

Final Report

December 2022



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The Panel acknowledges the Traditional Custodians of Australia and their continuing connection to land and sea, waters, environment and community.

We pay our respects to the Traditional Custodians of the lands we live and work on, their culture, and their Elders past and present.



Foreword

The Australian Carbon Credit Unit (ACCU) Scheme: A Review

This report follows a review of an Australian scheme designed to mitigate our contribution to greenhouse gas induced climate change: the Australian Carbon Credit Unit (ACCU) scheme.

The Australian approach.

The Australian Carbon Credit Unit (ACCU) scheme was established in 2011 by the passing of *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act).

Schemes such as the ACCU scheme (and its international companions) are important in efforts to limit global warming to sustainable levels: they incentivise projects that draw down greenhouse gases (GHGs), principally carbon dioxide (CO₂), from the atmosphere, and aim to avoid emissions of major GHGs – CO₂, methane and nitrous oxide¹.

Some proportion of the CO₂ may balance (offset) present and future emissions, while also removing CO₂ emitted in the past.

In 2022, the Australian Government legislated targets of a minimum 43% reduction in GHG emissions by 2030 (based on 2005 levels), and 'net zero' emissions by 2050.

It is planned to meet the targets using a combination of policies including the CFI Act and the revised 'Safeguard Mechanism' which will set caps to limit the emissions from Australia's largest GHG emitters, with the cap gradually lowered.

Carbon dioxide drawdown.

Drawdown, emissions reduction, offsets.

These are not alternatives. They are complementary elements of a strategy to moderate global warming.

While GHG emissions must be reduced or eliminated wherever they can be, it is unlikely that every emitter will be at zero by 2050. Indeed, even if close to zero, some may never get there because we collectively want or need what their continuing emissions provide. The social and economic consequences of trying to eliminate all emissions everywhere should not be underestimated.

While the need not just to reduce, but actually to stop, global emissions is unarguable, it is clear that removing significant amounts of CO₂ already emitted into the atmosphere is essential if global heating is to be controlled.

The Intergovernmental Panel on Climate Change (IPCC) (2018) reported: *All pathways that limit global warming to 1.5°C with limited or no overshoot project the use of carbon dioxide removal (CDR) in the order of 100 -1000 Gt CO₂ over the 21st century. CDR would be used to compensate for residual emissions and, in most cases, achieve net negative emissions to return global warming to 1.5°C following a peak.*

In a later IPCC report (2021), the panel stated: *Affordable and environmentally and socially acceptable CDR options at scale well before 2050 are an important element of 1.5°C – consistent pathways*².

1 Methane and nitrous oxide are both many times more potent than CO₂ as a heat-trapping gas, although much lower in atmospheric concentration compared with CO₂. Their removal from the atmosphere would likely have a significant impact on slowing temperature rise, in both cases, however, drawdown is not yet feasible. Until suitable technology is available, avoiding emissions of methane and nitrous oxide is the only way to limit their impact.

2 IPCC Special Report: Global Warming of 1.5 °C, Ch 4.

Depending on when the world ‘stops’ emitting CO₂, its concentration in the atmosphere will be something higher than the present ~420 parts per million – higher than at any time in the last million or so years. That concentration is enough to take the global average temperature to ‘a peak’ above 1.5°C before it drops back as the natural sinks reduce the atmospheric CO₂ – which in the case of the oceans, at least, will be at a cost to their own ecological integrity.

After experimentation and speculation for decades, the only pathway known to science that has the *immediate capacity to remove GHG (CO₂) from the atmosphere at scale is photosynthesis: the mechanism by which plants and some other organisms use light, CO₂ and water to create energy (stored as sugars) to fuel cellular activity and growth.*

Science and technology may well develop effective and scalable options to meet the twin challenges of GHG removal and secure long-term (millennial) storage. But to start *at scale well before 2050*, the land sector will have to carry much of the immediate load, starting now.

Confidence in the Australian scheme.

The scheme will deliver the anticipated benefits only if abatement is real.

The process from beginning to end must give confidence to all participants, and the Australian community presently paying for it, that there is real CO₂ abatement – a ‘public good’ worth paying for.

Much has been learnt in the years following the introduction of the scheme. We as a review team were fortunate to be able to take the learnings into account in this review.

The scheme must have integrity. Therefore, it must be carefully designed, rigorous, independently appraised, monitored, transparent, continuously improved, and fair to all parties.

Even when most ACCUs are eventually traded in the open market, the need for regulation and assurance of ACCUs should continue as a government responsibility.

Community acceptance of the scheme is likely to be more widespread if benefits flow not just to the individual landholders, or companies. Local employment and services, enhanced land management, and resilience to climate change, are co-benefits that extend beyond carbon abatement and serve to encourage growth of the program.

Conclusion.

The purpose of this review is to ensure that the carbon crediting framework has integrity and that it warrants a strong and credible reputation.

The more effective and accessible we can make the scheme, the more it enhances the sustainability of our land, the more demonstrable the benefits, the more people who actively engage, the more we reduce our negative impact on the planet, the more we can showcase what can be done when incentives combine to encourage well-designed and cost-effective action – the better off we will all be. And that is worth the effort.

IW Chubb AC FAA FTSE
Chair ACCU Review Panel

Executive Summary

The Australian Carbon Credit Unit (ACCU) scheme is an Australian Government scheme to remove greenhouse gases from the atmosphere, or to prevent their emission. To achieve this end, the scheme supports carbon farming initiatives leading to the allocation of one ACCU for each tonne of carbon abatement. It also allows some ACCUs to be purchased by the Australian Government, some by emitters to offset a proportion of their continuing emissions, or traded on the domestic market.

The ACCU scheme has an important role to play in Australia's pathway to net zero emissions by 2050.

It is important to have a policy, but it is critical that it be effective. To be effective, abatement has to be real, and it has to be known to be real.

In recent times, the integrity of the scheme has been called into question – it has been argued that the level of abatement has been overstated, that ACCUs are therefore not what they are meant to be, so that the policy is not effective.

The Panel does not share this view. While the Panel was provided with some evidence supporting that position, it was also provided with evidence to the contrary.

There may be several reasons for the polar-opposite views. One is likely to be a lack of transparency, meaning that third parties cannot access the relevant data and so different conclusions can be drawn, and all genuinely held.

Notwithstanding the criticisms, the Panel concludes that the scheme was fundamentally well-designed when introduced. Nevertheless, after 11 years of operation, the scheme can be improved – applying knowledge gained through implementation or practical experience is the story of continuous improvement.

The Panel makes a number of recommendations. The purpose of each is to improve the scheme: to clarify intention where necessary; to clearly identify (and separate) the key roles of integrity assurance, regulation and administration; to remove unnecessary restrictions on data sharing; to enable free prior and informed consent; and to improve information and incentives, including in relation to non-carbon benefits and attributes.

The Panel also notes that it is unwise to assume that what needs to be done can be achieved without adequate resourcing. Given the important role of ACCUs in the suite of climate mitigation policies, and the essential need for their integrity to be unarguable, all the links in the chain need to be able to do the job required of them – and that means resourcing. There is no practical or cheap alternative.

Summary of Recommendations and Key Findings by Terms of Reference

Panel Overview

<p>Terms of Reference</p> <p>This review is to ensure that ACCUs and the carbon crediting framework maintain a strong and credible reputation supported by participants, purchasers and the broader community. To achieve this, the independent, expert panel will provide advice to the Minister for Climate Change and Energy about the framework for ACCU generation and trade to ensure its integrity, consistency with agricultural and other objectives, and contribution to environmental, economic and other benefits like biodiversity.</p>	
	<p>Key findings</p> <p>The Panel concludes that the ACCU scheme arrangements are essentially sound, incorporating mechanisms for regular review and improvement, and recommends a number of changes to clarify governance, improve transparency, facilitate positive project outcomes and co-benefits, and enhance confidence in the integrity and effectiveness of the scheme.</p>

<p>Terms of Reference</p> <p>1(a). Whether scheme governance is appropriate, including:</p> <ul style="list-style-type: none"> i. Whether the scheme’s governance structure is fit for purpose including the allocation and operation of roles and responsibilities between and within relevant agencies, including management of conflicts of interest ii. Whether the scheme’s settings and legislative requirements are appropriate to ensure good governance and confidence in scheme integrity 	
<p>Recommendation 1. The respective roles of scheme assurer, scheme regulator and related policy development should be clear, undertaken by visibly separate bodies, and each function resourced sufficiently to play its role effectively in administering the scheme and supporting well-functioning carbon offset markets.</p>	<p>Key findings</p> <p>Current arrangements include all the functions necessary for good governance of the scheme; however, separation of these would enhance confidence and transparency.</p>

<p>Recommendation 2. The ERAC be re-established as the Carbon Abatement Integrity Committee (the CAIC) as soon as practicable with adjusted terms of reference, membership and functions, and that it be well-resourced and supported by an independent secretariat:</p> <p>2.1 The CAIC should have a membership of a full-time Chair and at least 4 part-time members with a range of skills, expertise and experience.</p> <p>2.2 A skills matrix must be used to inform appointments.</p> <p>2.3 At least one of the members of the CAIC should be a First Nations Australian with relevant expertise.</p> <p>2.4 Resources should be allocated to cover the costs of the CAIC doing its job independently, effectively and efficiently.</p> <p>2.5 Remuneration should reflect the members' high level of expertise, their time, and the responsibility and accountability of their role.</p> <p>2.6 The CAIC Secretariat should be independent and resourced to support the functions of the CAIC.</p>	<p>Key findings</p> <p>There is a need for a new body, differently constituted and supported, with the major responsibility of assuring method integrity.</p>
<p>Recommendation 3. The CER be responsible for project monitoring, compliance and enforcement, and providing transparent project and scheme information:</p> <p>3.1 The remit of the CER should explicitly include monitoring and the publishing of information on the impact of the scheme in the protection of Australia's natural environment and improved resilience to the effects of climate change in accordance with the objects of the CFI Act (section 3).</p> <p>3.2 The CER should:</p> <p>3.2.1 Continue to be responsible for education about the scheme and information concerning the carbon market;</p> <p>3.2.2 Reduce complexity by simplifying scheme documents and improving the accessibility of scheme information; and</p> <p>3.2.2 Create a public registry of precedents and rulings.</p> <p>3.3 Responsibility for Australian Government purchasing of ACCUs should be moved out of the CER and into another Australian Government body to avoid actual or perceived conflicts of interest.</p>	<p>Key findings</p> <p>The multiple roles of the CER, in developing methods, regulating projects and issuing ACCUs, and administering government purchase of ACCUs, results in potential conflicts of interest and risks reduced confidence in scheme arrangements and governance.</p> <p>Responsibility for monitoring all consequences of the CFI Act should remain with the CER.</p>

Terms of Reference

1(a). Whether scheme governance is appropriate, including:

- iii. Whether the scheme has appropriate transparency including whether and how reporting and publication of data could be improved.

Recommendation 4. Provisions in the governing legislation should be amended to maximise transparency, data access and data sharing, while enabling protection of privacy and commercial-in-confidence information, to support greater public trust and confidence in scheme arrangements.

- 4.1 The default should be that data be made public, including carbon estimation areas.
- 4.2 The government should explore using a national platform to share information and data about the ACCU scheme, in the spirit of continuous improvement.

Key findings

Current restrictions on data sharing and disclosure in the scheme's governing legislation go further than required to protect privacy and commercial-in-confidence information, and the blanket nature of these restrictions is undermining transparency, trust and confidence in the scheme.

More transparent data and information sharing arrangements would enable communities and carbon market stakeholders to assess, understand and manage potential project impacts and opportunities more effectively.

Terms of Reference

1(b). Whether the methods by which ACCUs are generated meet the Offsets Integrity Standards, including:

- ii. Whether method development and review processes are appropriate and effective.

