



australian network of environmental defender's offices

Submission on the draft National Carbon Offset March 2009
Standard.

The Australian Network of Environmental Defender's Offices (ANEDO) consists of nine independently constituted and managed community environmental law centres located in each State and Territory of Australia.

Each EDO is dedicated to protecting the environment in the public interest. EDOs provide legal representation and advice, take an active role in environmental law reform and policy formulation, and offer a significant education program designed to facilitate public participation in environmental decision making.

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Executive Summary

The Australian Network of Environmental Defender's Offices Inc (ANEDO) is a network of 9 community legal centres in each state and territory, specialising in public interest environmental law and policy. ANEDO welcomes the opportunity to provide comment on the National Carbon Offset Standard (the Standard) and Discussion Paper.

The Government has stated that it “has committed to develop a national carbon offset standard to give consumers confidence in the integrity of carbon offset products they purchase.”¹ In line with previous submissions ANEDO supports a national approach to assessing the validity of carbon offsets. However, we have a number of concerns regarding the proposed Standard relating to the extent to which it is consistent with established offsetting principles. As such, we submit that a number of changes are needed to the proposed Standard to ensure offsets are genuine and effective which will provide valuable guidance to the corporate sector and engender community confidence in the veracity of carbon neutrality claims.

This submission is divided into three parts. Part 1 will address some of the broad concerns with the introduction of the proposed Standard. Part 2 of the submission will address the questions provided in the Discussion Paper. Finally, Part 3 will address some specific components of the Standard itself.

Key Recommendations

ANEDO makes the following key recommendations and observations:

- the development of a mandatory national carbon offset standard is supported;
- such a standard should exist in a robust legislative framework;
- voluntary offsets should be additional to both international obligations and domestic compliance schemes;
- offsets generated in uncovered sectors and counted towards Australia’s Kyoto target should be made additional to Kyoto obligations through the Government cancelling AAU’s equivalent to the credits;
- the definition of carbon neutrality under the standard should not be given an economy wide interpretation but instead be assigned only to individual entities that have zero net emissions after balancing the production and reduction efforts of their GHG emissions;
- an entity should not be able to profess to be carbon neutral under the standard purely as a result of it having its emissions covered by the CPRS;

¹ Department of Climate Change, http://www.climatechange.gov.au/nav/carbon_offset.html, viewed 21 January 2008.

- any entity attempting to calculate its carbon footprint under the Standard should provide information on both the scope of emissions it is including and excluding, as well the methodology implemented to calculate the figure;
- all reforestation activities wishing to sell credits should opt into the CPRS; and
- the proposed standard should be amended to better promote and communicate the ‘avoid, mitigate, offset’ hierarchy.

Part 1 – General comments

Absence of a Federal Standard

ANEDO submits that there is a need for a recognised national standard for carbon offsets for two reasons - the impending introduction of Australia’s Carbon Pollution Reduction Scheme (CPRS) combined with the exponential growth of the voluntary unregulated carbon offset market. Moreover, there has been a recent concern about the veracity of corporate claims of ‘carbon neutrality’ which compromises the integrity of the market. As has been observed:

“it is difficult for offset purchasers to differentiate between a low-quality and high-quality offset, and it is often difficult for purchasers to be assured that their purchases of carbon offsets are in reality offsetting their emissions.”²

The ACCC released guidelines on Green Marketing and the Trade Practices Act³ in February 2008 in an effort to “assist manufacturers, suppliers, advertisers and others to assess the strength of any environmental claims they make and to improve the accuracy and usefulness to consumers of their labelling, packaging and advertising.”⁴ Additionally, the private sector released reports in an effort to increase transparency and consumer confidence with the Carbon Offset Watch⁵ (COW) being released in September last year. The COW independently ranked 20 of the largest voluntary offset providers in the country. Notwithstanding these measures, the integrity of the voluntary offset market should not rest purely on such private sector driven self-regulatory measures alone. Instead ANEDO believes that the introduction of a national mandatory legislative framework for regulation of the voluntary offset market is required to improve the integrity and effectiveness of the market.

Another Voluntary Standard?

² Ribon, L. & Scott, H. 2007, ‘Carbon Offset Providers in Australia 2007’, Global Sustainability at RMIT University.

³ Available at: <http://www.accc.gov.au/content/index.phtml/itemId/815763>.

⁴ Available at: <http://www.accc.gov.au/content/index.phtml/itemId/815763>.

⁵ Carbon Offset Watch is a partnership between the Institute for Sustainable Futures (an academic research institute at the University of Technology, Sydney), the Total Environment Centre (representing environmental interests) and CHOICE (representing consumer interests). Available at: <http://www.carbonoffsetwatch.org.au/>.

