



Submission

Review of International offsets: Consultation Paper



Thank you for the opportunity to submit our inputs on Climate Change Authority's "*Review of international offsets: consultation paper*".

WeAct is a leading Carbon project developer and trader; trades carbon credits in Australian and global carbon markets. Our key markets include Australia, Europe, Africa, India, Korea, Mexico, Colombia, and South Africa.

Our expertise lies in our deep knowledge of international carbon markets and our global reach. Over the years, we have developed a robust market infrastructure to efficiently facilitate carbon transactions. Our submission is based on over a decade of experience in the international Carbon Markets. We have been involved in the development of Clean Development Mechanism (CDM), Gold Standard, and Verified Carbon Standard (or Verra) Projects internationally; and Emissions Reduction Fund (ERF) projects in Australia.

Our response to the questions outlined in the consultation paper is stated below.

1. The most important criteria for accepting emissions offsets for use in Climate Active and as part of IPCOS, including considering emissions offset claims from within and across different carbon accounting frameworks; and

The integrity principles listed for determining the eligibility of offsets under Climate Active are an excellent place to start defining the criteria for accepting emission offsets for use in Climate Active and IPCOS. These criteria were developed before the establishment of the Article 6 rule; therefore, revising these criteria in line with the Article 6 decisions would be an essential first step. Climate Active currently uses the integrity principles listed below as a guide for determining offsets' eligibility:

- Additional
- Permanent
- Measurable
- Transparent
- Address leakage
- Independently audited

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- Registered

We would recommend adding additional criteria to this list:

- Emissions Offsets shall be measured in metric tonnes of carbon dioxide equivalent (t CO₂ eq) in line with the metric used in Australia's NDC, applying the principles of transparency, accuracy, consistency, comparability, and completeness.
- Emissions offsets generated in the future (e.g., post-2022) should be based on the carbon project development methodology/ies that are revised and aligned with Article 6 rules of the Paris Agreement.
- Emissions offsets ensure environmental integrity and transparency. Transparency would be vital as any buyers of such credit should be able to review the publicly available project information such as emissions reduction calculations, project additionality, and baseline and stakeholder consultation meeting outcomes of the project.
- Emissions offsets arising from the energy efficiency improvements linked to fossil fuel use that enhance the lifetime of such equipment or lead to new fossil fuel investment shall be ineligible.
- The emissions offsets (i.e., ITMOs) used under IPCOS shall be correspondingly adjusted (CA) by the host country to avoid double-counting.

2. What are leading practice approaches for taking into account non-carbon benefits and avoiding adverse impacts; and

The Paris Agreement on Climate Change recognises the synergies and opportunities that exist where the benefits of climate action can be integrated with the Sustainable Development Goals (SDG) Agenda 2030. Article 6 projects under the Paris Agreement are expected to demonstrate their contribution to the SDGs and measure, report, and verify those contributions.



In our over a decade of international carbon markets experience, Gold Standard has the best practice for taking into account non-carbon benefits and avoiding adverse impacts. Projects registered under Gold Standard for Global Goals must consider non-carbon benefits such as project SDG impacts, which must be reported, monitored, and verified. Gold standard has a safeguarding mechanism that helps projects identify, prevent, and mitigate negative, unintended consequences that may arise from a given carbon project. More information on Gold Standard safeguarding mechanism can be found at:

<https://globalgoals.goldstandard.org/103-par-safeguarding-principles-requirements/>

3. Potential differences in criteria relating to the use of those offsets under Climate Active, as part of IPCOS or for other purposes; and

Since the offsets used under IPCOS are expected to be counted towards Australia's NDC, any offset used under IPCOs shall be correspondingly adjusted by the host country to avoid double counting. Further, offsets created under IPCOS shall align with the rules, modalities, and procedures of the Article 6.2 mechanism.

The offsets used under the Climate Active will not require corresponding adjustment by the host country as the use of such offsets by the Australian companies will not be counted towards Australia's NDC.

We would caution against counting Climate Active offsets towards Australia's NDC. At present, Australia's NDC is not in line with the spirit and ambition of the Paris Agreement and its long-term temperature goal.

The voluntary carbon market exists for corporates and individuals who wish to take voluntary actions to offset their emissions, which goes over and above the NDC and increases the overall climate ambition. Should Climate Active credits be counted towards Australia's NDC, this will cannibalise the voluntary actions of these non-liable entities and decrease Australia's overall climate ambition. This would likely lead corporates to leave the Climate Active program and continue their voluntary activities outside the scheme.



