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Little authority

Submission to the Climate Change Authority's *Issues Paper* 2023

The Climate Change Authority must make clear to government that continued fossil fuel expansion is incompatible with national and global goals as laid out under the Paris Agreement. However, both the independence of the Climate Change Authority and the quality of advice it provides to government are currently in question.

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Summary

The Climate Change Authority (CCA) is riven by conflicts of interest. Only one member is a climate scientist. Several members have close links to the carbon credit industry or to fossil fuel companies. These links constitute real or potential conflicts of interest for the relevant members. These conflicts continue to be managed inadequately, particularly those of CCA Chair Grant King, a former fossil fuel industry executive and now chair of GreenCollar, the largest carbon credit aggregator in Australia.

The CCA has appointed consultants EY Port Jackson Partners to conduct research and economic modelling for its upcoming recommendations to government. EY Port Jackson Partners are also conflicted, having spruiked carbon offsets as “front and centre” and “an essential part of the business toolkit”. Their modelling has assumed, in their own words, that “put bluntly: there is no greenwashing.” One of EY Port Jackson Partners’ executives worked on the discredited Chubb Review, which attempted to greenwash Australia’s carbon offset system and cannot be considered impartial.

The appointment of EY comes in the context not only of the PwC conflict scandal, but of both EY and EY Port Jackson Partners having long attracted criticism for their willingness to twist their analysis to suit their clients. These clients have included coal mines, the gas industry, and political interests.

The CCA is currently failing to meet its statutory obligations to provide advice that focuses on efficient, effective and equitable policy responses to climate change. Reflecting the interests and backgrounds of its members, the CCA’s recent publications focus on carbon markets and offsets, and on sequestration methods favoured by fossil fuel industries. In these publications, the CCA makes no mention of eliminating fossil fuel subsidies, ending fossil fuel expansion or Australia’s lack of industrial decarbonisation.

Introduction

The Australia Institute welcomes the opportunity to provide input into the Climate Change Authority's (CCA) Issues Paper *Setting tracking and achieving Australia's emissions reduction targets*.[1] We are concerned, however, that both the potential of this review and the quality of advice the CCA provides to government in general are undermined by two fundamental problems:

- Conflicts of interest in the membership of the Authority (and the poor management of these conflicts); and
- The Authority failing to meet its obligations under the *Climate Change Authority Act 2011.*

We address these major issues before responding to some of the specific questions in the Issues Paper.

[1] CCA (2023) *Setting tracking and achieving Australia's emissions reduction targets*, https://consult.climatechangeauthority.gov.au/australias-emissions-reduction-targets

CCA Members' Conflicts of Interest

There are currently nine members of the CCA.[2] Only one of these, Professor Lesley Hughes, is a climate scientist. Several members have close links to the carbon credit industry or to fossil fuel companies. These links constitute real or potential conflicts of interest for the relevant Authority members. The Australia Institute pointed out these conflicts in our report *Integrity and the Climate Change Authority*, published in December 2022.[3] These conflicts continue to be managed inadequately, particularly that of CCA Chair Grant King.[4]

The conflicts of individual members, as set out in *Integrity and the Climate Change Authority*, are summarised below.[5]

CCA Chair Grant King is also:

- The chair of GreenCollar, the largest carbon credits aggregator in Australia;
- The chair of HSBC Australia, a large financial organisation that purchases carbon credits, supports the voluntary carbon market, and has been involved in natural capital ventures;
- A former Managing Director of Origin Energy;
- A former d of the Australian Petroleum Production and Exploration Association Limited (APPEA);
- The former chairman of Energy Supply Association of Australia;
- The former President of the Australian Gas Association; and
- The former chair of the Business Council of Australia.

Susie Smith is:

- The CEO of the Australian Industry Greenhouse Network, a lobby group for the fossil fuel industries that describes its mandate as "promoting development of Australia's industrial resources";
- Principal of ESG & Carbon Services, a consulting business that was engaged on 1 July 2022 by Santos to "provide consulting support to Santos' Carbon Solutions team on technology and nature-based solutions to underpin their net zero commitment"; and
- A former executive at Santos.

[2] CCA (2023) *Who we are*, https://www.climatechangeauthority.gov.au/about-authority/who-we-are

[3] Hemming and Campbell (2022) *Integrity and the Climate Change Authority*, https://australiainstitute.org.au/report/integrity-and-the-climate-change-authority/

[4] Hemming (2023) Conflict of Interest Concerns Spread to Climate Authority after PwC Scandal, https://australiainstitute.org.au/post/conflict-of-interest-concerns-spread-to-climate-authority-after-pwc-scandal/

[5] Hemming and Campbell, op. cit.