The carbon standard proposed will be introduced into an already congested market of accreditation systems. The discussion paper “suggests that the standard provide guidance to the market and be voluntary.”⁶ In the interest of elevating consumer confidence and market consistency ANEDO supports a standard that is compulsory and sets a benchmark to which all voluntary offsets must comply. Otherwise, ANEDO fears that introducing a voluntary standard alongside other established accreditation systems such as the Gold Standard and the Voluntary Carbon Standard, will merely add further confusion. Furthermore ANEDO submits that the proposition made by the discussion paper that there be no “quality mark or logo” attached to those offsets that comply with the standard is illogical. As the Discussion Paper notes, the main purpose of the Standard is “to ensure that consumers have confidence in the voluntary carbon offsets market and the integrity of the carbon offset products they purchase.”⁷ Therefore it would make sense that there be an easily identifiable “quality mark or logo” to allow the public to identify those entities complying with the Standard.

Adverse Impact on the Voluntary Carbon Market and Disincentive for Individual Action

The reduction that the voluntary carbon market makes in terms of Australia’s contribution to global GHG emissions should not be underestimated. In a recent article it was noted that,

“(V)oluntary action is already responsible for around 0.5% of our emissions reductions, which is a hefty increase relative to the meagre 5% cap. If the voluntary market was given proper support, some argue that it could double Australia’s reductions at 10%.”⁸

Despite this proportionally large contribution, the voluntary carbon market seems doomed to fail, largely as a result of the fact that,

“the anticipated purchase of domestic offsets on the voluntary market will be taken into account in setting the Scheme cap and will contribute to Australia meeting its obligations under the Kyoto protocol.”⁹

This greatly restricts the opportunity for those entities who wish to ensure that their individual action in reducing Australia’s GHG emissions is not exploited by others under the CPRS cap or does not contribute to reducing Australia’s international obligations; i.e. it is very difficult for an entity to ensure that their offset is ‘additional’ to existing programs.

⁶ At pg 27 of the Discussion Paper.

⁷ At pg 3 of the Discussion Paper.

⁸ Castle, J. 2009, ‘Federal Government the Missing Link in Voluntary Offset Market.’ Available at: <http://www.environmentalmanagementnews.net/storyview.asp?storyid=892413§ionsource=s253>.

⁹ At pg 23 of the Discussion Paper.

“Most official and informal watchdogs consider ‘additionality’ to be crucial to voluntary offsetting credibility (additionality literally means that offsets are in addition to any reductions that would have happened anyway), whether through business as usual or government mandate i.e. to meet a binding Kyoto target, or under and official cap-and-trade scheme like that planned for Australia.”¹⁰

As presently framed, the only domestic opportunities provided for offsets, besides voluntarily retiring permits, include “non-Kyoto compliant forests, non-forest revegetation, crop and grazing land management, avoided deforestation and savannah fire management.”¹¹ As such, it is likely that those individuals wishing to ensure additionality when buying offsets, will seek offsets from international carbon reduction projects in non-Kyoto capped countries.

Recent media has drawn criticism to this proposed structure of the CPRS allowing polluters to benefit from the voluntary efforts of entities wishing to reduce GHG emissions.¹² In terms of emissions in CPRS covered sectors, it is not clearly understood that “emissions trading will impose a ‘floor’ below which emissions cannot fall as well as a ‘cap’ above which emissions cannot rise.”¹³ Although we note that any person could purchase an AAU or international permit and retire them under the Scheme, there may be much less desire to do this by the general public than there is to take direct voluntary action such as reduce energy consumption, Unless complimentary measures are developed to harness household activities such as voluntary offsets and energy efficiency measures, there is little incentive for such entities to continue this voluntary action:

“If households use less energy and create less pollution, they will simply free up permits to allow other families or other industries to increase their own emissions...” and so “concerned households and businesses will not be able to make any meaningful contribution to greenhouse gas abatement.”¹⁴

Furthermore the perverse incentive exists in regard to voluntary offsets in CPRS covered sectors that if,

¹⁰ Hogarth, M. 2008, ‘Crunch Time for Offsets: Where to now for the voluntary carbon markets?’ A discussion paper from the Total Environment Centre and the Green Capital Program. Available at: http://www.greencapital.org.au/index.php?option=com_docman&task=doc_view&gid=145.

¹¹ Anderson, G. & Birrell, S. 2009, ‘Focus: Climate Change – February 2009: Federal Government releases draft National Carbon Offset Standard.’ Available at: <http://www.aar.com.au/pubs/cc/focc9feb09.htm>.

¹² Gittins, R. 2009, ‘Emission impossible: the sad truth’, *Sydney Morning Herald*. Available at: <http://business.smh.com.au/business/emission-impossible-the-sad-truth-20090224-8gsv.html?page=-1>.

¹³ Denniss, R. 2008, ‘Fixing the Floor in the ETS – The role of energy efficiency in reducing Australia’s emissions’, The Australia Institute, Research Paper No. 59. Available at: <http://www.getup.org.au/files/campaigns/australiainstituteetspaper.pdf>.

