



Australian Government
**Department of Climate Change
and Energy Efficiency**

REVIEW OF THE NATIONAL CARBON OFFSETS STANDARD

DISCUSSION PAPER

thinkchange



Published by the Department of Climate Change and Energy Efficiency

www.climatechange.gov.au

© Commonwealth of Australia 2011

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence. To view a copy of this license, visit <http://creativecommons.org/licenses/by/3.0/au>

The Department of Climate Change and Energy Efficiency asserts the right to be recognised as author of the original material in the following manner:



© Commonwealth of Australia (Department of Climate Change and Energy Efficiency) 2011.

This document is made available to seek feedback on the National Carbon Offset Standard. Material in this document should not be taken to indicate the Commonwealth's commitment to a particular policy or course of action.

The Commonwealth does not make any representations or warranties that it will implement any or all of the options, preferred positions or dispositions set out in this document. Material in this document is made available for general information only and on the understanding that the Commonwealth is not providing professional advice. Different solutions and outcomes may apply in individual circumstances. Before relying on any material contained in this document, readers should obtain professional advice suitable to their particular circumstances. While reasonable efforts have been made to ensure the accuracy, completeness and reliability of the material contained in this document, to the extent permitted by law, the Commonwealth provides no express or implied warranties and makes no representations that the information contained in this document is accurate, complete or reliable, and expressly disclaims liability for any loss, however caused and whether due to negligence or otherwise, arising directly or indirectly from the use of, inferences drawn, deductions made, or acts done in reliance on, this document or the information contained in it, by any person.

CONTENTS

INFORMATION FOR RESPONDENTS	4
1. INTRODUCTION	5
1.1. SCOPE AND PURPOSE OF THE REVIEW.....	5
2. LINKS TO OTHER STANDARDS AND PROTOCOLS.....	6
3. CARBON OFFSETS.....	6
3.1. GENERATION OF DOMESTIC AND INTERNATIONAL OFFSETS	7
3.2. ELIGIBLE OFFSET UNITS.....	8
4. CARBON FOOTPRINT CALCULATIONS.....	9
4.1. METHODS FOR CALCULATING A CARBON FOOTPRINT	10
4.2. BASE YEAR CALCULATION	10
4.3. CALCULATING CARBON FOOTPRINTS FOR EVENTS OR PROJECTS.....	11
4.4. INTERNATIONAL FREIGHT EMISSIONS AND IMPORTED PRODUCTS	12
4.5. EXCLUSION OF EMISSION SOURCES.....	12
4.6. SCOPE 3 REQUIREMENTS.....	14
5. ACHIEVING CARBON NEUTRALITY	15
6. AUDIT	16
7. MUTUAL RECOGNITION OF ALTERNATE STANDARDS.....	18

INFORMATION FOR RESPONDENTS

This paper is intended as a basis for consultation on the first review of the National Carbon Offset Standard (NCOS). Information gained through this public consultation process will be used to revise the NCOS.

Key dates

20 December 2010	Scoping workshop held in Canberra to discuss with stakeholders the issues to be raised in the forthcoming NCOS review.
30 August 2011	Discussion paper available on the Commonwealth Department of Climate Change and Energy Efficiency Website
12 October 2011	Submissions on the discussion paper close

Submission Guidelines

These guidelines outline the requirements for submissions on this consultation paper:

1. Submissions are invited from all interested stakeholders;
2. Where possible submissions should be lodged electronically to the email address below, preferably in Microsoft Word, PDF or other text based formats. Alternatively, submissions may be sent to the postal address below to arrive by the due date;
3. **Submissions will generally not be treated as confidential** and may be made publicly available. If a submission (or extracts of a submission) is to be kept confidential, please indicate this in the submission; and
4. All submissions are due **close of business 12 October 2011**. The Government may not be able to consider late submissions.