Mark Lewis is:

- A director of Australian Integrated Carbon Pty Ltd (AIC), a carbon prospecting and aggregation business part-owned by Japanese companies Mitsubishi and Osaka Gas.

Sam Mostyn is:

- A former senior advisor to Pollination, a climate change investment firm with strong interest in carbon markets.

In addition, member John McGee is:

- A former non-executive director of Delhi Petroleum; and[6]
- A former director of Westpac Funds Management.[7]

ENGAGEMENT OF EY PORT JACKSON PARTNERS

The appointment of consultants EY Port Jackson Partners to undertake economic modelling for the CCA, announced in the Issues Paper, also raises potential conflicts.

EY Port Jackson Partners' Associate Principal is Dr Steve Hatfield-Dodds. Dr Hatfield-Dodds recent co-authored the report *Essential, expensive and evolving: The outlook for carbon credits and offsets*, which touts carbon credits as "front and centre" and "an essential part of the business toolkit". The report claims "every business" should have a "decarbonisation strategy which recognises the role of carbon offsets".[8] 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; 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 in relation to work for public agencies that may need to be critical of carbon offsetting.

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[6] Ibid.

[7] Ibid.

[8] 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

Despite this potential conflict, Dr Hatfield-Dodds was appointed to the Chubb Review panel. The Chubb Review Secretariat did not disclose Dr Hatfield-Dodds' role at EY Port Jackson Partners until it was pointed out by The Australia Institute's submission.[9]

As discussed further below, the Chubb Review concluded that Australia's offset system was "basically sound". This conclusion, and the Review itself, has been discredited, both by the Review's accompanying conclusion that one of the main methods of offset generation (the avoided deforestation method) should no longer be used, and by recent research into another key method (the human-induced regeneration method), which has shown that it too has minimal integrity.[10]

Given EY Port Jackson Partners' past publications promoting carbon offsets and Dr Hatfield-Dodds' role in the Chubb Review, the firm's appointment as consultants should be reconsidered. This comes in the context not only of the PwC conflict scandal, but of both EY and EY Port Jackson Partners having long attracted criticism for their willingness to twist their analysis to suit their clients. These clients have included coal mines,[11] the gas industry,[12] and political interests.[13, 14]

[9] Hemming and Merzian (2022) *Submission to Chubb Carbon Offsets Inquiry*, https://australiainstitute.org.au/report/submission-to-chubb-carbon-offsets-inquiry/. Dated screenshots of Chubb Review bio page available on request.

[10] Macintosh et al (2023) *Summary Results of Analysis of the Integrity Risk and Performance of Human-induced Regeneration (HIR) Projects using CEA data*, https://law.anu.edu.au/research/publications?nid=58214

[11] 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

[12] 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

[13] 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

[14] 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/

Obligations under CCA Act

According to the *Climate Change Authority Act 2011*, the CCA must have regard to specific principles. In its research and advice to government, measures recommended should:

(i) Be economically efficient;
(ii) Be environmentally effective;
(iii) Be equitable;
(iv) Be in the public interest;
(v) Take account of the impact on households, business, workers and communities;
(vi) Support the development of an effective global response to climate change;
(vii) Be consistent with Australia's foreign policy and trade objectives;
(viii) Take account of the matters set out in Article 2 of the Paris Agreement (limit to 1.5°C of warming);
(ix) Boost economic, employment and social benefits, including for rural and regional Australia; and
(x) Such other principles (if any) as the Authority considers relevant.[15]

Our analysis suggests that the CCA is currently failing to meet these obligations. Reflecting the interests and backgrounds of its members, the CCA's recent publications focus not on efficient, effective and equitable measures such as eliminating fossil fuel subsidies, but instead on carbon markets and offsets and sequestration methods favoured by fossil fuel industries and other heavy emitters. Examples include:

- August 2022: A review of international carbon offsets commissioned by the Coalition Government, which recommended Australia "play a leading role in the development of…global carbon [offset] markets";[16]
- December 2022: A report commissioned by the CCA and the Clean Energy Regulator, which highlighted "Australia's carbon sequestration potential, including how markets offer pathways to [its] commercialisation";[17]
- April 2023: A policy insight paper, entitled *Reduce, remove and store: The role of carbon sequestration in accelerating Australia's decarbonisation*, which advocates for "Compliance markets and Commonwealth procurement policies [incentivising]