¹⁴ Denniss, R. 2008, ‘Fixing the Floor in the ETS – The role of energy efficiency in reducing Australia’s emissions’, The Australia Institute, Research Paper No. 59. Available at: <http://www.getup.org.au/files/campaigns/australiainstituteetspaper.pdf>.

“people decide to spend money on voluntary offsets so that they can become ‘carbon neutral’, all they will have done is increase the amount of pollution that others can emit...”¹⁵

Finally in regard to energy efficiency measures there is an enormous disincentive for individuals to take responsibility for their own carbon footprint which is contrary to the many government and community driven programs designed to educate the public about the importance of individual action to GHG emissions in Australian and the world. It “reduces the incentive for consumers to adopt low emissions and energy efficient technologies (such as rooftop solar panels), as their energy savings do not translate into an overall reduction in allowable emissions (although they will still translate into reduced energy costs).”¹⁶

As this becomes more widely known, it is likely that the scope for voluntary offset activities will be thoroughly marginalised. This may well in turn threaten both consumer confidence in the legitimacy of the CPRS and the Standard, as well as the ongoing survival of the voluntary offset market.

ANEDO notes there are still climate change benefits from taking voluntary action to reduce emissions in covered sectors despite the fact that overall emissions will not decrease as a result. These include investment to support the development of the renewable energy sector and a reduction in the demand for highly polluting fossil fuels which will result in deeper cuts to emissions in the future. However despite these ancillary benefits it would still be preferable for voluntary action to be recognised under the CPRS.

At the present time it is crucial that the Government provide incentives for the development of domestic offset measures and the advancement of renewable energy. A recent article identifies that the Government could ensure the ongoing survival of the voluntary offset market through “making voluntary offsets additional to Kyoto cap and/or compliance scheme reductions.”¹⁷ ANEDO supports this suggestion.

Polluter Pays Principle

ANEDO has a number of concerns arising from the fundamental concepts raised within the Discussion Paper, particularly the absence of consistency with the

¹⁵ Denniss, R. 2008, ‘Fixing the Floor in the ETS – The role of energy efficiency in reducing Australia’s emissions’, The Australia Institute, Research Paper No. 59. Available at: <http://www.getup.org.au/files/campaigns/australiainstituteetspaper.pdf>.

¹⁶ Anderson, G. & Birrell, S. 2009, ‘Focus: Climate Change – February 2009: Federal Government releases draft National Carbon Offset Standard.’ Available at: <http://www.aar.com.au/pubs/cc/focc9feb09.htm>.

¹⁷ Hogarth, M. 2008, ‘Crunch Time for Offsets: Where to now for the voluntary carbon markets?’ A discussion paper from the Total Environment Centre and the Green Capital Program. Available at: http://www.greencapital.org.au/index.php?option=com_docman&task=doc_view&gid=145.

polluter pays principle of Ecologically Sustainable Development. The polluter pays principle has been defined as:

“the principle according to which the polluter should bear the cost of measures to reduce pollution according to the extent of either the damage done to society or the exceeding of an acceptable level (standard) of pollution.”¹⁸

In allowing voluntary offset action to be taken into account when setting the Scheme cap, as well as contribute to Australia meeting its obligations under the Kyoto protocol, large polluters are effectively allowed to benefit from the emission abatement measures undertaken by others. This cost shifting is inconsistent with the polluter pays principle and the use of the market to provide positive environmental outcomes. Polluters therefore will not be held entirely responsible for their entire emissions which, in addition to violating the polluter pays principle, is also environmentally, economically, and socially irresponsible.

ANEDO therefore submits that voluntary offsets should be in “addition to Kyoto cap and/or compliance scheme reductions.”¹⁹ The current standard provides a disincentive for large polluters to shift from a reliance on fossil fuels to renewable energy, decreases the motivation to rapidly transition into a low carbon economy and encourages a business as usual scenario.

Avoid, Mitigate and Offset Hierarchy and Business as Usual Approach

ANEDO has concerns that the Discussion Paper fails to recognise the role that offsets should play in the 'avoid, mitigate and offset' hierarchy of actions taken by entities to decrease the anthropogenic impacts of climate change. Some businesses and individuals may decide to purchase offsets in the voluntary market to become carbon neutral (i.e. beyond compliance with the Scheme) or to simply contribute to a reduction in Australia's total emissions outside the Scheme. It is essential that the purchase of offsets in the voluntary market is not seen as a licence to continue a 'business as usual' approach; i.e. whereby the greenhouse gases (GHG's) emitted by an entity are seen merely as a cost of business with little incentive for reduction. Such an approach will not aid the transition to a low carbon economy that is needed if we are to seriously address the anthropogenic influences of climate change. Even in the voluntary market, it is important to encourage entities to reduce their own emissions before purchasing an offset. ANEDO submits that prior to offsets being utilised, environmental impacts must be avoided first by using all cost-effective prevention and mitigation measures on-site. Offsets should then only be used as the final measure to address remaining loads of pollutants. ANEDO stresses that the standard should better communicate to both the public and private sector the importance of the 'avoid, mitigate and then offset' hierarchy.