Submissions should be sent to:

Email:	NCOSReview@climatechange.gov.au
Address:	Carbon Neutrality Section, Land Division Department of Climate Change and Energy Efficiency GPO Box 854 CANBERRA ACT 2601

Contact details

Copies of this paper are available on the Department's website at <http://www.climatechange.gov.au/government/submissions.aspx>

Hard copies are available on request via telephone: 1800 057 590 or email NCOSReview@climatechange.gov.au

1. Introduction

The National Carbon Offset Standard (NCOS) was launched on 1 July 2010 and replaced elements of the Greenhouse Friendly Initiative which ceased on 30 June 2010.

The NCOS provides a voluntary standard for organisations to use in becoming ‘carbon neutral’ or developing ‘carbon neutral’ products.

The NCOS provides a means of ensuring the environmental integrity of the carbon offsets and carbon neutral products available in the Australian voluntary market. It assists consumers to make informed choices and interpret carbon neutral claims and helps businesses to determine their carbon footprint in line with consumer expectations. The NCOS sets minimum requirements for calculating, auditing and offsetting the carbon footprint of an organisation or product for the purpose of achieving carbon neutrality. It also provides guidance on what constitutes a genuine, additional voluntary offset.

Organisations seeking to voluntarily offset their emissions or achieve carbon neutrality under the NCOS are able to purchase from a range of eligible offset units.

The Government has also indicated that Carbon Farming Initiative (CFI) offset units will also be eligible for use under NCOS.

1.1. Scope and purpose of the review

The Australian Government committed to periodically review and update the NCOS to reflect developments in domestic and international carbon markets. This first review aims to clarify a range of issues raised by stakeholders and improve the standard’s functionality.

This review is generally confined to matters set out in the NCOS but will consider a limited number of issues where there is a crossover with the NCOS Carbon Neutral Program, which is administered by Low Carbon Australia on behalf of the Australian Government. Resolution of such issues may require subsequent amendments to the Carbon Neutral Program Guidelines.

Implications for the NCOS arising from the establishment of the CFI and developments in international standards for emissions measurement and reporting will be considered. There has been an extensive consultation process on the design of the *Carbon Credits (Carbon Farming Initiative) Bill 2011* and it is outside the scope of this review, as are matters arising from the Government’s proposed domestic carbon price.

This discussion paper will broadly follow the structure of the NCOS, and should be read in conjunction with the draft second version of the NCOS.

2. Links to other standards and protocols

The NCOS contains provisions which are based on a set of existing Australian and international standards and Australian legislation. These are known as normative references.

Issue

A number of other relevant standards are in various states of development.

The International Organization for Standardization (ISO) is developing a new standard for “Carbon Footprints of Products” for the quantification and communication of GHG emissions associated with goods and services (ISO/CD 14067). The draft standard is in the committee stage.

Two new GHG Protocol standards — *the Product Accounting and Reporting Standard (GHG Product Standard)* and the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard (GHG Scope 3 Standard)* are in the final stages of development by the World Resources Institute and the World Business Council for Sustainable Development.

The GHG Product Standard provides a framework to support GHG quantification and reporting for organisations to prepare and publicly report an inventory of emission associated with a product¹. The GHG Scope 3 Standard is intended to provide a step-by-step approach for companies to quantify and report their scope 3 emissions, and develop strategies for reducing them². The Scope 3 Standard has informed the Government’s thinking in relation to proposed arrangements for scope 3 emissions outlined in this paper.

The International Auditing and Assurance Standards Board is consulting on an exposure draft of the proposed *International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements*. The draft will be considered by the International Executive Board in December. If it is adopted, the Auditing and Assurance Standards Board will follow its process for establishing it as an Australian Standard.

Proposal

That the GHG Scope 3 standard be added to the NCOS normative reference list³ with other relevant standards to be considered for inclusion in the NCOS in future reviews.

3. Carbon offsets

The NCOS sets out a list of eligible offset units that the Government has assessed as meeting the internationally accepted integrity principles of additionality, permanence, measurability, independent audit, transparency and registration.