From a market perspective, historically, a majority of offsets retired under the Climate Active program have been international offsets due to the availability of supply and much lower cost, relative to ACCUs. We envisage Corresponding Adjusted (CA) carbon offsets being more expensive than the non-CA carbon offsets. We expect a limited supply of CA credits in the early years, making these credits expensive and unviable options for the Climate Active participants.

4. Whether the criteria can or should be applied at a scheme level, by classes of units or project types or individual projects; and

Any carbon offset projects developed in the coming years (both domestic and international) must align themselves with the rules, modalities, and procedures of the Article 6 mechanism of the Paris Agreement. This would be true for the new projects developed under the ERF. Existing ERF methodologies shall be revised according to Article 6 rules of the Paris Agreement, including any new methodologies developed under the ERF. Such alignment of methodologies with the Article 6 rules will open up opportunities for the Australian carbon market participants to develop Article 6.2 projects using ERF methodologies.

In terms of criteria, it can be applied at the scheme level, unit types, and project types, depending on the goal and climate ambition of the Australian Government. We recommend considering the following criteria for offsets under the IPCOS:

Scheme level:

The credits generated from the sector/s inside the host NDC shall be considered for IPCOS since the emissions account of such sectors is transparently reported as part of the NDC or other reporting mechanism under the UNFCCC. The host country usually has information on the underlying assumptions, data, and methodologies of NDC targets and key policies and measures associated with NDC implementation. However, emissions of the sectors outside the host country NDC may not always be publicly available and transparent, making it difficult for a buyer to ascertain the credibility of the purchase of such credits. For this reason, and to ensure that the eligibility criteria stated in Q1 above are met, we suggest considering IPCOS project activities only within the host country NDC.



Unit types:

Certified Emissions Reductions (CERs) issued as per the rules of the Kyoto Protocol from Clean Development Mechanism projects, except for:

- long-term (lCERs) and temporary (tCERs); and
- CERs from nuclear projects, the destruction of trifluoromethane, and the destruction of nitrous oxide from adipic acid plants or from large-scale hydro-electric projects

Verified Carbon Units (VCUs) issued by the Verified Carbon Standard.

Any VCUs arising from the project registered after 2022/2023 shall follow a methodology that has been revised and aligned with Article 6 of the Paris Agreement.

Gold Standard Verified Emissions Reductions (GS-VERs) issued by the Gold Standard:

Any GS-VERs arising from the project registered after 2022/2023 shall follow a methodology that has been revised and aligned with Article 6 of the Paris Agreement

Under IPCOS:

We suggest that credits are authorised by the host country and correspondingly adjusted. The carbon project should be based on a methodology/ies that is Article 6.2 aligned and the carbon activity should be within the host country's NDC.

Project types:

We suggest that in alignment with the ambition of the Paris Agreement, emissions offsets arising from the energy efficiency improvements linked to fossil fuel use that enhance the lifetime of such equipment or lead to new fossil fuel investment shall be ineligible.

We suggest community projects with higher co-benefits shall be prioritised under IPCOS. One example of such a project is provided in Annex 1 below.



5. To what extent the vintage of units (such as relating to abatement, project registration or issuance) should be relevant to the use of those offsets; and

In line with international best practice, we suggest that Australia allows international offsets according to CORSIA vintage criteria, which is post-2016.

To avoid confusion in the marketplace, the vintage criteria should be based on the “monitoring period” during which the emission reductions were achieved and not the registration or issuance date.

6. Which offsets could be eligible for use under Climate Active at the present time

The following offset units¹ are eligible under the Climate Active Carbon Neutral Standard:

- **Australian Carbon Credit Units** (ACCU) issued by the Clean Energy Regulator in accordance with the framework established by the *Carbon Credits (Carbon Farming Initiative) Act 2011*.
- **Certified Emissions Reductions** (CERs) issued as per the rules of the Kyoto Protocol from Clean Development Mechanism projects, with the exception of:
 - o long-term (lCERs) and temporary (tCERs); and
 - o CERs from nuclear projects, the destruction of trifluoromethane, and the destruction of nitrous oxide from adipic acid plants or from large-scale hydro-electric projects not consistent with criteria adopted by the EU (based on the World Commission on Dams guidelines).
- **Removal Units** (RMUs) issued by a Kyoto Protocol country on the basis of land use, land-use change and forestry activities under Article 3.3 or Article 3.4 of the Kyoto Protocol.
- **Verified Emissions Reductions** (VERs) issued by the Gold Standard.

