pacific region".

Most carbon offset purchases by the private sector in Australia are currently made on a voluntary basis. Currently the only way a private entity can be compelled to purchase offsets in Australia is through a compliance mechanism known as the Safeguard Mechanism, a framework that places caps on the pollution levels of big emitters in Australia. When a facility or entity covered by the Safeguard Mechanism exceeds its pollution limit it is required to purchase carbon credits to offset its excess emissions. If the Australian Government is banking on the private sector purchasing carbon offsets via the IPCOS

⁸⁴ Woodside (2020) *Industry Association Review – Alignment on Climate*, <https://www.woodside.com.au/sustainability/climate-change>

⁸⁵ "Where possible, the use of existing public and private infrastructure, frameworks and policies should be used to optimise engagement of, and use of, existing knowledge, experience, information, and data. Where possible, the use of existing public and private infrastructure, frameworks and policies should be used to optimise engagement of, and use of, existing knowledge, experience, information and data"; Department of Industry, Science, Energy and Resources (2021) *Design principles to guide the Indo-Pacific Carbon Offsets Scheme*, <https://www.industry.gov.au/news/design-principles-to-guide-the-indo-pacific-carbon-offsets-scheme>

⁸⁶ Federal Register of Legislation (n.d.) *Financial Framework (Supplementary Powers) Amendments (Industry, Science, Energy and Resources Measures No. 1) Regulations 2021*, <https://www.legislation.gov.au/Details/F2021L01495/Explanatory%20Statement/Text>

mechanism (as distinct from the Article 6.4 voluntary market) it is possible it will be done through some sort of compliance framework that obliges businesses to offset such as the Safeguard.

While the exact details of the agreements between Australia and Indo-Pacific countries in relation to IPCOS are unknown, bilateral carbon trading arrangements under Article 6.2 are largely up to the discretion of the participating countries. A more flexible and less transparent approach than the mechanism implemented under Article 6.4 may allow the Australian Government a degree of control over the type, quantity, and price of carbon offsets available to Australia.⁸⁷

Having any degree of control over price or quantity of carbon offsets available to Australian businesses may give an insight into the Australian Government's climate ambition. For example, a large supply of relatively inexpensive offsets to businesses such as Woodside (whose Scarborough/Pluto LNG development is estimated to result in the release of up to 133 million tonnes of additional direct (Scope 1 and 2) tonnes of CO₂-e over its 30-year lifespan) suggests that the goal is not to drive overall emissions reductions, but to be able to 'neutralise' growing emissions on paper at least.⁸⁸

CLIMATE ACTIVE

Climate Active is the Australian Government's carbon neutral certification scheme. The program certifies claims of emissions reductions and offsetting by Australian organisations in relation to specific aspects of their business, including running their offices, products, or services they provide, or events they run.

Climate Active purports to have certified the 'carbon neutrality' claims of over 390 businesses who have collectively offset over 30 million tonnes of CO₂-e.⁸⁹

Climate Active is entirely voluntary. Organisations can use a range of offsets against their carbon neutral claims, including several international offset types (that will presumably be assessed during the CCA's review). Currently international offsets used voluntarily by Climate Active members are not counted towards Australia's NDC. Some unit types that were officially counted towards Australia's target under the Kyoto protocol are recorded in Australian National Registry of Emissions Units (ANREU) and there is some possibility that

⁸⁷ Asian Development Bank (2020) *Decoding Article 6 of the Paris Agreement Version II*, <https://www.adb.org/publications/decoding-article-6-paris-agreement-v2>

⁸⁸ Ogge (2021) Why the Scarborough LNG development cannot proceed, *Conservation Council of Western Australia & The Australia Institute* <https://australiainstitute.org.au/report/why-the-scarborough-lng-development-cannot-proceed/>

⁸⁹ Climate Active (n.d.) <https://www.climateactive.org.au/>

they may retrospectively be counted towards Australia's NDC provided they meet certain requirements, but this is not currently the case.⁹⁰

When a 'Climate Active' business purchases an international carbon credit currently it 'owns' the CO₂-e reduction that credit represents and can use it to justify emitting a tonne of CO₂-e (and subsequently claim 'carbon neutrality' for that tonne emitted). If the Australian Government intends to use Climate Active as a mechanism to import offsets to count towards Australia's NDC it will have to mandate the use of units from the forthcoming Sustainable Development Mechanism (Article 6.4 units) by Climate Active members.

Climate Active certified organisations will no longer be able to claim that their voluntary action is additional to what Australia is doing or that they 'own' the reduction they have purchased. While nothing will change in terms of emissions offset, this may require some negotiation with private buyers of carbon credits who are unaware that they are *voluntarily* footing the bill for Australia to meet its climate targets and displacing other national efforts. Given that Climate Active has certification fees and other costs associated with offset brokers and consultants, members may decide that, in the absence of the Australian Government implementing any other domestic reduction policies to make their business operations less carbon intensive, it is cheaper simply to drop out of the scheme.

