QUEENSLAND TREASURY

Queensland Government Carbon Credits Policy

Consultation Paper

January 2024

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1.0 Introduction

1.1 Purpose of this Discussion Paper

As Queensland and other jurisdictions move towards a low carbon future, carbon credits[1] are being increasingly used to help generate revenue, deliver environmental outcomes and to meet emissions targets. In particular, carbon credits will likely be required to offset hard to abate emissions.

There are risks involved in the management and use of carbon credits, particularly around the allocation of capital resources to achieve environmental and stakeholder outcomes while managing financial, reputational, and legal compliance risks.

The purpose of this discussion paper is to seek feedback from Queensland Government Entities on the opportunities and challenges in implementing the proposed Queensland Government Carbon Credits policy across controlled and non-controlled Queensland Government Entities (see definition in section 2.1.1 below).

Queensland Government Entities are invited to respond to the proposed policy questions and to comment on any issues identified in this paper by **23 February 2024**.

The policy positions outlined in this paper are provided for consultation purposes only and are not currently government policy.

1.2 Current Environment

The carbon credit market is expanding rapidly with varying degrees of regulation depending on the registry and country of issue, the type of carbon reduction achieved, and the level of assurance undertaken on verification.

Increasing use of carbon credits, without a robust governance framework to guide their use, generates financial, compliance and reputational risks. Whilst market-based mechanisms, such as carbon credits, can be used by an agency to meet its needs, the offsets themselves contain inherent risk as not all offsets are recognised for compliance purposes by regulators and stakeholders. This risk is generated by the different requirements of registries or credit issuers.

A certifying or regulatory authority may deem an offset credit ineligible for use in a compliance program if the project developer or the product purchaser cannot demonstrate the emission reduction claim is accurate and credible.

On 22 August 2022, the then Under Treasurer wrote to Directors-General requesting agencies to seek approval for dealings with carbon credits. The interim arrangement is in place for Queensland Treasury to manage key financial risks until such time as a more structured and considered framework could be established.

1.3 The case for change

The *Statutory Bodies Financial Arrangements Act 1982* (SBFA) and the *Financial Accountability Act 2009* (FA) together with other components of the existing financial and reporting framework do not readily support dealings with carbon credits and need to be updated to provide an appropriate risk framework for purchase and use of carbon credits.

From a risk management and internal control perspective, there is a need for clarity in the Financial Accountability Handbook (FA Handbook, made under the *Financial and Performance Management Standard 2019*) to provide guidance to statutory bodies and departments wishing to invest in or enter transactions for carbon credit products.

The proposed policy framework outlined for consideration will support the management of the financial risks for Queensland Government Entities associated with offsets.

The benefits of the proposed policy framework are:

- Risk management – Application of this framework will address the management of financial and reputational risks associated with dealing in carbon credits.

[1] Carbon credits are measurable, verifiable reductions in carbon emissions.

- Process improvement – This will enable further transparency and consistency across Queensland Government Entities of the type of carbon credit products being invested in and the whole of government (WoG) reporting on the use of carbon credits.
- Strategy Execution – Better execution of emissions reduction strategies through consistent application of a standardised and robust framework across Queensland Government Entities.
- Economies of scale – Simplification of reporting and promotion of efficiency and economies of scale through QTC enacting a program of acquiring and extinguishing credits at a WoG level.

1.4 Proposed policy framework scope

1.4.1 In-Scope

This framework will include policy positions and guidance on the following:

- The types of carbon credits that may be used by entities including place of origin/locality.
- The delegated authority to deal carbon credits on behalf of the Queensland Government Entities and the relevant approval and reporting processes required.
- Applicability of framework to relevant specific entities i.e. Controlled versus non-Controlled Entities.
- Reporting requirements associated with carbon emissions at an entity level.
- The determination of carbon credit quantities to be purchased and associated approval processes to offset residual emissions.
- Legislative amendments to the FA and SBFA Acts and their related subordinate legislation and associated handbooks.
- Specific guidance for Government Owned Corporations (GOCs).
- Transition processes for entities already undertaking carbon offset programs to enable compliance with policy framework.

