

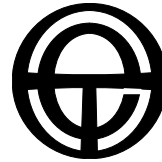
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**National Greenhouse and Energy Reporting Regulations Policy Paper**

To whom it may concern,

Total Environment Centre (TEC) welcomes the opportunity to provide feedback on the *National Greenhouse and Energy Reporting Regulations Policy Paper* and wishes to respond to the following sections.

**3.1.4 Materiality**

The stated rationale for a materiality threshold is that it will reduce regulatory burden. However, in order to prove that emissions are immaterial they will need to be measured. Once they have been measured the primary benefit of a materiality threshold (not having to invest time and resources to measure these emission sources) is gone. The only remaining task is to report the measurement. Failing to report on all emissions therefore offers no practical benefit and violates the 'completeness principle' of the GHG Protocol and ISO 14064.1. No materiality thresholds, facility or source, should be provided for under the regulation.

In the words of the GHG Protocol:

*Sometimes it is tempting to define a minimum emissions accounting threshold (often referred to as a materiality threshold) stating that a source not exceeding a certain size can be omitted from the inventory. Technically, such a threshold is simply a predefined and accepted negative bias in estimates (i.e. an underestimate). Although it appears useful in theory, the practical implementation of such a threshold is not compatible with the completeness principle of the GHG Protocol Corporate Standard. In order to utilize a materiality specification, the emissions from a particular source or activity would have to be quantified to ensure they were under the threshold. However, once emissions are quantified, most of the benefit of having a threshold is lost.*

(GHG Protocol, p.8)

#### **4.1.2 Level of company information published**

Enhancing provisions to require facility level reporting will promote the utility of data for communities and investors. Requiring facility level reporting will not increase regulatory burden as almost all of the work associated with such reporting is in the data gathering phase- which organisations captured by the *National Greenhouse and Energy Reporting Act 2007* will be required to do anyway. Whilst some may attempt to argue that facility level data is commercially sensitive, where this is actually the case commercial confidentiality can be safeguarded by s.25 of the Act.

#### **7.1.2 Offsets of greenhouse gas emissions**

*No Australian standards for carbon credits currently exist. The Australian Government does, however, currently approve Greenhouse Friendly carbon credits under the Greenhouse Friendly initiative. The Australian Government has also committed to the development of Australian standards for offsets by the end of 2008.*

*In this context, the term 'carbon credits' for the purposes of the Act should be defined as carbon credits approved by the Australian Government. At this time, only Greenhouse Friendly carbon credits would meet this definition, however, it is anticipated that as development of the Australian offset standard is progressed other types of carbon credits that meet the standard could be approved by the Australian Government thereby expanding the list of eligible types of carbon credits recognised under the Act.*

*The regulations will include a list of any types of carbon credits currently approved by the Australian government, which can be added over time.*

(ibid, p.52)

TEC is unclear as to the true intent of this section. Whilst noting that this 'discussion of greenhouse gas reductions, removals and offsets does not pre-empt or reflect possible definitions or accounting rules under an AETS'<sup>1</sup> the importance of the issue warrants explicit treatment.

If this proposal is designed to facilitate the voluntary reporting of 'projects to remove or reduce greenhouse gases'<sup>2</sup> then this section is relatively benign. However, if the possibility exists that this definition will 'underpin the development of a future Australian Emissions Trading Scheme'<sup>3</sup> then this section may prove much more problematic.

Default recognition of Greenhouse Friendly, and Greenhouse Friendly offset types, stands to undermine the environmental integrity of the scheme and limit the possibility of linking with international emissions trading schemes. The integrity of the ETS would be safeguarded if the Australian offset standard was first developed in accordance with commonly accepted principles. If Greenhouse Friendly offsets met the accepted criteria then they would be allowed into the scheme. Given the formative nature of the voluntary offset market it would be dangerous for any offset to be afforded automatic recognition. All offset providers should be allowed to compete on a level

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<sup>1</sup> ibid, p.51

<sup>2</sup> ibid, p.1

<sup>3</sup> ibid, p.1

playing field and be judged against a common set of criteria established by the emerging Australian offset standard.

