



Property Council of Australia
ABN 13 00847 4422

Level 1, 11 Barrack Street
Sydney NSW 2000

T. + 61 2 9033 1900
E. info@propertycouncil.com.au

propertycouncil.com.au
[@propertycouncil](https://twitter.com/propertycouncil)

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Professor Ian Chubb

ACCU Review Secretariat
Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
Canberra ACT 2601

Via email: ACCUREVIEW@dcceew.gov.au

Dear Professor Chubb

RE: Property Council submission to the Independent Review of Australian Carbon Credit Units

The Property Council of Australia welcomes the opportunity to make a submission to the *Independent Review of Australian Carbon Credit Units* (ACCUs) and we acknowledge the link to the concurrent *Safeguard Mechanism reform consultation*. An effective and equitable Safeguard Mechanism together with a robust carbon market will both be crucial in achieving our national emissions reduction targets.

The Property Council and its members hold serious concerns about the governance arrangements of the ERF, the integrity of methods and the plausibility of some carbon abatement delivered by the scheme. We urge the Commonwealth to take decisive action to:

- Equip the ERF with a new governance model to distribute its roles and ensure independence between the development of methods, assessment of projects and purchasing of ACCUs on behalf of the government.
- Amend or revoke low integrity methods and ACCUs generated under these methods where it cannot be demonstrated that real, additional abatement has been achieved.
- Review existing projects to ensure they are delivering the agreed abatement.

It is in the interest of all participants of the scheme and the Australian community that we have a robust, functioning carbon market to support an efficient transition of our economy towards net zero.

The Property Council of Australia is the leading advocate for Australia's largest industry – property. Our industry represents 13 percent of Australia's GDP, employs 1.4 million Australians, and generates \$72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major building asset classes.

Australia's property industry leaders are world leaders in sustainability. They have consistently led global ESG indices like the Dow Jones Sustainability Index and the Global Real Estate Sustainability Benchmark, which they have topped since its inception eleven years ago. Many of our leading members have ambitious sustainability strategies with commitments to net zero emissions by 2030 or sooner, with several portfolios having reached this milestone already.

Some emissions in the built environment are more difficult to abate than others during the period of transition to net zero. Equipment that operates on fossil fuels such as gas heating and cooking requires a carefully planned replacement program and some value chain emissions related to products and materials are technically difficult to abate in the short term. Similarly, the process of eliminating or reducing the use of refrigerants with global warming potential requires a transition period.

Some of these emissions can be eliminated and some are avoided by switching to renewable energy. Where emissions are difficult to eliminate, such as embodied emissions in materials, or require planning and a transition period, the use of offsets may be justified to bring forward the achievement of net zero emissions targets. Offsets offer an economically sound approach to early carbon mitigation and the development of robust markets should be encouraged to direct their usage in the most efficient way within our economy.

Many of our members rely on ACCUs and certification schemes like Climate Active to deliver on their sustainability objectives. As a result, these schemes require high integrity credentials so as not to affect the credibility of our members' sustainability strategies and net zero objectives.

The Property Council's immediate priorities in relation to the review are the following.

1. Experience using ACCUs and Climate Active

Due diligence - There is no single approach to engaging with ACCUs among property organisations. However, in recent times our members' confidence in their environmental integrity has diminished. This is due mainly to the lack of clarity on the qualitative aspects of ACCUs that has shifted the responsibility to conduct due diligence from the regulator onto purchasers.

Our larger members have the means to conduct due diligence on the ACCUs they purchase, but this is not true for smaller entities who must rely on existing frameworks. This would not be necessary if the scheme was widely viewed as robust and there was confidence in the integrity of its methods. It is essential to restore confidence in the environmental integrity of ACCUs as a priority for this review. We include recommendations for this at section 4.