¹ The Greenhouse Gas Protocol Initiative (2010), Product Accounting and Reporting Standard (draft), p.2-7

² The Greenhouse Gas Protocol Initiative (2010), Corporate Value Chain (Scope 3) Accounting and Reporting Standard (draft), p.6

³ NCOS users may apply the current draft version of the GHG Scope 3 standard (November 2010) pending its formal publication scheduled for September 2011.

Since the NCOS was released in late 2009, there have been a number of developments in domestic and international voluntary and compliance carbon markets and associated standards have continued to evolve.

Progress has also been made in defining approaches to accounting for recognising reduced emissions from deforestation and degradation (REDD+) and abatement in the agriculture, forestry and other land use (AFOLU) sectors. To reflect these changes in offsets markets, several changes are proposed to the NCOS list of eligible offset units.

3.1. Generation of Domestic and International Offsets

Current approach

The NCOS currently allows proponents to put forward methodologies for offset projects and develop offset projects within Australia from emissions sources not counted toward Australia's obligations under the Kyoto Protocol target. Eligible sources of offsets are:

- forest management (forest established before 1990);
- revegetation (establishment of woody biomass that does not meet forest criteria); and
- cropland and grazing land management (net greenhouse gas emissions from soil, crops and vegetation).

A set of criteria are outlined that must be met for an offset credit to be recognised as eligible under the NCOS. These criteria require domestic projects to be additional, permanent, measurable, transparent, independently audited and registered.

GreenPower is not currently considered an offset. Rather, it is treated as an ex ante emissions reduction activity that takes the form of a zero-emissions product. Purchasers of 100% GreenPower can report zero emissions in their carbon footprint because it is considered that no emissions were produced to generate their electricity. Since GreenPower is essentially equivalent to the purchase and voluntary retirement of GreenPower-eligible renewable energy certifications (RECs), the NCOS also allows companies to retire such RECs in order to report zero electricity emissions without going through a GreenPower electricity supplier.

Under the Government's Clean Energy Future plan, voluntary action will be recognised in a number of ways, including by ensuring purchases of accredited GreenPower will be treated as additional voluntary action via the cancellation of Kyoto units. This will help meet community expectations that taking voluntary action can make a real contribution to Australia's carbon pollution reduction activities.

Issues

On 24 March 2011, the Government introduced the *Carbon Credits (Carbon Farming Initiative) Bill 2011* into Parliament. The Government has stated that it intends to credit domestic offsets from a range of land-based emissions sources and sinks under the CFI, including those that are not recognised as contributing towards Australia's obligations under the Kyoto Protocol. This includes those abatement activities currently eligible to generate domestic offsets under the NCOS. The legislative framework for the CFI establishes processes for the approval of offset methodologies and projects, as well as requirements for project reporting, audit and compliance.

For international projects in developing countries that generate offsets by reducing emissions from deforestation and degradation (REDD + projects), the Government is considering whether a separate approach is required to ensure project proponents take appropriate action to avoid potential adverse impacts from these projects on local communities.

Proposal

The NCOS will recognise domestic offset projects generated under the CFI. The integrity of CFI offsets will be governed by the principles and rules contained in the *Carbon Credits (Carbon Farming Initiative) Bill 2011*.

The government seeks stakeholder views on whether REDD + projects should also be required to demonstrate appropriate safeguards to avoid potential adverse impacts on local communities to be eligible under the NCOS.

The NCOS will recognise Voluntary Emission Reductions and Verified Carbon Units issued under the Gold and Verified Carbon Standards, respectively, for land sector based offset projects carried out in developed countries. In these circumstances, further approval of methodologies under this standard will not be required.

The Government will continue to assess the environmental integrity and degree of market acceptance of other international offset units as the carbon market evolves with a view to considering this matter during future reviews of the NCOS.

Stakeholder views are sought on the merits of including GreenPower purchases as an eligible offset and the proposed new approach for dealing with VCS and Gold Standard land sector based credits.

