

30 September 2022

Attention: Professor Ian Chubb
ACCU Review Panel
By email: ACCUreview@industry.gov.au

Dear Professor Chubb,

Submission to Independent Review of Australian Carbon Credit Units (ACCUs)

Climate Friendly welcomes the Albanese Government's commitment to a high integrity carbon crediting framework, and we supported calls for this independent review. We are confident in the integrity of the carbon farming projects we support, and welcome measures to continuously improve Australia's carbon market. This will provide a sound basis for Australia to deliver on its emissions reduction targets, contributing to net-zero and negative emissions required to limit global warming to 1.5C.

This letter outlines our key recommendations for consideration by the Review Panel, and is accompanied by a detailed submission, with Part 1 addressing aspects of governance and transparency, and Part 2 providing a detailed response on the integrity and rigour of the human-induced regeneration method.

Climate Friendly believes that a carbon crediting framework is a critical component of Australia's approach to tackling the challenge of climate change. Australia's ACCU framework is world-leading, and while we have recommendations for areas in which it can be strengthened and continuously improved, we believe the current framework has high integrity and that it is vital to re-establish investor and community confidence in carbon farming as an outcome of this review.

Key Recommendation 1: the Review Panel confirm that there is no evidence of fraud, and that ACCUs issued from Human-induced Regeneration projects are based on credible science, have rigorous technical safeguards, and passed independent audits.

The term "fraud" has a well-defined legal and regulatory meaning, and carries a range of serious penalties under various legislative instruments which govern Australia's world-leading carbon crediting framework. Potential consequences of fraud include, but are not limited to, the following:

1. Relinquishment of ACCUs;
2. Unilateral revocation of a carbon farming project by the Regulator;
3. Imposition of carbon maintenance obligations on the land;
4. A range of civil and criminal penalties administered by ASIC relating to financial products and directors' duties.

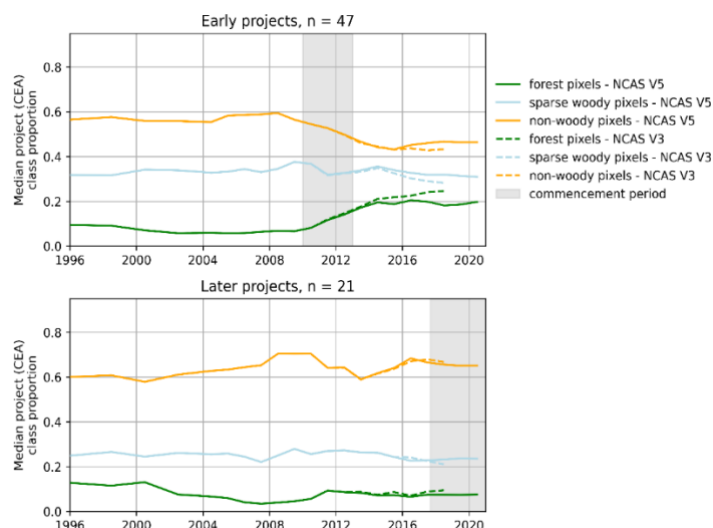
Recent commentary on scheme asserted that *"70 to 80 per cent of the ACCUs issued to these projects are devoid of integrity... What is occurring is a fraud on the environment, a fraud on taxpayers and a fraud on unwitting private buyers of ACCUs"* (ANU Media Release, 24 March 2022, quotations by Professor MacIntosh). Further, the co-authors state in a related papers their *"decision to use the word 'fraud' was deliberate and considered."* (ANU Paper, Fixing the Integrity Problems with Australia's Carbon Market, June 2022). By implication, it is our view that these statements suggest that organisations like Climate Friendly and our partners who are involved in delivering projects are involved in activities that are either fraudulent or result in fraudulent outcomes. However, in subsequent statements the lead author Professor MacIntosh stated *"we also recognise we don't have all the data"* (Radio National interview, 24 March 2022, 8.05am at 7.22). In addition to not having access to all the data, we note that the series of ANU Papers on

the human-induced regeneration method authored by the co-authors are a) not peer reviewed, and b) do not provide any evidence of fraud.

The deliberate decision to use the term “fraud” in the absence of access to adequate data is highly concerning, and undermines achievements made by carbon farmers to tackle climate change.

Climate Friendly is a purpose-driven organisation, and our people have dedicated their professional careers, and much of their personal time, to tackling climate change. Our leadership team has collectively spent decades working on high-integrity land-based carbon farming, including working in the public service, research organisations, independent audit organisations, and in Climate Friendly. We provide detailed responses to the commentary on the human-induced regeneration method and analysis of the portfolio of projects Climate Friendly supports in Part 2 of this submission.

