



Pauline Kennedy

Low Carbon Policy and Advocacy, ANZ

BP Australia Pty Ltd
Level 17
717 Bourke Street
Docklands 3008

Email pauline.kennedy@bp.com
Web www.bp.com.au

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Climate Change Authority
GPO Box 787
Canberra ACT 2600

Via email: enquiries@climatechangeauthority.gov.au

bp submission to the Climate Change Authority's review of international offsets

bp welcomes the opportunity to provide input to the Climate Change Authority's review on international carbon offsets in Australia. Rather than attempt to address all the questions posed in the consultation paper, bp's submission focuses on some key points for the Authority's consideration.

bp's purpose is to reimagine energy for people and our planet. Our ambition is to become a net-zero company by 2050; and to help the world get there, too. We are committed to playing our part by delivering progressively more low carbon solutions and providing cleaner, more affordable, and reliable energy. We aim to actively advocate for policies that advance net zero.

A role for offsets

bp supports the use of carbon offsets by companies, countries and society and believe that offsets from both natural and technological emissions reductions can play a critical role in enabling the world to reach the Paris goals. bp believes that offsets should complement companies' actions to reduce or remove as many emissions from their value chains as possible. However, in a net-zero world, there will still be some sources of residual emissions, so companies will need removals or offsets to achieve policy goals. Offsets that support robust emissions reductions in the coming decades also have a role to play as they can accelerate the transition to net-zero. bp does not plan to rely on offsetting to meet its 2030 net zero aims. We do consider that it makes sense to count carbon credits that directly relate to our business, such as when they are bundled with our energy products and going forward, we intend to do so.

bp's involvement in offsets

bp has a long history in international carbon offset markets both for its own use and to support its customers achieve their emission reduction goals. For example, bp's Target Neutral team has been procuring and retiring carbon credits to help businesses and individuals offset

their emissions since 2006. It also supports several of our certified carbon neutral lubricants and fuel products. bp also offers compliance offsetting and voluntary offsetting to our customer's through bp's Low Carbon Trading team. bp's Low Carbon Trading team offers credits sourced from carbon offsetting projects around the globe. Under ClimateActive bp is certified carbon neutral for all its Air BP into-plane services at airport fuel facilities across its Australian network.

Offset integrity

It is important that international offsets used in Australia meet high integrity standards. bp is applying quality standards to the offsets we use and supply to our customers. bp's own standards include that offsets must be real, measurable, additional, permanent, independently verified, unique and meet environmental and social safeguards. bp aspires to only engage with offsets that are generated through independently approved standards and methodologies.

There is a significant amount of work being done internationally to define the elements of high integrity offsets that can be leveraged by Australia. For example, the Integrity Council for Voluntary Carbon Markets (ICVCM) and the upcoming Core Carbon Principles aim to ensure that genuine emission reductions and removals are made with high environmental integrity without any negative social or environmental side effects. The ICVCM will also develop a framework that can be used to assess which crediting programs and methodologies are consistent with the principles. bp encourages the Authority in undertaking its Review to closely consider the work and recommendations of the ICVCM.

There is value in Australia applying comparable quality offset standards to those used in other jurisdictions and adopted by international coalitions such as the ICVCM. This supports consensus building globally on what is credible and of high standard which will be important to ensure investments target a just transition to net-zero. Common quality standards across jurisdictions also supports the development of a more efficient and liquid international market and reduces participation costs for businesses that have a global footprint.

International context is evolving

bp supports the use of international offsets and the implementation of Article 6 by governments to achieve the goals of the Paris Agreement. The international context will continue to evolve as countries define their implementation of Article 6 and build their capabilities to allow for the trade of offsets backed by an International Traded Mitigation Outcome (ITMO) and required corresponding adjustments. As these arrangements emerge, bp would encourage Australia moving to accept international offsets that are consistent with the Paris agreement, Article 6 and require a corresponding adjustment, noting that some notice period will be needed to allow the market to source these offsets.

Uncertainty remains as to when countries will have their Article 6 implementation arrangements in place and regarding the volume of supply that will be available. Given the uncertainty, bp recommends the Authority consider what appropriate transition arrangements will apply in Australia that would allow for the voluntary market to continue to use international offsets in the interim. bp considers the Authority should specify a period for which international offsets that are not yet backed by an ITMO or corresponding adjustment can continue to be used, for example until 2025. bp also anticipates that not all countries will be ready to implement Article 6 at the same time and so parallel arrangements may need to be permitted beyond that period, to take into account the different circumstances of

generating countries. There may continue to be a role for international offsets not back by ITMOs in the voluntary market, even when these arrangements are in place.

