

Soil Carbon Industry Group

Submission to:

Independent Review of ACCUs - Implementation

Monday, 9 October 2023

Summary

- 1) **The ACCU Scheme is sound, beware of unintended consequences, especially those that would delay action and innovation to achieve abatement at scale.**
- 2) **Method development needs a refined process and iterative discussion with stakeholders. The Integrity Committee should prioritise EOI's connecting experienced stakeholders.**
- 3) **Consent should not be required from banks where there is no change in land use.**

Preliminaries:

Thank you for the opportunity to contribute to this important review. The integrity of Australia's market-based mechanisms is a global beacon for effective climate policy response.

The Review led by Professor Chubb concluded "...the ACCU Scheme arrangements are essentially sound." The Soil Carbon Industry Group (SCIG) members agree with and support this conclusion. In the implementation of the Chubb Review recommendations let's ensure we encourage project uptake and not impede progress with any unintended consequences that could delay action in achieving Australia's climate targets.

Soil Carbon is the largest pool of terrestrial carbon in Australia and home to over half of Australia's biodiversity. SCIG is the peak industry body representing businesses dedicated to the productive management of Soil Carbon. Our businesses depend on a clear and effective evidence-based policy environment.

The SCIG vision is "Leading in facilitating rapid drawdown of atmospheric carbon into soil, to deliver soil security and a safe climate". Our members are involved in all aspects of soil related market-based solutions and our mission is to:

- promote and enable the development and diffusion of best practice tools, guidance, methodologies, processes, research, and training resources,
- use business and market-based mechanisms to inspire and implement solutions at scale,
- advocate for government policy and regulatory support.

The Soil Carbon Industry has recently responded to carbon market concerns about soil ACCU supply and quality at the Soil Carbon Summit. Additionality and permanence are addressed through the global benchmark, measurement based, 2021 Soil Carbon Method. The opportunity to further leverage Australia's world-leading methods to provide certainty and clarity around the integrity of the ACCU Scheme is welcomed by SCIG and its members. ACCU income has been the incentive for projects that deliver large productivity, sustainability, and biodiversity co-benefit outcomes. Investments in measurement technology are consolidating the integrity of soil ACCUs. The flow of ACCUs to soil carbon projects will further accelerate change and drive adoption of soil carbon farming and abatement.

SCIG provides commentary below on questions posed in the ACCU review discussion paper published by the Department of Climate Change, Energy, the Environment and Water on 25 August 2023.

Questions

Section 1 Improving Governance and Transparency

1. Are the proposed principles fit for purpose and how should they be applied to improve ACCU Scheme governance and integrity?

The proposed Principles serve as additional guidelines to method development proponents which is fit for purpose. However, the Principles can pose potential risks to projects after the fact.

To avoid unintended consequences (for example where Principles shift cost bases and add compliance and administrative burden), the primacy of decision making should be determined by the Offset Integrity Standards legislated under the *Carbon Credits (Carbon Farming Initiative) Act 2011*. This hierarchy of decision-making responsibility needs to prevail to provide market certainty.

2. Is there other information that could be published or collected to improve the transparency of the ACCU Scheme?

SCIG supports publishing information to improve transparency of the ACCU Scheme and believes that Government should publish all aspects of the existing checks and balances that speak to the integrity of the Scheme. For example, the fact that a Reasonable Assurance Audit needs to be undertaken before the CER issue ACCUs should have higher public visibility as it will add credibility and surety to the rigorous processes already undertaken.

The objective should be to provide the broader market with the assurance to invest, scale and deliver projects under the ACCU Scheme. To achieve this, we need to make it clear that Australian Methods are global benchmarks and the processes and requirements governing all ACCU Scheme projects are designed with integrity in mind.

Additionally, we must maintain focus on ACCU Scheme scale and speed, otherwise we risk losing clarity and transparency of the ACCU Scheme overall purpose. SCIG believes it would be beneficial to publish project sign-up statistics under each Method to ensure we are making progress toward 2030 and 2050 targets. Additional information regarding the amount of land in each Method would help measure progress. We know that to achieve our targets and have a safe climate we need close to 100% landholder participation so publishing these metrics would provide incentive and focus.

