



Australia's property industry

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14 April 2022

International Offsets Review Team
Climate Change Authority
GPO Box 2013
Canberra ACT 2601

Via email: enquiries@climatechangeauthority.gov.au

Dear Review Team,

RE: Property Council of Australia submission to the *Review of International offsets: consultation paper*

The Property Council of Australia welcomes the opportunity to make a review to the Climate Change Authority on the *Review of International offsets: consultation paper*. We recognise the significant body of work undertaken by the Climate Change Authority leading to this review and thank you for your ongoing consultation with the property sector.

The Property Council is the peak body for owners and investors in Australia's property industry. Our industry contributes 13% of Australia's GDP and employs 1.4 million people, more than mining and manufacturing combined. While there are disparities across the sector, Australia's property industry leaders are world leaders in sustainability, topping indices like the Global Real Estate Sustainability Benchmark for eleven consecutive years. Our members are key users and supporters of the Climate Active scheme and offsets are uniformly part of their sustainability strategies to reach net zero.

Through the government's *Long-term Emissions Reduction Plan*, Australia has committed to decarbonise our economy by 2050 and this must include the built environment. To create the regulatory certainty needed to achieve this objective, we recommend the Commonwealth builds on the *Trajectory for Low Energy Buildings* and commits to a sector specific plan for the built environment to achieve net zero. This plan should include a coordinated approach to decarbonisation that outlines, among other measures, the specific role of offsets for the built environment for medium and long-term scenarios.

The Property Council's key recommendations in relation to the ongoing review are the following, outlined in further detail in the submission that follows this letter:

1. **Governance Arrangements** - Climate Active should be equipped with a robust governance framework that includes industry representatives on its governing body. This is a necessary step to ensure future rulings on the operation of Climate Active are supported by its users and the program remains effective and trusted by industry. A useful reference is the model used by [NABERS](#), involving a steering committee with government representatives and non-voting industry stakeholders.
2. **Additionality** – Provisions must be put in place to ensure the additionality of the offsets used from any eligible offsetting scheme, i.e. they must represent an emissions reduction relative to a counterfactual baseline that would not have occurred in the absence of the offsetting activity.
3. **Permanence** – Offsetting under the Climate Active scheme should favour longer term sequestration and come with assurance of the permanence of that offsetting.
4. **Carbon removal** – Deliver a roadmap for transitioning from emissions reduction offsets in favour of carbon removal with associated timeframes and milestones. Many carbon offsets are polluter emission reductions. These offsets are necessary but not sufficient to achieve net zero in the long run.
5. **Robust carbon accounting** – Ensure carbon accounting for Climate Active certifications/claims meet the requirements and guidance outlined in the Greenhouse Gas Protocol, the most robust and widely adopted international standard. Climate Active is the Commonwealth’s only scheme to certify the net zero credentials of an organisation or asset and operates in a complex carbon accounting environment that traverses industries, states and international borders.
6. **A hierarchy of offsets** – Build awareness and recognition of offsets that can demonstrate a broader range of co-benefits beyond the core requirements of permanent, additional carbon sequestration. This could be achieved through the Climate Active program by promoting offsets that add proven co-benefits.

Please feel encouraged to reach out to Tim Wheeler, Policy Manager on +614 9173 1496 or twheeler@propertycouncil.com.au should you wish to discuss this submission further.

Yours faithfully,



Mike Zorbas

Group Executive Policy & Advocacy
Property Council of Australia

Property Council submission to the ongoing Review of International Offsets: discussion paper.

While Property Council members are key users and supporters of Climate Active, they are not engaged with the Indo-Pacific Carbon Offsets Scheme in a significant way. We therefore direct most of the content of this submission to the application of carbon offsets to the Climate Active scheme.

Governance Arrangements

Climate Active is a Commonwealth program that provides a carbon neutral certification standard for businesses who wish to demonstrate they have credibly reached net zero emissions. The Property Council and its members actively participated in the development of the Climate Active Carbon Neutral Standard (formerly the National Carbon Offset Standard) that underpins the Climate Active scheme in recognition of its importance in substantiating net zero claims from member organisations.

Recently we have witnessed unilateral decisions by the Commonwealth to overhaul key aspects of Climate Active certification without in-depth consultation with industry¹. The proposal to implement a requirement for Climate Active certifications to use at least 20 per cent Australian Carbon Credit Units (ACCUs) for offsetting purposes carries significant implications for industry and arrives at a time when serious doubt has been cast over the integrity of ACCUs. Claims were recently made by the Chair of the Emissions Reduction Assurance Committee that there is a lack of additionality associated with many offsets generated under the Emissions Reduction Fund (ERF).² Pursuing reforms that weaken trust in the Climate Active scheme can have flow on effects that reduce the credibility of net zero claims made by certified organisations.