Climate Active - Due to integrity concerns with ACCUs, some Property Council members have taken alternative approaches to offsetting. These include directly buying land for Human Induced Regeneration projects that they manage directly with third party, independent verification. These types of projects have high integrity, and their emission reductions can be directly accounted for by the purchasers. However, Climate Active does not recognise them. Should a requirement to purchase 20 percent ACCUs be necessary for certification under the scheme, it would invalidate these types of high-integrity projects for the purpose of certification.

There is no acceptable justification or rationale for imposing a requirement to purchase ACCUs for Climate Active certification, they are no more credible than other certification schemes, including some not currently recognised by Climate Active. As such, the Property Council opposes the arbitrary requirement for Climate Active to necessitate a minimum of 20 percent ACCUs for certification.

ERF Policy Framework incompatible with the built environment - The Property Sector accounts for 23 percent of Australia's emissions and uses 50 percent of total electricity,¹ and presents some of the lowest cost opportunities for emissions reductions. Market leading property companies have demonstrated the potential for increased energy performance and have reduced their emissions intensity by 52 percent compared to a 2005 baseline.²

Despite this, while the ERF has delivered over 1,000 projects, none of these are from the Commercial Building Method. The ERF is fundamentally unsuited to participation by the built environment due to the method's design:

- There is currently a minimum bid size of 2,000 tonnes of annual abatement to participate in the ERF auction. To meet this threshold a property company would need to aggregate approximately 58 commercial office buildings into a single project. This prevents most of the market from participating.
- There are major time lags between auctions and payments to participants. Combined with transaction costs, these issues are leading to lower participation in the ERF. Energy efficiency projects require large upfront capital costs and the time lags between auctions and when incentives are paid out act as further barriers discouraging buildings from participating.
- Registration and reporting requirements for projects under the ERF are detailed and administratively burdensome. While this is appropriate for large and complex projects, it is excessive for smaller projects that do not require the same level of detailed input. This process should be streamlined for smaller projects in the built environment.

The built environment can help the Government achieve its emissions reduction goals, but it must be supported by the right policy framework.

In contrast to the ERF, state energy efficiency schemes, or 'white certificate' schemes have been very effective at driving emission-reducing upgrades to buildings. The NSW Energy Savings Scheme, Victorian Energy Upgrades Program, the South Australian Retailer Energy Efficiency Scheme and the ACT Energy Efficiency Improvement Scheme have been highly effective at driving single-technology upgrades to residential and commercial buildings, such as lighting upgrades, due to their design:

- **low transaction costs:** The schemes have relatively low transaction costs, and administrative costs effectively cease after projects are completed.
- **incentive certainty:** Building owners have a rough idea of how much incentive they will receive before a project commences, in contrast to the ERF where they may fail to secure any incentive even after significant transaction costs.
- **upfront payment:** Building owners are generally paid incentives in full shortly after energy efficiency measures are installed. This has much greater appeal to CFOs, as incentives are provided in the same year that costs are incurred, they do not need to trust that incentives will be maintained over time and ongoing costs are eliminated. Upfront payment also makes more sense for energy efficiency measures, we tend to be 'set and forget', in contrast to measures such as revegetation,

¹ Low Carbon Living CRC, Best Practice Policy and Regulation for Low Carbon Outcomes in the Built Environment, 2017.

² Better Buildings Partnership, Annual Report (2021)

- **size of incentive:** Incentives are generally in the region of \$20-\$40 per tonne of abatement. While this is a higher cost per tonne than provided by the ERF, because projects have knock-on impacts via market transformation, the actual cost of abatement is far lower.

The success of these programs at driving single-technology market transformation means that we advocate for similar programs to be established in Queensland, Western Australia, Tasmania and the Northern Territory. To date, these schemes have been less effective at driving whole-of-building retrofits to either residential or commercial buildings.

The Property Council recommends the Commonwealth withdraw the commercial buildings method from the ERF.