3.2. Eligible Offset Units

Current approach

A number of types of carbon credits are currently eligible to meet carbon neutrality obligations under the NCOS.

- Australian Emission Units (AEUs) - the unit of the former Carbon Pollution Reduction Scheme;

The following Kyoto Protocol units:

- Certified Emissions Reductions (CERs, excluding temporary long term units) - are units generated and issued under the Clean Development Mechanism;
- Emission Reduction units (ERUs) - are units generated and issued under Joint Implementation activities.
- Removal Units (RMUs) - are generated and issued by Annex I Parties for carbon absorption by land use, land-use change and forestry (LULUCF) activities such as reforestation.

In addition, two highly regarded voluntary market standard are recognised:

- Voluntary Emission Reductions issued by the Gold Standard; and
- Verified Carbon Units issued by the Verified Carbon Standard.

Where credits are issued for reduced emissions from deforestation and degradation (REDD+) and other agriculture forestry and land use (AFOLU) projects, they must apply methodologies approved under the NCOS.

Issues

This list of eligible units does not include Australian Carbon Credit Units, the proposed unit for crediting domestic land based offset projects under the CFI.

Abatement generated under the Greenhouse Friendly program is excluded from the list of eligible units despite being additional to business-as-usual practices. This is because Greenhouse Friendly abatement is reflected in Australia's national accounts and contributes towards Australia's national target under the Kyoto Protocol.

The Government's proposed carbon price mechanism will also issue permits in the flexible price period that will be available for purchase, including by organisations wishing to achieve carbon neutrality.

The requirement for Gold Standard and Voluntary Carbon Standard REDD+ and AFOLU projects to apply to have their methodologies approved under the NCOS places an additional administrative burden on both proponents and the NCOS administrators.

Some stakeholders have expressed an interest in expanding the list of NCOS eligible units beyond VCS and Gold Standard.

Proposal

Australian Carbon Credit Units (ACCU), which will be issued under the CFI, will replace current provisions for AEU and domestic offsets from emissions sources not recognised towards Australia's Kyoto Protocol target and become eligible under the NCOS.

The Government will cancel Kyoto units for Greenhouse Friendly credits generated during the Kyoto Commitment Period and cancelled prior to 30 June 2013. This ensures that Greenhouse Friendly credits are not counted towards Australia's Kyoto target.

The current caveat requiring approval of Gold Standard and Voluntary Carbon Standard land sector based projects will be lifted for projects that occur in developed countries.

Carbon price permits will be eligible units under the NCOS once the carbon price mechanism transitions to the floating price on 1 July 2015.

4. Carbon Footprint Calculations

The term carbon footprint is commonly used to describe the total amount of greenhouse gas emissions, which can be attributed to an individual product, service or organisation by setting a carbon footprint.

The Government is proposing a range of changes to the NCOS to provide increased clarity for stakeholders around the calculation of their carbon footprint.

4.1. Methods for calculating a carbon footprint

Current approach

The NCOS currently prescribes two approaches for calculating carbon footprints. Organisations are required to apply what is known as the ‘inventory’ method when calculating their emissions, which involves listing all relevant activities in the organisation and multiplying the activity data from these activities by relevant emissions factors.

Products certified under the standard are required to calculate their emissions using the life-cycle assessment (LCA) approach which assesses the emissions associated with all the stages of a product's life from cradle-to-grave.

Issue

Stakeholders have sought further clarity around when the different approaches to carbon footprinting should be applied – particularly, whether the LCA approach can be used for an organisation and how to calculate the carbon footprint of an event or major project.

Proposal

Following requests from stakeholders, the Government proposes to make a minor change to the NCOS to clarify that organisations have the flexibility to choose to use either approach when calculating their emissions footprint. Section 4.2(b) of the NCOS will be amended to note that organisations may also choose to apply the LCA approach to calculating a carbon footprint set out in section 4.3.

