



Voluntary Carbon Markets Association submission to the Senate Inquiry on Climate Change Bill 2022 (and consequential amendments) - 10 August 2022

The Voluntary Carbon Markets Association (VCMA) welcomes the Government legislating an emission reduction target of a minimum of 43% emissions reductions from Australia's 2005 baseline. The VCMA also welcomes the Government's statement that: "Our aspiration is that the commitments of our industry, states and territories and the Australian people will yield even greater emissions reductions". Voluntary action is one such way that the community can work to achieve more meaningful emissions reductions and it is important that it be recognised in the legislation and consequential amendments.

Voluntary action has generally been narrowly defined to encompass the voluntary cancellation of a property right such as an Australian Carbon Credit Unit (ACCU), international carbon offsets such as Certified Emission Reduction Units (CERs) or Large Scale Generation Certificates (LGCs) in the case of GreenPower or other renewable claims.

Voluntary action has historically been only a modest part of the community's response to climate change. In recent years the voluntary market has grown significantly with nearly 15 million tonnes of carbon credits voluntarily surrendered in 2021 compared to less than 500,000 in 2016. In addition, 5.8 million LGCs were voluntarily surrendered in 2021 compared to 1 million in 2016.

Importantly we expect that the voluntary market will continue to grow as more and more businesses make climate commitments for their direct emissions (Scope 1) or for their purchased electricity (Scope 2). According to the Business Council of Australia a quarter of ASX200 companies or 50 per cent of the collective ASX200 market capitalisation is now covered by net zero commitments. Source: BCA – Achieving a net zero economy (October 2021)

If the market for voluntary surrender continues to grow; and if it is seen as making an effective and meaningful contribution, then the level of Carbon units and LGCs that are surrendered could amount to more than 40 million tonnes per annum by 2030. This represents a further reduction in emissions of 7% beyond the 43% that is legislated and subject to the new Government's policies.

Businesses and households believe that they are achieving something through the voluntary extinguishment of a property right that has value in the market. If the voluntary surrender of LGCs (or ACCUs for that matter) does not result in any lowering of emissions (or other benefits) then these voluntary participants could choose to voluntarily surrender other international units where (i) other governments will treat them as additional or (ii) will surrender units created from abatement activities in countries that are not subject to an emissions cap so that it will be additional from a global carbon perspective.

If we desire to drive quicker and more extensive transformation of Australia's clean energy and carbon abatement sector, then the voluntary surrender of LGCs and ACCUs needs to be seen as making a contribution to reduce emissions further than would otherwise be the case – otherwise

any voluntary action is just subsidising the largely foreign shareholders of Australia's gas and coal sector.

Voluntary Action Under Binding International Targets

Since countries signed up to binding emissions targets, such as Kyoto etc. they have had to find ways to make voluntary action meaningful.

Under a binding international target, any voluntary action that is taken for purely environmental reasons, becomes "captured" by a country's target. That means that it relieves other parties including the government itself of responsibility for that same abatement. This is because the cumulative emissions target of each country is fixed (by the number of permits a country receives from the UNFCCC). If physical emissions exceed the target, then the country must buy additional permits to compensate, they will therefore tend to place restrictions on large emitters. If physical emissions are lower than target, then the country may sell the spare permits to allow emissions to occur elsewhere – or allow emitters within the country to increase emissions while remaining under the country's emission cap. Either way the net global result from bound countries will always remain fixed at the levels agreed under the Paris Agreement and consequent adjustments.

Most countries therefore put in place arrangements whereby the government relinquishes its own permits in proportion to emissions voluntarily abated. This is the case in Australia with ACCUs where under the Australian National Register of Emission Units (ANREU) Act the federal government must relinquish its own international (Kyoto) unit for every ACCU voluntarily retired. No such legislative requirement existed for LGCs that were surrendered (eg. for GreenPower) however there was a policy of notionally allocating emissions savings of 2 million tonnes for Green Power and it appears that a once off cancellation of Assigned Amount Units (AAUs) took place in 2013 of 2.3 million tonnes.

After the Kyoto agreement was ratified in 2010 the ACCC advised GreenPower providers that they should not make environmental claims based on GreenPower sales, as the purchase of GreenPower, whilst assisting with the creation of renewable energy, was not impacting upon net Australian emissions. As a result, the then federal Labor government started cancelling Kyoto units in response to GreenPower sales. However, this action was only a policy decision and not specifically covered by legislation. The incoming Abbott government chose not to adopt this policy, so no cancellations occurred beyond the 2.3 million AAUs in 2013.