Put another way, if all of the companies paying to participate in Climate Active at the moment ceased to do so, Australia's commitment to reach net zero would remain unchanged and, in turn, other businesses or government policies would need to make up for the reduction in voluntary efforts by Climate Active companies. Under such circumstances it is unclear why profit-maximising firms would voluntarily elect to donate their shareholders funds to help achieve a goal that the government has committed to making with or without their voluntary efforts

If Climate Active organisations are satisfied with the new arrangements (whereby they pay for the emissions reductions the government has committed to) and continue to purchase international carbon credits *and* use them to justify emitting a tonne of CO₂-e, we return to the issue of no overall reductions taking place. Which again raises the question of how international offsets are contributing to overall climate efforts as the Australian Government claims.

⁹⁰ CERs already issued under the CDM may continue to be used towards countries' targets, provided the project was registered after 2012 and certain other conditions are met; Clean Energy Regulator (2021) *Looking forward*, <http://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmr/september-quarter-2021/Looking-forward.aspx>

EXISTING CARBON OFFSET FRAMEWORKS

There are significant and justified concerns regarding the integrity of carbon offsets (under both regulated and voluntary frameworks) which should be considered by this review, including an assessment of whether any existing carbon credit frameworks meet the minimum integrity criteria for carbon offsets.

Prime Minister Scott Morrison, for example, says that IPCOS is modelled on “Australia’s successful Emissions Reduction Fund and is designed to develop a high-integrity carbon offset scheme in the Indo-Pacific region.”⁹¹

The Emissions Reduction Fund has significant integrity issues, with at least 25% of carbon credits issued by the scheme being non-additional. Recent reports have suggested that this number could be as high as 80% of all credits coming from the ERF (with a majority being from land-based methods).⁹² There are also questions around the integrity of new and forthcoming methods such as soil carbon, blue carbon and carbon capture and storage (CCS). These issues do little to instil confidence in the integrity of carbon offsets generated under IPCOS.

The government and industry have emphasised the role of “renewables and nature-based solutions” in IPCOS projects. However, given the recent addition to the Emissions Reduction Fund of a CCS carbon credit method, the possibility of IPCOS also featuring a CCS carbon credit method exists. Announcements by Santos (who registered the first CCS project under the ERF) alluding to plans to develop CCS projects in Papua New Guinea and Timor have also suggested Santos intends to generate carbon credits for this.^{93 94}

The possible of CCS carbon credits in IPCOS is extremely concerning. CCS incentivises emissions increases, not emissions reductions, by allowing gas companies who add a CCS component to their operations and capture a small amount of CO₂ from their gas extraction and production to earn carbon credits. CCS only ever captures a small percentage of emissions from fossil fuel projects meaning that the net result is more greenhouse gases in the atmosphere. It is unclear how carbon credits from CCS meet any of the Australian Government’s stated goals in relation to IPCOS:

⁹¹ Prime Minister of Australia (2021) *Australia and Fiji partner on high integrity carbon offsets to reduce emissions*, <https://www.pm.gov.au/media/australia-and-fiji-partner-high-integrity-carbon-offsets-reduce-emissions>

⁹² Australian Broadcasting Corporation (2022) *Questions raised about the integrity of carbon offset schemes, 7.30 Report*, <https://www.abc.net.au/7.30/questions-raised-about-the-integrity-of-carbon/13809550>

⁹³ Santos (2021) *Santos and ENI sign MoU to collaborate in northern Australia and Timor-Leste*, <https://www.santos.com/news/santos-and-eni-sign-mou-to-collaborate-in-northern-australia-and-timor-leste/>

⁹⁴ Argus (2021) *Australia’s Santos seeks CCS projects in PNG*, <https://www.argusmedia.com/en/news/2279273-australias-santos-seeks-ccs-projects-in-png>

The scheme will boost partner countries' abilities to attract private sector investment in emissions reduction projects in the renewables and nature-based solutions sectors. It will help these countries adopt new low emissions technologies and provide access to an established market for offset credits. This commitment will:

- boost public and private investment in climate action and practical projects in the region
- deliver real social, economic and environmental benefits for local communities
- generate a scalable supply of high-quality offsets that help Australian companies meet emissions reduction targets.

Offsets from existing frameworks, including those that are currently being used by Climate Active and which may be eligible under IPCOS, such as the Clean Development Mechanism CDM and VCS/Verra are similarly concerning, with many projects operating under both schemes found to be neither real, nor additional.^{95 96} There are particular concerns about VCS projects in the Pacific regarding inadequate consultation with customary landholders and carbon offset projects being established with no legal basis.