¹⁸ Organisation for Economic Co-operation and Development. Available at: <http://stats.oecd.org/glossary/detail.asp?ID=2074>.

¹⁹ Hogarth, M. 2008, 'Crunch Time for Offsets: Where to now for the voluntary carbon markets?' A discussion paper from the Total Environment Centre and the Green Capital Program. Available at: http://www.greencapital.org.au/index.php?option=com_docman&task=doc_view&gid=145.

Part 2 – Questions from the Discussion Paper

1. Is the term 'carbon neutrality' still meaningful in the context of a cap and trade scheme?

This question in the Discussion Paper could be better phrased as “can the term ‘carbon neutrality’ be utilised in the context of a cap and trade scheme?” To ask whether the term ‘carbon neutrality’ is ‘still meaningful’ suggests that there has, at one point, been a universally accepted understanding or sense of clarity around the concept of carbon neutrality. ANEDO submits that this is not the case. In the absence of government regulation, ANEDO is concerned about the potentially inconsistent, unverified and unsubstantiated claims of carbon neutrality and offsetting being used without the adequate transparency and substantiation required by accepted offsetting principles.

Therefore, ANEDO submits that before the concept of ‘carbon neutrality’ can be meaningful in the context of a cap and trade scheme, there is a need for greater clarification, and ideally an accepted definition of what carbon neutrality means.

ANEDO submits that the following definition provided in the draft Standard is appropriate, whereby it provides that carbon neutrality, “commonly refers to a situation where the net emissions associated with an organisations activities, product or service are zero.”²⁰ This definition is straightforward and leaves little room for misinterpretation in terms of coverage and responsibility. ANEDO therefore submits that this interpretation of carbon neutrality would be meaningful in the context of a cap and trade scheme.

However, ANEDO fears that the use of ‘carbon neutrality’ in the Discussion Paper, as opposed to the draft Standard, attaches an additional and inaccurate meaning to the term which will lead to greater confusion surrounding carbon offsets. The Discussion Paper introduces the idea that carbon neutrality only has relevance to economy wide emissions rather than to individual business emissions:

“From a consumer’s point of view, the environmental credibility of carbon neutrality comes from the fact that offsetting means an entity’s activities do not increase aggregate emissions and therefore help to mitigate climate change.”²¹

Applying the term ‘carbon neutrality’ in this context may be used in marketing by those operating on an economy wide interpretation of the phrase. Credibility and the associated economic advantages may be diverted from those entities aiming to achieve true carbon neutrality (on the basis that the entity releases no net emissions) through offsetting the entirety of their emissions. ANEDO submits that using the term in the context of aggregate emissions will erode public confidence in the CPRS and undermine legitimate actions by those voluntarily abating emissions. ‘Carbon neutrality’ is therefore still meaningful in the context of a cap and trade scheme. However it should only be applied to individual entities undertaking abatement actions which result in no net emissions and not applied to economy wide emissions. ANEDO disagrees with the interpretation of carbon neutrality

²⁰ At pg 5 of the Draft National Carbon Offset Standard.

²¹ At pg 7 of the Discussion Paper.

that refers to aggregate emissions, and believes that the definition supplied in the Standard to be far more appropriate and transparent.

2. Rather than 'carbon neutrality' would another concept such as 'additional voluntary action' be more appropriate to recognise voluntary activity?

As ANEDO has expressed above, the term should conform to the individual entity's definition of carbon neutrality (as opposed to economy wide aggregate emissions) in order to achieve consistency, value and to maintain the concept of an entity having zero net emissions after balancing the production and reduction efforts towards its greenhouse gas emissions.

ANEDO submits that an entity operating within the CPRS scheme limits and having therefore no net impact on aggregate emissions should not be labelled 'carbon neutral'. An alternative term should be developed to cover this category could be developed such as 'Scheme covered' or 'Scheme compliant'. This would allow those entities that are working to offset their current emissions to benefit from the associated marketing and positive public perception associated with the concept of 'carbon neutral', without having to undergo a new, potentially expensive and time consuming rebranding of their voluntary activities.

3. If all an entity's emissions were covered by the Scheme, would it be sufficient for the entity to participate in the Scheme to be considered carbon neutral?

ANEDO submits that allowing an entity to represent to the public that it is carbon neutral purely as a result of participating in the CPRS scheme is completely inappropriate. The concept of 'carbon neutrality' has widely accepted connotations of environmental responsibility attached to it. ANEDO submits that those entities that are making a concerted effort to mitigate their emissions should benefit from any potential gains to subsidise the cost of operating above and beyond what is required under the mandatory CPRS.

ANEDO notes the concerns raised in the Discussion Paper that it may be far too expensive for those entities that wish to continue calling themselves carbon neutral, as a result of the fact that they will not only have to buy permits under the CPRS to comply with their mandatory obligations, but they will also have to offset again after complying with the scheme to claim true neutrality. ANEDO submits that economic inconvenience is not a satisfactory reason to redefine the concept of carbon neutrality.