The importance of such an approach is highlighted by the nature of Greenhouse Friendly's recognition of biosequestration projects. Such projects not only suffer from highly uncertain rates of carbon sequestration but are also fundamentally impermanent. Indeed, the uncertainty surrounding biosequestration rates is the reason that LULUCF is excluded from the ETS. In the language of the ETS Taskforce Report:

*...measurement uncertainties and compliance cost issues suggest that agricultural and land use emissions be initially excluded.*

(ibid, p.106)

In the language of the *NGER Regulations Policy Paper* itself:

*Reporting methodologies are not yet sufficiently developed for wide-scale measurement of agriculture and land use, land use change and forestry emissions at the facility and corporate levels.*

(ibid, p.35)

Even if the issue of uncertain emission sequestration rates was resolved there would still remain the inherent issue of impermanence. The fact that trees will inevitably release the carbon that they have absorbed means that biosequestration projects are inherently impermanent. The Greenhouse Friendly program requires that biosequestration projects retain their carbon for only 70 years; thereby allowing the release of the carbon they have sequestered at the same time that the worst impacts of climate change are predicted to manifest.

Due to the impermanence of tree plantation offset projects, the Clean Development Mechanism (CDM) only affords temporary recognition to such projects. That is, purchasing offset credits through tree plantation offsets only allows parties to *temporarily* offset the carbon liabilities of parties. In effect, using tree plantations only allows parties to defer offsetting their emissions to a later date. Two instruments were specifically created for tree plantations; the *temporary Certified Emission Reduction (tCER)* and the *long-term Certified Emission Reduction (lCER)*. Under the *tCER*, parties can only defer buying permanent Certified Emission Reductions (CERs) for 5 years before seeking reaccreditation.

In addition to these unique protection measures it was also decided that parties could not offset more than 1% of base year national emissions through tree plantation offset projects. Despite these dual layers of protection the flagship Kyoto compliant emissions trading scheme, the European Union ETS, fails to afford any recognition to tree plantation offset projects - the various issues surrounding tree plantation projects being regarded as too great to be afforded recognition as a credible offset.

Awarding default recognition to Greenhouse Friendly would also provide default recognition for such projects. Such recognition will undermine the environmental integrity of the scheme and make an Australian ETS inconsistent with the EU ETS and provisions of the Kyoto Protocol. The international inconsistency of our scheme would limit the extent to which an Australian ETS could link with international emissions trading schemes.

The integrity of the ETS would be safeguarded if the Australian offset standard was first developed in accordance with commonly accepted principles. If Greenhouse Friendly offsets met the accepted criteria then they would be allowed into the scheme. Given the formative nature of the voluntary offset market it would be dangerous for any offset to be afforded automatic recognition. All offset providers should be allowed to compete on a level playing field and be judged against a common set of criteria established by the emerging Australian offset standard.

### ***Defining a credible offset***

*The term 'carbon credits' will require a clear definition as this term is also used ambiguously in common language. It should also be defined conservatively to ensure that offsets reported by a firm do, in fact, represent an effective reduction in a corporation's emissions profile.*

(ibid. p.52)

In order for a carbon offset to deliver 'an effective reduction in a corporation's emissions profile' it must satisfy several criteria. The following criteria are in addition to the need for verification, and security registration to avoid double counting.

#### ***Credible emissions calculation***

TEC offers qualified support for the use of ISO14064.2 in the measurement of emissions reductions from offset projects. A troubling aspect of the *GHG Protocol for Project Accounting*, on which ISO14064.2 is based, is that it leaves it to the project proponent to ultimately determine the emissions reductions reported as a result of the project. The particular issue arises in regard to the measurement of secondary GHG effects of projects. Secondary GHG effects include 'one time effects' such as those emissions generated during the establishment of the project as well as 'upstream and downstream' effects.