1.4.2 Out of scope

- Greenhouse Gas Calculation Methodology: The calculation methodology used to determine the amount of greenhouse emissions gases generated or the use of carbon credits to offset will be considered by a separate, complementary policy.
- Emissions Reduction Methodology: The State is aiming to meet the majority of its emissions reduction targets through avoidance and the direct reduction of Green House Gas (GHG) emissions at source. The actions and activities which may be undertaken reduce residual carbon emissions will be developed by a separate, complementary policy.
- Co-benefits: Co-benefits are the additional positive environmental, socio-economic and First Nations outcomes delivered by carbon farming projects. Additional costs associated with the investment in these projects (over and above the cost of carbon credits) due to co-benefits outcomes will require demonstrated policy and financial merit and form part of a specific project/program approval. Further policy work will be undertaken separately to this policy to guide the assessment of the co-benefits including the determination of who will pay for any co-benefits.
- Primary Market Acquisition for broader policy purposes: Carbon sequestration or abatement project development (i.e. acquisition) Acquisition via the primary market is not prohibited by Queensland Government Entities, for example acquisition as part of projects on protected area estate. However, if pursued as a significant procurement strategy rather than for broader policy reasons, the Government would need to develop its capability further along with governance arrangements to support the centralised acquisition of offsets via the primary market. This will include policy work to consider merits, options and resourcing.

For further information on the above, refer to FAQs at the end of this paper.

1.5 Consultation feedback

To reduce the risk of unintended consequences from implementation of the proposed policy, feedback from all Queensland Government Entities is sought on any perceived challenges with implementing the proposed policy options. Feedback received will be considered as part of developing the government's finalised policy position. All government agencies, particularly those impacted will be kept informed as this policy is developed.

All enquiries and responses should be emailed to Lachlan Whitta, Manager – Balance Sheet and Sustainable Finance on lachlan.whitta@treasury.qld.gov.au and Nishanthi Wijeratne – Senior Treasury Analyst on nswije@treasury.qld.gov.au by **23 February 2024**.

2.0 Issues

2.1 Scope

2.1.1 Government Entities in Scope

The proposed policy will impact Queensland Government Entities defined as follows:

- Controlled entities - Those entities listed in Report of State Finances, Controlled Entities[2] note. Generally, these entities are:
    - Departments
    - Government Owned Corporations (GOCs)
    - Statutory bodies
- Non-Controlled entities:
    - Local governments
    - Universities
    - Grammar schools

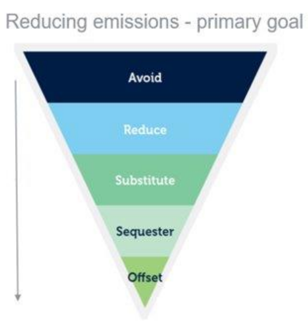
2.2 Proposed Policy Settings

Climate change is a material sustainability risk to the State. In response, the government has set emissions reduction targets and is implementing a program of actions to reduce emissions.

Under *Queensland Government Climate Action Plan 2030* the Government has set emissions reduction targets for the State, including:

- 75% emissions reduction below 2005 levels by 2035,
- Zero net emissions by 2050.

Only offsetting activities which physically takes place in Queensland count towards Queensland's 2030 and 2050 emissions reduction targets.



The State is aiming to meet these emissions reduction targets through avoidance and the direct reduction of CO2 emissions at source. This approach follows the hierarchy of most preferred carbon abatement options:

- Avoid (do not undertake the activity)
- Reduce (directly cut emissions)
- Substitute (us an alternative)
- Sequester (direct carbon removal)
- Offset (includes use of carbon credits)

[2] https://www.treasury.qld.gov.au/resource/report-state-finances/

Carbon offsets are measurable, verifiable reductions in carbon emissions, often traded as carbon credits. In the Australian context, an Australian Carbon Credit Units (ACCU) is the abatement of one ton of carbon (or equivalent) sequestered or avoided (CO2-e). These units are "surrendered" to the Clean Energy Regulator, which represents the act of carbon offsetting. The Clean Energy Regulator is an Australian Federal Government scheme responsible for developing ACCU project methodologies.

There are key risks involved in the use and management of carbon credits, particularly:

- the best allocation of resources to achieve desired outcomes.
- reputational risks with demonstrating genuine steps to reduce emissions prior to the use of carbon credits and if the credits used achieve real abatement.
- legal compliance risks associated with demonstrating how targets are achieved and external reporting.
- financial risks from investing capital in a market based financial product.