It is therefore essential to ensure that any changes to the Climate Active scheme are conducted in close consultation with the industries they affect. The Governance model of Climate Active should be overhauled to incorporate a stronger voice for end-users. We strongly encourage the Commonwealth to consider a governance model similar to the [NABERS](#) scheme. Although managed by the NSW Department of Planning, Industry and Environment, the operation of NABERS is overseen by a national Steering Committee comprised of government and (non-voting) industry stakeholder members.

This governance model has made NABERS one of the most successful sustainability programs ever delivered and it has grown from a NSW Government program to one that now has international reach and impact.

Recommendation: Climate Active should be equipped with a robust governance framework that includes industry representatives on its governing body. This is a necessary step to ensure future rulings on the operation of Climate Active are supported by its users and the program remains effective and trusted by industry. A useful reference is the model used by [NABERS](#), involving a steering committee with government representatives and non-voting industry stakeholders.

Additionality

As mentioned in the previous section, there have been recent claims that a subset of offsets generated under the ERF do not display adequate evidence of additionality i.e. that the offsetting activity may

¹ <https://www.minister.industry.gov.au/ministers/taylor/speeches/address-carbon-market-institute-8th-australasian-emissions-reduction-summit>

² <https://law.anu.edu.au/news-and-events/news/australia%E2%80%99s-carbon-market-fraud-environment>

have occurred in the absence of intervention under the ERF project and any offsets generated are therefore not 'additional' to a counterfactual baseline.

The principle of additionality goes to the very essence of the effectiveness of climate change mitigation through offsets. The Climate Change Authority should ensure that provisions are put in place to verify offsets and ensure that emissions reductions or carbon removal actually takes place and that all forms of double-counting, including double-claiming of the emissions reduction benefit are avoided. This principle should apply to all types of offsets that are permitted under Climate Active, including ACCUs, and international offsets from the Gold Standard, Verified Carbon Standard, Clean Development Mechanism and Kyoto Protocol. If any of these offsetting schemes were found to be lacking in assurance mechanisms around the additionality of offsets they generate, they should be removed from the list of acceptable offsets under Climate Active.

For this reason, and in the absence of further consultation, we do not currently support the mandating of 20% use of ACCUs for meeting offsetting requirements under Climate Active.

Recommendation: Provisions must be put in place to ensure the additionality of the offsets used from any eligible offsetting scheme, i.e. they must represent an emissions reduction relative to a counterfactual baseline that would not have occurred in the absence of the offsetting activity.

Permanence

Permanence refers to how long a greenhouse gas is sequestered out of the atmosphere, whether stored in a physical reservoir or by avoided emissions.³ The longer the storage of the carbon, the greater its ability to mitigate the negative impacts of climate change. Alarmingly, the ERF currently allows projects with a permanence period of just 25 years. In the case of Human Induced Rehabilitation (HIR) generated offsets, there is a real possibility that rehabilitated forests will be destroyed after the 25 years of protected growth and carbon will be released back into the atmosphere prior to 2050. This will be a critical time in Australia's transition to net zero that could be seriously jeopardised by 'expiring' carbon offsets.

Assurances should be provided on the permanence of offsets to ensure they do not release carbon to the atmosphere prior to their expiry. For example, a nature-based offset that is degraded by fire or other natural or artificial processes prior to the attainment of its permanence period should carry a responsibility to be regenerated or replaced by an equivalent project.

Recommendation: Offsetting under the Climate Active scheme should favour longer term sequestration and come with assurance of the permanence of that offsetting.

Carbon removal

Many carbon offsets available today are emissions reductions generated from polluters reducing the amount of carbon they generate. These offsets are necessary but ultimately insufficient to achieve net zero in the long run.