Additional information regarding innovation successes would highlight the catalyst effect of ACCU incentives for innovation.

Consideration should also be given to potential unintended consequences. For example, in the 2021 Soil Carbon Method, Land Management Strategies have significant intellectual property for land managers. Significant investment and commercial knowledge has gone into the development of these strategies and should not be disclosed. Rather than providing a platform for knowledge sharing, SCIG believes this would have a detrimental effect that would discourage ACCU Scheme project uptake and adoption.

SCIG support recommendations to establish clear data infrastructure arrangements as the approach to transparency unfolds. The complex data types and how these will be handled and used is an important consideration.

Protections from bad faith actors that support climate inactivity and that have no real intent to improve the effectiveness of the Scheme should be considered. Landholders and proponents need some privacy protections

from vexatious agents. Buying ACCU's does not require review of individual projects. SCIG call on the Minister and Department to be strong, to trust and to stand by the Clean Energy Regulator. Professor Chubb did not need to review hundreds of individual projects to confirm the integrity of the Scheme.

3. What information should be published about ACCU holdings that delivers greater transparency in the market?

Publishing individual ACCU holdings runs the risk of providing targets for climate naysayers and is likely to act as a potential barrier to those participants that want to make a difference. To achieve the scale and speed needed to reach Australia's climate targets, we need to make the ACCU Scheme as attractive as possible to maximise investment, innovation, and action.

Information on ACCU holdings should only be published where holdings are over 100,000 ACCUs. This will provide protection for smaller individual landholders and participants.

4. What are the risks to the market from publishing information about ACCU holdings?

There are potential Australian Financial Service Licensing considerations if large buyers are approaching small holders. SCIG would like to protect individual small ACCU holders from potentially harassing behaviours by market participants and observers. As set out above, a materiality threshold of number of ACCUs held (for example under 100,000 ACCUs) would assist.

5. Are there other grounds or circumstances where information should be withheld, for example, an exemption for existing projects?

Innovation can be grounds for withholding information. SCIG looks to protect the capacity for members to innovate and commercialise solutions that will make a material impact.

Companies invest in innovation and Intellectual Property (IP) for commercial advantage. Much of this IP is knowhow, including processes, documentation, measurement, and formatting calculations. This knowledge is not easily protectable or defensible with patents or other legal instruments. There will be a large freeloader tax on innovation if these investments are to be given away for free.

A test of disclosures for transparency should answer: Is this release necessary for public and market integrity? Release of all other information should be at the commercial discretion of the private parties.

6. Should the government continue to focus its purchasing on least cost abatement? If not, what other considerations should it prioritise and why?

Effective carbon markets are a cornerstone of soil carbon policy as a climate solution. SCIG cautions against unintended consequences of market distortions from considerations other than least cost abatement.

Soil Carbon is an infant industry. This is a strong justification for policy intervention to build soil carbon.

Soil Carbon also has large co-benefits in fertility, water quality, drought resilience and biodiversity. The market for the co-benefits currently has very high transaction costs such that the market does not usually function.

The pure agricultural economic productivity benefits of increased soil carbon are a further justification for policy intervention. Many farmers are not building soil carbon with current market settings, especially younger farmers establishing themselves with large debts. The productivity benefits across Australian agriculture will have large external benefits to Australia's economy and people. There is a large 'public good' component for soil carbon co-benefits.

As well as least cost abatement, government should focus different policy instruments on project uptake, for example:

- underwriting projects through optional delivery contracts for new and legacy projects,
- a road mapping exercise to align soil carbon industry stakeholders across the country,
- continued funding for innovation such as under the Soil Carbon Innovation Challenge,
- industry controlled R&D funds would allow direction of R&D funds to make material progress on relevant common problems, rather than wasteful undirected or inappropriately focussed research efforts,
- encouraging ways for ACCU scheme participants to participate in markets for co-benefits with government and other buyers buying these benefits separately.