As with any financial product[3], ACCUs can carry their own significant risks. It is expected that all entities will review and expand their financial policies and internal controls to include use of carbon credits and how key risks will be effectively managed. To support this, Queensland Treasury will prepare a best practice guide to assist agencies develop processes and capacity to manage carbon credit use.

2.2.1 Dealings in Carbon Credit Products

The carbon credit market is broad and expanding rapidly with mixed levels of regulation depending on the registry and country of issue, the type of carbon reduction achieved and the levels of verification. Each type of carbon credit has inherent risk as not all offsets are recognised for compliance purposes by regulators and stakeholders. This presents a significant compliance risk for agencies and government, and appropriate due diligence is required to determine an acceptable product for dealings by government agencies.

To manage the financial, reputational and compliance risks associated with the acquisition and use of carbon credits, it is proposed that only approved credits be purchased by government agencies with a list of approved carbon credits maintained as part of appropriate subordinate legislation and updated as required through regulation by the Treasurer.

A carbon credit has been defined in *Australian Sustainability Reporting Standard 2: Climate-related Financial Disclosures* as:

An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry or otherwise are recognised under the Australian Carbon Credit Unit Scheme.

In the first instance, it is proposed that only ACCUs be approved for use by Queensland Government entities. The inclusion of other credits in the list of approved credits will be considered following detailed due diligence.

ACCUs have a well-developed and transparent regulatory framework that is necessary to manage legal, compliance and reputational risks. Additionally, ACCUs align with the *2016 Paris Agreement* (Paris Agreement) and associated targets supporting Paris based commitments.

Use of international offsets such as Certified Emission Reductions (CERs[4]) by government agencies do not align with international commitments under the Paris Agreement and do not support the achievement of state emissions targets. The Paris Agreement rules prevent carry-over of old units from the Kyoto Protocol era to meet Paris era targets, with few exceptions.

Many CER projects do not technically abate or sequester carbon, for example making payments to property owners to not clear forests, swapping stoves in developing countries from coal to gas. In addition, the Kyoto protocol recognises payments to wind and solar projects as substituting coal fired power stations, with these power stations then selling the green power leading to a level of double counting.

[3] As under Section 764A(1)(ka) of the *Corporations Act 2001*, and section 12BAA(7)(l) of the *Australian Securities and Investments Commission Act 2001*.

[4] Certified Emission Reductions – issued for projects registered under the Clean Development Mechanism established under the 1997 Kyoto Protocol. The 2016 Paris agreement rules prevent carry over of old units from the Kyoto Protocol era to meet Paris 2016 targets.

PROPOSED POLICY POSITION	1. All dealings will be in approved carbon credits. 2. Only ACCUs be approved for use by Queensland Government Entities in the first instance with other credits to be considered only following detailed due diligence.

2.2.2 Application of Policy to Departments

For departments, carbon credits will be managed in a whole of government (WoG) approach via an acquisition / extinguishing program approved by CBRC at an aggregate level.

Departments can support or fund third parties seeking to create approved carbon credits or undertake development activities that create carbon credits if this is part of achieving broader policy objectives and an approved program. However, departments are not to surrender or sell any carbon credits independently, instead credits will contribute to the WoG program.

PROPOSED POLICY POSITION	3. Department offsetting through carbon credits will be managed at a WoG level. 4. This will be conducted via an acquisition and extinguishing program to be approved by CBRC. 5. If there are sound policy reasons, for example co benefits, departments can support, or fund third parties seeking to create approved carbon credits or undertake development activities that create carbon credits as part of an approved program. 6. Departments will not surrender or sell carbon credits acquired for broader policy purposes with any credits received contributing to the WoG program.

Question A	*Does your department foresee any impediments with complying the above proposed policy position? If so, please provide details.*

2.2.3 Application of Policy to GOCs and Statutory Bodies

Statutory bodies and GOCs can purchase, create, or support/fund third parties wishing to create (if relevant) approved carbon credits as part of a responsible Minister or shareholding Minister approved program.

GOCs and statutory bodies can also seek exemptions to the policy where tailored arrangements are required (e.g. joint venture contracts).

Any use of carbon credits by Queensland Government agencies should help support the Queensland government's progress towards its whole-of-state targets. Accordingly, it is proposed that controlled entities must make all reasonable endeavours to procure, create or support creation of carbon credits domiciled in Queensland.

For all agencies, QTC will be the exclusive agent for all dealings in the secondary market. This leverages QTC strong financial expertise, simplifies reporting and promotes efficiencies with a WoG approach to allocation.

