Submission to the Chubb Review

Thank-you for the opportunity to provide a submission to the Independent Review of Australian Carbon Credit Units. The following comments are provided in the context of the Review's Terms of Reference and the broader discussion held in September 2022 between DES staff and the Chubb Review panelists on opportunities to improve the design and delivery of natural capital markets in Australia.

This submission is predominantly informed by three years of operation of the Land Restoration Fund (LRF) within the Department of Environment and Science, including the significant engagement undertaken in this period with stakeholders across the carbon market supply chain. An overview of the operation of the LRF is provided in Attachment 1 for further reference. The submission has also been informed by other Queensland Government agencies outside of the Department of Environment and Science.

Governance

Confidence in the governance of the carbon offsets framework and the integrity of the crediting system is essential to encourage the necessary large-scale investments that are required to deliver climate change outcomes and maximise the potential for co-benefit outcomes.

Consequently, an assessment of the issues raised with the Emissions Reduction Fund's current governance arrangements is strongly endorsed. Current governance arrangements are subject to both real and perceived conflicts of interest, particularly as decisions relating to the development of methods, registration of projects and issuing of carbon credits are all undertaken *within the same agency* as the purchasing of carbon credits on behalf of the Commonwealth.

The 'lowest-cost abatement' approach of the ERF may be considered a wasted opportunity, and increasingly so with rising voluntary and regulatory demand for carbon offsets from the private sector. This approach concentrates projects into a small range of methods and into particular regional communities, with the potential to create social disruption. The socio-economic impacts of this can be controversial, and as such, potentially hinder uptake of carbon farming more generally. Additionally, the sorts of methods that can be delivered under a lowest-cost driver are often those that are potentially least 'additional' or have a limited period of additionality over changing 'business-as-usual' scenarios, and least likely to deliver a broader range of co-benefit outcomes.

Opportunities for Improvement

- Consideration should be given to processes that better manage the risk of real or perceived conflicts of interest with ERAC members, as a foundation for the integrity of the system.
- Consideration should be given to the separation of regulatory and commercial/contracting functions to improve the integrity of the scheme by reducing potential conflicts of interest.
- Consideration should be given to moving away from a 'lowest-cost abatement' approach in favour of assessments that give regard to the co-benefits that arise from a portfolio of projects encompassing different methods, regions and investors.

Legislation

A national approach to carbon crediting is a strength of the current framework, and should be emulated when it comes to co-benefits frameworks, whether contained within carbon credits themselves, or as stand-alone market-based instruments (e.g. 'biodiversity credits').

The 'right to veto' powers (as included in HIR and Forestry methods in early 2022) should be reconsidered, including whether the prevention of adverse outcomes can be managed in a more appropriate way, for instance, within the methods themselves, or through regional planning mechanisms. The current 'right to veto' powers reduce confidence for project proponents, as they may be perceived as arbitrary and subject to political influence.

Opportunities for Improvement

- Consideration should be given to removing the 'right to veto' powers with stronger emphasis placed on market support mechanisms to foster a market that shifts the emphasis from individual profit to community benefit through the recognition of social co-benefits.

Transparency

Transparency is crucial to the growth of the carbon market to the scale that is required to meet Australia's net zero ambitions and to fully realise the economic opportunities for Australia from a thriving carbon + co-benefit market. Further price transparency in the market could be achieved through the publication of contract details, including contracts between project developers and landholders. Price transparency will assist in streamlining investments into carbon projects, accelerating carbon abatement.

Opportunities for Improvement

- Consideration should be given to the publication of Carbon Estimation Area data to provide greater transparency of crediting methods.
- Consideration should be given as to whether privacy/commercial-in-confidence claims are significant and whether they should outweigh the public benefit associated with the integrity and transparency of the market as a whole. Established markets function very effectively with the disclosure of significant commercial information, including the real estate market. A lack of market transparency is likely to limit trading in the market, as buyer risks are harder to quantify, and therefore trades may be avoided. Additionally, a lack of transparency increases the risks of collusion, particularly in an emerging market with limited brokers.

Method Integrity

Consistent with recent claims, an independent assessment of LRF projects, undertaken as part of a project due diligence process, indicates that there are potential issues with the integrity of the HIR method and its application, with respect to both additionality and over-crediting. While neither Landfill Waste Gas nor Avoided Deforestation methods are directly related to Queensland Government carbon programs, interrogation of the issues raised in the recent claims is supported, as relevant considerations for the integrity of the carbon scheme as a whole. Landholders need clarity on the integrity and value of methodologies to determine the most suitable avenue for investment and to support efforts for carbon neutral products.