7. Should the pilot exit arrangements for fixed delivery contracts be made permanent? Would requiring a minimum percentage be delivered to government in each window help strengthen market confidence and reduce risk?

Yes, exit arrangements from fixed delivery contracts should be made permanent. There should be no minimum percentages to be delivered to government. Considering the need for government support for industry innovation we question why exit fee payments need to be made at all, or why any compulsory deliveries to government should be made. Exit fee payments and compulsory deliveries reduces the amount of funding within industry that could be put towards accelerating ACCU Scheme participation.

Section 2 – Proponent led method development framework and integrity committee function.

SCIG was an active leader in codesigning the 2021 Soil Carbon Method. The 18-month process built on member experience operating within the 2014 and 2018 Soil Carbon Methods. The 2021 Soil Carbon Method is now a global benchmark for soil carbon project development. This experience gives SCIG a unique perspective on effective method development.

8. What assistance or guidance would proponents need to effectively participate in the EOI process?

Further guidance should be provided on the requisite 'skills and expertise' required for a proponent to engage in method development, in addition to the requirements for stakeholder consultation. Based on SCIG's experience in the co-design of the 2021 Soil Carbon Method, these skills and resourcing requirements should not be underestimated.

SCIG believes the guidance should go further and explicitly discourage participation from those individuals or groups without high levels of stakeholder connections and without high levels of relevant skills and expertise. Such guidance would have the additional benefit of improving the quality of EOIs submitted and encourage more collaboration around similar method themes, say through industry associations, to increase resourcing, access to skills and stakeholder representation.

9. Does the proposed content of an EOI submission balance the need to deliver enough detail to enable a robust assessment, while limiting the upfront investment to a reasonable level?

The proposed content of an EOI submission would benefit from the following inclusions:

- details of peak body participation, coverage of members and an endorsement from members to implementing the proposed method detailed in the EOI
- details of the Total Addressable Abatement covered by the EOI
- benefits associated with the core activity covered by the EOI
- provision of supporting financial evidence and letters of in-kind support detailing the capacity and resources to manage and progress a method development timeline

SCIG suggests that it is reasonable to expect that proponents submitting EOIs should be able to demonstrate the commitment and wherewithal to complete the process, should the EOI be successful.

10. Will the proposed approach to triaging EOIs promote participation and efficiency?

SCIG is not confident that the proposed approach to triaging EOIs will promote participation and efficiency. Additional information is required (as set out above) to enable a robust assessment. SCIG considers that the Integrity Committee should prioritise those EOIs with:

- good peak body representation and involvement to ensure likelihood of method uptake.
- materiality and scale of underlying effort to optimise investment into method development.
- high quality co-benefits to maximise positive spillover benefits.
- capacity and resourcing to complete the method development process.

11. Are there any matters not addressed appropriately by the proposed EOI process?

The Minister is required to consider adverse triple bottom line (Environment, Social, Economic) impacts. SCIG recommends the EOI process and Minister also consider triple bottom line upside. This would allow prioritisation of methods with large co-benefits. Biodiversity and climate are twin issues. Soil Carbon often has large biodiversity co-benefits.

12. Are the proposed areas where the department could provide assistance during method development the right areas or skill gaps to focus on?

The Department should consider concentrating its assistance to the provision of legislative drafting once a method has been progressed to this stage by the Integrity Committee. This would resolve the most likely choke point for method development.

13. Is the proposed approach to deal with newness appropriate to support participation in research, trials and demonstration projects needed to support method development?

The proposed approach to deal with newness has merit, especially the proposed notice of intent approach. This would provide a 'priority date' for proponents that protects them from making significant contributions to method development only to be ruled out from participation in the method because of newness restrictions.

SCIG cautions that without a level of pragmatism in dealing with newness, the likely impact will be a stultifying effect on innovation at a time when we need to be accelerating innovative approaches to carbon sequestration and emissions avoidance.

