

11 August 2022

Dear Professor Chubb,

Re: Independent Review of Australian Carbon Credit Units

The Australian National University (ANU) and University of New South Wales (UNSW) ERF research team has deep expertise in Australia’s environmental and carbon markets, including the Emissions Reduction Fund (ERF). The team includes Professor Don Butler, Dr Megan Evans, Professor Andrew Macintosh, Associate Professor Dean Ansell, Ms Marie Waschka, Mr Pablo Larraondo of Haizea Analytics and Professor Philip Gibbons.

GreenCollar's team, including Dr Jenny Sinclair, Dr Tim Pearson, Dr Luke Shoo, Mike Berwick, Nerida Bradley and James Schultz, likewise have deep experience in Australia's carbon market and environmental markets more broadly, as researchers, practitioners and authors of market frameworks and accounting methods. GreenCollar also has extensive experience and knowledge of on-ground carbon projects with current operations comprising over 200 environmental markets projects in development or delivery with hundreds of partners, including agricultural land managers and Traditional Owners, both in Australia and internationally.

GreenCollar and the ANU/UNSW ERF research team support the use of offsets, and particularly land-sector offsets, to help facilitate a timely transition to a low carbon economy. High integrity offsets, when coupled with an effective carbon pricing scheme, lower the cost of reducing greenhouse gas emissions, making more ambitious emissions reduction targets possible. In the land sector, well-designed offset projects can also generate important environmental and social co-benefits, including improved biodiversity outcomes and regional employment.

While supporting the carbon market and role of land sector offsets, we have shared concerns about the ERF’s governance arrangements and the integrity of the measurement of sequestration under the Human-induced Regeneration (HIR) method (*Carbon Credits (Carbon Farming Initiative) (Human-Induced Regeneration of a Permanent Even-Aged Native Forest—1.1) Methodology Determination 2013*). We also both strongly support the opening up of further opportunities for land sector abatement through the ERF.



These points of agreement were reached through a constructive dialogue between GreenCollar and the ANU/UNSW ERF research team and, for the benefit of the Review Panel, we provide details of these below.

GreenCollar and the ANU/UNSW ERF research team are providing these comments to support ongoing improvement and sustainable investment in the system. GreenCollar assures the Panel that its projects are delivered to high standards and in compliance with current regulations; and the ANU/UNSW research team does not suggest that GreenCollar has done anything other than comply with the existing regulatory requirements, as determined by the Clean Energy Regulator. As a regulated system, all signatories to this letter agree that it is important to regularly review and revise methods and consider governance arrangements to ensure both ongoing community and investor confidence in the carbon market and to make reaching more ambitious emissions reduction targets possible.

ERF Governance

There are three fundamental problems with the ERF's governance arrangements.

1. The *Carbon Credits (Carbon Farming Initiative) Act 2011 (CFI Act)* does not currently ensure all methods meet the offsets integrity standards

When being applied to offset the impact of emissions, carbon offsets are a high risk environmental policy instrument and should only be used where there is high confidence that the credited abatement is real (the emissions reductions have occurred) and additional (the emissions reductions would not have happened without the incentive provided by the issuance of the credit). This is why the CFI Act's offset integrity standards require the methods to only credit abatement that is 'unlikely to occur in the ordinary course of events' and to be supported by 'clear and convincing evidence', and for all of the assumptions, projections and estimates in methods to be 'conservative'.

When the CFI Act first commenced in 2011, methods could only be made if the Domestic Offsets Integrity Committee endorsed them and the Committee's power to endorse a method was contingent on the method complying with the offset integrity standards. Similarly, the Minister could not make a method unless it complied with the offsets integrity standards. These constraints on the endorsement and making of methods were abandoned in 2014 when the ERF was introduced. The Emissions Reduction Assurance Committee now only needs to provide its opinion on whether the standards are satisfied and, in making methods, the Minister only has to 'have regard to' the standards.

Proposed improvement: GreenCollar and the ANU/UNSW ERF research team believe the CFI Act should be amended to once again give the offsets integrity standards primacy in the method development and approval process.