It is expected a GOC's or statutory body's financial policies will be reviewed and expanded to include the use of credits and how key risks of this financial product will be effectively managed.

PROPOSED POLICY POSITION	7. Statutory bodies and GOCs can purchase, create, or support/fund third parties wishing to create (if relevant) <u>approved</u> credits as part of a responsible Minister or shareholding Minister approved program.

	8. GOCs and Statutory Bodies can also seek exemptions to the policy where tailored arrangements are required (e.g. joint venture contracts). 9. Statutory bodies and GOCs are to arrange purchasing, sale or extinguishment of carbon credits via QTC. 10. Statutory bodies and GOCs are to make all reasonable endeavours to procure carbon credits from projects domiciled in Queensland. 11. QTC will be the exclusive agent for all dealings in the secondary market. However Statutory Bodies can seek exemptions where specialist arrangements are required .

Question B	*Does your statutory body/GOCs foresee any impediments with complying the above proposed policy position? If so, please provide details.*

2.2.4 Application of Policy to Local Government, Universities and Grammar School Entities

Local governments, universities and grammar schools and any other non-controlled entity can purchase, create or support/fund third parties wishing to create approved carbon credits.

Given the independence of local government, universities and grammar school entities (and limited levels of government financial support provided to these entities), it is proposed that the use of carbon credits made in Queensland are strongly encouraged, but not mandated.

It is expected a non-controlled statutory body's financial policies will be reviewed and expanded to include the use of credits and how key risks of this financial product will be effectively managed.

PROPOSED POLICY POSITION	12. Local governments, universities, grammar schools and other non-controlled entities can purchase, create or support/fund third parties wishing to create approved carbon credits. 13. Secondary market engagement for purchasing, sale or extinguishment of carbon credits will be undertaken via QTC unless otherwise approved. 14. For Local government, universities and grammar schools and other non-controlled entities, use of carbon credits made in Queensland are strongly encouraged, but not mandated

Question C	*Does your local government, university, grammar school or non-controlled entity foresee any impediments with complying the above proposed policy position? If so, please provide details.*

2.3 Timing of Change & Implementation

2.3.1 Departments, Statutory Bodies and GOCs

It is envisaged that all entities will transition to the policy framework by 1 July 2025, upon enactment of legislative changes, however, it is recommended that all controlled entities adopt the policy as soon as practicable.

PROPOSED POLICY POSITION	15. It is recommended that all controlled entities implement the policy framework as soon as practicable. 16. Local governments, universities, grammar schools and other non-controlled entities will transition to the policy framework by 1 July 2025 17. Legislative framework to take effect from 1 July 2025.

Question D	*Do you foresee any issues implementing the policy within your entity per the proposed dates? If so, please provide details.*

2.4 Implementation - Treasury

2.4.1 Legislation Changes & Guidance

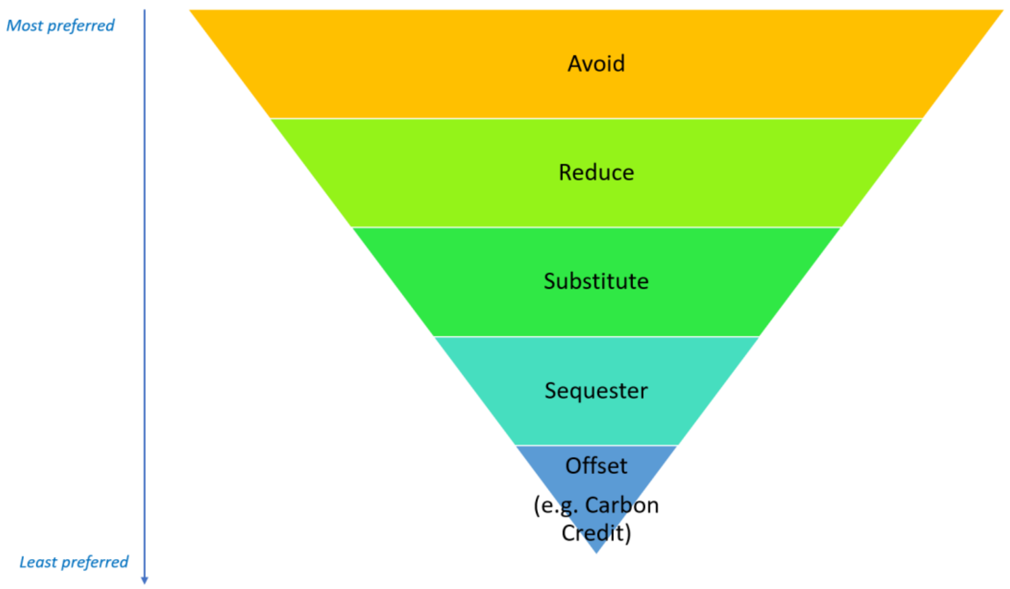
Necessary amendments will be made to the SBFA and FA Acts and relevant subordinate legislation to recognise and recognise and support Queensland Entities to deal with carbon credits and establish a risk framework for the management of these products.