We include here a snapshot of that analysis showing increases in forest cover in the project implementation areas following implementation of management practice changes in early projects. These early projects implemented practice changes in the period of 2010-2013, following announcements from the Australian Government of their intention to create land-based carbon farming methods and to include provisions to recognise early action. These early management actions are evidenced by management data included in the submission. This management change information has been subject to third party independent audits as part of project implementation. The early projects are located in the same regions and rainfall bands as later projects that commenced carbon farming between 2017 and 2021. As shown in the graph below, early projects had a long history of no increase in forest cover, consistent with long run suppression. Once they changed management practices, previously suppressed areas increased forest cover and declined in bare land. On the contrary, similar areas of land in later projects with long histories of suppression remain stagnant over an extended period leading up to project commencement. This includes relatively stagnant, and for periods declining, forest cover during three La Nina rainfall cycles since 1996. See Part 2 of our submission for in-depth analysis.



Note that NCAS “forest pixels” do not equate to “forest area”, but are isolated forest pixels that can contain some larger pre-existing paddock trees. Pixels are classified as forest against a threshold of at least 20% crown canopy cover in the pixel. There must be at least three contiguous pixels for an area to constitute a “forest area” in line with internationally approved definitions of forest in Australia. All forest areas are removed from carbon estimation areas. We also note that Climate Friendly currently utilises Sentinel-2 satellite data which are higher resolution (10x10m pixels) for our human-induced regeneration project mapping, but these datasets are only available back to 2015. For the purposes of time series analysis, we have utilised two different versions of NCAS datasets (25x25m pixels) which are the only long run change datasets available. Further, the above analysis shows that carbon estimation areas contain less than 10% forest pixels at project start. We are not credited for these pre-existing paddock trees. All existing carbon stocks are removed from crediting and the presence of scattered trees is accounted for in the FullCAM model calibration. See Part 2 of submission and technical annexes for further details.

While in our view the use of the term fraud is inappropriate and disappointing, there is one aspect on which we do agree wholeheartedly with the Professor MacIntosh and his co-authors, and that relates to the establishment of better national data sharing systems to improve transparency. This has the potential to deliver a multitude of benefits, including enabling better informed analysis of the impact of carbon farming.

Key recommendation 2: the Government establish a National Integrated Land Database to enable sharing of carbon, environmental and agricultural production data in a way that protects privacy while enhancing transparency of information, expanding research capability and informing best practice land management and policy development.

Climate Friendly and our carbon farming partners collect an enormous amount of environmental, carbon, agricultural production and other land management data. This data is collected as part of our rigorous feasibility assessments covering a 10-year baseline period, with ongoing data collection throughout the 25-year project implementation period. We use this data to apply scientific approaches to measure, monitor and estimate the amount of additional carbon stored by land managers. We have adopted the latest technology for verification and monitoring, including aerial lidar and high-resolution satellite imagery, and track quarterly reporting by land managers on implementation of their changed management practices. We also conduct regular visits to the project so that experts can monitor and validate project impact. All of this evidence is regularly reviewed by independent accredited auditors and the Clean Energy Regulator.

There is a significant opportunity to share this data to support ongoing research, continuous improvements of national carbon, environmental and agricultural policies, programs and systems, and to provide information to other land managers to aid decisions on managing their property.

In the case of carbon farming projects, this data is tightly linked to privacy laws and the livelihoods of individual land managers. Therefore, there are careful legal, ethical and technological considerations in enabling access to this information. For the last two years Climate Friendly has been working on possible solutions to enhance data sharing and transparency with industry, government and research partners, and supports the establishment of a national data sharing platform which makes information accessible, while also protecting privacy. A short explainer video on our proposal to establish a National Integrated Land Database is available here: <https://www.climatefriendly.com/future-of-carbon-farming/>.

Key recommendation 3: the Review Panel proposes structural governance reforms to address any perceptions of conflict of interest and enhance public trust in the governing bodies through greater separation of policy review, policy development, market operations and project compliance functions

In our view, Government officials involved in administering the carbon farming framework have shown dedication to implement the intents and purposes of the legislation, and many market participants have shown a similar dedication to best practice by developing voluntary self-regulation, such as through the Code. However, there remain some opportunities to further strengthen governance and address some structural risks to deliver best practice governance and promote continued scale up of the carbon crediting framework. In particular, transparency and accountability of ministerial decision making on method prioritisation could be strengthened, and the ERAC method development structure could be reformed to include a dedicated land sector sub-committee with adequate staffing and expertise. The Government could also enhance regulation of service providers, either through formalising the voluntary Carbon Market Institute (CMI) Code of Conduct, or by introducing accreditation requirements for agents administered by Government. Refer to Part 1 of our submission for more details on our proposals.