The Government recognises that for an organisation either approach can provide a comprehensive and robust analysis of emissions, and that an organisation should have the flexibility to use the method that best suits its business needs.

It is also proposed to amend section 4.3 to clarify that – in line with stakeholder expectations – product carbon footprint calculations must always apply the LCA approach to calculating emissions. This is because the inventory method will not produce a comprehensive analysis of a product's emissions as it does not provide for a full assessment of the product's life from extraction to disposal.

4.2. Base year calculation

A meaningful and consistent comparison of emissions over time requires that companies set a base year with which to compare current emissions. For consistent tracking of emissions overtime, the base year emissions may need to be periodically re-calculated if there are changes in the circumstances of an entity or if new, more robust information comes to hand that materially alters previously reported emissions.

Current approach

The NCOS is silent on the issue of a base year as it is an implicit requirement of preparing a GHG inventory or LCA in accordance with the normative references set out in the NCOS.

Issue

Some stakeholders have expressed concern that the NCOS does not provide specific guidance relating to the establishment of the base year for emissions calculations.

Proposal

The Government proposes to amend sections 4.2 and 4.3 of the NCOS to highlight that the base year selected by the entity and its base year re-calculation policy should be disclosed in the greenhouse gas emission inventory report or product life cycle analysis report, consistent with the requirements ISO 14064-1 (2006) and the GHG Corporate Standard. These standards broadly require users to:

- select the earliest historical base year for which verifiable carbon emissions and removals data are available or use a multi-year average where a single year's data is unrepresentative of the company's typical emissions profile;
- explain the selection of the base year;
- develop a base-year recalculation policy to account for changes to:
 - operational boundaries
 - ownership and control of greenhouse gas sources and sinks;
 - quantification methodologies that result in significant changes to GHG emissions or removals;
 - address discovery of significant errors; and
- document base-year calculations in subsequent carbon footprints.

Chapter 5 of the GHG Corporate Standard provides additional guidance on base year recalculation approaches.

4.3. Calculating carbon footprints for events or projects

Current approach

The NCOS allows users to determine the boundary of the emissions that will be assessed, which may be limited to a part of an organisation, such as a business unit, facility, sub-facility or activity. If a user wanted to assess the emissions from an event or a major project for example, the inventory approach can be applied through the drawing of the carbon footprint boundary at an activity level as outlined in section 4.2.1. The LCA approach also enables users to set their boundary – both in terms of activities and duration.

The NCOS requires that the boundary of the emissions assessment is transparently disclosed in any claims made relating the achievement of carbon neutrality. This approach allows entities the control to assess and offset the emissions in accordance with the defined scope, while ensuring that consumers and businesses are aware of exactly what is being offset.

Issue

Stakeholders have sought clarity on how the NCOS should be applied to activities that don't obviously fall into the category of a product or organisation, such as an event or a major project with a defined start and end point.

Proposal

Section 4.2.1 will be amended to note that an activity may constitute an event or major project.

4.4. International freight emissions and imported products

Current approach

Section 4.3.2(iv) of the NCOS specifies that an organisation should consider emissions resulting from all methods of transport as part of its consideration of emission sources with the system boundary.

The NCOS Carbon Neutral Program (CNP) only allows the Australian operations of organisations or Australian produced products to be certified under the NCOS as carbon neutral. This is consistent with the approach generally applied under its predecessor program, the Greenhouse Friendly initiative, which operated from 2001 through to 30 June 2010.

The current program boundary reflects that goods manufactured outside Australia present a significant challenge for carbon footprint quantification and verification. It is difficult to accurately track all inputs used in an imported good's production to determine the good's embedded emissions. Accessing reliable and robust data from other jurisdictions is not straightforward, and the task's complexity increases significantly when goods are produced across multiple jurisdictions. If verification also takes place outside Australia this issue is compounded and the risks associated increase.

Issues

Stakeholders seeking to export NCOS certified products have sought clarification regarding the treatment of freight emissions.