As a result, many GreenPower buyers, in particular local governments, switched to purchasing international units (CERs, Verified Carbon Units and Gold Standard Units) from countries where no such vagaries exist. These organisations then surrendered these as part of their voluntary action under Climate Active or other accreditation systems.

What needs to happen now

Under Part 6 of the Australian National Register of Emission Units ANREU Act, Section 54B 3(c) where a Kyoto Australian carbon credit is Voluntarily surrendered the Government must transfer a Kyoto unit (Assigned Amount Units) out of its account to a voluntary cancellation account (refer to extract below). This means that the Australian Government cannot rely on having the unit available to meet its obligation under the particular commitment period (2030 in the current case). As a result the government will need to require further emission reductions from large polluters or purchase overseas units.

ANREU Act extract

- (c) if the unit is a Kyoto Australian carbon credit unit:
 - (i) the Minister must, by written notice given to the Regulator, direct the Regulator to transfer a Kyoto unit from a Commonwealth holding account to a voluntary cancellation account before the end of the true-up period for the relevant commitment period; and

Post 2020, it is not clear what constitutes a Kyoto unit, and this should be clarified.

The ANREU Act should be changed so that the definition of an Eligible Carbon Credit also includes LGCs, with LGCs to be converted to tonnes at the emissions factor used in the Carbon Farming Initiative (CFI) Act.

Suggested amendments could include the following section:

Additionality of Voluntary Action

- 1) In meeting Australia's greenhouse gas emissions reduction targets (as defined in Part 2 Section 10), the government shall exclude abatement which has been certified by Large Scale Generations Certificates (LGCs) or Australian Carbon Credit Units (ACCUs) where those LGCs or ACCUs have been cancelled voluntarily. The government shall consider such abatement as additional to the Commonwealth's own reduction target.
 - a) The government shall give effect to this additionality by cancelling Assigned Amount Units (or equivalent) annually in proportion to the abatement represented by those LGCs and ACCUs voluntarily cancelled during the preceding 12 months.
 - b) Abatement from ACCUs will be at face value (1 ACCU = 1 tCO₂-e). Abatement from LGCs will be calculated using the formula 1 LGC x marginal national emissions factor = 1 tCO₂-e.
 - c) In order to ensure timely recognition of voluntary action, the government shall set aside AAUs equivalent to AAUs cancelled for this purpose in the preceding period. This number shall be adjusted based upon actual voluntary abatement calculated.

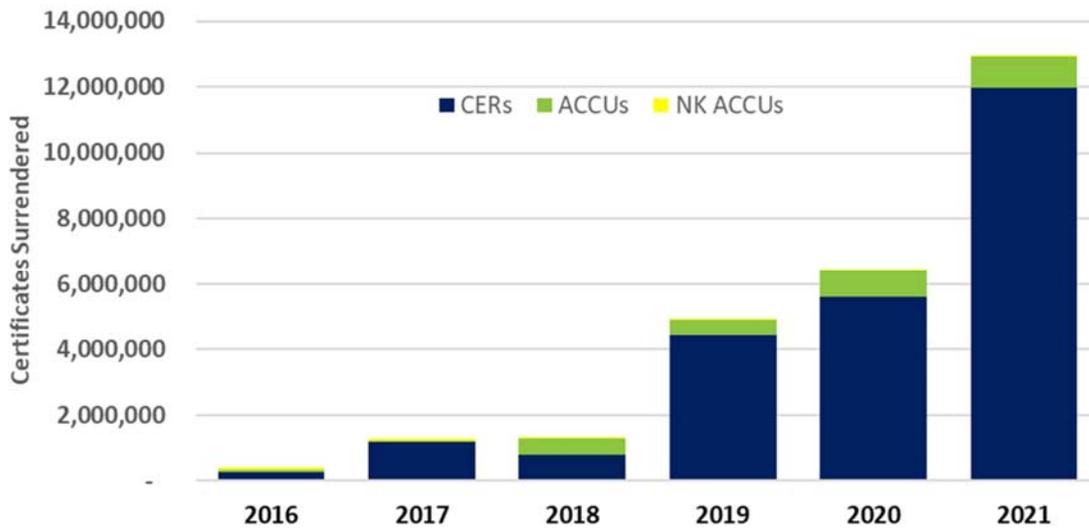
In addition, it is also important that we remove double counting of electricity emission reductions so that published emissions intensity for carbon accounting purposes under the National Greenhouse Accounts Factors excludes reductions associated with the voluntary surrender of LGCs, the emissions reductions from which have been claimed by others.