Key recommendation 4: the Review Panel recommended an integrated approach to co-benefit standards, including by amending the *Carbon Farming Initiative Act* to incorporate the planned Biodiversity Stewardship Certificate Framework and enabling the Regulator to declare one project that applies multiple carbon farming methods or biodiversity protocols on a single property to streamline administration.

Best practice land-based carbon farming has a significant potential to deliver multiple environmental, Indigenous, agricultural productivity and other benefits. There are many controls already embedded within the ERF scheme and its methods to minimise the risk of adverse impacts. Recognising that many carbon farming participants may also wish to participate in other certification standards or markets for ecosystem services, Climate Friendly believes it is important, to harmonise the regulatory frameworks to streamline administration, avoid risks of double claiming in different schemes, reduce the cost of compliance, and optimise the ability of land managers to deliver multiple, long-term benefits.

Key recommendation 5: the Review Panel recommend the Integrated Farm Management method be finalisation as a priority way to both scale up benefits for Indigenous Australians and scale up land-based carbon sequestration using the latest science and technology.

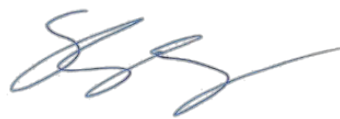
High integrity land-based carbon farming is critical to achieving net-zero and negative emissions required to limit global warming to 1.5C. We believe this is best delivered through an integrated land carbon farming method, which enables land managers and Indigenous Australians to implement best practice sustainable land management in all regions of Australia. The Integrated Farm Management method can deliver this and apply the latest science and technology. It is currently being developed through a co-design process, and its development should be confirmed as a priority as an outcome of this review.

We are deeply committed to continuous improvements in our own practices, as well as across broader Australian and global carbon markets to ensure they effectively reduce emissions. Science is not static – advances in technology mean this is a rapidly evolving sector that should be under periodic review and continual improvement. We will continue to advance the science and methods that underpin effective land sector carbon abatement projects, and provide a pathway for regional Australia, land managers and Traditional Owners to participate in a net zero, socially inclusive transition.

Thank you for the opportunity to contribute to the review process, and please do not hesitate to contact us if you require further information.

Kind regards

Josh Harris
Co-CEO & Director



Skye Glenday
Co-CEO & Director

Summary of Detailed Recommendations:

Service provision & participation in ERF:

1. *Government should provide realistic, unbiased guidance to land managers outlining the true complexity of operating carbon projects, and the full package of expertise required. This contrasts with current communications materials published that commonly suggest navigating the scheme is simple and imply land managers could self-service. This would help build trust in the skilled advice provided by the carbon service industry, and enable land managers to conduct an honest appraisal of the trade-offs of self-managing a carbon project, as compared with appointing one or multiple service providers to assist them with project management and administration.*
2. *Government should enhance regulation of service providers, either through formalising the voluntary Carbon Market Institute (CMI) Code of Conduct, or by introducing accreditation requirements for agents administered by Government.*

Governance:

3. *Structural revisions be implemented to scheme governance to improve the perception of potentially conflicted roles in a) policy review, b) policy & method development, c) project compliance and d) market operation.*
4. *Restructuring of the ERAC to create additional technical subcommittees with adequate staffing and expertise.*
5. *New technical subcommittees continue to be supported by a form of co-design, such as that currently adopted for method development by the Clean Energy Regulator, involving a broad cross-section of organisations and interests that results in greater integrity and more implementation-ready methods that are informed by diverse perspectives and experience.*
6. *Provide clear guidance on the relative importance and potential trade-offs between high integrity, volume of abatement and costs of compliance or scheme complexity. Clearer guidance from the government on the costs of compliance and expertise required would help prospective participants make more informed choices on self-management vs service partnerships when commencing a project.*
7. *Increase the transparency of how the offsets integrity standards are applied by the ERAC or as part of Ministerial decisions related to method prioritisation and approval.*
8. *Establish a clear and transparent decision-making process around prioritisation of any new methods for development or variation.*
9. *Continuation of a method co-design model similar to that currently adopted by the Clean Energy Regulator. This will ensure high integrity, implementation-ready methods that are informed by both the latest science and real world operational issues.*
10. *Establishment of two separate advisory bodies, one focused on the land sector and one on energy and waste sectors.*

Transparency:

11. Create a public registry of individual precedents or rulings on carbon farming projects, similar to the system of public rulings provided by the ATO.
12. Establish a National Integrated Land Database to enable sharing of carbon, environmental and agricultural production data in a way that protects privacy while enhancing transparency of information, expanding research capability and informing best practice land management and policy development.
13. Consider the interaction of data transparency recommendations made in the Samuels Review of the nation's environment laws.