Some stakeholders have also sought clarification regarding the potential for certification of wholly imported products and the non-Australian based arms of multinational companies.

Meeting assurance requirement of the NCOS may be costly for proponents of imported products.

Proposal

Section 4.3.3(iv) of the NCOS will be amended to clarify that any international freight emissions should be included in the LCA.

The Government proposes that the CNP program administrator be allowed to consider certification requests relating to imported products. The onus will be placed on the importer or organisation to ensure that NCOS requirements for environmental integrity are met and judge whether certification is feasible and cost effective given available data sources in the country(ies) of production/operation and the audit requirements of the CNP program. Subject to feedback from the Program Administrator on whether the challenges associated with this change have been manageable, consideration may be given to further expansion the program in a future review.

4.5. Exclusion of emission sources

The Government is proposing changes to the NCOS to provide increased clarity for stakeholders around what should be included in their emissions calculations.

Current approach

The NCOS requires an organisation to calculate all direct emissions (scope 1) and indirect emissions (scope 2) from the use of electricity, heating, cooling or steam attributable to sources within its chosen boundary.

Scope 1 emission sources are outlined in the NGER (Measurement) Determination and comprise:

- the combustion of fuel for energy;
- the extraction, production, flaring, processing and distribution of fossil fuels;
- industrial processes where a mineral, chemical or metal product is formed using a chemical reaction that generates greenhouse gases as a by-product; and
- waste disposal, either in landfill, as management of wastewater or from waste incineration.

Scope 2 emissions result from activities that generate electricity, heating, cooling or steam that is consumed by a Facility, but do not form part of the Facility.

Issue

Stakeholders have sought clarification regarding the treatment of very small emissions sources for the purposes of the NCOS. Many NCOS stakeholders report separately under the NGER reporting framework, and a strict interpretation of the NCOS would require users to measure and include in their emissions footprint emissions sources that can be estimated for NGER purposes.

Proposal

It is proposed to amend the NCOS to note that incidental Scope 1 and Scope 2 emissions sources may be estimated in line with the guidance provided in the NGER Reporting Regulations and NGER Measurement Determination.

Section 4.27(5) of the NGER Reporting Regulations provides for the estimation of incidental emissions from facilities where:

(a) an individual source of emission from the operation of the facility is less than:

- (i) 0.5% of the total amount of greenhouse gases emitted from the operation of the facility; and
- (ii) a carbon dioxide equivalence of 3 kilotonnes for a year; and

(b) the total amount of all of the individual sources of emission mentioned in paragraph (a) is less than the lesser of:

- (i) 2% of the total amount of greenhouse gases emitted from the operation of the facility; or
- (ii) a carbon dioxide equivalence of 12 kilotonnes;

Estimates should be consistent with the methods set out in the National Greenhouse and Energy Reporting (Measurement) Determination 2008. However, the Determination notes that for incidental emission sources, another method may be used that is consistent with the principles in section 1.13 of the Determination, namely that the estimates are transparent, comparable, accurate and complete.

4.6. Scope 3 requirements

Scope 3 emissions are indirect greenhouse gas emissions arising from a facility's activities, but physically produced elsewhere in the economy for example, emissions resulting from an outsourced business process.

Current approach

Reporting of scope 3 emissions under the NCOS is encouraged but largely left to the discretion of the entity. Consideration of a minimum set of scope 3 emission is required, namely:

- business travel of its employees;
- disposal of waste generated by the organisation; and
- use of paper in the course of its business.

In considering the calculation of scope 3 emissions, the NCOS requires organisations to consider the GHG Protocol guidelines for determining the relevance of scope 3 emissions sources. Organisations are required to transparently document and disclose which scope 3 emissions have been included in their carbon footprint when making any assertions about emissions reductions.