14. Does the proposed modular approach ensure the method development process is adaptive to changing circumstances while ensuring there continues to be an appropriate level of Ministerial oversight to preserve integrity? If so, what kind of variations should be permitted as part of a module?

SCIG considers that a modular approach would enable an adaptive process for changing method circumstances. For example, addition of new eligible activities or changes to enabling calculation technologies could be undertaken via a modular approach:

15. Are there any concerns with the proposed approach for discontinuing method development?

SCIG is concerned that the proposed approach to discontinuing method development will encourage speculative EOIs to be submitted to the Integrity Committee. Given our recommendations at Point 9 and 10 above, SCIG considers that proponents should be required to provide evidence as to why the method should be discontinued. There may be merit in the requirement of a performance bond that would be forfeited if the Integrity Committee was not satisfied as to the grounds for discontinuation.

Also on the reverse side, SCIG is concerned that there is no proposed dispute resolution process or right of appeal to contest a decision of the Integrity Committee. Without these mechanisms there is a real risk that transparency and evidence basis for decision making by the Integrity Committee gets compromised.

16. Will the proposed process for dealing with confidential data in consultation submissions balance the desire to ensure the ACCU Scheme is transparent while encouraging commercially sensitive data and information to be provided?

SCIG supports the proposed approach to consultation on new methods and modules. In stating this support SCIG considered the merits of organisational independence from the CAIC (for example DCCEEW conducting the consultation step). SCIG considers it is better that the CAIC manage confidential submissions and consultation on new methods and modules.

To ensure stakeholders remain comfortable sharing commercially sensitive data under a proponent-led method development process, it is important there will continue to be options to request either anonymity or that submissions (or parts of the submissions) remain confidential.

17. How should proponents demonstrate that feedback was appropriately considered?

SCIG supports the proposed approach for proponents to address issues raised in consultation whereby the proponent chooses which issues to respond to and focus on. If the Integrity Committee is not satisfied that all issues have been appropriately considered the proponent should have options to resubmit supplementary responses until the Committee is satisfied or advises it has reached a contrary decision. In this case a dispute resolution process and right of reply mechanism is required.

18. Should modules be subject to the same public consultation processes that new methods are subject to? If not, what should public consultation for modules look like?

SCIG recommends a shorter period for public consultation on modules as they are likely to be simpler modifications of more complex methods.

19. Are the proposed timeframes reasonable? Could they be shorter?

SCIG agrees with the approach to timeframes as a guide with options to extend. Given there is a path for resubmission of an EOI these timelines could be shorter.

20. Should there be a mandated requirement to complete method development within a set timeframe?

SCIG agrees with the approach to timeframes as a guide with options to extend. The guidelines should be strong targets, to avoid too many changes and potential loss of knowledge.

21. Does the proposed approach for reviewing and maintaining methods properly balance the need for integrity with the industry need for certainty?

The proposed approach for reviewing and maintaining methods properly balances the need for integrity with the industry need for certainty.

Sunsetting adds an element of urgency (in that we know the 2021 Soil Carbon Method is due to sunset in 10 years and may not be extended). Urgency is an important part of integrity where abatement is required at scale and with speed.

22. What are the risks and benefits of providing for legislative rules to compel existing projects to be carried out in accordance with varied or new method requirements?

There are integrity benefits from projects transitioning to varied or new method requirements. It provides clarity (an element of transparency) and current best method.

SCIG recommends that if a Method is to transition the timing of these transitions should align with applications for credits.

It may be better for a determination on compulsory or voluntary transitioning to be at the direction of the Minister or the CAIC. This determination would depend on the nature of the method change and include consultation with the Clean Energy Regulator.

23. Should the Integrity Committee explicitly consider transitional arrangements as part of making new methods or method variations?