Queensland Treasury and QTC will prepare guidance materials for local governments, GOCs, universities and statutory bodies on managing financial risks along with a supporting communications strategy and amendments to Financial Accountability Handbooks.

2.5 Related Material

- IFRS Sustainability Disclosure Standards – for general reference purposes
- Greenhouse Gas Protocol
- AASB Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (aasb.gov.au) – pending approval in 2024
- Climate-related financial disclosure: exposure draft legislation | Treasury.gov.au – pending approval in 2024

Attachment 1 – Frequently Asked Questions

1. What are Queensland's current whole-of-state emissions reduction targets?	The Queensland Climate Action Plan 2030 outlines the state's investments and actions to reach its emissions and renewable targets, create jobs and drive economic growth. The emissions reduction targets for the State are: • 75% reduction in emissions below 2005 levels by 2035 • Zero Net emissions by 2050. Only emission reduction activities which physically take place in Queensland count towards Queensland's 2030 and 2050 emissions reduction targets. Further details on proposed WoG Operational Emissions Targets are currently being developed.
2. How will carbon emissions be measured?	Queensland's progress on its emissions reduction targets is based on the State and Territory Greenhouse Gas Inventories prepared by the Australian Government. This calculation methodology only recognises actual emissions within each region and does not provide for or recognise transfers between regions or internationally. The calculation methodology outlined in the Greenhouse House Gas (GHG) National Accounts. Refer to Tracking and reporting greenhouse gas emissions - DCCEEW Only projects undertaken within Queensland contribute toward Queensland achieving its targets, even if the credits are sold to another party in another jurisdiction. Refer https://ageis.climatechange.gov.au/
3. How will Green House Gas (GHG) emissions be managed overall by the Queensland Government?	The Queensland Sustainability Report endeavours to support the government's journey towards a sustainable and resilient future. This report provides information on the government's overall approach to managing sustainability risks. With respect to GHG, reducing emissions is the primary goal with the following actions to be considered prior to pursuing offsetting and the use of carbon credits to address residual emissions. **Emissions Reduction – Primary Goal** 

4. How will carbon credits be managed at a WoG level?	Refer to section 2.4. QT and QTC will monitor the ACCU market and its capacity to supply expected requirements in the same way QT manages government's borrowing requirements.
5. What and how will carbon emissions be reported?	The Queensland Government framework which encompasses the "carbon management plans" for each department is still being developed. For all agencies, as a minimum and in line with Australian regulatory financial reporting standards due to be finalised in 2024, the scope 1 and 2 emissions (and scope 3 emissions where appropriate) will need to be reported. It is anticipated that further detail, such as emissions by sectors in which is already being captured, will continue to be collected.
6. What type of carbon credits can Queensland Government purchase?	Refer to section 2.2.
7. What carbon credits can be used to meet government targets?	Refer to section 2.2.
8. Who will buy and sell carbon credits on behalf of government?	Refer to section 2.2. The acquisition and extinguishing carbon credits program will be managed at a WoG level for Departments in aggregate based on residual emissions (i.e. not at a departmental level). This approach maintains the integrity the management of emissions from a WoG perspective resulting in no adverse outcomes in the event of machinery of government changes. Statutory bodies and GOCs will manage their own dealings in carbon credits in consultation with QTC and responsible / shareholding Ministers' department officers.
9. What are co-benefits and how will this be considered, particularly if there are cost implications?	Co-benefits of a specific project/program will require demonstrated policy and financial merit (including any additional costs) to be demonstrated and be approved by CBRC and/or cabinet as part of the policy objective of the co-benefits.
10. Can an agency acquire carbon credits from the primary market?	The State of Queensland has natural advantages in developing projects and accordingly acquisition via the primary market is not excluded if there are significant benefits for doing so. In this instance, relevant CBRC or Cabinet approval would need to be sought prior to entering into any primary market project development/acquisitions.
11. What happens if there aren't enough ACCUs in the market to offset the government's residual emissions and meet its targets?	QT and QTC will monitor the ACCU market and its capacity to supply expected requirements in the same way QT manages government's borrowing requirements. A program of acquisition and surrendering of ACCUs is not anticipated to be needed until beyond 2030, in alignment with government target setting, allowing time for the market to mature. The government's acquisition program is not expected to be significant with other abatement options likely to be preferentially pursued.