Calculation of scope 3 emissions generally involves multiplying the relevant activity data from a business unit or a product life stage by a credible emission factor. The NCOS lists the National Greenhouse Accounts (NGA) Factors as a source of suitable scope 3 emission factors. NGA Factors include scope 3 emission factors for waste, wastewater, specific solid, liquid and gaseous fuels and electricity. NGA factors also notes that, in some circumstances, it may be possible to derive a scope 3 factor from a scope 1 factor listed elsewhere in the publication.

Other scope 3 factors have also been approved for use under the Government's Carbon Neutral Program on a case by case basis. These are referenced in the CNP guidelines. Some commercial proprietary factors and methods have also been accepted for use under the CNP.

Issues

The inclusion of a minimum set of scope 3 requirements in the NCOS has inadvertently given some stakeholders the impression that it is appropriate to only consider these specified sources of emissions. In contrast, emerging international GHG accounting and carbon neutrality standards are increasingly progressing towards more comprehensive reporting of scope 3 emissions as standard practice (e.g the UK Government's PAS2060 and draft GHG Scope 3 standard). For some businesses, scope 3 emissions may represent both a significant portion of their carbon footprint and an area where the greatest potential for emissions reduction activities exists.

Calculating scope 3 emissions, including identifying suitable emissions factors, presents a significant challenge for some NCOS stakeholders, particularly for small enterprises. Ad hoc approvals of scope 3 emission factors can be time intensive and introduce unnecessary delays for organisations seeking to achieve carbon neutrality.

Proposal

The NCOS will be amended to remove the minimum requirements for scope 3 emissions calculations. This will enable proponents to more accurately consider all of their scope 3 emissions in the context of the carbon footprint calculation principles outlined in section 4.1 of the NCOS, and the relevance guidelines from the GHG protocol set out in 4.2.3(c).

Section 4.2.3 of the NCOS will also be amended to specify that any excluded scope 3 emissions should also be transparently disclosed and justified in the carbon footprint, and in any subsequent material that is communicating relevant carbon neutral claims. Companies will be invited not to exclude any activities from their scope 3 inventory that would compromise its relevance⁴.

Section 6 of the NCOS (Audit) will be amended to clarify that the audit process should encompass the adequacy of scope 3 emission factors, reflecting the policy intention that the NCOS be usable as a public standard without reference to Government. The GHG Scope 3 Standard will be included as a normative reference for the NCOS to provide improved guidance to NCOS users and auditors and better facilitate the calculation and validation of scope 3 emissions.

The Government acknowledges that calculating scope 3 emissions can present significant challenges to NCOS users and recognises that these challenges are likely to persist for some time. Organisations should take into account the challenges inherent in producing a scope 3 inventory when considering whether to pursue carbon neutrality under the NCOS.

5. Achieving Carbon Neutrality

This section of the NCOS outlines requirements for organisations looking to claim carbon neutral status.

Current approach

Organisations are required to develop an Emissions Management Plan demonstrating that they have put in place steps to reduce GHG emissions and to purchase and retire eligible carbon offsets.

Organisations are required to voluntarily surrender and retire into a registry a sufficient number of eligible units to offset the total emission associated with their product or organisational boundary. It also sets requirements for record keeping and periodic reporting on emissions reduction and offsetting activities.

Access to the NCOS certification trade mark is only available through the NCOS Carbon Neutral Program administered by Low Carbon Australia.

Issues

Use of the terminology ‘retire’ is misleading and may incorrectly imply that the government can use credits that have been voluntarily offset by the private sector under the NCOS to meet a national reduction target.

Stakeholders have indicated that the section’s guidance on making carbon natural claims could be enhanced to add clarity.

⁴ GHG Protocol Initiative (2010), “Corporate Value Chain (Scope 3) Accounting and Reporting Standard”. p.38

Section 5.4 (Use of the National Carbon Offset Standard logo) is ambiguous without an explicit reference to the NCOS Carbon Neutral Program.

Proposal

All references in the NCOS to ‘retiring’ offsets will be amended to specify ‘cancellation’ of offsets.