¹ <https://www.industry.gov.au/sites/default/files/2020-09/climate-active-technical-guidance-manual.pdf>, pg 49

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- **Verified Carbon Units (VCUs)** issued by the Verified Carbon Standard.

All of the offsets mentioned above should be eligible for use under Climate Active at present. Both Gold Standard and Verified Carbon Standard will continue to generate high-quality international offsets in the Paris era. The existing CDM projects have a choice of transitioning into the A6.4 mechanism, should these CDM projects meet the new transition rules.

As per the Article 6 deal agreed at COP26, the CERs generated for the CDM projects registered on or after 1 January 2013 can be used towards countries' first nationally determined contributions (i.e., by 2030 for most countries). We doubt that any advanced developed economies will use such credits to meet their NDC target as such a decision will dampen the climate ambition agreed under the Paris Agreement. However, these credits could still be used by the Climate Active participants, with further restrictions on CERs regarding vintage and project types, and project location, allowing the Climate Active participants to purchase offsets in a supply shortage current voluntary market. An example of such restrictions could be:

- Allowing CERs generated from the least developed countries (LDCs) and Small Island Developing States (SIDS), including Australia's pacific neighbours. **[No vintage restriction]**
- Allowing CERs generated from a small scale or micro-scale community-based projects in developing countries with co-benefits **[No vintage restriction]**
- CERs generated from large scale CDM projects with **vintage restrictions** (e.g., CERs with post-2016 vintage)
- To avoid confusion, the vintage criteria should be based on the "monitoring period" during which the emission reductions were achieved.



Guiding Questions

What considerations should guide the use of international offsets in Australia?

The most important consideration for using international offsets in Australia is two folds. First and foremost, it is essential to be clear for which purposes the international offsets will ultimately be used. If they will be used to meet Australia's NDC target, then those credits shall be authorised by the host country government and correspondingly adjusted to avoid double counting.

If such credits are to be used by the voluntary market participants in the country, then no corresponding adjustment may be required. A national registry system that can house and track all international credits in a single online registry platform would be necessary as voluntary carbon standards will also be used for ITMO generation under Article 6.2.

At present, the ANREU account can only hold and track ACCUs and CERs. There will be a need to track and link the ANREU in its current form with other registries to hold and track various international credits under Article 6.2, Article 6.4, Verra, and Gold Standard.

Secondly, as part of the integrated suite of climate policies, whether Australia will require ITMOs to fulfill its NDC needs to be considered. If ITMOs are necessary, it needs to be decided what percentage of the NDC target will be achieved through ITMOs under Article 6.2 or Article 6.4 and set up the registry and implement the international offset procurement plan.

What is the role of offsets in Australia's transition to net-zero emissions, and how might this change over time?

- 1. Does this vary by offset type (e.g., sequestration vs emissions reduced or avoided?)**
- 2. What are the opportunities and risks presented by international offsets now and into the future?**



Short, medium and long-term emissions reduction targets with appropriate policies and governance mechanisms are essential for Australia’s transition to net-zero emissions. The Australian Government’s technology-driven plan will set a credible pathway to net-zero that needs to be complemented by the use of offsets for emissions arising in hard to abate sectors (e.g., mining, LNG, agriculture sector).

However, clarity on the use of offsets is critical. A country may have an ambitious net-zero target but may not have clarity and transparency around the use of offsets to achieve that target. For instance, Sweden has set a net-zero target by 2045, which became law in 2017, has transparency around offsetting. After attaining its net-zero targets, the Sweden government plans to go “net negative emissions”, meaning capturing more greenhouse gases than it emits.

We foresee other advanced economies following the Sweden government’s path of going from net zero to net negative emissions as it aligns with the ambition and long-term temperature goal of the Paris Agreement. In this journey of net zero to net negative emissions, offsets pertaining to sequestration projects will have more role to play than the offsets related to emission reduction or avoided emissions as sequestration projects will remove emissions from the atmosphere, helping achieve the long-term temperature goal of the Paris Agreement.

In terms of risk, we see that not participating in an international offset program as a risk as offset plays an essential role in addressing emissions that cannot be cut by any other means. That said, there are various qualities of credits currently available in the international market that shall go through a filtering process to be eligible under any scheme in Australia.