[15] *Climate Change Authority Act 2011*; CCA (2023) *Setting, tracking and achieving Australia's emissions reduction targets*, Commonwealth of Australia (Climate Change Authority), https://consult.climatechangeauthority.gov.au/australias-emissions-reduction-targets
[16] CCA (2022) *Review of international offsets*, https://www.climatechangeauthority.gov.au/publications/2022-review-international-offsets
[17] CCA (2022) *Review of international offsets*, https://www.climatechangeauthority.gov.au/publications/targets-progress-advice

development of quality sequestration by favouring engineered forms of sequestration and net-zero and carbon capture-derived products, and drawing on market mechanisms including advance market commitments, contracts for difference and concessional loans."[18]

The CCA pays minimal attention to fossil fuel expansion: in the *Issues Paper*, it makes the erroneous assumption that Australia's fossil fuel exports are declining.[19] The Department of Industry, Science, Energy and Resources expects exports of both thermal and metallurgical coal to be greater in 2028 than they were in 2022, while gas production is expected to decline by just half of one percent.[20]

By failing to recommend that all new fossil fuel expansion should cease, the CCA is failing to meet several of its obligations. Specifically, it is failing to:

- Be environmentally effective,
- Support the development of an effective global response to climate change, and
- Take account of the matters set out in Article 2 of the Paris Agreement.

Despite the CCA's obligation to take account of the Paris Agreement, and the acknowledgement in the recent *Reduce, remove and store* report of the IPCC's prediction that even if all nationally determined contributions (NDCs) to the Paris Agreement are met, "warming will [likely] exceed 1.5°C during the 21st century",[21] the Authority's advice neglects to emphasise that:

- Australia's current NDC is insufficient to meet the goals of the Paris Agreement;[22]
- Australia has no clear pathway to its NDC of 43% reduction on 2005 emissions by 2030;[23]
- Projections for Australian emission reduction targets rely on carbon offsetting, an industry in which many of the CCA's members have a material interest, and the efficacy of which remains in doubt;[24] and

[18] CCA (2023) *Reduce, remove and store: The role of carbon sequestration in accelerating Australia's decarbonisation*, https://www.climatechangeauthority.gov.au/publications/reduce-remove-and-store-role-carbon-sequestration-accelerating-australias-decarbonisation

[19] See p23.

[20] DISER (2023) *Resources and energy quarterly: March 2023 – forecast data*, https://www.industry.gov.au/publications/resources-and-energy-quarterly-march-2023

[21] CCA (2023) *Reduce, remove and store: The role of carbon sequestration in accelerating Australia's decarbonisation*, April, https://www.climatechangeauthority.gov.au/sites/default/files/2023-04/Sequestration%20Insights%20Paper%20-%20Publication%20Report_0.pdf

[22] Climate Action Tracker (2022) 'Australia', August 2, https://climateactiontracker.org/countries/australia/

[23] Hemming (2023) *Time is running out to reach our emissions target and our path needs changing,* https://australiainstitute.org.au/post/time-is-running-out-to-reach-our-emissions-target-and-our-path-needs-changing/

[24] Butler et al (2023) *Correcting the Record: Response to Professor Chubb's Statement on Carbon Farming*, https://law.anu.edu.au/sites/all/files/correcting_the_record_-_chubb_carbon_farming_23_march_2023.pdf

- Global targets cannot be met if Australian fossil fuel reserves are extracted and exported.[25]

In the *Issues Paper*, the CCA continues to support the export of fossil fuels, stating that "as Australia reduces its export of fossil fuels, other countries may 'fill in the gap' by increasing exports. Ultimately, customers of fossil fuel imports will decide when they phase them out."[26] This argument is clearly incompatible with the responsibilities of the Authority under the *Act*, as it fails to support the development of an effective global response to climate change. It is also inconsistent with being environmentally effective, or meeting the goal of limiting warming to 1.5°C.

The CCA has consistently supported the deployment of carbon sequestration technologies alongside the expansion of fossil fuels, framing this as a future "competitive advantage",[27] and suggested that "the generation and trade of credits in carbon markets are mechanisms to support realisation of carbon sequestration potential."[28] These arguments support the value of carbon credits, and promote an increase to their supply. By supporting avenues for continued fossil fuel extraction and export, the CCA violates its obligations under the *Act,* as the most efficient, cost-effective, science-based way to cut Australia's emissions and meet the principles above is to stop approving and subsidising fossil fuel expansion.