Recommendation 5. Establish a transparent proponent-led process for developing and modifying methods as soon as practicable, with the CAIC assuring the integrity of methods and the Department providing support for participants who otherwise may not be able to participate:

- 5.1 Replace current priority setting process with an open EOI process, with the CAIC involved in setting priorities for method endorsement and approval. The Minister may nominate priorities but is not required to do so.
- 5.2 The Minister is not obliged to approve any method.
 - 5.2.1 The Minister may only make or vary methods which have been endorsed by the CAIC.
 - 5.2.2 Before making or varying a method, the Minister must be satisfied that it complies with the Offsets Integrity Standards (OIS) and ACCU Scheme Principles.
- 5.3 The CAIC must only endorse a method if it is satisfied that it complies with the OIS.
- 5.4 The Minister and the CAIC must publish reasons for recommendations and for decisions.
- 5.5 The Department should support method development, including supporting community and NGO participation. Support could include allocation of staff resources, grants and other mechanisms.
- 5.6 The proposed process should apply to methods currently in development.
- 5.7 Until the CAIC is established, the Department should develop a framework for proponents to follow when proposing and developing methods and modifications.

Key findings

It is important to provide incentives for all emissions reduction options.

The current method development process impedes timely and effective emissions reductions. The focus of method development should shift towards a more modular proponent-led approach to facilitate fit-for-purpose development and implementation of methods for delivering high integrity emissions-reductions.

The process for prioritising new methods for development has not been sufficiently transparent and accessible to all groups.

A proponent-led method development model would promote innovation by giving proponents the flexibility to develop or adapt new approaches to carbon abatement. This approach would also support the development of a portfolio of methods able to deliver emissions reductions at scale.

Method development must continue to be supported by clear and compelling evidence that has been independently peer reviewed, preferably scientific results published in peer-reviewed literature.

Proponent-led method development is consistent with commonly accepted international practice.

Terms of Reference

1(a). Whether scheme governance is appropriate, including:

- ii. Whether the scheme's settings and legislative requirements are appropriate to ensure good governance and confidence in scheme integrity.

1(b). Whether the methods by which ACCUs are generated meet the offsets integrity standards, including:

- ii. Whether method development and review processes are appropriate and effective.

Recommendation 6. The Offsets Integrity Standards (OIS) should be clearly defined and supplemented with ACCU Scheme Principles to support their consistent application in method development and project implementation and administration.

Key findings

Interpreting the OIS is inherently complex. Different judgements lead to different expectations.

The current OIS, in conjunction with key ACCU scheme provisions, are consistent with good governance, well regarded by stakeholders and experts, and support confidence in the integrity of ACCUs and the scheme.

Confidence in the application and administration of the OIS is best maintained through a robust and transparent institutional framework.

Plain English definitions of the OIS supplemented with a suite of clearly defined principles would support best-practice method development and project implementation, regulation and assurance.

Articulating clear and consistent interpretative material, with appropriate standing for enforcement would reduce ambiguity over how the OIS are or should be administered.

International experience and initiatives, such as the Integrity Council for the Voluntary Carbon Market's Core Carbon Principles³, are consolidating views on best practice scheme principles and should be taken into account.

The Panel endorses the definitions adopted by the CCA for scheme criteria, standards and principles – principles are the combination of criteria and the standards which should be met⁴.

At the project-level the regulatory additionality requirement and the government program requirement are appropriate, but the newness requirement should be refocussed to place emphasis on 'new' abatement that will be credited following a project's commencement date.

At the method-level, additionality tests should be applied on the basis of evidence and observable common practice, and not require statements of intent or financial viability by project proponent.

3 <https://icvcm.org/the-core-carbon-principles/>

4 [CCA Review of International Offsets 2022 page 45](#)

<p>Recommendation 7. The CCA should provide advice to the Minister on the merits of a mechanism at the scheme level to provide further assurance of additionality and conservativeness in a transparent manner.</p>	<p>Key findings</p> <p>Implementing a scheme-level buffer – the mandatory cancellation of a percentage of ACCUs generated under the scheme – would ensure that abatement credited was appropriately conservative across the scheme portfolio. However, this warrants further consideration because, for example, it may risk upward pressure on the ACCU price, with implications for the cost-effectiveness of abatement.</p>
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<p>Terms of Reference</p>	
<p>1(b). Whether the methods by which ACCUs are generated meet the offsets integrity standards, including:</p> <p>i. Consideration of recent claims raised about the human-induced regeneration, carbon capture and storage, avoided deforestation, and landfill waste gas methods.</p>	
<p>Recommendation 8. Project administration for the human-induced regeneration (HIR) method should ensure that all HIR projects conform to its current intent: that it is reasonable to expect that the project area will become native forest, attain forest cover, and permanently store carbon as a direct result of project management actions.</p> <p>8.1 The method should be interpreted as requiring:</p> <ul style="list-style-type: none"> • evidence of a causal relationship between the nominated eligible HIR activity or activities and the dominant suppression mechanism(s) that occurred through the entirety of the baseline period; • demonstration that these suppressors are directly addressed by the HIR activity or activities throughout the life of the project; and • demonstration that the application of FullCAM is consistent with the guidelines. <p>8.2 Each project must meet these criteria before future ACCUs may be issued.</p> <p>8.3 The CER should include nominated suppression mechanism(s) and eligible HIR activities for new and existing projects on the project register, as soon as feasible, and routinely publish project assessment data and results.</p>	<p>Key findings</p> <p>The HIR method is sound – it meets the OIS and is administered by a robust regulatory framework. Notwithstanding this, there is always room for improvement.</p> <p>HIR projects are subject to additional requirements, including 5-yearly regeneration and forest attainment gateway checks. It would be beneficial for the CER to publish outcomes of project assessments, consistent with relevant privacy and confidentiality provisions.</p> <p>While the Panel did not review individual projects, it understands that should any project under any method be found to be noncompliant, the CER would use existing provisions to address project noncompliance on a case-by-case basis.</p> <p>The Panel does not accept that a correlation between rainfall and vegetation growth undermines the method. Rainfall is necessary but not sufficient to ensure permanent storage of carbon. For this reason, the method requires that projects include HIR activities that address the reasons why forest cover has not been maintained or restored in the past (referred to as the dominant suppressor or suppressors in the method).</p> <p>i. Less restrictive data arrangements would have allowed the substance of many of the concerns raised about HIR projects to be transparently assessed and dealt with, rather than lingering (Recommendation 4).</p>

	<p>Key findings</p> <p>The current model-based estimation of carbon sequestration using FullCAM is a suitable basis for estimating aggregate carbon storage in native vegetation, when applied appropriately at the project level.</p> <ul style="list-style-type: none"> i. Some stakeholders consider that there would be benefits in allowing HIR and other land-based sequestration projects to opt for direct measurement of carbon storage, with appropriate evidence and assurance, rather than relying on modelled estimates. This could be explored by the proposed proponent-led method development process.
<p>Recommendation 9. No new project registrations be allowed under the current avoided deforestation method. Consideration should be given to developing new methods that incentivise the maintenance of native vegetation that has the potential to become a forest, as well as maintaining existing forests at risk of land-use conversion.</p>	<p>Key findings</p> <p>Land clearing has accounted for a significant share of national emissions.</p> <p>The avoided deforestation method is a means to avoid these emissions.</p> <p>The length of time that has elapsed since the issue of any remaining unused land clearing permits imply that it would be hard to establish intent to clear land, raising questions about the additionality of any new projects that might be registered under the current method.</p>
<p>Recommendation 10. Landfill gas methods and crediting period extensions should incorporate upward sloping baselines.</p> <p>10.1 The baseline of new landfill gas projects and crediting period extensions of existing projects should be adjusted during the lifespan of the project.</p> <p>10.2 Arrangements should be made for the early review and voluntary adjustment to the baseline of existing projects.</p>	<p>Key findings</p> <p>Landfill gas is a nationally significant source of methane emissions. Its collection and use or flaring is a successful mitigation strategy.</p> <p>It has become common practice to extend the crediting period for landfill gas projects without adjustment of the baseline. Given that expectations and regulatory standards are likely to increase over time, any extensions of the project crediting period should only occur with appropriate review and adjustments to baselines.</p> <p>Industry expressed strong support for adjusting baselines through a transparent and predictable approach.</p> <p>Without ACCUs, some landfill gas projects may not be financially viable.</p> <p>Long-term investment certainty is needed as infrastructure is required across decades.</p>
	<p>Key findings</p> <p>While there has been relatively limited deployment of carbon capture and storage (CCS) nationally or globally, it is considered to have an important potential contribution to limiting the pace and extent of climate change.</p>

Terms of Reference

2. The broader impacts of activities incentivised under Australia’s carbon crediting framework including:
- a. whether the current processes and requirements are appropriate to manage negative social, economic and environmental impacts, including on agricultural productivity and regional communities;
 - b. the extent to which carbon projects are currently supporting positive environmental, social and economic outcomes including for biodiversity and the participation of First Nations people;
 - c. opportunities to maximise non-carbon benefits of projects.

Key findings

Potential adverse impacts from projects can be mitigated through regulation and oversight mechanisms, in conjunction with the new governance and method development arrangements recommended by the Panel, and supported by initiatives to increase trust, capability and coordination across the carbon farming supply chain.

Key findings

Risks and potential adverse impacts of project activities in regional and remote Australia include:

- differing levels of community understanding of the scheme and ability to participate has led to differences in perception of scheme impacts and integrity;
- lack of regional co-ordination, planning and consistency between local, state and federal policies impede landholder participation in the scheme; and
- an absence of re-investment into regional communities

Risk and potential adverse impacts unique to First Nations Australians could arise from:

- conditional registration of carbon projects and lack of Native Title Holder consent, at odds with the principles of free, prior and informed consent (FPIC);
- lack of oversight and capacity to ensure that consent processes are robust and adhere to best practice principles; and
- a lack of adequate representation and resourcing to ensure First Nations representation in scheme governance and participation.

<p>Recommendation 11. The CFI Act should be amended to remove the option to conditionally register ACCU projects on Native Title lands (as defined in the CFI Act) prior to obtaining consent, in alignment with the principles of Free, Prior and Informed Consent (FPIC):</p> <p>11.1 The Australian Government should support Native Title Representative Bodies and other relevant bodies to ensure consistent standards in the application of FPIC.</p>	<p>Key findings</p> <p>Adherence to the principles of FPIC are essential to achieving positive outcomes. Allowing conditional registration is inconsistent with FPIC.</p>
<p>Recommendation 12. Carbon service providers and carbon market advisors, including agents, should be accredited and regulated.</p>	<p>Key findings</p> <p>The Carbon Market Institute’s voluntary Carbon Industry Code of Conduct contributes to the integrity of the ACCU scheme.</p> <p>Mandating performance standards for carbon service providers, including agents, would enhance market confidence and consumer protection.</p>
<p>Recommendation 13. The CER, in consultation with market participants and stakeholders, should develop procedures to support transparency of different project characteristics and types of co-benefits associated with ACCUs.</p>	<p>Key findings</p> <p>Co-benefits extend beyond reduced emissions and carbon removals. They include non-carbon benefits to proponents, the broader community, and to the environment.</p> <p>Scheme arrangements should facilitate but not require provision of co-benefits.</p> <p>Current arrangements for attributing project characteristics and co-benefits to ACCUs are not mature. This weakens incentives for market participants to supply, demand, and resource these value-adding outcomes.</p> <p>Where a co-benefit is claimed, the proponent should use an appropriate method, verifying the claims made in relation to the co-benefit, and provide evidence to the CER before the claim can be published.</p>
<p>Recommendation 14. The Australian Government should continue to support the capacity and capability of rural and remote communities, including First Nations Australians, to participate in and benefit from the ACCU scheme.</p>	<p>Key findings</p> <p>Governments have an important role in education and capacity building to enable greater participation in and access to the benefits of carbon and environmental markets.</p>
	<p>Key findings</p> <p>Carbon farming activities bring benefits to regional Australia through their implementation.</p> <p>Consideration should be given to appropriate steps to enhance regional income and business opportunities associated with the scheme.</p>