2. The Clean Energy Regulator has too many roles and is potentially conflicted

The aim in establishing the Clean Energy Regulator in 2011 was to provide role clarity to the agency responsible for the administration and enforcement of the *Clean Energy Act 2011* and CFI Act. Consistent with the governance arrangements in many other areas, including the National Electricity Market, policy functions would sit with the responsible Minister and the Department, while administration and enforcement would reside with a separate regulatory agency (the Clean Energy Regulator) that operates at arm's length to the government of the day. This structure is consistent with accepted best practice principles for regulatory agencies, including those set out in the OECD's *Best Practice Principles for Regulatory Policy: The Governance of Regulators*, which states that 'regulators should not be assigned conflicting or competing functions or goals'.

The Australian Government drifted from these principles in 2014 when it gave the Clean Energy Regulator the responsibility for purchasing ACCUs on behalf of the government. It effectively abandoned them in 2020 when it gave the Clean Energy Regulator the responsibility for the development of methods and providing the secretariat services for the Emissions Reduction Assurance Committee (roles that previously sat with the Department). There is now considerable tension and potential conflict presented by the multiple roles performed by the Clean Energy Regulator. The Clean Energy Regulator is also currently tasked with functions for which it has limited in-house capacity, including method development.

Proposed improvement: The Clean Energy Regulator's powers and functions should be clearly separated and distributed to other agencies, particularly functions related to the provision of advice to government and the preparation of methods. The Regulator should be returned to having the defined and exclusive role of administering and enforcing the ERF, Safeguard Mechanism, Renewable Energy Target, National Greenhouse and Energy Reporting scheme and the Australian National Registry of Emissions Units.

3. The ERF lacks transparency

To provide the public, project investors and the market with confidence, the ERF's systems and processes need to be open and transparent. However, at

present, there is a marked lack of transparency concerning the operation of the ERF, which is undermining confidence in the scheme.

This is partly due to the CFI Act's provisions concerning 'protected information', which significantly restrict the ability of the Clean Energy Regulator to share and publish information 'on the affairs of a person' engaged in the ERF.

Ongoing confidence in the scheme requires both good governance and transparency.

Proposed improvement: The 'protected information' aspect of the CFI Act needs to be reviewed. Rules and processes should be amended to encourage the release of information on projects in a form that can increase confidence in the integrity of the scheme, while adequately protecting personal, private or commercially sensitive information. The review should consider other carbon offset schemes around the world and what form of information the Clean Energy Regulator can publish to build confidence in the integrity of the scheme. This may include whole or summarised information, aggregated and/or de-identified information including offset reports and audit reports on individual projects, location of areas that are credited under land sector projects, and details on the methods used to estimate abatement.

Integrity concerns with the Human-induced Regeneration (HIR) method

The HIR method provides landholders with ACCUs for regenerating native forests by changing land management practices. In most cases, the primary changes in land management involve reducing grazing pressure from livestock and feral animals.

The ANU/UNSW ERF research team has two main concerns about the HIR method.

- The measurement concern. The sequestration of carbon dioxide in forests that are regenerated through HIR project activities is estimated using a model (known as 'FullCAM') that is not calibrated for use on sites that contain significant amounts of pre-existing woody biomass (specifically, sites that contain more than 5% of their estimated maximum biomass carrying capacity under native vegetation). Despite this, projects have been registered that appear to contain significant amounts of pre-existing woody biomass within their carbon estimation areas (CEAs) (the land areas that are credited). This could lead to the over-estimation of sequestration in regenerating forests in these areas if the model assumptions are violated, e.g. the areas contain greater than 5% of

maximum biomass carrying capacity at their modelling commencement date.

- The additionality concern. The primary driver of fluctuations in woody biomass in uncleared rangeland areas is rainfall. In certain circumstances, reducing grazing pressure in these areas can increase tree and shrub cover. However, generally, any increases in woody biomass that can be achieved through changes in grazing pressure are likely to be small, particularly in comparison to the fluctuations driven by rainfall, and temporary. The HIR method does not control for the impacts of rainfall on regeneration. That is, it has no processes for separating out the impacts of management from the impacts of rainfall in any observed increases (or decreases) in woody biomass. Due to this, there is a significant risk HIR projects in uncleared rangeland areas are being, and will continue to be, credited for non-additional abatement.