Applying the term to those entities who are merely participating in the scheme firstly does not inspire covered entities to strive for greenhouse gas abatement beyond that of the CPRS, and secondly does not clearly differentiate for the public those entities who are acting beyond their obligation and those that are merely complying with a mandatory obligation. Finally, if an entity is simply covered by the scheme it does not translate to that entity having zero net emissions at a global

level. For these reasons, an entity merely covered by CPRS should not be awarded with the ‘carbon neutral’ label.

4. Should calculation of a carbon footprint be based only on emissions from uncovered sources or should it be based on an individual activity’s entire emissions?

The calculation principles outlined in the Standard are based on the established principles of relevance, completeness, consistency, transparency and accuracy from Greenhouse Friendly and the Greenhouse Gas Protocol which ANEDO supports. Therefore calculation of an organisation, service, or product’s carbon footprint should be based on its total emissions and not limited to its emissions from uncovered sectors. Coverage under the CPRS does not eliminate or remove emissions, it only provides a mechanism to regulate them and establish a price signal to reduce emissions.

Furthermore the definition of carbon footprint is “the total set of greenhouse gas emissions caused directly and indirectly by an individual, event, organisation or product expressed as CO₂e.”²² As this definition provides that it is the “total” amount of GHG emissions, ANEDO submits that the definition should clearly encapsulate an individual activity’s entire emissions.

Finally, as the Standard is intended to provide consumer confidence, it should utilise terminology that does not implement qualifications or exceptions to ensure that it is as accessible, understandable and transparent as possible.

5. Does calculation of a carbon footprint represent a sound benchmark from which to determine the degree of voluntary action an entity may wish to undertake?

As long as the methodology implemented is scientifically robust, it accounts for all emissions and is conducted by an accredited entity, ANEDO would support the concept of ‘carbon footprint’ as a sound benchmark from which to determine the degree of voluntary action an entity may wish to undertake.

6. Should different approaches to lifecycle analysis be applied to organisations, products and services?

ANEDO is aware of the costs associated with obtaining a full lifecycle analysis of an organisation, product or service. To require that each entity conduct a complete lifecycle analysis is unrealistic and often prohibitively expensive. What ANEDO believes to be appropriate (in line with the response provided to question 7 below) is that each entity clearly communicate the emissions it is taking into account and

²² The UK Carbon Trusts. Available at:
http://www.carbontrust.co.uk/solutions/CarbonFootprinting/what_is_a_carbon_footprint.htm.

excluding when determining its footprint, so as to operate in as transparent a manner as possible.

7. Should the calculation of Scope 3 emissions be optional for organisations and/or services and if so which, if any, Scope 3 emissions should be considered?

ANEDO submits that it is preferable for entities to calculate their Scope 3 emissions. Without an analysis of the emissions contained throughout their respective supply chains, it is impossible to ascertain the total emissions encapsulated within it. In the absence of such information, an entity is unable to make decisions and adapt its behaviour to operate in the most environmentally responsible manner possible. Additionally, should an entity declare itself to be carbon neutral without taking into account its scope 3 emissions it may be subject to action from the ACCC.

It is difficult to define what Scope 3 emissions are without firstly clarifying what falls within the parameters of Scope 1 and 2 emissions. The World Resources Institute in their 2004 Greenhouse Gas Protocol provided the following definitions:

“**Scope 1** accounts for direct GHG emissions from sources owned or controlled by the company. This does not include direct emissions from the combustion of biomass, neither does it cover those not covered by the Kyoto Protocol.

Scope 2 accounts for GHG emissions associated with the generation of electricity, heating/ cooling, or steam purchased for the reporting entity’s own consumption. Scope 2 emissions occur at the facility where the generation of electricity, heating/ cooling, or steam takes place.

Scope 3 accounts for all other indirect GHG emissions. These are emissions that occur as a result of the activities of the company – the company’s demand for goods and services – but are from sources not owned or controlled by the company.”²³

There has historically been some conjecture regarding whether the Scope 3 emissions of an entity should be required to be reported largely as a result of the difficulties in quantifying the applicable emissions. ANEDO is aware that various methodologies are being developed to quantify an entity’s Scope 3 emissions, however there is no widely accepted standard.

Until a robust, widely accepted methodology is developed ANEDO suggests entities should undertake the following course of action. First, entities wishing to release reports regarding their full scope of emissions should do so in a way that promotes as much transparency as possible. This includes not only providing the emissions that an entity has taken into account when determining their scope 3 emissions, but also those they have chosen to discount. Second, the methodology used to calculate the amount of scope 3 emissions should be thoroughly set out in

²³ Available at: <http://www.ghgprotocol.org/>.

the report. Adhering to these principles would promote both transparency and consumer confidence.

8. Do the GHG Protocol principles and/or the Greenhouse Friendly™ initiative steps for Life Cycle Analysis constitute an appropriate basis for the calculation of a carbon footprint for organisations, products or services under the national standard?