<p>Recommendation 15: Reforms relating to First Nations Australians' participation in the ACCU scheme should align with the accepted recommendations of concurrent reviews and reforms.</p>	<p>Key findings</p> <p>The policy, legislative and governance arrangements in place to protect the rights and interests of First Nations Australians are evolving rapidly.</p> <p>First Nations Australians have unique expertise in cultural land management practices and can make a distinctive contribution to carbon markets, community and environmental outcomes.</p>
	<p>Key findings</p> <p>Improving coordination and consistency between local, state and federal governments would support positive economic, social and environmental outcomes.</p>

<p>Terms of Reference</p> <p>2. The broader impacts of activities incentivised under Australia's carbon crediting framework including:</p> <p>d. requirements for the use of ACCUs under Climate Active.</p>	
<p>Recommendation 16. The mandatory requirement for Climate Active organisations to use a minimum 20 per cent ACCU to achieve their emissions offsets should not come into effect.</p>	<p>Key findings</p> <p>Organisations accredited through Climate Active's voluntary carbon neutral certification program are able to use ACCUs to offset their emissions.</p> <p>The introduction of a mandatory requirement to use ACCUs is inconsistent with the flexibility that is central to the intent and purpose of the Climate Active program.</p> <p>It is likely that the mandatory requirement will be cost-prohibitive for some organisations, which will choose or be forced to leave the Climate Active scheme.</p>

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Introduction

The Australian Carbon Credit Unit Scheme (ACCU) is established under the *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act) and the Carbon Credits (Carbon Farming Initiative) Rule 2015 (CFI Rule).

The scheme is governed and administered by: the Clean Energy Regulator (CER), the Emissions Reduction Assurance Committee (ERAC), the Department of Climate Change, Energy, the Environment and Water (the Department), and the Minister for Climate Change and Energy.

As highlighted by earlier reviews of the scheme^{5,6}, integrity of emissions abatement underpins the value of ACCUs, and the responsible expenditure of public funds.

The ACCU scheme is complex with many discrete but inter-related administrative and regulatory functions for the crediting and purchasing of ACCUs. It is important to recognise that different considerations apply at the scheme, method and project levels.

In July 2022, the government appointed an independent panel to review the integrity of ACCUs under Australia's carbon crediting framework, within 6 months.

The independent panel members are Professor Ian Chubb AC FAA FTSE (Chair), the Hon Dr Annabelle Bennett AC SC FAA FAAL, Ms Ariadne Goring and Dr Steve Hatfield-Dodds (the Panel).

The purpose of the Review is to advise on ways to strengthen the integrity of Australia's carbon crediting framework in contributing to Australia's emissions reduction targets, and to ensure that the scheme maintains a strong and credible reputation supported by participants, purchasers and the broader community. The Terms of Reference are at Appendix A.

The Panel examined governance arrangements, scheme settings and legislative requirements, as well as the integrity of four key methods for generating ACCUs – the human induced regeneration, avoided deforestation, landfill gas, and carbon capture and storage methods. The Panel considered the broader impacts of carbon projects, including for agriculture, biodiversity, participation of First Nations people, and regional communities.

The Panel examined the requirements for use of ACCUs under Climate Active, which is an Australian Government certification program encouraging Australian businesses to achieve carbon neutrality.

The Panel consulted widely during the review, inviting submissions and meeting with key stakeholders and participants in the ACCU scheme including academics and experts, First Nations groups, project proponents, carbon service providers, industry groups, business, the community, and Commonwealth and state government agencies. More information about the Panel's consultation process is at Appendix B.

The Panel spent time in the field visiting projects earning ACCUs through the landfill gas (generation), human induced regeneration and avoided deforestation methods.

Reflecting the importance of the scheme to the community and to participants, there was strong engagement with the review, including over 200 public submissions in response to a public discussion paper.

To inform its consideration, the Panel sought independent analysis of the methods and advice from the Australian Academy of Science (AAS).

Public submissions and the AAS report are available at the [ACCU Review website](#).

5 *Report of the Expert Panel examining additional sources of low cost abatement (the King Review)*

6 [Climate Change Authority 2020: Review of the Emissions Reduction Fund](#)

Part 1. Panel Overview

Terms of Reference

This review is to ensure that ACCUs and the carbon crediting framework maintain a strong and credible reputation supported by participants, purchasers and the broader community. To achieve this, the independent, expert panel will provide advice to the Minister for Climate Change and Energy about the framework for ACCU generation and trade to ensure its integrity, consistency with agricultural and other objectives, and contribution to environmental, economic and other benefits like biodiversity.

Key findings

The Panel concludes that the ACCU scheme arrangements are essentially sound, incorporating mechanisms for regular review and improvement, and recommends a number of changes to clarify governance, improve transparency, facilitate positive project outcomes and co-benefits, and enhance confidence in the integrity and effectiveness of the scheme.

In recent times, the integrity of the scheme has been called into question – it has been argued that the level of abatement has been overstated, that ACCUs are therefore not what they are meant to be, so the policy is not effective.

The Panel does not share this view.

Notwithstanding the criticisms advanced, the Panel concludes that the ACCU scheme was fundamentally well designed when introduced. Nevertheless, after 11 years of operation, the scheme can be improved – applying knowledge gained through implementation and practical experience to enable continuous improvement.

The Panel's recommendations should be implemented as soon as practicable.

Part 2. Scheme governance

Terms of Reference

- 1(a). Whether scheme governance is appropriate, including:
- i. Whether the scheme's governance structure is fit for purpose including the allocation and operation of roles and responsibilities between and within relevant agencies, including management of conflicts of interest
 - ii. Whether the scheme's settings and legislative requirements are appropriate to ensure good governance and confidence in scheme integrity

Recommendation 1. The respective roles of scheme assurer, scheme regulator and related policy development should be clear, undertaken by visibly separate bodies, and each function resourced sufficiently to play its role effectively in administering the scheme and supporting well-functioning carbon offset markets.

Key findings

Current arrangements include all the functions necessary for good governance of the scheme; however, separation of these would enhance confidence and transparency.

The Emissions Reduction Assurance Committee (ERAC) is an independent statutory committee established under the CFI Act. The ERAC Secretariat provides support for the performance of the ERAC's functions.

The ERAC – the method assurer – is key to public confidence that the CFI Act is effective, yet its importance is blurred by administrative and resourcing arrangements that undermine its capacity (real and perceived) to play its critical role.

In late 2020, the ERAC and its Secretariat were moved from DISER to the CER following the King Review⁷.

This shift is amongst the reasons why the role and capacity of the ERAC has been questioned – the lack of a clear distinction between the 'method assurer' and the 'method administrator/regulator.'

In other words, the ERAC is not widely seen to be what it is expected to be – an independent expert committee, with the responsibility (and the capacity) to ensure that methods are rigorous and lead to real and verifiable GHG abatement.

Combined with the widely acknowledged lack of adequate transparency at stages of the scheme administration, there is (at least) a perception of a conflict of interest, which undermines confidence in the scheme.

⁷ *Report of the Expert Panel examining additional sources of low cost abatement (the King Review)*

Re-establishing the Emission Reduction Assurance Committee (ERAC) as the Carbon Abatement Integrity Committee (CAIC)

Recommendation 2. The ERAC be re-established as the Carbon Abatement Integrity Committee (the CAIC) as soon as practicable with adjusted terms of reference, membership and functions, and that it be well-resourced and supported by an independent secretariat:

- 2.1 The CAIC should have a membership of a full-time Chair and at least 4 part-time members with a range of skills, expertise and experience.
- 2.2 A skills matrix must be used to inform appointments.
- 2.3 At least one of the members of the CAIC should be a First Nations Australian with relevant expertise.
- 2.4 Resources should be allocated to cover the costs of the CAIC doing its job independently, effectively and efficiently.
- 2.5 Remuneration should reflect the members' high level of expertise, their time, and the responsibility and accountability of their role.
- 2.6 The CAIC Secretariat should be independent and resourced to support the functions of the CAIC.

Key findings

There is a need for a new body, differently constituted and supported, with the major responsibility of assuring method integrity.

Timing of establishment of the CAIC

It is predictable that there will be pressure to develop new methods or to modify existing ones, particularly because the HIR method is due to end in 2023 and the revised safeguard mechanism is expected to be introduced from 1 July 2023.

To restore trust and confidence in the ACCU scheme, the Panel proposes that the CAIC is established with high priority to operate with clear and recognisable independence, accountability, and with enhanced resourcing – completed as a matter of urgency.

It will be important that the CAIC develop its staff and processes, and that they be the cornerstone of future integrity assessments.

Given the significance of both assuring integrity and the importance of the scheme in supporting Australia's progress to reduced emissions, the government should consider whether the CAIC should be elevated from a statutory advisory committee under the CFI Act to become a statutory authority within the relevant Minister's portfolio.

After 6 months of operation of the CAIC, the CCA should assess whether the CAIC is able to perform all its functions effectively as a statutory committee, or whether it needs the additional heft of being constituted as an independent statutory authority.

Membership of the CAIC

The CAIC will have the primary role of analysing and assessing the integrity of proposed or varied methods, as well as undertaking periodic method and crediting-period extension reviews.

This is neither a trivial exercise nor a trivial role.

Selection of members, both full-time and part-time, should be merit-based and transparent, consistent with the Australian Government Merit and Transparency Policy⁸ as well as recent reports recommending improvements to transparency in government.^{9 10}

It is important that the skill set of members, together, is broad enough to meet the range of methods likely to be proposed. A skills matrix should be developed by the Department and used as the basis for selecting members of CAIC.

The CAIC will need to establish a relationship with the Department – not least to receive advice on the consistency of proposed method approaches with broader government policy and programs, including advising on any adverse social, environmental, and economic impacts.

The CAIC should include a Departmental observer.

First Nations Australian membership

Projects under the CFI Act represent the efforts of land holders, First Nations Australians, conservationists and civil society to cultivate and sustain healthy country in the face of unremitting global warming.

The important role of First Nations Australian communities in the scheme, and their extensive knowledge of rural and remote regions of Australia warrants recognition and appointments to where policies are developed and actions advanced.

Remuneration of members

Special remuneration arrangements may need to be made to secure experts whose skills and knowledge are rare, and whose time is scarce.

Resourcing of the CAIC

Parsimonious resourcing should not impede the work of the CAIC. Its operating budget must be sufficient to support its role in the validation process as well as its monitoring of existing methods and proposed variations.

The Panel heard that the workload stretched members of the ERAC beyond reason. Effective operation was made more demanding because of the ERAC's dependence on the CER or the Department for information – not always delivered in a timely way. This unreasonable condition should not be transferred to the CAIC.

The CAIC should have unfettered access to all relevant information to support its assessment and assurance roles.

Resources must be provided to cover the costs of the CAIC's establishment and function and allow for supplementary expertise as required from time-to-time.

The CAIC Secretariat

The CAIC Secretariat should have a suite of diverse skills and experience including policy, analysis, data management, technical and scientific skills.

The CAIC Secretariat should be hosted by the Department but report directly to the Chair of the CAIC to maintain its independence.

