The Australia Institute
Research that matters.

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Independent Review of
Australian Carbon Credit Units

Dear Professor Chubb and Secretariat,

The Australia Institute welcomes the opportunity to make a submission to the Independent Review of Australia's Carbon Credits (the Review) and we would be pleased to engage directly with the Review in the coming weeks. We understand that other stakeholders have been sought out for direct consultation already.

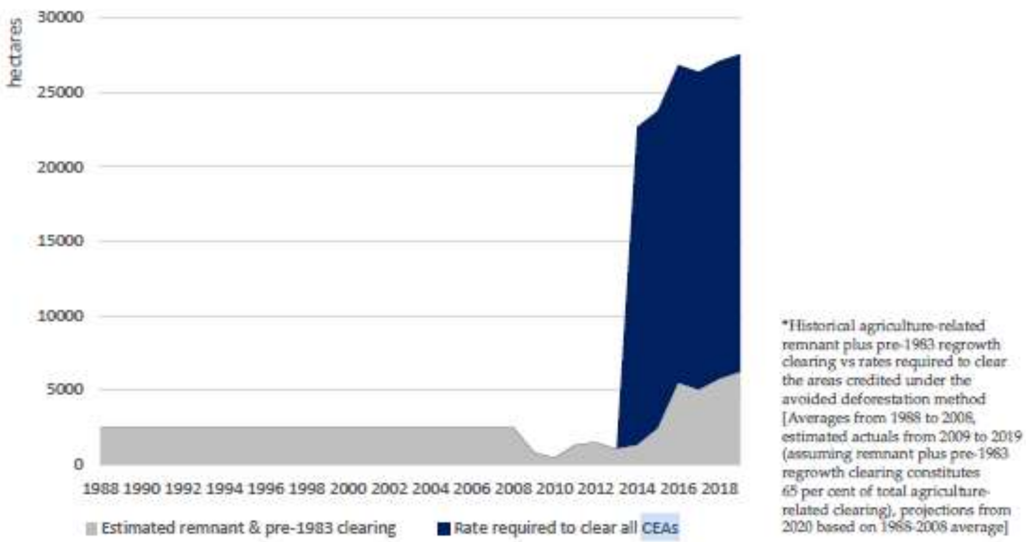
Our initial submission consists of this letter and four attached reports, which have all been prominent in recent debate around Australian Carbon Credit Units (ACCUs) and the wider carbon credit system:

- *Questionable Integrity: Non-additionality in the Emissions Reduction Fund's Avoided Deforestation Method* (published jointly with the Australian Conservation Foundation)
- *Come Clean: How the Emissions Reduction Fund came to include carbon capture and storage*
- *An Environmental Fig Leaf? Restoring integrity to the Emissions Reduction Fund*
- *Hot Air Won't Stop Global Warming: Submission to the Climate Change Authority's review of international offsets*

These reports raise serious concerns around the integrity of Australia's carbon credits, the methods behind their calculation and the bodies that oversee them.

For example, the *Questionable Integrity* report shows serious flaws in the Avoided Deforestation method – which is responsible for more than 20% of the total number of ACCUs issued under the Emissions Reduction Fund (ERF). The method rests on an assumption that landholders with a particular type of NSW land clearing approval would clear all the relevant vegetation within 15 years. Historic data shows, however, that such clearing rates would be unprecedented, raising doubts about the additionality of credits under the method. This is dramatically illustrated in Figure 6 of our report, reproduced below, that compares the historic land clearing in the relevant areas with the upper and lower limits of what could be assumed under the method:

Figure 6. Historic clearing rates vs clearing rates assumed under the avoided deforestation method*



In other words, the core assumption of the Avoided Deforestation method is that the rate of clearing would have increased by between 751 per cent and 12,804 per cent. As this is clearly unrealistic, projects are being issued ACCUs for retaining vegetation that was never going to be cleared. On this basis, the Avoided Deforestation method fails to meet at least three of the six offset integrity standards – it is not based on clear evidence, its assumptions are not conservative and it is not providing additional abatement.

Rather than engaging with our research and either providing an explanation or reforming the method, the Clean Energy Regulator (CER) issued a public statement attacking the Australian Conservation Foundation (ACF) and the Australia Institute.[1] The CER's statement made basic errors around clearing timeframes, relating to the 15 year period during which reductions were to occur.[2] This revealed an alarming lack of understanding of its own methodology and relevant legislation, as was noted in media coverage at the time:

> *[The CER's] interpretation is at odds with the legislation, which says the emissions reductions are assumed to occur over 15 years. It is also at odds with the CER's own guidance note, which says the 15-year period was introduced to match the period in which the land might have been cleared under the permits issued.*[3]

The CER co-designs the methods, regulates the market, and purchases most credits. This is not good governance and the CER is not fit for purpose. This is further emphasised in the other reports attached to this submission. *An Environmental Fig Leaf* outlines the conflict within the CER's role as both the oversight body for the creation of ACCUs and the biggest purchaser of them, on behalf of the Commonwealth Government. This conflict has also been noted by the Climate Change Authority (CCA).