GreenCollar shares the ANU/UNSW ERF research team's concerns about measurement and agrees that FullCAM is not currently calibrated for use on sites where native vegetation exceeds 5% of the estimated maximum biomass at the modelling commencement date. It is noted in particular that the requirement outlined in the 2019 *Guidelines on stratification and evidence records for HIR and NFMR* that carbon estimation areas demonstrate more than 5% canopy cover at project commencement may result in a violation of the FullCAM model assumptions.

GreenCollar has consistently advocated for the inclusion of a requirement for direct measurement to provide a mechanism to ensure that sequestration in regenerating forests is not overestimated as well as repeat direct measurement to provide surety that observed increases in woody biomass are real, persistent (i.e. not temporary) and additional to impacts of rainfall.

Proposed improvements: Both GreenCollar and the ANU/UNSW ERF research team believe that land areas with demonstrably more than 5% of their maximum biomass carrying capacity (assessed at an appropriate scale) at the time of modelling commencement date, should be removed from the CEAs of HIR projects.

We also recommend that the stratification requirements in the 2019 Guidelines be reviewed and amended to ensure they align with FullCAM's assumptions.

In addition, GreenCollar recommends moving from a modelled only approach to an approach where projects are required to directly measure regeneration associated with HIR projects. While not dismissing the ANU/UNSW ERF

research team's concerns about additionality, GreenCollar believes the inclusion of a requirement for direct measurement can provide a mechanism to ensure that sequestration in regenerating forests is not overestimated and is sufficiently conservative (including in uncleared rangeland areas). Further, repeat direct measurement over time can be used to provide surety that observed increases in woody biomass are real, persistent (i.e. not temporary) and additional to impacts of rainfall.

The ANU/UNSW ERF research team's position is that a direct measurement approach would address the measurement concern (provided measurement is confined to regeneration, not pre-existing mature trees and shrubs). However, it believes that designing a direct measurement-based approach that is capable of providing sufficient confidence that credited increases in woody biomass in previously uncleared rangeland areas are attributable to management changes, not fluctuations in rainfall, would be challenging and risky. Due to this, the ANU/UNSW ERF research team argues restoration of uncleared rangeland areas that have been degraded by grazing pressure is better achieved through biodiversity markets and stewardship payments.

GreenCollar strongly supports the development of biodiversity markets and stewardship payments where outcomes are measured and verified.

GreenCollar's position is that:

- in arid landscapes, a combination of biodiversity improvement and carbon abatement is needed to increase the incentives for restorative management urgently needed to address Australia's extinction crisis;
- provided the carbon method requires direct measurement and controls for the impacts of rainfall over wet and dry cycles, the risks should be primarily commercial; and
- the opportunities are significant – while the potential increases in carbon stocks are small on a per hectare basis, the area is very large.

For the avoidance of doubt, both GreenCollar and the ANU/UNSW ERF research team support the uptake of HIR projects in areas that have previously been deforested, and the continuation of projects located in these deforested areas.

Positive opportunities in the land sector

Although GreenCollar and the ANU/UNSW ERF research team have differences of opinion on the way forward with the HIR method on additionality, we agree on the need for the integrity issues to be resolved as quickly as possible. We also

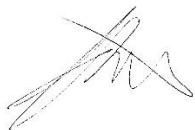
both strongly support the opening up of further opportunities for land sector abatement through the ERF and urge the development of methods for:

- the avoidance of re-clearing on Category X land in Queensland;
- the avoidance of commercial harvesting in Australia's public native forest estate; and
- ecological restoration of cleared areas involving a combination of planting and/or human-induced regeneration so as to improve opportunities in the higher rainfall, higher biodiversity areas where project viability has been difficult to date.

We would like to meet with the Review Panel to discuss our shared concerns about the ERF's governance arrangements and the HIR method's measurement problem, and our shared support for the development of new methods to help realise legitimate abatement in the land sector.

Yours sincerely

On behalf of GreenCollar



James Schulz
Chief Executive Officer



Dr Jenny Sinclair
Chief Scientist

On behalf of the ANU/UNSW ERF
research team:



Dr Megan Evans



Professor Don Butler



Professor Andrew Macintosh