8 <https://www.apsc.gov.au/working-aps/governments-merit-and-transparency-policy>

9 <https://www.pmc.gov.au/sites/default/files/publications/independent-review-aps.pdf>

10 <https://grattan.edu.au/wp-content/uploads/2022/07/New-politics-A-better-process-for-public-appointments.pdf>

Clean Energy Regulator

Recommendation 3. The CER be responsible for project monitoring, compliance and enforcement, and providing transparent project and scheme information:

- 3.1 The remit of the CER should explicitly include monitoring and the publishing of information on the impact of the scheme in the protection of Australia's natural environment and improved resilience to the effects of climate change in accordance with the objects of the CFI Act (section 3).
- 3.2 The CER should:
 - 3.2.1 Continue to be responsible for education about the scheme and information concerning the carbon market;
 - 3.2.2 Reduce complexity by simplifying scheme documents and improving the accessibility of scheme information; and
 - 3.2.3 Create a public registry of precedents and rulings.
- 3.3 Responsibility for Australian Government purchasing of ACCUs should be moved out of the CER and into another Australian Government body to avoid actual or perceived conflicts of interest.

Key findings

The multiple roles of the CER, in developing methods, regulating projects and issuing ACCUs, and administering government purchase of ACCUs, results in potential conflicts of interest and risks reduced confidence in scheme arrangements and governance.

Responsibility for monitoring all consequences of the CFI Act should remain with the CER.

Purpose of the CER

The Clean Energy Regulator, established on 2 April 2012 by the *Clean Energy Regulator Act 2011* (the CER Act), is a non-corporate Australian Government entity and statutory authority responsible for administering legislation that reduces greenhouse gas emissions and increases the use of renewable energy.

The Panel notes that the described purpose of the CER is to '...accelerate carbon abatement for Australia'. The CER's role is central to achieving the Australian Government's legislated 43% emissions reduction target floor by 2030 and 'net zero' emissions by 2050.

The CER acts in a complex arena and its primary role in the ACCU scheme has been blurred by responsibilities added to its brief.

In the Panel's view, whatever positives may have been intended, a serious downside has been the perception that the CER has too many roles and could be, or is, or is just thought to be, conflicted because of that range of responsibilities. It presently co-designs ACCU methods, registers and regulates projects, supports the ERAC and procures ACCUs.

This brief should be simplified and the role of the CER clarified:

- The ERAC Secretariat should be re-established under the CAIC (Recommendation 1);
- Method development should be led by proponents, with support from the Department (Recommendation 5); and
- The purchasing of ACCUs by the Australian Government should become the responsibility of another Australian Government entity.

The Panel notes that the CER is described as a risk-based, economic regulator with administrative responsibilities for the CFI Act, among others¹¹.

The Panel considers that this narrowly defined scope is inconsistent with the CFI Act, and should also reflect the third object of the Act¹²: ‘...to increase carbon abatement in a manner that (a) is consistent with the protection of Australia’s natural environment; and (b) improves resilience to the effects of climate change’.

Reducing scheme complexity and maximising accessibility

The volume and complexity of the information about the ACCU scheme obscures its intent and complicates the processes underpinning its operation. This introduces a high barrier to entry and fosters inequality of information.

Efforts to improve the translation and dissemination of information in a manner both linguistically and culturally appropriate for the audience should be prioritised.

Public disclosure of rulings of the CER

The CER should establish procedures and requirements for the public disclosure of precedents and rulings related to the administration of the ACCU scheme in a public registry, informed by the ATO’s system of public rulings.

This should include the rationale for, and any relevant information relating to, decisions regarding scheme administration and interpretations of clauses within scheme documentation, subject to reasonable confidentiality constraints.

This system of public rulings will allow for the efficient dissemination of information and facilitates a common interpretation and understanding of rulings relevant to the numerous parties in the ACCU scheme.

Other elements of the institutional framework

The Department of Climate Change, Energy, the Environment and Water will continue to administer the legislation for the ACCU scheme. The Department will have a role in advising proponents on the development of methods and may be a proponent on behalf of the Minister.

The CCA will continue to conduct periodic reviews of the scheme, as required under the CFI Act. The CCA should assess whether the CAIC needs to be a statutory committee or authority, as well as advise the CAIC on various matters as requested.

There is a routine process for project assurance and review by scheme auditors. Auditors will continue to play a critical part in assessing projects and providing confidence in overall scheme integrity.

The experiences and perspective of auditors should be sought to provide input and insight into continuous improvement of methods, project regulation and scheme administration.

The Panel notes that there is no formal body or certification that recognises an environmental auditor for the purpose of the scheme.

¹¹ <https://www.cleanenergyregulator.gov.au/About/What-we-do>

¹² CFI Act, s3

Disclosure provisions and transparency

Terms of Reference

- 1(a). Whether scheme governance is appropriate, including:
- iii. Whether the scheme has appropriate transparency including whether and how reporting and publication of data could be improved.

Recommendation 4. Provisions in the governing legislation should be amended to maximise transparency, data access and data sharing, while enabling protection of privacy and commercial-in-confidence information, to support greater public trust and confidence in scheme arrangements.

- 4.1 The default should be that data be made public, including carbon estimation areas.
- 4.2 The government should explore using a national platform to share information and data about the ACCU scheme, in the spirit of continuous improvement.

Key findings

Current restrictions on data sharing and disclosure in the scheme's governing legislation go further than required to protect privacy and commercial-in-confidence information, and the blanket nature of these restrictions is undermining transparency, trust and confidence in the scheme.

More transparent data and information sharing arrangements would enable communities and carbon market stakeholders to assess, understand and manage potential project impacts and opportunities more effectively.

Transparent decision making, and open management of data and information are important for public trust in government.

As stated in the EPBC Act Review:

*'Decision-makers, proponents and the community do not have access to the best available data, information and science. This results in suboptimal decision-making, inefficiency, additional cost for business and poor transparency to the community.'*¹³

In the interest of continuous improvement alone, analysis and critique of any scheme, including from third parties, should be a normal part of operations.

The default should be that data be made public.

The question of confidence in this scheme is sharpened because of existing privacy provisions in the governing legislation. Third parties have not been able to access the same data as either the CER or ERAC. That is well illustrated by publicly debated differences.

¹³ <https://epbcactreview.environment.gov.au/resources/final-report/chapter-10>

The CER is bound by privacy and disclosure provisions of the *Clean Energy Regulator Act 2011* (CER Act) with regard to information collected in the course of scheme administration, as well as the *Privacy Act 1988* with regard to personal information.

Under the CER Act (Part 3), all information collected (on or after 2 April 2012) by a person in their capacity as an official of the Regulator that relates to the affairs of a person is defined as ‘protected information’.

Unlawfully disclosing or using protected information is a serious offence. The privacy provisions prevent the CER from publishing carbon estimation areas (CEAs) as they fall under the definition of protected information¹⁴.

This provision was intended to protect commercial-in-confidence information. Commercial-in-confidence restrictions may be necessary sometimes, but the CER should be empowered to determine when. A blanket provision arguably hinders rather than enhances the scheme.

The Panel notes that in its Nature Positive Plan¹⁵, the Australian Government commits to establishing a platform for environmental information held by different organisations and governments.

The government should explore using this or a similar platform to share information and data about the ACCU scheme held by different parties, including the CER, states and territories, and carbon service providers.

14 The CER Act defines **protected information** as ‘...information that: (a) was obtained after the commencement of this section by a person in the person’s capacity as an official of the Regulator; and (b) relates to the affairs of a person other than an official of the Regulator’.

15 [DCCEEW 2022, Nature Positive Plan: better for the environment, better for business](#)

Part 3. Method development and review

Terms of Reference

- 1(b). Whether the methods by which ACCUs are generated meet the Offsets Integrity Standards, including:
- ii. Whether method development and review processes are appropriate and effective.

Recommendation 5. Establish a transparent proponent-led process for developing and modifying methods as soon as practicable, with the CAIC assuring the integrity of methods and the Department providing support for participants who otherwise may not be able to participate:

- 5.1 Replace current priority setting process with an open EOI process, with the CAIC involved in setting priorities for method endorsement and approval. The Minister may nominate priorities but is not required to do so.
- 5.2 The Minister is not obliged to approve any method.
 - 5.2.1 The Minister may only make or vary methods which have been endorsed by the CAIC.
 - 5.2.2 Before making or varying a method, the Minister must be satisfied that it complies with the Offsets Integrity Standards (OIS) and ACCU Scheme Principles.
- 5.3 The CAIC must only endorse a method if it is satisfied that it complies with the OIS.
- 5.4 The Minister and the CAIC must publish reasons for recommendations and for decisions.
- 5.5 The Department should support method development, including supporting community and NGO participation. Support could include allocation of staff resources, grants and other mechanisms.
- 5.6 The proposed process should apply to methods currently in development.
- 5.7 Until the CAIC is established, the Department should develop a framework for proponents to follow when proposing and developing methods and modifications.

Key findings

It is important to provide incentives for all emissions reduction options.

The current method development process impedes timely and effective emissions reductions. The focus of method development should shift towards a more modular proponent-led approach to facilitate fit-for-purpose development and implementation of methods for delivering high integrity emissions-reductions.

The process for prioritising new methods for development has not been sufficiently transparent and accessible to all groups.

A proponent-led method development model would promote innovation by giving proponents the flexibility to develop or adapt new approaches to carbon abatement. This approach would also support the development of a portfolio of methods able to deliver emissions reductions at scale.

Method development must continue to be supported by clear and compelling evidence that has been independently peer reviewed, preferably scientific results published in peer-reviewed literature.

Proponent-led method development is consistent with commonly accepted international practice.

Method development

The Panel considers that the current method development process is no longer fit-for-purpose.

Methods have been prioritised for development based on the potential for uptake, volume and cost-effectiveness of emissions reductions, speed to market, adverse impacts, and whether other government measures would be more efficient¹⁶.

Methods are intended to be broadly applicable in order to prioritise large-scale emissions reduction opportunities and activities suitable for aggregation.

The scheme has a number of existing mechanisms for modifying the way that methods are implemented and administered. However, current arrangements frequently involve unnecessary administrative complexity.

It is said that no two landholdings are the same in Australia. Given the extraordinary range of climate, weather, soil and temperature in the country, it would be sensible to add capacity to account for local variables and priorities.

To streamline method development and encourage greater uptake of bespoke method activities, the Panel considers that the focus of method development should shift towards a more modular approach.

ACCU methods will remain legislative instruments that stipulate eligible activities and rules for running an eligible offsets project; and will still complement the principles underpinning the design of the scheme: genuine emissions reductions and streamlined administration¹⁷.

Proponent-led method development

Rather than annual priorities determined by the Minister, the scheme should enable proponents to propose new methods or modifications as needed for their particular purpose.

This approach gives proponents the flexibility to develop or adapt new approaches to carbon abatement that better fit local conditions and circumstances, including social and environmental conditions and priorities.

Proponent-led method development should be accompanied by a transparent, multi-step review process that supports the CAIC in ensuring integrity of the methods and the scheme (Recommendation 6).

This process will be most effective if there are clear guidelines for expressions of interest, method and module development proposals and transition arrangements for existing projects.

A supporting 'template' for method development should include co-design requirements; expectations for scientific evidence to be peer-reviewed¹⁸, opportunities for broader engagement of civil society, and transparency of information and process.

Proponents should continue the practice of developing simple method guides to help interested parties understand what is involved in conducting a project from start-to-end: project planning, registration, implementation, reporting, and earning ACCUs.

The guides are complementary to the CFI Act, the CFI Rule, the methods (legislative instruments) and their explanatory statements.

¹⁶ [ERF White Paper 2014](#), p. 8, 21-22

¹⁷ [ERF White Paper 2014](#).

¹⁸ Peer review is the mechanism by which outcomes of scientific work are assessed, evaluated, critiqued, embraced or improved by experts in the field. Relying on research and trials with no peer evaluation is not consistent with good scientific process.

Method modules

In the Panel's view, ACCU methods should be able to be supplemented by specific modifications (modules), developed by proponents, for a particular way of implementing one or more existing eligible offsets activities, which may vary according to region, scale and/or circumstances.

New and varied modules would go through the same triage pathway and meet the same integrity principle and criteria as new and varied methods, but be reviewed and approved by the CAIC (see Figure 1. Proponent-led process for method development and modification).