In terms of opportunities, large volumes of high-quality carbon credits can be generated from the pacific neighbouring countries through the IPCOS. This will help the Australian Government meet its NDC target at a lower cost and with greater socio, economic and environmental impact. This will also help Australian corporates in the voluntary market to meet their net-zero and climate-neutral pledges in a more cost-effective way. In addition, this will provide an opportunity for Australian carbon project developers to invest in and develop new carbon projects in the Indo-pacific region, thereby creating green jobs, technology transfer, and export revenue for Australia.



Carbon removal projects, in our experience, are not yet enough in numbers to meet the enormous demand for credits by the voluntary market participants that we are currently seeing in the market. In light of burgeoning corporate net-zero commitments, voluntary carbon market activity and demand for credits have spiked. Although carbon removal offsetting is becoming increasingly popular, there are often limits on the natural resources available to generate such offsets. There is clearly an opportunity to create high-quality removal offsets through IPCOS, ERF, and voluntary carbon standards nationally and internationally.

Are there lessons to be learned from experience with international carbon markets to date? What are most relevant to this review?

The biggest lesson from our experience operating in the international carbon market is the importance of balancing supply and demand. Historically, the participants under Climate Active have purchased a majority of international offsets, highlighting the need for a continued supply of such credits in the coming years. Should this not be the case (i.e., a heavy restriction on the supply of international credits comes into play), the average cost of Climate Active eligible offsets would become prohibitively expensive. Climate Active participants would likely opt out of the program and continue purchasing high-quality international offsets to meet their net-zero target under other international voluntary accreditation schemes.

In terms of demand, we see the need to create a domestic market for ITMOs generated from the IPCOS. At present, there are no such policies in place. Should the Safeguard Mechanism baselines be ratcheted down to meet Australia's increased NDC, liable entities could potentially purchase ITMOs alongside ACCUs to meet their compliance obligations.

For example, a Safeguard Mechanism liable entity could purchase just ACCUs. Or, should they wish, they could also purchase up to 50% of ITMOs to supplement the ACCUs for their compliance purposes. Allowing liable entities the opportunity to purchase ITMOs alongside ACCUs for their compliance purposes will provide them with a flexibility mechanism and also support ITMO demand.



What is your view of the criteria and standards currently applied by international offsets programs such as the Gold Standard, the Verified Carbon Standard and the Clean Development Mechanism?

- **Are there any gaps in the criteria used? What changes and/or additions are needed?**
- **What is your view of the standards applied to ensure an offsets credit represents a real reduction in greenhouse gas emissions (e.g., permanence, additionality, measurement, reporting, and verification (MRV) standards)?**
- **What is your view of the standards applied for taking into account co-benefits?**
- **What is your view of the standards applied to avoiding and addressing adverse impacts?**

As a project developer who has developed both ERF projects in Australia and CDM, VERRA, and Gold Standard Projects overseas, we can confidently assert that the criteria and standards applied by these standards are in line with the international best practice and are well respected across the world. As stated in the earlier sections, these standards will need to align their methodologies with Article 6 of the Paris Agreement.

We appreciate the opportunity to present our submission as the international carbon market continues to evolve in the Paris agreement era, with different sets of rules, bringing in more complexities in the market, where Weact would be participating proactively. We welcome the opportunity to continue providing our insights and inputs to international carbon market development and international best practice market design.



Annex 1 – Example of International Carbon Projects with high co-benefits

Over the years, we have witnessed higher demand for energy-efficient cookstoves credits in the market, often bought by corporates and European government clients at a premium price. These cookstove projects provide social, economic, and environmental benefits to the community and help the host countries meet their Sustainable Development Goals (SDGs).

After the adoption of the Paris Agreement and the Article 6 rule book, it is clear that any new carbon offset project in the future shall not only reduce GHG emissions but shall also promote sustainable development. The host country under Article 6.2, for instance, will be required to report regularly on how their cooperative approaches are contributing to sustainable development in line with their national objectives.

We firmly believe that the clean cooking technology-based carbon offset projects have a leading role under IPCOS. Along with high co-benefits, these projects will help Australia's Indo-Pacific neighbours achieve their SDGs.

Cooking without clean stoves and fuels releases toxic pollutants into the environment and endangers the health and well-being of billions in developing countries. In the Indo-pacific region, mainly in Papua New Guinea and Fiji, cooking on traditional energy-inefficient open fires is one of the key reasons for deforestation, where fuelwood is the primary source of domestic energy consumption. Over 90%² of the population in Papua New Guinea and over 70%³ of the population in Fiji pre-dominantly cooks with fuelwood, mostly on traditional energy-inefficient open fires.