Opportunities for Improvement

- Making the Carbon Estimation Areas publicly available would enable the ACCU assessments to be easily confirmed by third-parties, providing transparency and therefore integrity in the application of the method to carbon projects.
- Consideration should be given to providing disincentives to the purchase of carbon credits for offsetting by organisations who have failed to implement reduction and mitigation measures in the first instance.
- There is an opportunity to consider the use of other credits, other than ACCUs, in claims of carbon neutrality under the Climate Active program, however integrity should remain a fundamental aspect of decisions around the use of alternative crediting frameworks.

Method Development & Review

Some elements of current approaches to method development could benefit from change, notably the potential difficulties in adequately delivering complex methods in short timeframes, inefficiencies in the co-design process and a limited ability for State and Territories to assist with the prioritisation of methods. The sprint approach – that is, specifically seeking to develop and legislate methods within one calendar year - will likely drive method development away from innovation and towards homogonised and formulaic methods.

The process for prioritizing method development could benefit from early and specific consultation with the States and Terriroties. This would be valuable in assessing potential for the national application and viability of methods, and identification of potential state/territory-specific barriers to implementation and uptake. Currently the states and territories are required to self-organise to identify mutual method development priorities and make representation to the Commonwealth, in the absence of any visibility of Commonwealth considerations for the next method development cycle. This would also maximise opportunities for the states and territories to fund and collaborate on projects to pilot new methods, with reduced risk of these methods not being progressed.

The current approach to method development demonstrates the following advantages:

- it provides some certainty to the market and stakeholders about the work program, and in allowing broad involvement in the design process.

- The co-design approach facilitates broad participation and representation to inform method development

On the other hand there are some issues arising from this approach including:

- could be predisposed to favour less complex methods that require less time for development at the expense of more complex methods that may have greater abatement and co-benefit potential.
- The 12-month sprint approach also provides inadequate time to address some of the method implementation barriers which may delay or prevent uptake. An example is the blue carbon method, which was released without the opportunity for States and Territories to review their respective regulatory environments to streamline regulatory approvals and thereby improve the prospects of projects being implemented in a cost-effective manner.
- The co-design approach combined with the 12-month sprint approach has led to duplication of effort as it necessitates the Commonwealth seeking the same information from multiple parties concurrently, with little visibility of who is being engaged and for what purpose.

Opportunities for Improvement

- The process for developing new methods should be based on the following principles:
  - early and specific consultation with the states and territories, led and coordinated by the Commonwealth
  - methods should be evidence based, backed by robust science
  - timely and efficient, appropriate to the complexity of the method.
- The Commonwealth should actively seek to support method development through funding pilot projects, including the potential for co-funding pilot projects with the States and Territories.
- Opportunities for participation and uptake by First Nations people should be an important consideration by the Commonwealth in the prioritisation of new methods for development.
- Improved co-ordination should be introduced to reduce duplication of effort and increase opportunities for collaboration between the Commonwealth and States/Territories on the advice given to proponents.
- While current carbon methods may be designed to mitigate potential for adverse outcomes from projects, there is an opportunity to develop methods that are also explicitly designed to deliver a range of co-benefits. These co-benefits could include circular economy, disaster resilience or Great Barrier Reef outcomes, for example, along with more generalised environmental, socio-economic and cultural outcomes. Emerging differentiation in the ACCU market already reflects the willingness of buyers to pay a premium for certain methods, delivered in certain ways. This not only reflects a move away from what are perceived as lower-integrity methods, but also a move towards projects that deliver environmental and social outcomes. Verified co-benefits create value for landholders, investors and the public, thereby assisting in unlocking project supply, including supply of smaller scale, high quality projects.

Benefits and Impacts of Carbon Farming

A global trend is emerging towards quality carbon projects that deliver on climate targets and emerging biodiversity/nature and ESG targets. National leadership in this space is necessary to achieve outcomes and accelerate change.

Some communities feel that the assessment of carbon projects does not adequately consider the potential impacts of projects on local communities and economies. Southwest Queensland is an example of such a community, with concerns and issues currently being investigated through an independent study. Improved capacity and access to information could help to mitigate the real or perceived negative impacts of carbon projects and increase supply of projects into the market. Some of the issues relating to the current functioning of the carbon market, observed during the delivery of the LRF program, include:

- Imbalance in understanding between landholders and project developers
- The 'lowest cost abatement' model of the ERF potentially drives large-scale, rapid land use change in specific regions, without consideration of social and economic impacts to those regions.
- The lowest cost abatement model of the ERF does not encourage the delivery of co-benefits, but rather encourages projects that deliver the least land use or land management changes to a 'business-as-usual' approach.

There are strong indications from stakeholders that 'carbon with co-benefits' is favoured over 'generic' carbon. Integrity, including through verification of outcomes and clear additionality are essential to maximise the opportunities, including to create a functioning market mechanism.