This would facilitate, for example, more streamlined and transparent application of appropriate methods for calculating vegetation-based carbon sequestration across different environmental circumstances. It should apply to the integrated farm management (IFM) method¹⁹, currently under development, which aims to facilitate multiple eligible offsets activities in the same project area, and support fit-for-purpose measurement approaches.

Method reviews

In addition to the periodic reviews prescribed by the CFI Act, a method review can be requested by the public²⁰, or by the Minister.

The CAIC

A legislated function of the ERAC is to undertake periodic reviews of ACCU methods (ss255(e) of the CFI Act). The ERAC is also required to undertake crediting period extension reviews to assess whether a method should be varied to extend the period for which projects under the method can receive ACCUs (ss255(ha) of the CFI Act).

These reviews are an important tool to ensure that even under changed circumstances, such as rapidly developing science, technology and public policy ACCU methods retain integrity.

The CAIC should be responsible for systematically reviewing methods used in projects. The CAIC should publish its risk assessment framework that will set its priorities for review.

All new or varied methods should explicitly state the timing of the first review of that method, the outcomes of which would inform the CAIC decisions on the timetable for subsequent reviews.

The CER

The CER will monitor the application of approved methods and their compliance with the OIS.

Continuous improvement of the program requires the CER to provide advice to the CAIC on potential issues or concerns or improvements to methods that arise from its monitoring program.

¹⁹ [Method development tracker: Integrated farm management method](#)

²⁰ [CFI Act section 255AA](#)

Public consultation

Public consultation processes and other elements of the scheme should be improved to respond to the geographic, technological and cultural challenges that many scheme participants face.

Early and active engagement with interested and affected parties is needed for input or validation throughout the method development process. Bespoke approaches may be required to ensure that First Nations voices are heard.

There is a need for suitable timeframes for consultation processes and active engagement with stakeholders particularly in regional and remote areas where access to telecommunications and community facilities is limited.

The CAIC should be empowered to set the minimum consultation period on a case-by-case basis for new and modified methods with the aim to enable maximum transparency and equitable engagement and participation.

The strengths of the existing co-design system should be retained in a proponent-led method development model with a broadened scope that enables individuals and groups to participate.

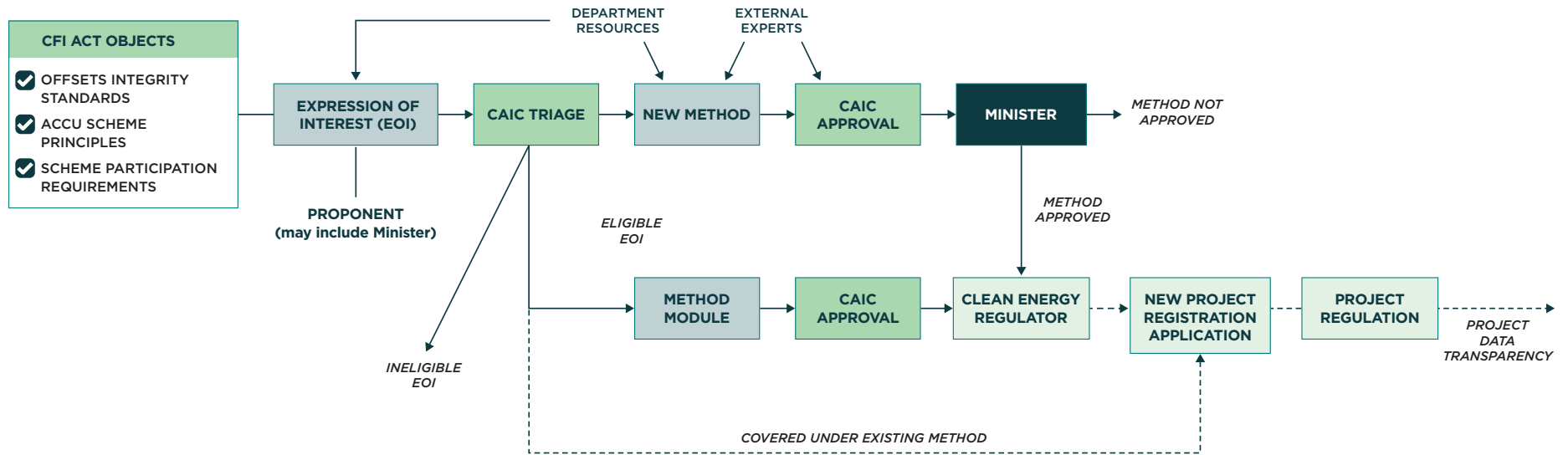
The Department's role

The Department will continue to administer the legislation for the ACCU scheme.

The Department should:

- continue to advise and support the Minister in relation to the scheme, including the making, varying, suspending, or revoking a method, and publishing relevant information;
- provide resources and support (including through capacity building) for individuals and community groups to participate effectively and equitably in the scheme, including as method proponents;
- provide technical, policy and administrative support to proponents during the method development process; and
- provide legislative drafting support and legal advice, noting that methods are legislative instruments.

Figure 1. Proponent-led process for method development and modification



Expression of interest (EOI)

Proponents will submit an Expression of Interest (EOI) for a new method, a modification of an existing method (method module), or a new project registration application to the CAIC.

Each EOI will include an outline of how the proposal meets the Offsets Integrity Standards (OIS) as well as a declaration that the proposal meets and will continue to meet the broader ACCU Scheme Principles and participation eligibility requirements (Recommendation 6).

The Minister may propose methods or modules that go through the triage process but should not be obliged to set annual priorities or targets.

Triage

The triage is in place to support efficiency in the development and approval of eligible offsets activities by coordinating, preventing duplication, and promoting best practice and innovation.

When the CAIC has assessed an EOI it must publish reasons for its decision:

- If the EOI is eligible to proceed, the proponent takes responsibility for developing a new or varied method or module.
- If the EOI is covered by an existing method or module, it is triaged to the CER for project assessment for registration.
- The CAIC must assess an EOI and triage it within a prescribed timeframe.

Method and module approval

Following the development of a draft method or module, the CAIC will review the draft against the scheme criteria and feasibility.

Following review, the CAIC:

- endorses and recommends the method for approval; or
- approves the module (as a modification to an existing method); or
- rejects the method or module with advice for improvement; or
- rejects the method or module.

The CAIC will provide and publish reasons for its decisions.

The CAIC should consult with other bodies (including auditors) to support continuous improvement of the scheme.

Importantly, the qualities of the draft methods and modules must be tested through public consultation to assess whether the method:

- is fit-for-purpose;
- meets the OIS as well as broader scheme Principles (Recommendation 6) and provisions; and
- is likely to cause adverse social, environmental or economic impacts.

In making a draft method or module, the onus is on the proponent to provide robust evidence that the draft meets the scheme criteria.

Methods will continue to be determinations made by the Minister as legislative instruments.

The Minister may only approve a method when the CAIC has endorsed that the method complies with the OIS and other scheme requirements.

Part 4. Offsets Integrity Standards

Terms of Reference

- 1(a). Whether scheme governance is appropriate, including:
 - ii. Whether the scheme's settings and legislative requirements are appropriate to ensure good governance and confidence in scheme integrity.
- 1(b). Whether the methods by which ACCUs are generated meet the Offsets Integrity Standards, including:
 - ii. Whether method development and review processes are appropriate and effective.

Recommendation 6. The Offsets Integrity Standards should be clearly defined and supplemented with ACCU Scheme Principles to support their consistent application in method development and project implementation and administration.

Key findings

Interpreting the OIS is inherently complex. Different judgements lead to different expectations.

The current OIS, in conjunction with key ACCU scheme provisions, are consistent with good governance, well regarded by stakeholders and experts, and support confidence in the integrity of ACCUs and the scheme.

Confidence in the application and administration of the OIS is best maintained through a robust and transparent institutional framework.

Plain English definitions of the OIS supplemented with a suite of clearly defined principles would support best-practice method development and project implementation, regulation and assurance.

Articulating clear and consistent interpretative material, with appropriate standing for enforcement would reduce ambiguity over how the OIS are or should be administered.

International experience and initiatives, such as the Integrity Council for the Voluntary Carbon Market's Core Carbon Principles²¹, are consolidating views on best practice scheme principles and should be taken into account.

The Panel endorses the definitions adopted by the CCA for scheme criteria, standards and principles – principles are the combination of criteria and the standards which should be met²².

At the project-level the regulatory additionality requirement and the government program requirement are appropriate, but the newness requirement should be refocussed to place emphasis on 'new' abatement that will be credited following a project's commencement date.

At the method-level, additionality tests should be applied on the basis of evidence and observable common practice, and not require statements of intent or financial viability by project proponent.

²¹ <https://icvcm.org/the-core-carbon-principles/>

²² CCA Review of International Offsets 2022, p. 44-45

Method criteria: Offsets Integrity Standards (OIS)

The Offsets Integrity Standards (OIS) are legislated²³ and underpin the integrity of ACCUs. The OIS are pursued in the scheme's method development approval process and supported by the broader ACCU framework.

1. **Additionality:** eligible offsets projects must result in carbon abatement that is unlikely to occur in the ordinary course of events;
2. **Measurable and verifiable:** removals, reductions or emissions that need to be ascertained under a method must be capable of being measured and verified;
3. **Eligible carbon abatement:** the carbon abatement must be able to be used to meet Australia's climate change targets under the Paris Agreement;
4. **Evidence-based:** methods must be supported by clear and convincing evidence;
5. **Project emissions:** any material emissions that are a direct consequence of carrying out the project should be deducted from the project's net abatement; and
6. **Conservative:** any estimate, projection or assumption that is required should be conservative.

The Panel heard that the OIS, in conjunction with other key scheme requirements (such as the permanence provisions), are broadly fit-for-purpose. The core standards align with good governance. Learnings about the application of the OIS have led to incremental improvements over time and there is scope for this to continue.

The integrity of the scheme would be strengthened by reinstating two (2) requirements that were previously included in the OIS²⁴:

- sequestration offsets projects should provide for adjustments to take account of significant cyclical variations (i.e. due to climate variability); and
- emissions from any source or sources as a consequence of carrying out the project are to be deducted from the net carbon abatement equivalence amount.

The Panel also considers that as methods must be supported by clear and convincing evidence, this evidence should be peer-reviewed where practical. The CAIC should have discretion to use evidence from other sources as it sees fit (Recommendation 5 – Key findings).

The Panel notes that the scheme has provisions in its administrative and regulatory framework, such as permanence requirements, to address variations to carbon stores and the risk of reversals. The appropriateness of these provisions should be monitored, reviewed, adjusted and reported on as the scheme evolves, in accordance with recommendations made by the CCA in their 2020²⁵ and 2017²⁶ reviews of the scheme. Assessments should include the entire project area, not just CEAs, which would also help evaluate and improve transparency over direct and indirect leakage.

Interpreting the OIS

The Panel considers that generating and verifying high integrity ACCUs is inherently complex. This complexity must be proportionately reflected in the administration of eligible offsets projects.

Different OIS may be applicable at different scales (method-level and/or project-level).

One of the challenges to the perception of integrity is that different interpretations of the OIS can lead to different expectations. The OIS can be confused with other regulatory provisions that are administered at the scheme-level.

²³ CFI Act s133

²⁴ CFI Amendment Bill 2014

²⁵ CCA 2020 Review of the Emissions Reduction Fund

²⁶ CCA 2017 Review of the Emissions Reduction Fund

When interpreting and applying the OIS at the method-level, there is an inherent degree of judgement required. In exercising judgement, the ERAC has always been required to adopt the interpretation that would best achieve the objects of the CFI Act. The CAIC should continue this approach.

To address this issue, international best practice has evolved to provide additional and nested interpretative material that provides more detailed guidance on how high-level principles should be translated and applied to specific methods, projects, and assurance processes. Where appropriate, such interpretive material can be made part of the binding rules for creating and assuring project outcomes.