Given the evolving nature of international offset markets, we anticipate that Australia's use of international offsets will also need to evolve over time. Ideally the process for change will be transparent and allow for some predictability. Predictability is needed to support participants in making the multi-year commitments and investments in support of their decarbonisation goals. Government should avoid a "set and forget" approach to rules governing international offsets but also should avoid unexpected changes with little notice, as has been the recent experience in rules around how many international offsets can be used under ClimateActive. For example, the Authority could consider regular reviews of eligible international offsets (for example every 5 years), adopting rules-based updates that automatically update eligibility over time where appropriate (for example for vintages), and provide an adequate notice period before any changes take effect (for example, if a type of international offset is to become ineligible, the market would have 3 years notice).

Vintages

Some participants may prefer newer vintages to address potential concerns around additionality. bp suggests the Authority consider a rules-based approach to vintages and their ongoing updating rather than the approach to date with ad-hoc changes from time to time that specify a particular cut off year. For example, eligible vintages could automatically update on a rolling basis, for example if a new minimum vintage year is adopted, annually thereafter minimum vintage could automatically roll forward by a year to avoid market uncertainty as to when and if a revised update will be needed.

Co benefits and adverse impacts

The activities underpinning offsets can offer environmental and social co-benefits such as positive impacts on biodiversity and economic benefits to local communities. Perhaps more important, if not developed with care, activities underpinning offsets can also have adverse impacts on the local environment and community.

Governance of offset programs both those generating offsets and using offsets can take steps to minimise the risk of adverse impacts. Like emissions outcomes, the activities underpinning offsets can be assessed and verified to ensure they meet environmental and social safeguards.

In addition to ensuring offset activities meet environmental and social safeguards, international offsets can provide benefits beyond carbon. The market is best positioned to determine the respective value and preference beyond the minimum standards. Different offset users/buyers will have different preferences on environmental and social co-benefits, as well as geographical and methodological preferences. Rather than mandating particular co-benefits that must be achieved with eligible offsets, Australia could support efforts to facilitate the market to enhance transparency of co-benefits, verify and value co-benefits.

Common approach to international offsets across Australia

bp notes that there are other arrangements across Australia that allow for the use of international offsets, including environmental approval processes of several States. bp also advocates strongly for the introduction of carbon pricing policies in Australia. Should such a compliance market be adopted, bp would support the use of companies using robust offsets to meet compliance obligations, including consideration of credible international offsets.

Ideally Australia would adopt a common approach to international offsets with the various uses at National and State level, in compliance and voluntary markets, using the same integrity principles to determine eligible international offsets. Even if arrangements around ITMOs and corresponding adjustments differ between compliance and voluntary markets, the same integrity principles should apply. Markets need liquidity to promote confidence and efficient price discovery, having too much fragmentation in end use demand will inhibit the health of the market and investment needed to deliver high integrity offsets.

Company use of international offsets toward Australia's target

bp strongly advocates for a national policy framework consistent with meeting the Paris climate goals and reducing Australia's and global emissions to net-zero by 2050. bp considers that economy-wide carbon pricing is the most efficient way to reduce emissions in Australia. Where government employs active policy like carbon pricing to achieve its emissions reduction targets and allows business to use international offsets to comply with their obligations, then it makes sense these would count toward the national target. For this to occur a desired end state should be ITMO backed international offsets with corresponding adjustments consistent with Article 6 and the Paris agreement. Business would of course also count these emissions reductions towards their own emissions reduction targets.

Careful consideration would be needed on whether to count toward Australia's targets any international offsets that businesses and their end consumers use to voluntarily reduce their emissions beyond what is required by the Australian government. Even if the international offset is backed by an ITMO and corresponding adjustment, some end consumers may only be willing to pay for the emissions reductions if these increase Australia's ambition or pace toward net-zero. bp encourages the Authority to develop arrangements for counting voluntary action toward Australia's target that do not unintentionally reduce voluntary demand and overall emissions reductions achieved.

bp appreciates the opportunity to contribute to the Authority's review and looks forward to the recommendations. Should you wish to discuss any of the points further please feel free to contact Pauline Kennedy.