The poor logging practices, regular firewood collection are the main drivers of deforestation and forest degradation in PNG and Fiji. The large dependency on firewood as a primary fuel

² <https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2013/Sep/Papua-New-Guinea.pdf?la=en&hash=3E847FD95A91ADAA4CC34614F7A325F80CE36D39>, pg, 4

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<https://cdm.unfccc.int/filestorage/Q/J/H/QJH2BYN4WR0318CASOKPFTD6M7ZI95/Untitled%20%28uploaded%2012%20Jul%2019%2020%3A30%3A02%29.pdf?t=a0R8cj2aGFifDBgDO6DKYkopWmPvVYq52>, pg,2



for households adversely affecting the forest resources leading to deforestation and forest degradation.

There are leading Australian companies and NGOs already playing their part in promoting, standardising clean cooking technologies and implementing them in developing countries.

World Vision Australia (WVA), one of the leading Australian NGOs, has been implementing an energy-efficient stoves program under CDM in Ethiopia since 2013. WVA has recently participated in the pilot Article 6.2 project development with the Swedish Government that aims to implement energy-efficient cookstoves in Ethiopia under Article 6.2.

Standards Australia, Australia's peak non-government, not-for-profit standards organisation, is working with the global community of experts in the energy-efficient cookstove sector on the standardization of cookstoves and clean cooking solutions as a member of the International Organisation for Standardization (ISO) technical committee.

The Australian Government is a partner⁴ in the Climate and Clean Air Coalition (CCAC), which brings together more than 100 partners to reduce and avoid emissions of fast-acting pollutants, such as black carbon, methane, and hydrofluorocarbons. CCAC⁵ advocates replacing traditional cooking and heating with clean-burning biomass stoves to reduce black carbon emissions. Black carbon, or soot, is part of fine particulate air pollution, according to CCAC, which contributes to climate change.

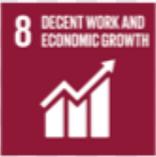
Similarly, WeAct has been implementing a cookstove CDM project in Fiji since 2019, supporting Fijian communities in accessing affordable and high-quality clean cookstoves. This project reduces indoor air pollution, reduces GHG emissions, avoids deforestation, and creates local jobs for local men and women. Clean cooking-based carbon offset project like the one that is developed by WeAct in Fiji has significant SDG impacts, which, if implemented under IPCOS, can help Australia's Indo-pacific neighbours in achieving their SDGs.

⁴ <https://www.dfat.gov.au/international-relations/themes/climate-change/international-cooperation-on-climate-change#climate-clean-air-coalition>

⁵ <https://www.ccacoalition.org/en/slcps/black-carbon>

Potential SDGs that could be achieved through a clean cookstove based offset project developed under IPCOS:

SDG	Goal	Indicators
	End poverty in all its forms everywhere	Number of poor people benefitting from clean cooking technology
	Ensure healthy lives and promote well-being for all at all ages	<ul style="list-style-type: none"> - Proportion of households considering respiratory diseases occur less often or not at all - Proportion of households considering burns occur less often or not at all
	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<ul style="list-style-type: none"> - Proportion of children having more time to do their homework - Proportion of children having more time to attend school - Proportion of beneficiaries who participated in the manufacturing of cookstoves
	Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> - Amount of time saved by women in cooking in energy-efficient stoves - Amount of time saved by women in wood collection - Proportion of women who dedicate the saved time to other income-generating activities
	Goal 7 Ensure access to affordable, reliable, sustainable, and modern energy for all	- Number of clean cooking technologies implemented and used by the project participants

		
<p>Goal 8</p> 	<p>Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all</p>	<ul style="list-style-type: none"> - Number of full time and part-time jobs created by the project - Equal pay for work of equal value for both women and men
<p>Goal 13</p> 	<p>Take urgent action to combat climate change and its impacts</p>	<p>Amount of GHG emissions reduced by the project</p>
<p>Goal 15</p> 	<p>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</p>	<p>Number of tonnes of wood saved by the project</p>

As mentioned earlier, poor logging practices, regular firewood collection are the main drivers of deforestation and forest degradation in PNG and Fiji. The large dependency on firewood as the primary fuel for households adversely affects the forest resources leading to deforestation and forest degradation. Clean cooking-based projects under IPCOS will help the host countries (Fiji and PNG) save the standing forests and achieve their national SDG priorities and objectives.