Codifying this interpretive material would help interpretation of requirements and would be expected to enhance consistency across different methods and contexts.

The Panel notes that in assessing 'additionality' at the method-level, the ERAC considers whether a method activity is common practice in a sector or industry. This relies on counterfactuals (judgements about what would have happened in the absence of the method); and/or financial additionality tests.

Relying upon counterfactuals is inherently subjective and leaves the scheme open to criticisms by those with different interpretation and judgement – not right, not wrong, just different.

Similarly, financial additionality tests are inherently opaque, relying on financial data that cannot be released for commercial-in-confidence reasons.

The CER applies additionality tests at the project-level²⁷:

- **Newness requirement:** the project must not have begun to be implemented prior to registration.
- **Regulatory additionality requirement:** The project must not receive ACCUs if the project activity is already required by law.
- **Australian Government program requirement:** The project must be unlikely to be carried out under another Australian Government, state or territory government program or scheme in the absence of ERF registration.

The Panel concludes that the regulatory additionality requirement and the government program requirement are appropriate, but the newness requirement should be refocussed to place emphasis on 'new' abatement that will be credited following a project's commencement date.

Developing ACCU Scheme Principles

In its Review of International Offsets 2022²⁸, the Climate Change Authority (CCA) found that the terms 'criteria', 'standards' and 'principles' are often used interchangeably in relation to carbon offsets. The CCA adopted the following definitions in their Review:

- **Criteria:** quality-related attributes of an offset scheme, project and/or unit.
- **Standards:** ways and extent to which criteria can be met.
- **Principles:** the combination of criteria and the standards to which they should be met' (p. 45).

Clearly defining the OIS; and developing additional clearly defined ACCU Scheme Principles will:

- provide strong, consistent guidance to method and/or module development in the proponent-led framework (Figure 1); and
- support integrity and transparency of abatement in ACCU project implementation.

Definitions of the OIS and supporting principles should be incorporated in the governing framework.

²⁷ Paragraph 27(4A) of the CFI Act

²⁸ CCA Review of International Offsets 2022, p. 45

The Panel notes that the CCA Review of International Offsets (2022) provides comprehensive advice on criteria fundamental to the integrity of carbon offsets.

Drawing on the CCA Review and international experience and initiatives, most offsets criteria are integral to ensuring the integrity of offsets whereas, other principles, such as transparency, bolster confidence in the integrity of offsets.

When principles are adopted, it should be clear what criteria are required and applied at the scheme-level as well as the standards that projects are expected to meet to satisfy those criteria.

Principles should be monitored against evolving international frameworks to ensure they continue to align with or exceed best-practice.

When submitting an EOI under the new method development and modification process, proponents are required to outline how their method concept proposal meets the OIS and ACCU Scheme Principles, which will be assessed by CAIC (Recommendation 5).

Proponents should be required to declare that they meet and will continue to meet the scheme criteria and project standards stipulated under each ACCU scheme principle.

Scheme level integrity

Recommendation 7. The CCA should provide advice to the Minister on the merits of a mechanism at the scheme level to provide further assurance of additionality and conservativeness in a transparent manner.

Key findings

Implementing a scheme-level buffer – the mandatory cancellation of a percentage of ACCUs generated under the scheme – would ensure that abatement credited was appropriately conservative across the scheme portfolio. However, this warrants further consideration because, for example, it may risk upward pressure on the ACCU price, with implications for the cost-effectiveness of abatement.

An ACCU is representative of 1 tonne of carbon dioxide equivalent (tCO₂-e). The integrity of ACCUs is assured through a suite of scheme-level, method-level and project-level mechanisms to ensure that emissions reductions and removals are verified, additional and conservative and to manage the risk of over-crediting.

In any offsets scheme, assuring high integrity credits is inherently complex. For a small number of indiscriminate projects across the scheme and notwithstanding best efforts, scheme design and judgement, there remains the real risk of leakage and the possibility that the scheme may allow over-crediting of abatement relative to the intent of the OIS.

International bodies are exploring or advocating for supplementing method-level and project-level risk management with scheme-level risk management²⁹.

The implications of implementing such a buffer for ACCU prices and the average cost of supply are ambiguous because (for example) it may enhance investor confidence and reduce investment risk premia applied to supply projects.

29 For example [Gilbert + Tobin: Briefing Report on the Article 6 Rules agreed at COP26](#)

Part 5. Human-induced regeneration (HIR), avoided deforestation, landfill gas and carbon capture and storage (CCS), methods.

Terms of Reference

- 1(b). Whether the methods by which ACCUs are generated meet the Offsets Integrity Standards, including:
- i. Consideration of recent claims raised about the human-induced regeneration, carbon capture and storage, avoided deforestation, and landfill waste gas methods.

The science that underpins these methods is well understood. However, the implementation, monitoring and enforcement of the methods is unavoidably complex. A robust approach to all these elements is needed to underpin integrity of abatement.

Enhancing the implementation of the human-induced regeneration (HIR) method

Recommendation 8. Project administration for the human-induced regeneration (HIR) method should ensure that all HIR projects conform to its current intent: that it is reasonable to expect that the project area will become native forest, attain forest cover, and permanently store carbon as a direct result of project management actions.

8.1 The method should be interpreted as requiring:

- evidence of a causal relationship between the nominated eligible HIR activity or activities and the dominant suppression mechanism(s) that occurred through the entirety of the baseline period;
- demonstration that these suppressors are directly addressed by the HIR activity or activities throughout the life of the project; and
- demonstration that the application of FullCAM is consistent with the guidelines³⁰.

8.2 Each project must meet these criteria before future ACCUs may be issued.

8.3 The CER should include nominated suppression mechanism(s) and eligible HIR activities for new and existing projects on the project register, as soon as feasible, and routinely publish project assessment data and results.

³⁰ Human-induced regeneration method - regulatory guidance

Key findings

The HIR method is sound – it meets the OIS and is administered by a robust regulatory framework. Notwithstanding this, there is always room for improvement.

HIR projects are subject to additional requirements, including 5-yearly regeneration and forest attainment gateway checks. It would be beneficial for the CER to publish outcomes of project assessments, consistent with relevant privacy and confidentiality provisions.

While the Panel did not review individual projects, it understands that should any project under any method be found to be noncompliant, the CER would use existing provisions to address project noncompliance on a case-by-case basis.

The Panel does not accept that a correlation between rainfall and vegetation growth undermines the method. Rainfall is necessary but not sufficient to ensure permanent storage of carbon. For this reason, the method requires that projects include HIR activities that address the reasons why forest cover has not been maintained or restored in the past (referred to as the dominant suppressor or suppressors in the method).

Less restrictive data arrangements would have allowed the substance of many of the concerns raised about HIR projects to be transparently assessed and dealt with, rather than lingering (Recommendation 4).

The Carbon Credits (Carbon Farming Initiative) (Human-Induced Regeneration of a Permanent Even-Aged Native Forest—1.1) Methodology Determination 2013 (HIR method) stipulates that:

HIR projects must, in an area of eligible land, undertake one or more HIR activities in a way that can reasonably be expected to result in (a) the area becoming native forest, and attaining forest cover³¹ through regeneration, and (b) eligible carbon abatement (subsection 7(1), subsection 12(1)).

In practice this requires evidence that an area has in the past sustained native forest, as defined, but that this forest cover has been lost, and that regeneration has been prevented for a period (referred to as the baseline) by one or more defined HIR activities. The ability of an area to regenerate – such as through rainfall following a drought – is thus not the primary focus. Instead, the focus is on establishing the activity or activities (referred to as suppressors) that prevent this regrowth attaining forest cover and providing permanent carbon sequestration.

Each of the following is an HIR activity:

- (a) the exclusion of livestock and the taking of reasonable steps to keep livestock excluded;
- (b) the management of the timing, and the extent, of grazing;
- (c) the management, in a humane manner, of feral animals;
- (d) the management of plants that are not native to the project area;
- (e) the implementation of a decision to permanently cease the mechanical or chemical destruction, or suppression, of regrowth³² (subsection 7(2)).

³¹ Defined as at least 0.2 hectares of land, with trees over 2 metres and 20% crown cover.

³² For conservation land, only (iii) or (iv) is applicable.

Section 4 of the method outlines the general rule for determining eligible land is that:

- (a) it did not have forest cover at any time during the baseline period (*10 years prior to registration*); and
- (b) during the baseline period, it was used or managed in such a way that one or more of the following suppression mechanisms contributed to suppressing the development of forest cover:
 - (i) livestock;
 - (ii) feral animals;
 - (iii) plants not native to the area;
 - (iv) mechanical or chemical destruction, or suppression, of regrowth; and
- (c) as at the end of the baseline period, it was reasonable to expect that it would be necessary to undertake one or more HIR activities on the land in order for it to attain forest cover³³.

Suppression mechanisms and HIR activities

The Panel was advised that:

- It is unclear, in practice, whether the suppression mechanism(s) is required to have been the dominant suppression mechanism(s); and
- The method does not explicitly require that there should be a *causal* relationship between the suppression mechanism and the HIR activity.

Careful consideration should continue to be given to the evidence that is used to demonstrate the eligibility of an HIR activity, and how this is monitored and/or updated throughout the life of the project. In practice, the evidence required may vary in different contexts in order to substantiate the claim.

The lessons and insights gained from reviewing the four specific methods have influenced several other recommendations, including allowing specific 'modules' within methods under Recommendation 5 and providing more structured and enforceable interpretive material under Recommendation 6.

In addition to the limiting disclosure provisions in the governing legislation, the Panel observes a limitation of the HIR method administration is that the suppression mechanisms and HIR activities are not required to be published on the project register³⁴.

Publishing this information would increase transparency on how HIR projects are being implemented and mitigate perceptions of non-compliance.

³³ HIR projects are required to have the potential to achieve forest cover within 15 years.

³⁴ Section 167 and section 168 of the CFI Act stipulates that the Clean Energy Regulator must publish certain information, including an up-to-date, electronic 'Emissions Reduction Fund Register' (project register) on the Regulator's website.

Accounting for carbon sequestration in the Human Induced Regeneration method

Key findings

The current model-based estimation of carbon sequestration using FullCAM is a suitable basis for estimating aggregate carbon storage in native vegetation, when applied appropriately at the project level.

Some stakeholders consider that there would be benefits in allowing HIR and other land-based sequestration projects to opt for direct measurement of carbon storage, with appropriate evidence and assurance, rather than relying on modelled estimates. This could be explored by the proposed proponent-led method development process.

The current HIR method mandates the use of Full Carbon Accounting Model (FullCAM) and provides a user guide for project management and assurance.

FullCAM was originally developed to assess Australia's greenhouse gas emissions from the land sector. It is used in [Australia's National Greenhouse Gas Accounts](#) and to produce the annual aggregate land sector emissions for Australia's National Inventory Reports.

The tool has been internationally reviewed and accepted as part of Australia's international emissions accounting framework, consistent with expectations and Australia's commitments under the Paris agreement and previous UNFCCC commitments.

FullCAM has been developed, tested, and reviewed through long-term research collaborations, field programs and rapid geospatial advancements. It is periodically updated.³⁵



³⁵ [Roxburgh, Stephen; Paul, Keryn. Verification of FullCAM's Tree Yield Formula for Regenerating Systems . Black Mountain: CSIRO; 2022](#)

The Avoided Deforestation method

Recommendation 9. No new project registrations be allowed under the current avoided deforestation method. Consideration should be given to developing new methods that incentivise the maintenance of native vegetation that has the potential to become a forest, as well as maintaining existing forests at risk of land-use conversion.

Key findings

Land clearing has accounted for a significant share of national emissions.

The avoided deforestation method is a means to avoid these emissions.

The length of time that has elapsed since the issue of any remaining unused land clearing permits imply that it would be hard to establish intent to clear land, raising questions about the additionality of any new projects that might be registered under the current method.