[1] CER (2021) Statement: Response to TAI-ACF Report on the Emissions Reduction Fund, https://www.cleanenergyregulator.gov.au/ERF/Pages/News%20and%20updates/News-item.aspx?ListId=19b4efbb-6f5d-4637-94c4-121c1f96fcfe&ItemId=977

[2] Australia Institute (2021) *Statement in response to the Clean Energy Regulator* https://australiainstitute.org.au/post/statement-in-response-to-the-clean-energy-regulator/

[3] Slezak (2021) *Many carbon credits for deforestation could be 'nothing more than hot air', report finds* https://www.abc.net.au/news/2021-09-22/deforestation-carbon-emissions-credits-questioned-by-report/100479212

Come clean details the CER's bias towards consultation with the fossil fuel industry in the co-design of the carbon capture and storage method. Independent researchers were actively excluded from that process, which the CER justified by pointing to the presence of members of the Emissions Reduction Assurance Committee (ERAC). Those members were deeply conflicted and left ERAC after the change of government.[4]

Conflicts of interest are also present at the CCA, particularly its Chair, Grant King. Mr King is a former gas company executive and, more importantly, is currently the chair of Greencollar, a major company in Australia's carbon credit market. This is discussed in *Hot Air Won't Stop Global Warming*, along with extensive discussion around the problems associated with international offsets.

Unfortunately, real or potential conflicts of interest within the bodies tasked with overseeing Australia's climate policies do not stop there. Several appointments to the Chubb Review panel and secretariat are potentially conflicted.

- Dr Steve Hatfield-Dodds. Dr Hatfield Dodds is Associate Principal at Ernst and Young (EY) Port Jackson Partners. For some reason his current role is not mentioned on the Review's website, which focuses only on his previous public service and academic positions.[5]

  Dr Hatfield-Dodds' recent co-authored report *Essential, expensive and evolving: The outlook for carbon credits and offsets* touts carbon credits as "front and centre", "an essential part of the business toolkit". The report claims "every business" should have a "decarbonisation strategy which recognises the role of carbon offsets".[6] EY's Net Zero Centre makes money by consulting on such strategies to businesses, "particularly in emissions-intensive sectors".

  Dr Hatfield-Dodds' report not only avoids discussion of the integrity problems inherent in all offset programs, but it actually assumes them away in its analysis:

  > *It is important to note that 100% of offsets and credits are [assumed to be] high integrity, across all scenarios. All credits represent additional permanent reductions in emissions. Put bluntly: there is no greenwashing.*

  Such assumptions may be expected within public-facing reports that promote a consulting business, but this creates the perception of a conflict of interest for Dr Hatfield-Dodds. This comes in the context of both EY and Port Jackson Partners having long attracted criticism for their willingness to twist their analysis to suit their clients, including coal mines,[7] the gas industry,[8] and political interests.[9, 10]

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[4] Slezak (2022) *Labor to remake carbon credit committee after three controversial Coalition appointments resign,* https://www.abc.net.au/news/2022-07-14/emissions-reduction-assurance-committee-members-resign/101238956

[5] Bowen (2022) *ACCU review panel members announced*, accessed 27 Sept 2022, https://minister.dcceew.gov.au/bowen/media-releases/accu-review-panel-members-announced

[6] Comley and Hatfield-Dodds (2022) *Essential, expensive and evolving: The outlook for carbon credits and offsets,* https://www.ey.com/en_au/sustainability/how-can-carbon-offsets-create-new-value-in-rapidly-changing-world

[7] Fernandez (2021) *Ernst and Young rejects allegations it overvalued Tahmoor coal mine project by hundreds of millions*, https://www.abc.net.au/news/2021-03-03/mine-value-overstated-by-hundreds-of-millions-of-dollars/13201228

[8] EY (2020) *Australia's oil and gas industry: kickstarting recovery from COVID-19*, https://www.appea.com.au/wp-content/uploads/2020/11/EY-Report-Australias-oil-and-gas-industry-Kickstarting-recovery-from-COVID-19.pdf