³ Oxford Principles for Net Zero Aligned Carbon Offsetting, September 2020

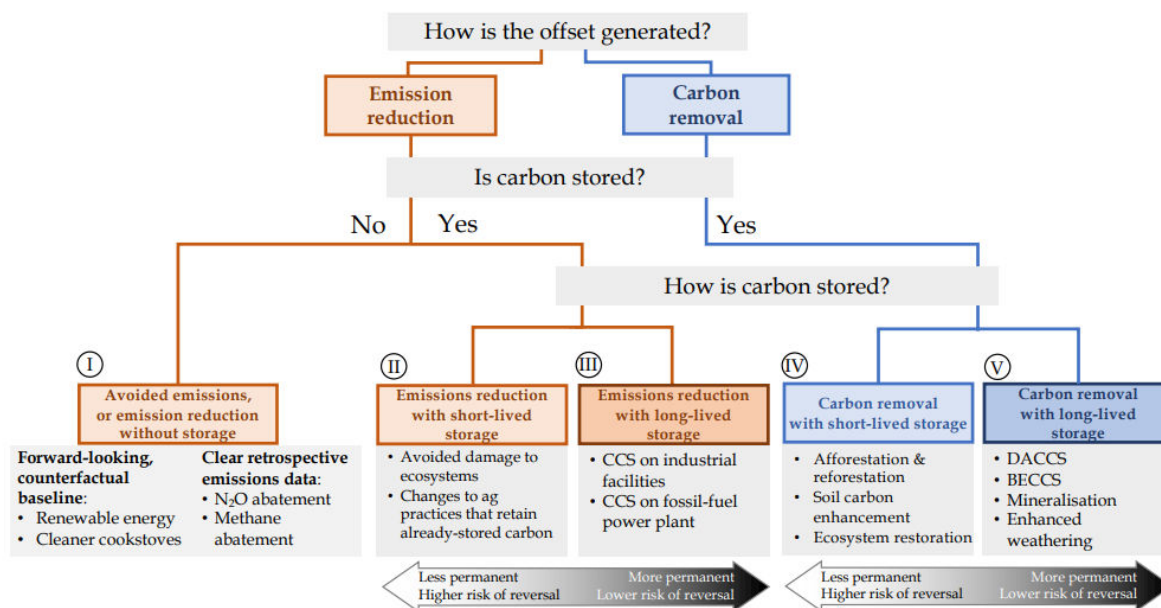


Figure 1 - Taxonomy of Carbon Offsets⁴

Offsets will eventually have to be generated exclusively by carbon removals, but emissions reductions will remain relevant and necessary in the medium term. Emissions reductions include avoided emissions from, for example the replacement of fossil fuel power by renewable energy generation or Carbon Capture and Storage technology (when associated with energy production). Carbon removals, by contrast, are offsets generated by directly removing greenhouse gas emissions from the atmosphere. Examples of carbon removals include, rehabilitating natural vegetation, enhancing soil carbon or direct air capture with geological storage.

While offsets created by emissions reductions are relevant in the short and medium term, the focus will inevitably need to shift towards carbon removal as industries decarbonise and the economy approaches net zero. Figure 1 contains several examples of high permanence, carbon removal offsets that should be favoured by Climate Active.

Recommendation: Deliver a roadmap for transitioning from emissions reduction offsets in favour of carbon removal with associated timeframes and milestones. Many carbon offsets are polluter emission reductions. These offsets are necessary but not sufficient to achieve net zero in the long run.

Robust carbon accounting

To ensure the credibility of claims made under Climate Active, the offsets included within the scheme must be supported with a robust carbon accounting framework. The Greenhouse Gas Protocol⁵ outlines best practice for incorporating offsetting activities within broader carbon accounting and should be used as a model for offsetting under Climate Active.

Eligible offset units should be traced and retired via an offsets registry. The retirement of these offsets should be clearly attributed to the carbon neutral claim and the building, organisation, or responsible entity making the claim. The retirement and attribution of eligible offset units is important to prevent resale or double counting of offset units.

⁴ Oxford Principles for Net Zero Aligned Carbon Offsetting, September 2020

⁵ Greenhouse Gas Protocol, Corporate Accounting and Reporting Standard & The GHG Protocol for Project Accounting.

The process of attributing and retiring carbon offsets is rendered more complex when offsets from multiple sources are used and they are from different international markets.

Recommendation: Ensure carbon accounting for Climate Active certifications/claims meet the requirements and guidance outlined in the Greenhouse Gas Protocol, the most robust and widely adopted international standard. Climate Active is the Commonwealth's only scheme to certify the net zero credentials of an organisation or asset and operates in a complex carbon accounting environment that traverses industries, states and international borders.

A hierarchy of offsets

As well as the carbon abatement characteristics of offsets, they can also have associated co-benefits or drawbacks based on the method used to generate them. Our members have identified nature-based offsets as an immediate priority, as they can restore and protect a wide range of Australia's ecosystems. In 2020, an independent review into the operation of the *Environment Protection and Biodiversity Conservation Act 1999* found that it was failing to adequately protect our natural heritage from degradation. By developing nature-based offsetting projects, our members can generate carbon removal credits as well as restore natural habitats, engaging proactively with traditional owners and create local jobs.

In contrast, some offsets may have the result of supporting the ongoing use of fossil fuels by paying coal generators to reduce their emissions or may be located in areas of the world that are at high risk of employing forced labour. Some members of the Property Council have expressed a preference for Australian offsets as they consider them to have lower sovereign and counter party risks.

The Climate Active scheme can be leveraged by the Commonwealth to reward the use of higher value offsets and direct participants away from offsets with harmful associated outcomes.

Further, industry would benefit from guidance materials on navigating the procurement landscape for offsets. As a financial product, offsets have a myriad of legal implications and considerations associated with their procurement. Providing this guidance will assist smaller industry players in particular to navigate their sustainability objectives relating to offsetting activities.

Recommendation: Build awareness and recognition of offsets that can demonstrate a broader range of co-benefits beyond the core requirements of permanent, additional carbon sequestration. This could be achieved through the Climate Active program by promoting offsets that add proven co-benefits.