Under the GHG Protocol, on which ISO 14064.2 is based, only 'significant' secondary GHG effects need to be included when calculating the emissions benefit of the project. Troublingly, the definition of 'significant' is left to the project proponent. This loophole is open to significant abuse. In cases where the inclusion of secondary GHG effects would decrease the number of permits generated by the project there would exist every temptation to exclude the calculation of secondary GHG effects and misrepresent the true emissions impact of the offset project.

Closing this loophole is simply a matter of requiring project proponents to report on all secondary GHG effects associated with their offset projects. In the case that a secondary GHG effect cannot be measured the project proponent should be required to report why it could not be measured.

#### ***Additional***

In order for an offset to deliver a genuine reduction in emissions a project proponent must be able to demonstrate that the project is additional- that the project would not have happened without the financial support generated by the sale of the emissions permit. Domestically, the two most important additionality tests are financial

and compliance additionality. If sourcing offset credits from non-Annex I countries a broader additionality tool such as the *UNFCCC Additionality Tool* might be more appropriate.

### ***Real***

An undesirable characteristic of the voluntary carbon offset market has been the tendency for project proponents to forward sell carbon offsets- that is, selling them before they have been generated. This is a particular problem with regard to biosequestration projects where offset providers promise to plant several trees following the purchase of the offset. In this scenario the offset buyer is attempting to 'offset' an immediate unit of GHG emissions with a corresponding unit of sequestration that may take several decades to achieve. In order for an offset to be credible it must be real- it must have already happened.

### ***Permanent***

Once an offset project is undertaken its emissions reduction should be permanent. Permanence does not require that the project continues forever, just that the emissions benefit of the project is irreversible. For example, if an energy efficiency project was closed down the emissions benefit derived during the life of that project would be 'locked in' -the emissions benefit would be irreversible. This is also true of renewable energy projects, methane flaring, organic waste diversion, and recycling. In fact this is true of all projects but those involving some form of biosequestration. In this regard biosequestration projects are unique.

Biosequestration projects, such as tree plantations, are inherently impermanent. Once a tree plantation is cut down all the emissions benefit generated during the life of the project will be reversed- as the trees are cut down and processed, or die and decompose. Some have tried to argue that this reversal will be limited if the plantation timber is used in products such as furniture or construction materials. However, not all the wood can be used for this purpose (much of it will be lost in the milling process) and of the wood that is used very little of it will stay there for long. Furniture and construction materials exist only for relatively short periods of time. Such practices will only partially defer the inevitable release of the stored carbon.

Tree plantations provide only a temporary reservoir for carbon. For this reason the Clean Development Mechanism (CDM) only affords *temporary* recognition to such projects. That is, purchasing offset credits through tree plantation projects only allows parties to *temporarily* offset their carbon liability. In effect, tree plantations only allows parties to defer offsetting their emissions to a later date. Two instruments were specifically created for tree plantations; the *temporary Certified Emission Reduction (tCER)* and the *long-term Certified Emission Reduction (lCER)*. Under the *tCER*, parties can only defer buying permanent CERs for 5 years.

Interestingly, Greenhouse Friendly has attempted to market its tree plantation projects as 'permanent' by requiring that they exist for 70 years. However, 70 years does not equate to permanence. No discrete period of time can. Permanence requires irreversibility throughout time. By creating a legal liability to maintain the carbon stock in tree plantations for only 70 years such projects will be allowed to release their sequestered emissions at the same time that the worst predictions

of climate are beginning to manifest. For an offset to deliver 'an effective reduction in a corporation's emissions profile' it must be permanent and irreversible. If the emissions benefit of the project is reversible then it should only be afforded temporary recognition.

### ***7.2 Greenhouse Gas Project Measurement Requirements***

As stated previously TEC provides qualified support for the use of ISO14064.2 in the measurement of emissions associated with greenhouse gas reductions, removals, and offsets. The integrity of this measurement protocol would be safeguarded if the regulations required the measurement of all secondary GHG effects of the projects.

Yours sincerely,

Jeff Angel  
Executive Director