[9] Wootton (2022) *EY economist-for-hire cherry-picked numbers. Again*, https://www.afr.com/rear-window/ey-economist-for-hire-cherry-picked-numbers-again-20220905-p5bfix

[10] Hardaker (2020) *Anti-wind report powered Angus Taylor's career. But who wrote it and why?*, https://www.crikey.com.au/2020/02/12/angus-taylor-wind-report/

- Ariadne Gorring. Ms Gorring is the co-CEO of Pollination Foundation, part of Pollination Group. Ms Gorring's role is at least noted on the Review's website. Pollination is a self-described "climate change investment and advisory firm".[11] Pollination advises on, and invests in, carbon credit projects and in partnership with HSBC Asset Management develops strategies that generate "returns, both financial and in the form of carbon credits".[12]

  Pollination Foundation also "incubates" a biodiversity credit business, Marketplace for Nature.[13] Given Pollination Group's involvement in carbon and biodiversity markets, Ms Gorring has a clear potential conflict of interest.

- Secretariat. It is our understanding that the Review secretariat includes a government official who was instrumental in the design and administration of the Avoided Deforestation method and an individual who is employed by the Clean Energy Regulator.

  It seems inappropriate that the secretariat of the Review would include representatives from the agencies that are subject of the Review itself and who were involved in the design of the methods under consideration.

The Australia Institute wishes to raise two other points regarding the Review.

First, the timing of the Review is problematic. The Federal Government is progressing two interdependent processes to reduce emissions: the reforms to the Safeguard Mechanism, and the Chubb Review. Minister Bowen has explicitly stated that the Chubb Review will help "ensure a reliable supply of high-quality domestic offsets is available to support the reduction of Safeguard Mechanism baselines over time."[14]

The Safeguard Mechanism Reforms will have an exposure draft Rule released by the end of November. Your review will not be finalised until the end of December 2022 (outlined in Figure 1 below). We are therefore concerned that the Safeguard Mechanism Reform does not allow for the proper consideration of the outcomes of your review.

The timing also does not allow for other important inputs including the UN Expert Group on the Net-Zero Emissions Commitments of Non-State Entities which is due to report back at the end of 2022.[15]

Figure 1: Timeline for changes to the Safeguard Mechanism

Source: Safeguard Mechanism Reforms consultation paper

[11] Pollination Group (2022) *Our Story* https://pollinationgroup.com/about/
[12] Pollination Group (2022) *Climate Asset Management,* https://pollinationgroup.com/climate-asset-management/
[13] Pollination Group (2022) *Marketplace for Nature,* https://pollinationgroup.com/case-study/marketplace-for-nature/
[14] Bowen (2022) *Independent Review of ACCUs,* https://minister.dcceew.gov.au/bowen/media-releases/independent-review-accus
[15] United Nations (2022) *High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities,* https://www.un.org/en/climatechange/high-level-expert-group

The second point is overarching – is the heavy focus on offsets and Australia's carbon market helping or hindering the national goal of emissions reductions?

Much thought around emissions reductions discusses a hierarchy of mitigation, with offsets such as ACCUs typically considered as a 'last resort'. For example, the global Science-Based Targets Initiative (SBTI), which helps organisations set targets in line with 1.5 degrees, specifies that carbon credits cannot be counted as emissions reductions towards short or long-term science targets, but should only be used after organisations have reduced emissions by more than 90 percent.[16]

Australia's climate policies and public discussion tend to focus not on the first 90 percent of emissions reduction, but on offsets and the final ten percent. While this Review and the Safeguard Reforms are welcome and overdue, they seem to distract from discussion and implementation of policies that would actually reduce emissions – eliminating fossil fuel subsidies, stopping new fossil fuel projects, phasing out existing fossil fuel extraction, promoting energy efficiency and demand management, renewable energy investment, electrification of transport and other established emission reduction processes.

Whether intentional or not, to date the role of carbon credits in Australia is not to address climate change, but to greenwash business as usual. That greenwashing includes the heavy emphasis on co-benefits. While the terms of reference includes a heavy focus on increasing the co-benefits, the focus needs to be on the central benefit of carbon credits. That is, are carbon credits a legitimate means to reduce emissions?

There is no doubt that increased biodiversity outcomes are a good thing. However, as financial instruments representing a tonne of abatement, the focus on carbon credits should be solely on whether they are fit for purpose. We encourage the Review to consider this wider question.

The Australia Institute would be happy to make ourselves available to meet in person to discuss these important matters further.

Regards

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[16] Science Based Targets (2021) *SBTI Corporate Net-Zero Standard* https://sciencebasedtargets.org/net-zero