The LRF is the leading example globally of this approach, with its cornerstone being the LRF Co-benefits Standard. The LRF Co-benefit Standard establishes the methodology for measuring and verifying the additional environmental, social and economic benefits from carbon farming projects. Projects claiming co-benefits must follow the methodology, are contracted to measure, monitor and verify their co-benefit outcomes and these verification documents are placed on a registry. This process for establishing and verifying claims of co-benefits and then the subsequent process to monitor and report on outcomes provides the integrity and value behind the co-benefits claims which is essential to the marketplace.

Support for the LRF approach is strong, although rapid changes to, and volatility in the market means the current investment approach requires revision to enable greater flexibility and shared value between project proponents and investors.

The potential for existing methods to deliver co-benefits is variable, with the environmental plantings method most likely to consistently deliver strong co-benefit outcomes with clear additionality. Savanna burning projects have historically been strongly linked with First Nations outcomes, but further method development may be necessary to continue to expand this opportunity.

To realise its full potential, the 'carbon + co-benefit' approach requires a high level of integrity, the application of consistent approaches to quantification and monetization of co-benefits, and alignment with existing and emerging international frameworks.

Opportunities for Improvement

Alignment with relevant international, national frameworks

- National leadership on co-benefits frameworks and other standalone instruments i.e. biodiversity credits, to provide transparency and consistency to investors in order to maximise and attract capital investment into verified nature and other ESG outcomes in Australia. To date, there has been a gap in national leadership in facilitating opportunities for carbon project co-benefits.
- There is an opportunity (and need) for consistency and harmonisation between international, national and sub-national frameworks for co-benefit standards, principles and monitoring and verification tools, such as the Taskforce on Nature-related Financial Disclosures and the International Sustainability Standards Board (ISSB). Currently, and increasingly, States and Territories are taking fragmented approaches in the absence of national leadership. This fragmentation will complicate interactions from potential investors, reducing opportunities to deliver co-benefits at scale. In the absence of a national framework, private sector investors may rely on other frameworks that may not deliver as strongly on Australia's priorities for co-benefit outcomes.
- The carbon farming framework in Australia should be established in a way that allows for reporting and disclosure required, or likely to be required in the future, by frameworks such as the ISSB initiative, Climate Active program, or other additional impact reporting. This would include ability to report on carbon estimation areas and defined biodiversity co-benefits that are aligned with global benchmarks.
- The LRF is currently investigating opportunities to leverage carbon farming to deliver cost-effective green infrastructure for flood mitigation, via upstream catchment restoration. This approach would have broad national application, and deliver multiple, high priority co-benefit outcomes, with potential market drivers related to financial risk and insurance.
- Consideration should be given to ways in which market mechanisms can be facilitated in the context of the 'Samuel Review' of the EPBC Act – for example with respect to the development of national standards - and national environmental economic accounts. Ideally, a comprehensive and consistent policy approach would be developed that streamlined private sector investment into co-benefit outcomes.
- There is merit in expanding the methods developed under the ERF to account for circular economy/waste minimization opportunities, and so too the carbon sequestration benefits of other investments such as for water quality outcomes.
- The development of the national biodiversity certification scheme has the potential to support and enable the 'carbon with co-benefits' market, however, it is likely to add to market confusion (from the buyer perspective) in the short term unless clear signals are provided to the market about how this certification aligns and intersects with the carbon market and other schemes (such as the Australian Farm Biodiversity Certification Scheme) rather than compete with it.

Addressing barriers

Addressing barriers to supply, particularly in respect of high-quality projects that can deliver multiple outcomes, would benefit from increased support from the Australian Government. Barriers include a lack of landholder knowledge and awareness, resulting in an inability to calculate and understand market opportunities and compare with other land use options. A lack of understanding in the financial sector, including an understanding of the real effects of carbon farming on property values also can create barriers to project supply. The lack of supply of new projects is reducing opportunities to address climate change and deliver co-benefits, notwithstanding the potential supply of ACCUs resulting from the recent policy for streamlining the release of ACCUs from fixed contracts with the ERF.

We acknowledge the efforts that the Commonwealth has taken to address some of the barriers including steps to reduce auditing costs, such as the remote-sensing approach to environmental plantings project audits under the Carbon + Biodiversity pilot are beneficial to increasing supply of projects while maintaining integrity, and programs of work underway to deliver a more client-focussed approach to website information, tools and client portals.

Some issues relating to the interaction of the carbon market with the restoration, development and management of protected areas have also been observed. In particular, there are contradictions in the policy relating to the transfer of a carbon farming project to Conservation Area, which leads to a lack of clarity in the way that state resources can be directed to delivering additional protected area and biodiversity and First Nations outcomes from the carbon market.