SCIG recommends the Integrity Committee explicitly consider transitional arrangements as part of making new methods or method variations. Without explicitly consideration there is a real risk that pioneers are punished from their early action in establishing carbon projects. Ultimately this will increase risks associated with operating carbon projects which will limit speed and scale of implementation.

24. Does the proposed scope of the Integrity Committee's role compromise its primary role as an independent ACCU Scheme assurer?

SCIG generally considers the proposed scope of the integrity committee's role is appropriate, and independence is not compromised. The application of Principles to methods does present some sovereign risk to proponents (for example of extra compliance burden). The scope of the committee's role is supported in so far as it is guided by the integrity standards in the Act.

Section 3 Native Title Consent

SCIG supports the intent to improve the process for Eligible Interest Holder consent from Native Title Holders and supports efforts to achieve full prior and informed consent with Native Title Holders.

SCIG supports goals to avoid unintended consequences to the integrity of the ACCU Scheme in effective abatement, to maximise first nations participation, and to maximise uptake of the ACCU Scheme.

In instances where there are no Native Title holders, EIH consent from banks or financial institutions should not be a requirement for projects where there is no change to land use. (For example, soil carbon methods require no change in land use that could affect land classification). The EIH requirement for these soil carbon projects is another level of complexity and additional cost which is a barrier to landholder engagement and project feasibility. This has a detrimental impact on Australia's ability to reach its climate targets as it is not aligned with the intent of scale and speed.

Conclusion

The Soil Carbon Industry Group commends the work of DCCEEW in preparing the ACCU Review Discussion paper and consultation process.

While responding to global developments Australia's sovereign approach should focus on the urgency of achieving material abatement. Our rapid success will be the best contribution to the global discussion.

With this in mind, we highlight three issues:

Issue

1. Innovation, transparency, and achieving abatement at scale.

The soil carbon industry is rapidly innovating to solve the climate crisis. Integrity and clear paths for markets are vital drivers of this innovation. The freedom to iterate, innovate and adapt is also vital.

The Soil Carbon Industry Group encourages members to collaborate, to share information and understands that transparency is often a catalyst for innovation. Legislated transparency however can be burdensome with data provision, communication and 'freeloader tax' costs.

Transparency is important in so far as it underpins market integrity and public support. All other disclosures should be at the private or commercial discretion of landholders and market participants.

2. Method development and the high standard of the 2021 Soil Carbon Method

The 2021 Soil Carbon Method is arguably the most advanced Method legislated under the Australian ACCU Scheme. It adds physical measurement integrity to this complex pool in comparison to model only methods.

Risk of reversal discounts and conservative approaches within the calculations provide assurance of permanence and additionality. The Method has transitioned and improved from a first Method in 2014, to 2018 and now to 2021. Experience using the Method will warrant further continuous improvements in time.

Administrative, scientific and political challenges to soil carbon should be tested against the urgency of achieving material abatement. The recommendations from such challenges should look to improving market signals for innovation and action by landholders who can make a difference.

Method development needs a refined process and iterative discussion with capable stakeholders. The Integrity Committee should prioritise EOI's connecting experienced stakeholders. High quality methods will enable equitable access to the ACCU Scheme.

3. Eligible Interest Holder Consent for Land based projects should not require banks.

Where banks are the sole EIH's and there is no change of land use there should be no requirement for eligible interest holder consent from banks or other debt interests.

The Chubb review has added public and scientific scrutiny to the third-party verification and government issuance of ACCUs. The Chubb Review noted photosynthesis as the only process known to draw down CO₂ at scale. Soil carbon is the biggest pool that photosynthesis draws this carbon into and the biggest carbon pool on land.

Australia is poised to drive a shift in agricultural productivity as a co-benefit of soil carbon abatement. Soil carbon will be a global exemplar if we secure ACCU Scheme administrative arrangements. Soil Carbon Industry Group members are unlocking the innovative capacities of Australian farmers to solve climate change through the ACCU Scheme. Australia's ACCU system is strong and has high integrity. Soil Carbon Industry Group commends the review as a step in securing these gains.

Yours sincerely



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