The Verified Carbon Standard NIHT Topaiyo REDD+ project for example (which is already issuing carbon credits used by Australian businesses in good faith to voluntarily offset their emissions) has been marred by concerns over its legality since its inception.⁹⁷ There are questions around whether local stakeholder consultation process amounted to free, prior and informed consent from landholders to operate a carbon project in the area.⁹⁸ There are also significant concerns over the additionality of the project. The claims by the proponents of the project, NIHT, that logging would've taken place in the project area are dubious considering the historical rate of deforestation in the area being very low as well as the topography of the area being very unfavourable to commercial logging, stating in their own

⁹⁵ Cames, Harthan, Füssler, Lazarus, Lee, Erickson & Spalding-Fecher (2016) How additional is the Clean Development Mechanism? Analysis of the application of current tools and proposed alternatives, *Öko-Institut*, <https://www.oeko.de/en/publications/p-details/how-additional-is-the-clean-development-mechanism-1>

⁹⁶ Purohit & Michaelowa (2007) Potential of wind power projects under the Clean Development Mechanism in India, *Carbon Balance and Management*, 2:8, <https://cbmjournals.biomedcentral.com/articles/10.1186/1750-0680-2-8>

⁹⁷ Verra (n.d.) *Project 2293: NIHT Topaiyo REDD+*, <https://registry.verra.org/app/projectDetail/VCS/2293>

⁹⁸ Lang (2021) "Illegal operations by NIHT Inc": Kamlapur Incorporated Land Group writes to Papua New Guinea's Climate Change & Development Authority and Verra, *REDD-Monitor*, <https://redd-monitor.org/2021/06/29/illegal-operations-by-niht-inc-kamlapur-incorporated-land-group-writes-to-papua-new-guineas-climate-change-development-authority-and-verra/>

project description document that the area is largely “high and steep mountain ranges”.⁹⁹ Considering these two large integrity issues sit within the context of many other concerns over the projects quality including carbon stock permanence, benefit sharing disputes, illegible project maps and methodological faults, this project should not only be immediately halted in its issuance of VCUs, but also be viewed as a reflection of the type of projects that may be used through future Australian international offset arrangements.

While there are questions around the eligibility of all REDD+ projects under Article 6, there is still some expectation “that high-quality jurisdictional-scale REDD+ programs that meet all of the other Article 6.2 requirements can be used by Parties to achieve their NDCs and other international mitigation purposes”.¹⁰⁰ This would mean that credits from projects such as Topaiyo could still be used to meet Australia’s climate targets.

It is concerning that carbon credits from this project or any of the aforementioned frameworks may be used to offset the vast quantities of greenhouse gases being produced by Australia. The Topaiyo project highlights that a review of international offsets must be carried out at an individual project level and that future carbon offsets projects and frameworks such as the forthcoming Sustainable Development Mechanism will have to be vastly superior to existing options to be considered adequate.¹⁰¹

⁹⁹ Independent mapping carried out by Dr Bryant Allen, Honorary Associate Professor, Coral Bell School of Asia Pacific Affairs, Australian National University

¹⁰⁰ Todd (2021) Article 6: What Does it Mean for REDD+?, *UNDP Climate and Forests*, <https://www.climateandforests-undp.org/article-6-what-does-it-mean-redd>

¹⁰¹ COP27 in Egypt is likely to include discussion of whether nature-based emissions avoidance and REDD+ will be included in the Article 6 rulebook and whether they could be used by countries to meet their NDCs. Regardless of the outcome, the Topaiyo project serves to demonstrate some of the issues in offset frameworks that are currently regarded as having ‘integrity’.

Conclusion

Much has been made of the enormous potential of carbon markets to reduce emissions, restore ecosystems, and support livelihoods. However, they are not magic, and while market proponents vigorously argue that carbon offsets can be all things to all parties – the climate, the environment, buyers, sellers – this is rarely the case if they are not accompanied by sufficient integrity and ambition.¹⁰²

The outcomes created by carbon offsets is entirely dependent on the context in which they are being created and used.¹⁰³ Any review of the use of carbon offsets by Australia or Australian businesses must seek to clarify and articulate what Australia is trying to achieve through the use of offsets.

Australia has made minimal progress in reducing its emissions and continues to approve new fossil fuel projects.¹⁰⁴¹⁰⁵ There are no government policies designed to reduce emissions from agriculture, transport, or industry. Safeguards designed to account for and limit emissions by industry are narrowly applied and rarely enforced. In this context, international offsets may have been identified by Australia, not to drive overall reductions, but as a licence to maintain and increase fossil fuel emissions. The Australian Government's pursuit of cheap abatement also suggests that carbon offsets may be being sourced to facilitate a 'business-as-usual' approach by the fossil fuel industry with minimal penalty.