The principles outlined in the Draft Standard form a good basis for the calculation and ensure transparency and accountability, while not overburdening the organisation, product or service seeking to become carbon neutral.

9. What types of international offset credits should be eligible under the standard?

ANEDO submits Voluntary Carbon Standard and the Gold Standard are two international offset credits that should be eligible under the standard as they have continued to demonstrate that all projects that receive accreditation are independently verified and have quantifiable, additional and permanent emission reductions.

10. Should domestic offsets from uncovered sources contribute to Australia's Kyoto obligations or should an Assigned Amount Unit be cancelled to provide additionality beyond the Kyoto obligations?

ANEDO submits that domestic offsets from uncovered sources should not contribute to Australia's compliance with the Kyoto obligations. Instead an AAU should be cancelled to provide additionality beyond the Kyoto obligations. The comments provided in Part 1 of the submission elaborate on the reasons why any voluntary domestic offset should not contribute to meeting both Australia's international targets or the targets envisaged to be set under the CPRS. If domestic offsets in uncovered sources contribute to Australia's international obligations, the scope for individuals wishing to obtain true additionality will be marginalised to a point where the voluntary offset market in Australia will most likely fail to exist. This will encourage those people wanting robust offsets to look to overseas offset providers. This diverts investment towards developing offshore technologies. Further more, allowing polluters to benefit from the voluntary actions of others encourages a 'business as usual' approach that will reduce the incentive to transition to a low carbon economy.

11. How should reforestation be treated under the standard?

As suggested in the Discussion Paper, ANEDO is of the view that all reforestation activities wishing to sell carbon credits on either the voluntary or compliance markets should opt into the CPRS. However, there are a number of accounting issues and transitional arrangements discussed below which should be clarified to

ensure that the offsets, or additional permits, created by reforestation activities are properly accounted for and perverse incentives are not created.

There are a number of factors influencing the sequestration potential of established forests (plantation forests). These include: the climate where forests are established, age of the forest, species planted, and the management of forests, including rotation time and woody debris management.²⁴ The approach of the Commonwealth Government to date has been that carbon dioxide emissions from forestry typically match prior carbon sequestration in the forest.²⁵ This is not always the case, with soil carbon generally decreasing as a result of forest establishment,²⁶ and biomass sequestration in early years of plantation establishment being slow due to the small size of trees.²⁷ Therefore, it typically takes 10-20 years for a plantation forest to become a net carbon sink.²⁸ If plantations have short rotations, (for example 10-15 years) then soil carbon is expected to continue to decline, making these plantations net sources of carbon if carbon in the biomass is assumed to be lost when the forest is harvested.²⁹ The rules for forests included in the CPRS need to reflect this so that established forests do not receive additional permits, or offset credits for carbon that they have not sequestered and that operators will be fully liable for their carbon emissions and reduction in soil carbon as a result of their operations and management.

The voluntary inclusion of forestry within the scheme will mean that those most likely to opt-in are large commercially managed plantation forests, which are able to manage risk and harvesting over a large area, or forest owners who are establishing forests not intended for harvest and who are prepared to accept the risk of fire, drought or pest impacts. It appears unlikely that many forest owners will opt-in to the scheme as a result of these large potential drawbacks and liabilities.

As the scheme coverage is to be voluntary, it will be important to establish clear rules for forest owners who initially choose to opt-in, but then decide to opt-out because either; a) the carbon price is rising and they think it will rise further before

²⁴ Forrester, Barhus and Cowie (2006) 'Carbon allocation in a mixed-species plantation of *Eucalyptus globules* and *Acacia mearnsii*' *Forest ecology and management* 233:275-284; Johnson (1992) 'Effects of forest management on soil carbon storage' *Water, Air, and Soil Pollution* 64:83-120; Turner and Lambert (2000) 'Change in organic carbon in forest plantation soils in eastern Australia' *Forest ecology and management* 133:231-247.

²⁵ Green Paper, Section 2.8.1, pg 127.

²⁶ Chen, Xu, and Mathers (2004) 'Soil carbon pools in adjacent natural and plantation forests of subtropical Australia' *Soil Science Society of America Journal* 68:282-291; Turner and Lambert (2000) 'Change in organic carbon in forest plantation soils in eastern Australia' *Forest ecology and management* 133:231-247.

²⁷ Laclau (2003) 'Biomass and carbon sequestration of ponderosa pine plantations and native cypress forests in northwest Patagonia' *Forest ecology and management* 180:317-333; Turner and Lambert (2000) 'Change in organic carbon in forest plantation soils in eastern Australia' *Forest ecology and management* 133:231-247.

²⁸ Turner and Lambert (2000) 'Change in organic carbon in forest plantation soils in eastern Australia' *Forest ecology and management* 133:231-247.