Instead, we suggest the Commonwealth work with States and Territories to harmonise and extend white certificate schemes to all jurisdictions and over time, work towards a national scheme. This could be achieved by extending coverage of existing schemes to states without one.

The Property Council further recommends that the Commonwealth focus on policies that would encourage 'deep retrofits' to whole buildings, which go beyond single technology upgrades and take an integrated approach.

2. Governance reform to increase independence of the Clean Energy Regulator's functions

The Property Council is very concerned about governance issues caused by the concentration of roles into a single organisation. The CER currently makes the methods, staffs the Integrity Committee, enforces the methods and buys the ACCUs on behalf of the Australian Government. These roles are concurrent and interdependent and should be separated for the purpose of good governance.

The Regulator's powers and functions should be separated and distributed to other agencies. We recommend the method development and prioritisation process should be returned to the Department of Climate Change, Energy, the Environment and Water and made more transparent and collaborative with end users. The Integrity Committee should be integrated into the Climate Change Authority, to ensure it is staffed by people who are not involved in the development or administration of the methods. The function of purchasing ACCUs should also be separated out from regulatory matters.

We further recommend the overarching governance of the scheme include a client-side perspective and project delivery expertise. Industry should be included in the governance structure to ensure the perspective and expertise of all stakeholders is present for decision-making. We recommend referring to the [NABERS governance framework](#) that has delivered a trusted, world-leading program with significant industry buy-in.

3. Increased transparency at a project level for buyers

Offset markets are complex and require decisions to be made in the absence of perfect information. This makes mistakes inevitable. To provide the public and market with confidence, the ERF's systems and processes need to be open and transparent. The qualitative aspects of ACCUs may also vary from project to project. To ensure that buyers are able to conduct their own due diligence on the offsets they use for their emissions reduction purposes, there is a need to increase the transparency of ACCUs at a project level.

This transparency should be extended to the following criteria:

- **Plain English explanation of project and key risks.** ACCU purchasers do not always have the expertise to assess the integrity of carbon credits at a technical level. It would be useful to build

capacity and awareness for projects if a plain English summary of projects were able to purchasers. These reports should have immediately accessible information on permanence, additionality, risks of leakage and associated co-benefits.

- **Credited areas of projects.** While the location of projects is currently available to ACCU purchasers, there is no information on credited areas for a given location. This introduces ambiguity into the true carbon offsetting capacity attributed to a given site. Providing transparency will allow purchasers to gain additional confidence in the abatement delivered by the ACCUs they purchase under the Human Induced Regeneration method.
- **Emissions Reduction Fund Project Reports.** Offset reports are generated internally at the CER and contain relevant information for purchasers. The information available under the “contract ID” is rudimentary and doesn’t allow purchasers to make truly informed choices. Making this information available would also allow independent verification by third parties and not-for-profit organisations.
- **Audit reports.** According to the CER most projects will be audited a minimum of three times across a seven-year crediting period, however the number of scheduled audits will depend on the project size in terms of average annual abatement expected to be generated. While these audits may take place, there is little or no public information provided on them. This information could be key to ensure the integrity of an organisation’s offset portfolio and should be made available. Audits also don’t go beyond the crediting period of a project. To ensure carbon abatement endures after the crediting period, there should be a schedule of audits commensurate to the permanence period. This should be supported by a long-term management plan.
- **Abatement estimation assumptions.** Many ACCU projects require the input of assumptions to estimate the level of abatement attributable to the project. These assumptions are not made available on the public register which adds a level of opacity to the credit generation. This information should be open to scrutiny and should not be kept internally at the CER.

4. A need for enhanced rigour and integrity in ERF methods

For the ERF to serve its purpose of incentivising abatement that helps Australia meet its international climate change obligations, ACCUs must have environmental integrity. While there is a need to balance integrity and efficiency, to the extent possible, ACCUs should represent one tonne of carbon dioxide equivalent (CO₂-e) avoided or sequestered that would not otherwise occur.