Procedural improvements:

14. Introduce the option of process-based audits to lower transaction costs, utilise emerging technologies to unlock viability of carbon farming for smaller scale land managers.
15. Auditor guidelines and training should be updated to ensure auditors have the appropriate skills and expertise to conduct process-based audits. This could draw on guidelines and requirements from other sectors where process-based audits are common.

Co-benefits:

16. Amend the Carbon Farming Initiative Act to incorporate the Biodiversity Stewardship Certificate Framework into a joint carbon and biodiversity framework, rather than creating two separate but mirroring pieces of legislation.
17. Enable to Regulator to declare one project that applies multiple carbon farming methods or biodiversity protocols, so that land managers can opt to participate in relevant carbon farming methods and biodiversity protocols on a single property through one harmonised project.
18. Consider other opportunities to integrate emerging standards, policies and programs to optimise multiple benefits, streamline land manager participation and help to reduce regulatory complexity and costs of participation in parallel schemes.
19. The eligible interest holder consent process for Native Title Holders be reviewed to determine if the process is fit for purpose for this category of interest holder, or whether changes could be made to improve this process for Native Title Holders and further encourage land managers to establish projects in partnerships in regions with determinations. Opportunities to strengthen may include provision of further support mechanisms (financial and advisory) for Native Title Holder groups. Additionally, it should be considered whether there is any benefit to regulatory notification deadlines similar to those that apply in other sectors such as mining. This review should be done through a consultative process involving Native Title Holder groups and other Indigenous Australian input, as well as land managers and service providers.
20. Climate Friendly has reviewed the ICIN Report (Sept 2022, Mapping the Opportunities for Indigenous Carbon in Australia: Identifying opportunities and barriers to Indigenous participation in the Emissions Reduction Fund), and broadly supports its recommendations, including specifically their recommendation to develop an Integrated Farm Management Method that is suited to all environments across Australia, including the Desert and the Savanna, and has appropriate Indigenous participation in the design and development.

21. Consider the recommendations from Climate Friendly's submission on the Biodiversity Certification Scheme for how biodiversity can be optimised.
22. Repeal the veto power and requirement for additional project approvals by the agricultural minister for regeneration projects which cover more than 30% of a property (Section 13(4) and 20C of the Carbon Credits (Carbon Farming Initiative) Rule 2015, should be repealed)
23. Recognise the positive benefits of carbon farming on agricultural production and drought resilience of farms and regional communities in Australia.

Relationship to voluntary Climate Active certification:

24. If the Government's 43% emission reduction target for 2030 takes into account voluntary corporations carbon neutrality commitments, then 100% of Climate Active's offsets should be sourced from ACCUs (rather than the current requirement of 20%). This helps ensure the national ambition is not undermined. However, we note this may also discourage voluntary action which will be important to exceed the 43% target and place Australia on a trajectory to meet the 1.5C Paris commitment.
25. If the Government's 43% target does not include Climate Active carbon neutral commitments, then there is less imperative to mandate the use of over 20% ACCUs in any Climate Active certification. However, any other eligible units able to be used under the Climate Active standard should be carefully screened to ensure they meet a similar integrity benchmark to ACCUs.
26. Refer to our separate submission to Climate Active on the proposed land standard and harmonise review recommendations.
27. Provide a clear policy position on how and when other international voluntary standards can be applied in Australia, to ensure there is no double counting of abatement.

Technical Rigour

28. Note the evidence of grazing, feral animal, clearing and other suppression of vegetation in the rangelands region where human-induced regeneration projects commonly occur
29. Note the evidence of land management practice changes and the consequent regeneration of the project implementation areas that has occurred in human-induced regeneration projects. Confirm that there is no evidence of fraudulent conduct, and that ACCUs issued from human-induced regeneration projects are based on credible science, have rigorous technical safeguards, and passed independent audits.
30. Note the substantial risk of plantation forests being cleared and not replanted, releasing carbon.

Future

31. Note the potential of the Integrated Farm Management method to scale up land-based carbon sequestration using the latest science and technology, informed by lessons from implementation of land-based carbon projects to date, and support finalisation of this method as a priority.