The existing section 5.4 will be replaced with ACCC guidance on making carbon neutral claims in the context of the Australian Consumer Law.

Section 5.4 will further clarify that the Government is registering a certification trade mark which can be used under licence to market products and organisations in compliance with the NCOS as carbon neutral where those organisations are members of the NCOS Carbon Neutral Program.

6. Audit

The NCOS recognises that a robust and transparent audit model is crucial for providing confidence in offset projects and carbon neutral claims.

Current approach

The NCOS currently specifies that the audit process should cover:

- the eligibility and robustness of offset project methodologies;
- the amount of emissions reductions offset projects achieve; and
- the accuracy and completeness of carbon footprint calculations.

The audit is intended to achieve reasonable assurance as to the integrity of the reported information.

The NCOS also provides guidance regarding experience requirements for auditors who may be suitable to conduct NCOS audits. The NCOS currently specifies that these may include individuals or bodies that:

- a) are registered under the greenhouse and energy audit framework currently being established by the Department of Climate Change for the NGER Act;
- b) have demonstrated knowledge and expertise in the relevant Australian and international standards, specifically AS ISO 14064 and ISO 14040 series; or
- c) are accredited to the international standard ISO 14065:2007 or recognised international standards based on ISO 14040.

Issues

The establishment of the CFI legislative framework removes the need for the NCOS to specify audit processes for domestic CFI offset projects, and eligible international standards have their own audit frameworks.

Some stakeholders have questioned whether there are sufficient NGER Greenhouse and Energy Auditors with the appropriate skills to verify product carbon footprints developed using the LCA approach.

Stakeholders have also noted that the NCOS does not provide any guidance regarding what constitutes “demonstrated knowledge and expertise” of AS ISO 14064 and ISO 14040 series, for the purposes of audit clause (b).

Proposal

The audit section of the NCOS will be amended to remove the requirement to audit offset methodologies and projects.

Amendments will be included to clarify that methodologies and factors for calculating emissions should be verified by auditors through the process of providing assurance in relation to the carbon footprint (section 4.6 of this discussion paper refers).

The NCOS will continue to reference the NGER audit register as a suitable source of auditors for organisations seeking to verify their compliance under the NCOS. NGER auditors have demonstrated skills and experience and their engagement does not preclude them drawing on additional technical expertise - either from within or outside of the NGER register – if required to support their audit activities. This provides a mechanism for auditors to draw on LCA expertise when conducting NCOS audits if required. It also provides a pathway for LCA/supply chain specialists, who may not have the experience requirements to attain NGER registration in their own right, to gradually build this experience over time.

The Government will ask all currently registered NGER auditors to self-nominate if they consider they have, or have access to, the experience and qualifications necessary to conduct the audit of NCOS carbon neutrality claims based on an LCA. DCCEE will publish a list of these auditors on the Register of Greenhouse and Energy Auditors page of the Department's website, which may assist NCOS users seeking LCA expertise to more readily identify a potentially suitable auditor from the register.

Audit section (b), which deals with auditors having demonstrated knowledge and expertise in the relevant Australian and international standards will be removed. This will address stakeholder concerns that this provision is currently too broad and introduces an unacceptable degree of risk to the integrity of the NCOS.

The Government is interested in stakeholder views on whether the assurance requirements in the NCOS should be varied.

7. Mutual recognition of alternate standards

Current approach

The NCOS is silent on recognition of other carbon neutrality standards.

Issue

Proponents of other carbon offsetting schemes have expressed interest in obtaining mutual recognition with the NCOS. Under this arrangement, products and services accredited under one scheme would automatically be able to claim carbon neutrality against the NCOS without undergoing a further assessment process. Some multinational firms have also expressed interest in such an arrangement.

Proposal

The Government intends to canvass this issue as part of its 2012-13 review of the NCOS. Issues associated with aligning standards are complex and the Government is looking to draw on lessons learnt in other countries to inform the way forward.