Opportunities for Improvement

Communication and engagement

- Comprehensive and accessible communication and engagement channels are needed to support the carbon market in and of itself, but increasingly also to explain the carbon market *vis a vis* other market-based mechanisms such as biodiversity credits.
- Consultation should be undertaken with First Nations groups to design ways to improve capacity, broaden opportunities (e.g. methods with First Nations benefits 'baked in'), defining First Nations co-benefits and how to verify them.
- Strong regional engagement is needed to raise the level of understanding amongst communities about the opportunities and limitations of the carbon market. Such engagement should leverage the trusted relationships that agricultural peak bodies enjoy with regional communities and landholders.
- In addition to more engagement activities, the advice provided by the Commonwealth would benefit from improved decision-making tools, and streamlined tech solutions to reduce costs and reliance on third parties. As per the Governance section above, clarity on the role that CER plays in providing advice should also be considered.
- Current initiatives by the CER in relation to improving access to information, streamlining website design, developing project support tools, integrating tools into application processes, and generally improving customer experiences are strongly supported.

These approaches should be developed in consultation with States/Territories to ensure alignment with state-based activities and avoid confusion.

Other barriers

- There is an opportunity for the Commonwealth to continue to create incentives for participation by removing barriers to method uptake, particularly on smaller properties, such as the environmental plantings pilot.
- Further opportunities to take similar technology-based approaches to project auditing should be encouraged, where high integrity standards can be maintained.

Delivering protected area outcomes

- It is recommended that the Commonwealth engage with state and territory departments on the development of clear policy for eligibility (newness and additionality) when:
    - buying areas with an existing Carbon Projects to become "Conservation Land"
    - buying degraded areas to establish new Carbon Projects for "Conservation Land"
- It is also recommended that the policy be reconsidered, in consultation with the states and territories, for land transitioning out of "Forestry or Timber Production" to "Conservation Lands", particularly the current policy that perversely incentivises poor land management to achieve eligibility for a carbon project.

Attachment 1: Queensland Land Restoration Fund

The Land Restoration Fund (LRF) has demonstrated an approach to carbon farming co-benefit assurance that is seeing uptake in the industry, on the basis that additional value is created in the project, above and beyond the costs of reporting and verification. The LRF has received feedback from investors about the attractiveness of the framework as a means to demonstrate the delivery of verified ESG or Corporate Social Responsibility goals alongside the purchase of ACCUs to meet net zero goals. Further development of the LRF investment delivery model is required to access the larger-scale co-investment opportunities that exist.

The Queensland approach to supporting carbon farming, delivered through LRF investments and market support programs, have been recognized as best-practice in the Carbon Market Institute's 2022 *Carbon Farming Scorecard Report*. Queensland rated highest or equal highest in all twelve assessed criteria, across four Pillars – Optimising Frameworks & Market Design, Unlocking Finance & Investment, Co-benefits & Creating New Markets, and Communicating Benefits & Building Capacity. Queensland was noted as 'a leader and innovator amongst Australia's states and territories'.

The LRF Co-benefits Standard provides a framework for which to assess, monitor and verify co-benefit claims. Project co-benefit reports, including third-party assurance details (for instance, environmental accounts) are be published on a register, which allows full transparency to buyers of outcomes achieved and the method of assurance used. This register provides links to the ERF register, enabling buyers to identify the co-benefit outcomes associated with each ACCU issued for the project. The fundamental aspect of this framework is transparency for buyers.

To date the LRF has committed approximately $100 million to 21 projects, purchasing ACCUs with co-benefits with an emphasis on acquiring high quality carbon from projects that deliver on a range of co-benefit outcomes in addition to carbon. Details of all projects contracted to date can be found on the LRF website.

LRF investment decisions are made by an independent Investment Panel, with assessment support provided by experts in the Department of Environment and Science, and external experts as required. Consideration is given to modelled co-benefit outcomes, value for money and a range of risk factors, along with a drive to build a diverse portfolio of projects, in terms of co-benefit outcomes, geographical spread and method uptake. Government priorities for the LRF are set through a Priority Investment Plan, which guides the Investment Panel in its decisions.

The LRF has also focused on market support activities, centered around engagement to build capacity and understanding, as well as funding innovation and demonstration projects.

Additionally, $2 million has been made available to support the Carbon Farming Advice Rebate scheme, designed to reduce barriers to entry for landholders. Rebates of up to $10,000 are available for advice from a range of 'approved advisors'. This scheme has demonstrated results in providing confidence to landholders in understanding the carbon and co-benefit opportunities on their properties and developing successful LRF projects.