By framing carbon sequestration as a "competitive advantage," public confidence in the CCA's independent advice is undermined by clear conflicts of interest. In the *Issues Paper*, the Authority suggests that "companies could export products with embedded emissions and/or emissions from the use of those products (scope 3 emissions) offset in Australia."[29] This advice, relying on Article 6 of the Paris Agreement, could see an enormous expansion in the value of offset credits, as well as greenwashing the continued expansion of Australian fossil fuel exports.

Butler et al (2023) Summary Results of Analysis of the Integrity Risk and Performance of Human-induced Regeneration (HIR) Projects using CEA data, June 21, https://law.anu.edu.au/sites/all/files/summary_results_of_analysis_of_hir_cea_data_210623.pdf

[25] International Energy Agency (2021) *Net Zero by 2050: A roadmap for the global energy sector*, Paris, https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf

[26] CCA (2023) *Setting, tracking and achieving Australia's emissions reduction targets*, p. 23

[27] CCA (2021) *Paris Plus: From cost to competitive advantage*, October, https://www.climatechangeauthority.gov.au/sites/default/files/2021-10/Paris%20Plus%20Insights%20Paper%20FINAL.pdf ; CCA (2023) *Reduce, remove, restore*; King and Hughes (2023) 'Sequestration essential to challenge of climate change'

[28] CCA (2023) *Reduce, remove, restore*, p. 8.

[29] Ibid., p. 29.

ISSUES PAPER QUESTIONS

As we have laid out above, and in previous publications,[30] The Australia Institute has serious concerns with the track record of the CCA in its tacit support of continued fossil fuel development in Australia. The CCA's arguments for this support rest on the expansion of carbon credit supply, including from geological sequestration technologies that have seen minimal real-world success. As several CCA members have interests in either fossil fuel and/or carbon credit industries, this advice suggests possible conflicts of interest. This undermines public trust in the quality and independence of the CCA's advice to government.

Here we take the opportunity to respond to questions laid out in the *Issues Paper* to expand on the apparent lack of rigour in the CCA's advice.

> *25. Following adoption of the Chubb Review recommendations, what concerns about ACCU integrity remain?*

The Australia Institute raised concerns around the Chubb Review process and the independence of the panel, which appeared to have strong links to the carbon market: in addition to Dr Hatfield Dodd's, discussed above, another panel member was reported to have promoted carbon credits as an investment opportunity while the review was occurring.[31] These concerns were never sufficiently addressed.

The Government appeared to pre-empt the Chubb Review's findings, ploughing ahead with reforms of the Safeguard Mechanism before the review had concluded. Climate Change and Energy Minister Chris Bowen encouraged participation in the carbon market while the review was taking place, emphasising the importance of "building demand" for carbon credits and saying, "carbon credits will play a vital role in our government's climate action plan … but we must do more to unlock the full potential of the carbon credit system".[32]

Since the Chubb Review, researchers from ANU and UNSW have rejected many of its findings and questioned the methods deployed.[33] Many of the very critiques that prompted the review in the first place remain unaddressed.

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[30] Hemming (2023) *Conflict of Interest Concerns Spread to Climate Authority after PwC Scandal*, https://australiainstitute.org.au/post/conflict-of-interest-concerns-spread-to-climate-authority-after-pwc-scandal/ ; Hemming & Venketasubramanian (2022) *Hot air won't stop global warming: Submission to the Climate Change Authority's review of international offsets*, https://australiainstitute.org.au/wp-content/uploads/2022/08/P1222-Hot-air-wont-stop-global-warming-WEB.pdf

[31] Keane (2022) *Questions over ACCU review after allegations panel member urged 'potential' for investors*, https://www.crikey.com.au/2022/11/18/accu-review-concern-panel-member-investment-potential/

[32] Bowen (2022) *Keynote address to Carbon Market Institute Symposium*, https://minister.dcceew.gov.au/bowen/speeches/keynote-address-carbon-market-institute-symposium

[33] Macintosh et al (2023) *Summary Results of Analysis of the Integrity Risk and Performance of Human-induced Regeneration (HIR) Projects using CEA data*, https://law.anu.edu.au/sites/all/files/summary_results_of_analysis_of_hir_cea_data_210623.pdf; Macintosh

The review of carbon credits has failed to provide assurance that Australia's carbon credits have integrity. Despite this, the CCA continues to advocate for the expansion and formalisation of the offset market.[34] Because of this, there is a huge risk that a net-zero policy that relies on offsets—such as the Safeguard Mechanism—will see demand for low-integrity carbon credits skyrocket, and that total emissions will *increase*.