Additional Information

(i) Voluntary surrender of Carbon Units

In 2021 a total of 12.9 million carbon credits were voluntarily surrendered through the ANREU Registry (compared to 6.4 million in 2020) of these just under 1 million were ACCUs and the remaining 12 million were low-cost Certified Emission Reduction (CER) units. In addition, we estimate that there were at least an additional 2 million other International Units (Verified Emission Reductions or Verified Carbon Units), refer to Figure 4. These units were not captured under the ANREU but can be used under the government’s Climate Active program.

Figure 1. Carbon Credits surrendered by Entity in Australian National Registry (May 2022)



Source: Green Energy Markets - Australian National Registry of Emission Units (ANREU)

Note: NK ACCUs are “Non Kyoto” ACCUs

Figure 2. Types of International Carbon Units

International carbon markets

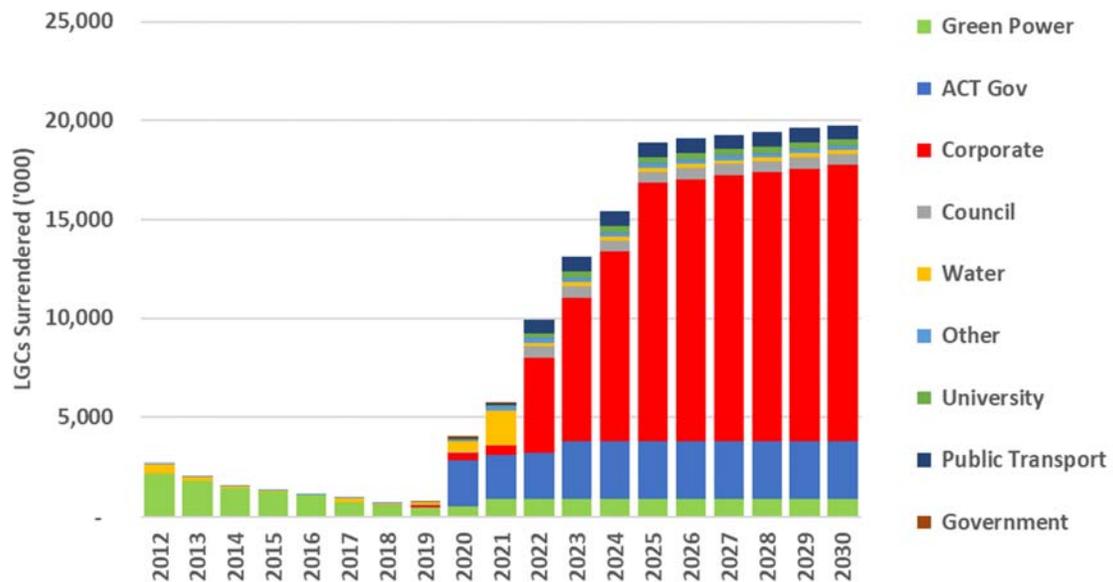
Scheme	Level	Unit or Certificate
Verified Carbon Standard	International	Verified Carbon Unit (VCU)
Gold Standard	International	Verified Emission Reduction (VER)
United Nations Framework Convention on Climate Change Clean Development Mechanism	International	Certified Emission Reduction (CER)

(ii) Voluntary surrender of Large-scale Generation Certificates (LGCs)

Green Energy Markets (GEM) estimates that 5.8 million LGCs were surrendered on a voluntary basis in 2021. Based on credible and verifiable commitments that have been made by organisations (as at 30 June 2022) it is expected that voluntary surrender of 18.1 million LGCs will be made in 2025, increasing to 19 million/a by 2030. In addition, we expect that more businesses will make credible commitments in future so that voluntary surrender becomes 33,000 GWh by 2030, equivalent in scale to the mandated target.

LGC surrender under the GreenPower program had been the mainstay of Australia’s voluntary market since 2010. Recent growth in Voluntary surrender has been through increasing corporate commitments (refer to Figure 6). Some of the corporate commitments have been through initiatives such as RE100 which has more than 370 organisations participating internationally. In addition, the Australian Climate Active program has 387 organisations making carbon claims for their energy use or for products and services.

Figure 3. LGCs to be surrendered to meet Voluntary commitments



Source: Green Energy Markets