Such an approach brings into question how genuine the Australian Government is being when it claims to be "supporting climate action in the Indo-Pacific region" through the use of carbon offsets.¹⁰⁶ Pacific nations have long been frustrated and disappointed over Australia's refusal to stop producing fossil fuels.¹⁰⁷ Australia has not only ignored pleas for

¹⁰² Bohm and Pearse (2015) *Ten reasons why carbon markets will not bring about radical emissions reduction* https://www.researchgate.net/publication/272786779_Ten_reasons_why_carbon_markets_will_not_bring_about_radical_emissions_reduction

¹⁰³ Ackerman (2008) *Carbon Markets and Beyond: The Limited Role of Prices and Taxes in Climate and Development Policy*, *G-24 Discussion Papers 53*, United Nations Conference on Trade and Development, <https://ideas.repec.org/p/unc/g24pap/53.html>

¹⁰⁴ Merzian & Hemming (2021) *Banking on Australia's Emissions: Why creative accounting will not get us to net zero emissions*, *The Australia Institute*, <https://australiainstitute.org.au/report/banking-on-australias-emissions/>

¹⁰⁵ Ogge, Quicke & Campbell (2021) *Undermining Climate Action: The Australian Way*, *The Australia Institute*, <https://australiainstitute.org.au/report/undermining-climate-action/>

¹⁰⁶ Department of Industry, Science, Energy and Resources (n.d.) *Supporting climate action in the Indo-Pacific region*, <https://www.industry.gov.au/policies-and-initiatives/international-climate-change-commitments/supporting-climate-action-in-the-indo-pacific-region>

¹⁰⁷ McDonald (2019) *Australia Risks Losing Allies in Pacific Over Climate Policies*, *The Diplomat*, <https://thediplomat.com/2019/08/australia-risks-losing-allies-in-pacific-over-climate-policies/>

climate action by the Pacific, but it also continues to pursue fossil fuel projects both domestically and in the Pacific. Australia now also looks to the Pacific as a source of carbon offsets so that its industries can continue to pollute.

Under the Paris Agreement all countries are required to meet climate targets, including developing economies, where a majority of carbon offsets are generated and issued. Small nations such as Papua New Guinea – one of the countries that Australia has entered into a bilateral carbon trading agreement with – has limited means of reducing its emissions and must weigh up the long-term costs of sacrificing their carbon reductions for short term material gain. This choice is particularly acute for PNG, a country dependent on fossil fuels that has effectively been set up as a ‘petrostate’ thanks to the fossil fuel extraction industry with investment from ASX-listed companies such as Oil Search and Santos and a \$500 million loan by the Australian Government.^{108 109}

A review of international offsets by the Climate Change Authority should take the policy objectives and climate ambition of Australia as a buyer of offsets into account, as well as the ambition of, and implications for, countries selling Australia their emissions reductions. It should also take into consideration the significant integrity issues of proposed and existing carbon offset frameworks that Australia may use.

The Australian Government has stated a desire to “work together to bring down emissions” across the Indo-Pacific region and to “help countries meet and report against their NDCs”.^{110 111} To achieve these goals dramatic cuts to emissions are required in Australia. Australian industries that have no choice but to offset should be prepared to pay a premium price for a limited number of high integrity carbon credits that result in real reductions and provide genuine social and environmental outcomes.

It is unclear how Australia’s plans for fossil fuel expansion, a commitment to offsetting over direct finance for reductions, and a quest for the cheapest abatement will bring down emissions or help countries meet their climate targets. It is also unclear how in this context Australia’s use of international offsets will not lead to an increase in global emissions.¹¹²

¹⁰⁸ <https://carbontracker.org/reports/petrostates-energy-transition-report/>

¹⁰⁹ ActionAid (2018) *Undermining Women’s Rights: Australia’s global fossil fuel footprint*, <http://actionaid.org.au/resources/undermining-womens-rights-australias-global-fossil-fuel-footprint/>

¹¹⁰ The Hon Angus Taylor MP (2021) *Comments at the launch of the Indo-Pacific Carbon Offsets Scheme, COP26 Glasgow*, <https://www.minister.industry.gov.au/ministers/taylor/transcripts/comments-launch-indo-pacific-carbon-offsets-scheme-cop26-glasgow>

¹¹¹ Department of Industry, Science, Energy and Resources (2021) *Australia’s Long-Term Emissions Reduction Plan*, <https://www.industry.gov.au/data-and-publications/australias-long-term-emissions-reduction-plan>

¹¹² UNFCCC (2019) *Matters relating to Article 6 of the Paris Agreement: Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement*, <https://unfccc.int/documents/197878>