26. What are the risks to integrity that should be buffered against?

Following the Chubb Report, the *Issues Paper* raises an "integrity buffer," which "would mitigate the risk that despite [measures to ensure ACCU integrity], ACCUs are issued where no abatement has occurred."[35] Regardless of the method deployed to create such a buffer, it seems likely that it would have the effect of increasing the value of ACCUs.

A buffer would mean that less ACCUs are available relative to emission abatement activities. There are several factors that are currently contributing to increasing demand for ACCUs, including reforms to the Safeguard Mechanism, as well as rapid expansion of fossil fuel projects, especially in natural gas. With more buyers needing ACCUs to meet compulsory and voluntary goals, we can expect an increase in price. Far from presenting a challenge or check to the carbon credit industry, any increases in carbon project costs from a buffer will likely be offset by an increase in ACCU price.

In any case, whether ACCU prices will increase or decrease as Chubb Review recommendations are implemented, the question of conflicting interests remains. Can the CCA really provide independent, rigorous advice on Australian climate policy when the interests of its members are potentially conflicted by any changes. implicated in any changes?

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et al (2023) *The under-performance of human-induced regeneration (HIR) projects: Analysis of misinformation disseminated by the Clean Energy Regulator*, https://law.anu.edu.au/sites/all/files/response_to_cer_hir_graphs_190623.pdf; Macintosh et al (2023) *Tortured recommendations, incomplete and unsubstantiated findings: an analysis of the report of the Independent Review of Australian Carbon Credit Units*, https://law.anu.edu.au/sites/all/files/analysis_of_the_report_of_the_independent_review_of_australian_carbon_credit_units_final_150223.pdf

[34] CCA (2022) *Review of international offsets*

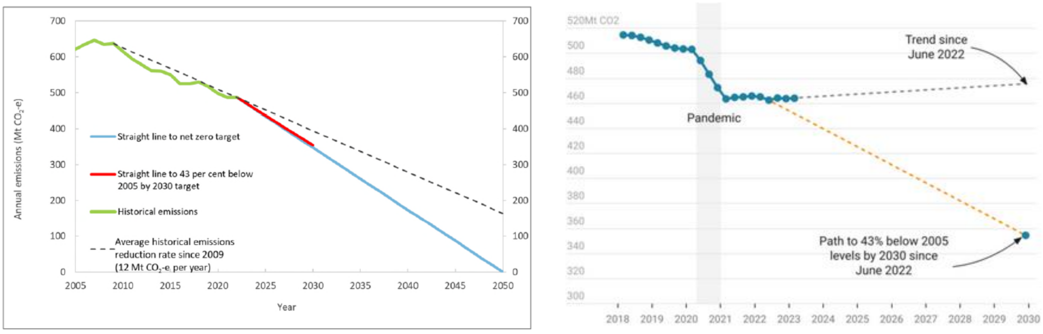
[35] CCA (2023) *Setting, measuring and achieving Australia's emissions reduction targets*

Conclusion

Australian climate policy has been entirely mismanaged for a decade. For much of that decade the CCA has been sidelined and largely invisible. The Albanese Government has put the CCA back into a position of influence, but, so far, the CCA has done little to move policy, and the country, onto a more sustainable path.

This is perhaps best demonstrated with charts produced by the CCA and The Australia Institute. Despite both being based on the same data source, albeit some months apart, the message delivered could not be more different:

Figure 1: CCA and Australia Institute interpretation of Australian emissions data



Sources: CCA (2022) First annual progress report, Hemming (2023) Time is running out to reach our emissions target, and our path needs changing

As shown in Figure 1 above, the CCA publication gives the impression that Australia's climate targets could be achieved with just a small shift in trajectory. Our interpretation shows that this is false. Australia is not decarbonising. Emissions are increasing, either overall or certainly outside of the land sector. Fossil fuel exports are increasing. The CCA and its conflicted membership seem content to ignore this. We hope to be surprised by strong policy recommendations to government coming out of this consultation process.