Attachment 2 – Proposed policy positions

Section	#	Proposal
2.2.1	1.	All dealings will be in approved carbon credits.
2.2.1	2.	Only ACCUs be approved for use by Queensland Government Entities in the first instance, with other credits to be considered only following detailed due diligence.
2.2.2	3.	Department offsetting through carbon credits will be managed at a WoG level.
2.2.2	4.	This will be conducted via an acquisition and extinguishing program to be approved by CBRC
2.2.2	5.	If there are sound policy reasons, for example co benefits, departments can support, or fund third parties seeking to create approved carbon credits or undertake development activities that create carbon credits as part of an approved program.
2.2.2	6.	Departments will not surrender or sell carbon credits acquired for broader policy purposes with any credits received contributing to the WoG program.
2.2.3	7.	Statutory bodies and GOCs can purchase, create, or support/fund third parties wishing to create (if relevant) approved credits as part of a responsible Minister or shareholding Minister approved program
2.2.3	8.	GOCs and Statutory Bodies can also seek exemptions to the policy where tailored arrangements are required (e.g. joint venture contracts).
2.2.3	9.	Statutory bodies and GOCs are to arrange purchasing, sale or extinguishment of carbon credits via QTC.
2.2.3	10.	Statutory bodies and GOCs are to make reasonable endeavours to procure carbon credits from projects domiciled in Queensland.
2.2.4	11.	QTC will be the exclusive agent for all dealings in the secondary market. However Statutory Bodies and GOCs can seek exemptions where specialist arrangements are required.
2.2.4	12.	Local governments, universities, grammar schools and other non-controlled entities can purchase, create or support/fund third parties wishing to create approved carbon credits.
2.2.4	13.	Secondary market engagement for purchasing, sale or extinguishment of carbon credits will be undertaken via QTC unless otherwise approved.
2.2.4	14.	For Local government, universities and grammar schools and other non-controlled entities carbon credits made in Queensland are strongly encouraged, but not mandated
2.3.1	15.	It is recommended that all controlled entities implement the policy framework as soon as practicable.
2.3.1	16.	Local government, universities and grammar schools and other non-controlled entities will transition to the policy framework by 1 July 2025
2.3.1	17.	All entities will implement the policy framework by 1 July 2025.

Attachment 3 – Glossary

Terms, abbreviations, and acronyms used in this document are defined in the below table.

Table 1.1 - Definitions

Terms, abbreviations and acronyms	Definition
ACCUs	Australian Carbon Credit Unit. An ACCU is a unit issued to a person by Clean Energy Regulator with records maintained in the Australian National Registry of Emissions Units. Each ACCU issued represents one tonne of carbon dioxide equivalent (tCO2-e) stored or avoided by a project.
Carbon Credit	Carbon credits are measurable, verifiable reductions in carbon emissions
CBRC	Cabinet Budget Review Committee
CERs	Certified Emission Reductions CERs are issued for projects registered under the Clean Development Mechanism established under the 1997 Kyoto Protocol. The 2016 Paris agreement rules prevent carry over of old units from the Kyoto Protocol era to meet Paris 2016 targets.
Controlled Entity	Those entities listed in Report of State Finances, Controlled Entities note. These are defined as: • Net operating result in excess of $5 million or • Net assets in excess of $100 million These entities are generally departments, most statutory bodies and GOCs.
Departments	As defined in Section 8 of the *Financial Accountability Act 2009*.
GOCs	Government Owned Corporations
Non-Controlled Entity	Those entities not listed in Report of State Finances, Controlled Entities note These entities are local government and universities.
QT	Queensland Treasury
QTC	Queensland Treasury Corporation
WoG	Whole of Government