The *Carbon Credits (Carbon Farming Initiative – Avoided Deforestation 1.1) Methodology Determination 2015* (the avoided deforestation method) is due to sunset on 1 April 2025.

When the method sunsets, no new projects will be able to register.

To be eligible to register an avoided deforestation project, a proponent must have an existing clearing consent³⁶, which is used as a proxy for additionality: the landholder is legally able to convert the land from native forest to cropland or grassland.

Due to uncertainties about the volume of existing eligible land clearing permits, it is unclear if any additional projects could be registered.

Landfill gas methods

Recommendation 10. Landfill gas methods and crediting period extensions should incorporate upward sloping baselines.

10.1 The baseline of new landfill gas projects and crediting period extensions of existing projects should be adjusted during the lifespan of the project.

10.2 Arrangements should be made for the early review and voluntary adjustment to the baseline of existing projects.

Key findings

Landfill gas is a nationally significant source of methane emissions. Its collection and use or flaring is a successful mitigation strategy.

It has become common practice to extend the crediting period for landfill gas projects without adjustment of the baseline. Given that expectations and regulatory standards are likely to increase over time, any extensions of the project crediting period should only occur with appropriate review and adjustments to baselines.

Industry expressed strong support for adjusting baselines through a transparent and predictable approach.

Without ACCUs, some landfill gas projects may not be financially viable.

Long-term investment certainty is needed as infrastructure is required across decades.

³⁶ [Avoided deforestation method](#)

The *Carbon Credits (Carbon Farming Initiative – Landfill Gas) Methodology Determination 2015* (the landfill gas method) and the *Carbon Credits (Carbon Farming Initiative—Electricity Generation from Landfill Gas) Methodology Determination 2021* (the landfill gas generation method) are emissions avoidance methods.

The science underpinning the landfill gas methods is well understood; waste decomposing in landfill creates biogases, including methane, which is a potent greenhouse gas. Landfills typically produce gas for several decades after ceasing to receive waste.

The landfill gas (generation) method provides an incentive to install a new landfill gas collection system or to upgrade an existing system with the intention to generate electricity from combusting landfill gas, either exclusively or in conjunction with flaring. The method also provides an incentive for the production of biomethane from landfill gas, for use as a natural gas substitute.

Landfill gas baselines

Landfill gas baselines account for the proportion of methane destruction that is required by existing legislation, with methane destruction above the baseline being deemed additional and eligible for ACCUs. The default baseline is 30%, with the baseline being higher to match the requirements of any specific jurisdiction if necessary. This means that if a project has a 30% baseline, 70% of the methane destroyed is deemed additional.

However, some landfill gas projects which transitioned to the ACCU scheme from previous government schemes have a baseline under 30%. The Panel heard that for these projects, the concessional baselines do not appropriately reflect state and territory regulatory requirements, or create a financial incentive for project operators to go beyond the regulatory minimum, and also to innovate.

Carbon Capture and Storage (CCS) method

Key findings

While there has been relatively limited deployment of carbon capture and storage (CCS) nationally or globally, it is considered to have an important potential contribution to limiting the pace and extent of climate change.

The *Carbon Credits (Carbon Farming Initiative – Carbon Capture and Storage) Methodology Determination 2021* (the CCS method) is an emissions avoidance activity.

The method incentivises the capture of greenhouse gases that would have otherwise been released into the atmosphere, which are then injected into the underground geology for storage on a millennial timescale.

The Panel heard that CCS is not economic.

The Panel was advised the activity is most likely to be undertaken at facilities that are regulated under the safeguard mechanism.

The recommended proponent-led method development model would allow related potential methods for long-term storage, such as, biochar, to be considered.

Part 6. Broader impacts of carbon offsets and removals activities

Terms of Reference

2. The broader impacts of activities incentivised under Australia's carbon crediting framework including:
 - a. whether the current processes and requirements are appropriate to manage negative social, economic and environmental impacts, including on agricultural productivity and regional communities;
 - b. the extent to which carbon projects are currently supporting positive environmental, social and economic outcomes including for biodiversity and the participation of First Nations people;
 - c. opportunities to maximise non-carbon benefits of projects.

Key findings

Potential adverse impacts from projects can be mitigated through regulation and oversight mechanisms, in conjunction with the new governance and method development arrangements recommended by the Panel, and supported by initiatives to increase trust, capability and coordination across the carbon farming supply chain.

Risk of adverse impacts

Key findings

Risks and potential adverse impacts of project activities in regional and remote Australia include:

- differing levels of community understanding of the scheme and ability to participate has led to differences in perception of scheme impacts and integrity;
- lack of regional co-ordination, planning and consistency between local, state and federal policies impede landholder participation in the scheme; and
- an absence of re-investment into regional communities

Risk and potential adverse impacts unique to First Nations Australians could arise from:

- conditional registration of carbon projects and lack of Native Title Holder consent, at odds with the principles of free, prior and informed consent (FPIC);
- lack of oversight and capacity to ensure that consent processes are robust and adhere to best practice principles; and
- a lack of adequate representation and resourcing to ensure First Nations representation in scheme governance and participation.

The Panel considers that compliance with scheme regulations and method requirements can prevent or mitigate many of the potential adverse impacts that may arise during the implementation of a project.

To support the existing regulatory safeguards, the Panel has recommended additional assurances to protect against potential adverse impacts of ACCU projects in the preceding sections of this report.

This includes transparency, disclosure and stakeholder engagement provisions along with new governance arrangements, as well as consideration of new ACCU Scheme Principles that would support the CAIC in avoiding adverse impacts of projects.

These should be further supplemented by initiatives that facilitate access to and understanding of the scheme, protect the rights and interests of First Nations Australians and which build trust and consistency across the carbon farming supply chain.

Free, Prior and Informed Consent

Recommendation 11. The CFI Act should be amended to remove the option to conditionally register ACCU projects on Native Title lands (as defined in the CFI Act) prior to obtaining consent, in alignment with the principles of Free, Prior and Informed Consent (FPIC):

11.1 The Australian Government should support Native Title Representative Bodies and other relevant bodies to ensure consistent standards in the application of FPIC.

Key findings

Adherence to the principles of FPIC are essential to achieving positive outcomes. Allowing conditional registration is inconsistent with FPIC.

The CFI Act provides for the requirement to obtain consent from parties with an eligible interest in the land on which a carbon abatement project is registered, including Native Title holders with a registered Native Title body corporate.

The CFI Act presently allows for projects to be registered conditionally upon obtaining all eligible interest holder (EIH) consents, provided that the project proponent has the legal right to run the project. In practice, this means that a project may be established for up to 5 years before it is required to provide evidence to the CER that EIH consent has been obtained to undertake that project.

In the Panel's view, the practice of seeking consent following the conditional registration of a project pre-empts the outcome of negotiations and risks creating a disparity in the bargaining power of parties.

In alignment with the principles of FPIC, project proponents must ensure Native Title holders' consent is obtained prior to project registration application, when applicable.

FPIC means that consent is: free from force, intimidation, manipulation, coercion or pressure; obtained prior to the project starting; and obtained after Indigenous people are fully informed about the costs, benefits, risks and any other implications of the project, and allowing the opportunity to seek independent advice.

Proponents, in keeping with current industry best practice, should consider the need for, and the benefit of, consent from not only Native Title holders but also Native Title claimants. Active participation by those with knowledge of Country and its care will result in increased integrity of and benefits to the project.

To simplify and ensure consistent standards in FPIC, Native Title Representative Bodies and/or other relevant bodies should be resourced to support consent processes, engage with the CER, maintain a register of carbon projects relevant to each region and share best practice approaches to First Nations benefit sharing and governance models.

Best practice performance standards

Recommendation 12. Carbon service providers and carbon market advisors, including agents, should be accredited and regulated.

Key findings

The Carbon Market Institute's voluntary Carbon Industry Code of Conduct contributes to the integrity of the ACCU scheme.

Mandating performance standards for carbon service providers, including agents, would enhance market confidence and consumer protection.

Mandating performance standards for carbon service providers, including agents, would provide carbon project stakeholders with a level of assurance that projects are implemented with the highest possible standards.

As an example, the Carbon Market Institute has developed a voluntary Australian Carbon Industry Code of Conduct (the Code) that has 32 signatories covering 75% of ACCU scheme projects.

The Code requires signatories to conduct business in accordance with industry best practice and to engage with clients and stakeholders in an ethical manner. It provides a ready benchmark for best practice and is already employed at the government level – being a signatory is mandatory for project developers seeking to access Queensland, Western Australian and Tasmanian Government support schemes.

The Panel heard concerns that there should be education or stricter enforcement of existing regulation around the provision of financial advice in relation to carbon market activities.

Co-benefits

Recommendation 13. The CER, in consultation with market participants and stakeholders, should develop procedures to support transparency of different project characteristics and types of co-benefits associated with ACCUs.

Key findings

Co-benefits extend beyond reduced emissions and carbon removals. They include non-carbon benefits to proponents, the broader community, and to the environment.

Scheme arrangements should facilitate but not require provision of co-benefits.

Current arrangements for attributing project characteristics and co-benefits to ACCUs are not mature. This weakens incentives for market participants to supply, demand, and resource these value-adding outcomes.

Where a co-benefit is claimed, the proponent should use an appropriate method, verifying the claims made in relation to the co-benefit, and provide evidence to the CER before the claim can be published.

ACCUs, have specific attributes which are not fully reflected in current scheme regulations. Attributes that describe an ACCU's characteristics provide supplementary information that enable purchasers to better understand the quality and impact of ACCU projects.

Attributes include provenance, the type of mitigation activity and potential co-benefits.

Co-benefits provide additional value for ACCUs that measurably improve social, economic, cultural and environmental outcomes from the implementation of a project. The Panel heard that co-benefits resulting from the scheme have included (but are not limited to):

- **Economic:** carbon revenue streams create a more robust and sustainable business model for rural and remote landholders. Enhanced cash flow enables landholders to invest and make improvements on their properties leading to improved environmental condition and increases in productivity.
- **Social:** Financial viability (from diversification of revenue streams) encourages younger generations to return to rural and remote living and increases on country job opportunities. In some instances, community stakeholders mentioned increased local co-ordination and knowledge sharing between landholders on agricultural productivity and with First Nations on land management practices.
- **Environmental:** better management of feral animals, rehabilitation and protection of key habitat leading to an increase in diversity and distribution of native species. For savanna burning projects – reduced late season wildfire.
- **Cultural:** intergenerational transfer of cultural knowledge; reconnection with Country; growing community recognition and interest in cultural land management practices; and increased autonomy to make decisions aligned with cultural responsibilities to care for Country.

Increased integration of co-benefits, through transparent and verifiable attribution of co-benefits, will result in a stronger, more mature, resilient and credible ACCU scheme.

To facilitate these outcomes, clear, consistent and easily accessible information on project characteristics is required. Proponents who claim a co-benefit should provide evidence and verification of co-benefits to the CER before they can be published.

Capacity and capability building

Recommendation 14. The Australian Government should continue to support the capacity and capability of rural and remote communities, including First Nations Australians, to participate in and benefit from the ACCU scheme.

Key findings

Governments have an important role in education and capacity building to enable greater participation in and access to the benefits of carbon and environmental markets.

There is a need for capability and capacity building across all stakeholders with an interest in the ACCU scheme. Improvements to carbon literacy among farmers, First Nations land managers, conservationists and other scheme participants will support informed decision making.

Capacity and capability building programs should be appropriate for the target audience and developed in close collaboration with communities. A holistic approach that includes, but extends beyond, direct support to (potential) scheme participants and builds expertise and enterprise across the carbon farming supply chain should be prioritised.

This is especially pertinent to First Nations Australians – resourcing of Native Title Representative Bodies to monitor and support Native Title consent coupled with investment into First Nation led initiatives and enterprise is required to increase participation and agency of First Nations Australians in the ACCU scheme.