Under the Carbon Farming Initiative Act 2011, all methods are required to meet six offsets integrity criteria that are intended to ensure the integrity of the credited abatement. These criteria include provisions on additionality and permanence as well as requirements for reliable bodies of evidence for abatement and the use of conservative assumptions and projections. These requirements are essential to underpin the integrity of ACCUs.

Property Council member have concerns surrounding the following methods that collectively account for approximately 75 percent of ACCUs generated by the ERF:

- **Avoided deforestation.** The avoided deforestation method provides credits to landholders for not clearing forests. Reports indicate that demand for the issuance of these types of credits outstrips previous demand for land clearing by 750-13,000 percent since the introduction of the ERF incentives. This may point to a grave lack of additionality in the production of these credits, signifying that in many cases there was no intention to clear the land for which credits were issued.

- **Human induced regeneration.** The human-induced regeneration method provides landholders with credits for regenerating native forests by changing land management practices. The method delivers impact when applied to areas that can sustain forests were they allowed to regrow. However, reports indicate that many of these projects are located in arid, or semi-arid, climate zones that would not sustain forests. These credits currently make up almost 30 percent of all issued ACCUs and more than 50 percent of all ACCUs contracted through the ERF purchasing scheme, worth approximately \$1.5-\$1.6 billion.
- **Landfill gas.** The landfill gas method provides credits to landfill gas operators for capturing the biogas emitted from solid waste landfills and burning the methane component of the gas using either a flare or an electricity generator. Projects that flare the methane or smaller scale generators require ACCUs to establish their business case. However, many large-scale operations generate income by selling the electricity they produce and do not require ACCUs for their business case. This leads to questions surrounding the additionality of these types of projects.

While it can be difficult to establish the facts surrounding the issues raised above with publicly available information, we urge the government to conduct a thorough, independent investigation into the integrity of offsets and conduct necessary governance reforms to ensure the ERF generates real and additional abatement.

Key remediation actions should include:

- **Amending or revoking low integrity methods and ACCUs generated under these methods where it cannot be demonstrated that real, additional abatement has been achieved.** Activity under low integrity methods should be suspended immediately to avoid further projects being registered. In particular, a strong focus should be on the three methods with the greatest uptake including, avoided deforestation, human-induced regeneration, and landfill gas.
- **Reviewing existing projects to ensure their integrity.** Revoking or varying the methods would stop the registration of any further low integrity projects. However, method changes do not apply retrospectively to existing projects. Existing projects with low confidence in their delivery of genuine carbon abatement must be reviewed and revoked if they are found lacking.

It is likely that any firm action to rectify integrity issues within ACCUs (including the withdrawal of ACCUs from the market) would lead to a spike in pricing in the short-term. We recommend investigating a temporary price cap on ACCUs to allow the scheme to be improved without disproportionate impacts on purchasers.

5. Maximising Co-benefits through nature-based offsets

Many Property Council members prefer nature-based offsets due to their associated co-benefits. Nature-based carbon removal occurs through photosynthesis capturing CO₂ from the air and storing it in the biosphere, either above ground, as vegetation, or below ground - bound into the roots and surrounding soil.

Nature based offsets can provide significant environmental co-benefits such as enhanced biodiversity, soil stabilization, waterway protection as well as social benefits through jobs in land management and support of indigenous connection with land.

It is therefore essential that ERF methods pertaining to nature-based carbon credits such as Human Induced Regeneration display a high level of integrity across key qualitative criteria.

The Property Council would welcome the chance to meet with the independent panel and discuss our views in further detail. Please reach out to Tim Wheeler, National Policy Manager on TWheeler@propertycouncil.com.au or +614 9173 1496 should you wish to discuss this submission in more detail.

Yours sincerely

A handwritten signature in purple ink, consisting of a large, stylized 'K' followed by a horizontal line extending to the right.

Ken Morrison
Chief Executive