²⁹ Turner and Lambert (2000) 'Change in organic carbon in forest plantation soils in eastern Australia' *Forest ecology and management* 133:231-247.

they harvest or b) the price of harvested trees rises, and so a forest manager who initially did not intend to harvest the forest now wants to, and wants to minimise their future obligations under the scheme. It is essential that these forest owners have to fulfil their total obligations i.e. surrender permits as if the forest is harvested on the day they opt-out of the scheme, including any potential loss of soil carbon up until that time.

As highlighted previously, ANEDO's preferred option is that all reforestation activities wishing to sell offsets on the voluntary market are covered by the CPRS. Many issues surrounding the use of forestry as offsets in the current voluntary carbon market, (such as permanence, additionality, forward selling and liability for re-establishment³⁰ in the case of damage by fire, drought or pests) would be more easily dealt with if forestry was covered by the scheme. The liability for re-establishment and the surrender of permits clearly lies with the forest owner and permanence is encouraged by the rule requiring full surrender of permits for carbon sequestered when trees are harvested. Additionality is not an issue if forestry were covered by the scheme, as carbon sequestered and emitted by the forest are both accounted for. The current practice in forestry of forward selling carbon that will not be sequestered for 100 years is also eliminated by inclusion of forestry in the scheme, as permits would only be given for carbon sequestered by the forest in that year.

We note a potential risk of including forestry in the scheme that should be considered, namely that it will only be beneficial to those forests in their early rotational stages as they still have the most sequestration potential with which to earn credits. This may create the perverse incentive of forest managers harvesting up to 20 year old trees immediately before the scheme commences in order to gain the maximum credits. This would however actually decrease the real amount of carbon sequestered in Australia for the Kyoto commitment period as the soil carbon would be decreased and biomass minimal by the end of the first commitment period. In order to eliminate this possibility, the baseline data for forestry should be data that has already been collected, and only carbon sequestered additional to this be eligible to earn permits. The CPRS rules should adequately reflect the sequestration of carbon in forest biomass, as well as the soil under these forests, as discussed earlier. ANEDO submits that the rule from the Marrakesh Accords that 'reported emissions from any given area of forested land cannot exceed sequestration over the commitment period' should not apply to the scheme after the first commitment period, given the scientific evidence that this is not an accurate reflection of carbon cycles within forests.³¹

³⁰ ANEDO submission to the ACCC on the Trade Practices Act and carbon offset claims. (2008) Available online at http://www.edo.org.au/edonsw/site/pdf/subs08/carbon_offset080218.pdf.

³¹ Chen, Xu, and Mathers (2004) 'Soil carbon pools in adjacent natural and plantation forests of subtropical Australia' *Soil Science Society of America Journal* 68:282-291; Laclau (2003) 'Biomass and carbon sequestration of ponderosa pine plantations and native cypress forests in northwest Patagonia' *Forest ecology and management* 180:317-333; Turner and Lambert (2000) 'Change in organic carbon in forest plantation soils in eastern Australia' *Forest ecology and management* 133:231-247.

12. Should domestic offset products other than carbon pollution reduction permits surrender be eligible under the standard? If so, from which sources?

As noted above, the Australian public is becoming increasingly aware of the anthropogenic contribution to climate change through the release of greenhouse gases. So long as the offsets are consistent with principles for credible offsets³² the Government should be encouraging the public through the provision of wide consumer choice to reduce Australia's contribution to global emissions beyond what is required by domestic and international obligations. The retiring of CPRS permits may be one way of achieving this, however such a method may not offer the 'narrative' and tangible results that come from, for example, observing the establishment of a wind farm. It has been demonstrated that those entities purchasing offsets voluntarily are not doing so for the same reasons as those operating under compliance markets;

“Buyers of voluntary offsets have different, beyond legal-compliance motivations, including personal accountability, corporate social responsibility, staff or community engagement and motivation, competitive differentiation, perceived customer demand, and supply chain commercial requirements. Genuine and proven carbon reduction is paramount, but a rich offset ‘story’ that adds other social, environmental and/or economic ‘co-benefits’ also is important for many buyers.”³³

The Government, through its proposed coverage of the offset market, is failing to provide those entities with the offset options they may wish to pursue to ultimately increase the contribution of the voluntary offset market in mitigating the impact of anthropogenic activity on climate change.

13. Are these appropriate principles for credible offsets under a national carbon offset standard?

ANEDO agree that the principles adopted by Greenhouse Friendly are appropriate for credible offsets under a national carbon offset standard.

14. Should the national carbon offset standard be voluntary or mandatory in nature?

As noted in Part 1, ANEDO is opposed to introducing another voluntary carbon offset standard into an already congested market of accreditation systems. In the interest of elevating consumer confidence and market consistency we support the introduction of a standard that is compulsory and sets a benchmark to which all voluntary offsets must comply. ANEDO fears that introducing another voluntary

³² Please see response to question 13 for more detail.