The Panel notes that aspects of this work could be addressed through the Australian Government's October 2022 announcement to provide \$20.3 million over four years for a Carbon Farming Outreach Program.

Supporting regional Australia

Key findings

Carbon farming activities bring benefits to regional Australia through their implementation. Consideration should be given to appropriate steps to enhance regional income and business opportunities associated with the scheme.

There is an opportunity to foster rural and remote entrepreneurship in areas of project development, monitoring and verification.

Support for remote and rurally based individuals and enterprise to participate in ancillary carbon farming services, such as monitoring and verification, would also facilitate regional development goals such as workforce participation, population retention and growth as well as community cohesion.

There would also be benefit in supporting First Nations Australians to share their expertise and knowledge in cultural land management practices – for example, conducting cultural fire demonstrations and Healthy Country verification services.

These, in turn, support scheme integrity.

Recognising and supporting First Nations Australians participation and full contribution

Recommendation 15. Reforms relating to First Nations Australians' participation in the ACCU scheme should align with the accepted recommendations of concurrent reviews and reforms.

Key findings

The policy, legislative and governance arrangements in place to protect the rights and interests of First Nations Australians are evolving rapidly.

First Nations Australians have unique expertise in cultural land management practices and can make a distinctive contribution to carbon markets, community and environmental outcomes.

First Nations Australians hold deep knowledge and understanding of Healthy Country, informed by thousands of years of observation and stewardship of local ecosystems, and passed down through many generations. Australia can benefit greatly from integrating First Nations knowledge into the context of the ACCU scheme.

A number of existing processes, including the Australian Government's response to the Samuel Independent Review of the EPBC Act³⁷ and the Final Report into the Destruction of Indigenous Heritage Sites at Juukan Gorge³⁸, make recommendations to enhance the rights and interests of First Nations Australians.

The policy, legislative and governance arrangements relevant to the participation of First Nations Australians in the ACCU scheme should be consistent with the accepted recommendations of concurrent reviews and reforms. This include the National Agreement on Closing the Gap and the Council of Australian Government's commitments in the Partnership Agreement for Closing the Gap.

³⁷ [DCCEEW 2022, Nature Positive Plan: better for the environment, better for business](#)

³⁸ [Australian Government response to the destruction of Juukan Gorge 2022](#)

Co-ordination and consistency across jurisdictions and processes

Key findings

Improving coordination and consistency between local, state and federal governments would support positive economic, social and environmental outcomes.

Greater connectivity and coordination between federal, state and local governments would support integration of regional and state policies and programs and optimise economic, social and environmental (including biodiversity) outcomes.

Harmonising standards, regulations and laws across jurisdictions increases certainty and supports integrity within the scheme – state and local governments have local knowledge and expertise to guide, advise and coordinate ACCU projects, in line with regional plans, to maximise beneficial outcomes from carbon abatement.

There would be benefits from coordinating actions arising from concurrent reviews, consultations and new initiatives the government is undertaking.

Part 7. The Climate Active initiative

Terms of Reference

2. The broader impacts of activities incentivised under Australia's carbon crediting framework including:
 - d. requirements for the use of ACCUs under Climate Active.

Recommendation 16. The mandatory requirement for Climate Active organisations to use a minimum 20 per cent ACCU to achieve their emissions offsets should not come into effect.

Key findings

Organisations accredited through Climate Active's voluntary carbon neutral certification program are able to use ACCUs to offset their emissions.

The introduction of a mandatory requirement to use ACCUs is inconsistent with the flexibility that is central to the intent and purpose of the Climate Active program.

It is likely that the mandatory requirement will be cost-prohibitive for some organisations, which will choose or be forced to leave the Climate Active scheme.

Climate Active is a voluntary Australian Government certification program for businesses that have credibly reached a state of carbon neutrality by measuring, reducing and offsetting their carbon emissions. Participants can use offsets from a variety of source including ACCUs, and international units such as Certified Emissions Reductions (CERs), Verified Emissions Reductions (VERs) issued by the Gold Standard, and Verified Carbon Units (VCUs) issued by the Verified Carbon Standard.

Climate Active accreditation requirements have been changed to require a minimum 20 per cent use of ACCUs for offsetting emissions, which will come into effect from July 2023 or July 2024 depending on the size of the certification.

Appendix A

Terms of reference – Independent Review of Australian Carbon Credit Units

The Government supports reductions in Australia’s greenhouse gas emissions by crediting Australian carbon credit units (ACCUs) issued under the *Carbon Credits (Carbon Farming Initiative) Act 2011*, and purchasing ACCUs through the Emissions Reduction Fund (ERF). These reductions help meet Australia’s emissions reductions targets. The Government will continue to invest in ACCUs to support voluntary action on emissions reduction. Maintaining the integrity of this carbon crediting system will also ensure a reliable supply of high-quality domestic offsets is available to support the reduction of Safeguard Mechanism baselines over time.

In addition to helping meet Australia’s climate change goals, many carbon projects have benefits for agricultural productivity, Indigenous communities and the environment. Managed well, the framework for carbon crediting will continue to make a significant and enhanced contribution to the broader community, particularly in regional Australia where many of the projects take place.

The purpose of this review is to ensure that ACCUs and the carbon crediting framework maintain a strong and credible reputation supported by participants, purchasers and the broader community. To achieve this, the independent, expert panel will provide advice to the Minister for Climate Change and Energy about the framework for ACCU generation and trade to ensure its integrity, consistency with agricultural and other objectives, and contribution to environmental, economic and other benefits like biodiversity.

The independent panel will evaluate and advise on:

1. The integrity of ACCUs issued under the *Carbon Credits (Carbon Farming Initiative) Act 2011*, with specific reference to:
 - a. Whether scheme governance is appropriate, including:
 - i. whether the scheme’s governance structure is fit for purpose including the allocation and operation of roles and responsibilities between and within relevant agencies, including management of conflicts of interest;
 - ii. whether the scheme’s settings and legislative requirements are appropriate to ensure good governance and confidence in scheme integrity;
 - iii. whether the scheme has appropriate transparency including whether and how reporting and publication of data could be improved.
 - b. Whether the methods by which ACCUs are generated meet the Offsets Integrity Standards, including:
 - i. consideration of recent claims raised about the Human Induced Regeneration, Carbon Capture and Storage, Avoided Deforestation, and Landfill Waste Gas methods
 - ii. whether method development and review processes are appropriate and effective.
 - c. Any other matters the panel considers relevant to the integrity of ACCUs.

2. The broader impacts of activities incentivised under Australia's carbon crediting framework including:
 - a. whether the current processes and requirements are appropriate to manage negative social, economic and environmental impacts, including on agricultural productivity and regional communities;
 - b. the extent to which carbon projects are currently supporting positive environmental, social and economic outcomes including for biodiversity and the participation of First Nations people;
 - c. opportunities to maximise non-carbon benefits of projects;
 - d. requirements for the use of ACCUs under Climate Active.

The review will include public consultation seeking written submissions as well as meetings including with relevant academics and experts, First Nations groups, project proponents, aggregators, industry and consumer groups, business, the community, and relevant Commonwealth and State and Territory government agencies.

A final report with findings and recommendations to address any identified issues will be delivered within 6 months of commencement.



Appendix B

Panel Consultation Summary

Date	Attendee(s)	Meeting Type	Topics Discussed
26-Jul-22	Clean Energy Regulator, Department of Climate Change, Energy, Environment and Water (DCCEEW)	In-person	Introduction to roles and respective responsibilities
2-Aug-22	Climate Change Authority (CCA)	Both	Introduction to CCA role in the ACCU scheme, responsibilities and work program.
2-Aug-22	Climate Active	Both	Introduction to the Climate Active Program
2-Aug-22	DCCEEW - Biodiversity Markets	Both	Introduction to the biodiversity markets work program
10-Aug-22	Carbon Market Institute (CMI)	Virtual	Introduction to the CMI and initial views on the Terms of reference (ToR)
19-Aug-22	ANU-UNSW ERF Research Team	In-person	Published papers about the ACCU scheme
22-Aug-22	Queensland Department of Environment and Science	Virtual	Qld Land Restoration Fund, ACCUs, ToR
31-Aug-22	Mugga Lane landfill Canberra - operated by LGI	In-person	Landfill gas methods, ToR
2-Sep-22	Grattan Institute, Market Advisory Group	Both	ToR, ACCU market
5-Sep-22	Clean Energy Regulator	In-person	ToR, HIR including 'gateway checks'
6-Sep-22	Agriculture industry - National Farmers Federation, Farmers for Climate Action, Future Farmers Network	Virtual	ToR, Integrated Farm Method, human-induced regeneration (HIR) method
12-14-Sep-22	Cobar, NSW - Climate Friendly, GreenCollar, NSW Government, ACCU scheme participants, Cobar Shire Council, NSW Local Aboriginal Land Council. Site visits to HIR and avoided deforestation projects.	In-person	HIR, ToR, avoided deforestation method, adverse impacts
23-Sep-22	NSW Government - Environment, DPI, Treasury, Biodiversity Conservation Trust	Virtual	ToR, NSW biodiversity schemes
29-Sep-22	Landfill gas industry stakeholders	Both	LFG, ToR

Date	Attendee(s)	Meeting Type	Topics Discussed
7-Oct-22	South West Queensland Regional Organisation of Councils (SWQROC)	Virtual	ToR, HIR, adverse impacts (incl. veto)
14-Oct-22	Tasmanian Government	Virtual	ToR, vegetation methods
24-Oct-22	DCCEEW - Safeguard mechanism	Both	Safeguard mechanism
26-Oct-22	The Australia Institute	Both	Submission
26-Oct-22	CCS and DAC Stakeholders	Virtual	Submissions
1-Nov-22	Dr Beverley Henry	Virtual	Submission
2-Nov-22	Dr Megan Evans	In-person	Submission
2-Nov-22	Professor Andrew Macintosh	In-person	ERAC experiences and reflections
2-Nov-22	DCCEEW - Climate Active	In-person	Climate Active, relevant submissions
10-Nov-22	First Nations stakeholders, facilitated by the Indigenous Carbon Industry Network	Virtual	ToR, experiences with the ACCU scheme
11-Nov-22	DCCEEW - National Inventory Team	In-person	Australia's National Inventory and FullCAM
22-Nov-22	Business Council of Australia	Virtual	Submission
22-Nov-22	AI Carbon	Virtual	Submission, HIR in the context of WA and SA
25-Nov-22	CSIRO - FullCAM and HIR Experts	In-person	HIR and FullCAM
25-Nov-22	ACCU scheme auditors	Virtual	ToR, on-ground experience of ACCU project implementation
6-Dec-22	CCA	In-person	Submissions and thinking in relation to CCA

Appendix C

Abbreviations

AAS - Australian Academy of Science	EOI - Expression of Interest
ACCU - Australian Carbon Credit Unit	EPA - Environmental Protection Agency
AFSL - Australian Financial Services Licence	ERAC - Emissions Reduction Assurance Committee
ATO - Australian Taxation Office	FullCAM - Full Carbon Accounting Model
CAIC - Carbon Assurance and Integrity Committee	FPIC - Free, prior and informed consent
CCA - Climate Change Authority	GHG - Greenhouse Gas
CCS - Carbon Capture and Storage	HIR - Human-Induced Regeneration
CEA - Carbon Estimation Area	IFM - Integrated Farm Management
CER - Clean Energy Regulator	LFG - Landfill Gas
CERs - Certified Emissions Reductions	VCUs - Verified Carbon Units (issued under the Verified Carbon Standard Scheme)
DAC - Direct Air Capture	VERs - Verified Emissions Reductions (issued under the Gold Standard Scheme)
DCCEEW - Department of Climate Change, Energy, the Environment and Water	
DISER - Department of Industry, Science, Energy and Resources	