³³ Hogarth, M. 2008, 'Crunch Time for Offsets: Where to now for the voluntary carbon markets?' A discussion paper from the Total Environment Centre and the Green Capital Program. Available at: http://www.greencapital.org.au/index.php?option=com_docman&task=doc_view&gid=145.

standard alongside other established accreditation systems such as the Gold Standard will merely add further confusion to an already congested market.

As consumers become more environmentally conscious and begin to look at ways to reduce their carbon footprint, a number of products and services are being developed professing to both cater for, and potentially exploit, this growing trend. Consumers are being exposed to claims of carbon neutrality that are often overestimated, not scientifically robust, not independent and misleading. While the ACCC warns that misleading and deceptive conduct carries harsh penalties, the complexity of the carbon offset market will not allow for adequate enforcement without an established mandatory standard. In its report, 'Carbon claims and the Trade Practices Act', the ACCC admitted the array of methodologies used are complicated and subject to debate. In response, the ACCC merely recommends that full disclosure is needed and provides a recommended checklist of things to consider when making a claim for carbon offsetting. Whilst this may go some way towards creating greater transparency and consumer confidence, ANEDO submits that it is not enough. There is a need for a mandatory standard which will go some way towards establishing credibility and consumer confidence in the voluntary carbon offset market.

ANEDO acknowledges the argument raised in the Discussion Paper that the standard should be voluntary in order to not 'unduly restrict market activity.' ANEDO recognises this as an issue. However we submit that the regulation of the offset market is a greater priority, given the likely impacts of climate change not only on the environment, but also the economy.

15. Should there be a form of branding available to those entities which provide products or services that meet the standard?

Undoubtedly one of the main reasons for the introduction of a standard was to ensure consumer confidence and transparency in the voluntary carbon market. As such, the use of branding is supported as it would make it much easier for the general public to ascertain which products are compliant with the Standard.

16. Is further oversight of the standard required beyond the ACCC's administration and enforcement of the Trade Practices Act?

In addition to the ACCC, ANEDO submits that a specialist body with expertise in accreditation of carbon offsets (in line with the response to question 17 below) may prove beneficial in providing consumer confidence and transparency to this currently deregulated market. Additionally ANEDO also supports the proposed additional contribution of the Department of Climate Change as provided in the Standard³⁴ in monitoring the voluntary offset market.

³⁴ The DCC is proposed to be involved in reviewing information of the Eligibility Statement, being notified of any changes in the abatement scheme, appointing independent parties for the final recommendation and being presented with the annual verification by the abatement provider.

17. Should a panel of verifiers be established under the standard and/or should the standard specify a particular accreditation standard which eligible verifiers must meet?

The appointment of an independent body with expertise in the accreditation of offsets is supported by ANEDO. This would assist in ensuring that voluntary offset providers are delivering consumers the emission reductions for which they are paying for. With so many providers present in this deregulated market, any measures that provide greater transparency and accountability for consumers are therefore encouraged.

18. Does the Greenhouse Friendly™ initiative abatement provider process form a good basis for the administrative procedures for the assessment of new methodologies for the generation of domestic offsets?

ANEDO submits that the Greenhouse Friendly™ initiative abatement provider forms a good basis for the administrative procedures for the assessment of new methodologies for the generation of domestic offsets.

Part 3 Additional Comments on Carbon Offset Standard

Carbon footprint calculation

The carbon footprint calculation principles outlined in the standard are based on the established principles of relevance, completeness, consistency, transparency and accuracy from Greenhouse Friendly and the GHG Protocol which ANEDO supports. Calculation of an organisation, service, or product's carbon footprint should be based on its total emissions and not limited to its emissions from uncovered sectors. Coverage under the CPRS does not eliminate or remove emissions, only provides a mechanism to regulate them and establish a price signal to reduce emissions.

Eligible offset units

In the discussion on how to generate offsets from other domestic abatement projects, there is no explicit discussion of whether offsets may be forward sold (i.e. sold before the abatement has actually been achieved). Greenhouse Friendly does not allow the forward selling of offsets, and this section of the standard implies that this will not be permitted.³⁵ However there is no clear guidance on this. ANEDO submits that only abatement that has already occurred and has been verified is accredited under the standard to avoid the need to assign risk between the abatement provider and consumers if the predicted abatement is not actually achieved. This will also build consumer confidence in the voluntary market, as forward selling has been an issue of concern.

Public disclosure

³⁵ Page 21, para 2 of the Draft National Carbon Offset Standard 'the year the abatement was generated.'

Public disclosure of information is an integral component of the Standard to establish transparency and accountability of actions and calculations undertaken by those wishing to comply with the Standard. In light of this, ANEDO recommends that the annual report should not only include the total amount of GHG emissions generated from the product, service or organisation in that year, (as well as actions taken to reduce these emissions), but the annual report should also include the assumptions and uncertainties surrounding these calculations so that consumers can examine this information if they wish to. This means that if two similar products both comply with the standard, but one chooses to count and offset many more of their scope 3 emissions than the other, then this is made clear to consumers.

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