



**eec**

**Submission on the Climate Active Program  
Direction consultation paper**

**15 December 2023**

## Overview

The Energy Efficiency Council (EEC) welcomes the opportunity to make a submission on the Australian Government's Climate Active program direction consultation paper.

The EEC is the peak body for Australia's energy management sector. A not-for-profit membership association, the EEC works to:

- Drive world-leading policy on efficiency, electrification and demand flexibility;
- Ensure we have the skilled workforce to deliver Australia's energy transition; and
- Support businesses and households to rapidly decarbonise.

The EEC is strongly supportive of a voluntary climate certification standard that recognises leadership in progressing Australia towards a net zero economy, and welcomes the proposal to move the Government's climate action certification scheme to a model that encourages domestic decarbonisation as far as possible.

In this submission, the EEC will provide some overview commentary on the principles of climate active certification, with feedback on specific reform proposals provided at the end.

## 1 A new Climate Active should denote leadership in climate action

### 1.1 The baseline has changed

As the Climate Active program transitions away from certifying products and services that are *carbon neutral* based entirely on offsets, a new objective is required to underpin the certification. The objective of carbon neutral was relatively simple to understand and simple to calculate, and signified leadership in an era when climate action was largely optional.

However, times have changed and a range of new financial and legal imperatives dictate taking some level of action to address climate change; acting to reduce emissions is no longer optional. Company directors have faced a duty to consider the risks of climate change since the second half of the last decade.<sup>1</sup> Environmental, social and corporate governance concerns are important both to shareholders and the wider community, and the advent of climate-related financial disclosure and transition planning mean that addressing climate change is no longer optional for most companies. Indeed, the setting of a target to reach net zero is increasingly considered as the minimum acceptable standard of engaging with the physical and transition risks posed by climate change – as noted in the 2021 updated Hutley legal opinion on directors' duties, '*The standard of care to be exercised by directors with respect to climate change has risen and continues to rise.*'<sup>2</sup>

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<sup>1</sup> The [original seminal opinion by Noel Hutley SC](#) that considered climate risks as material to company directors' duties was released in October 2016, reinforced by updates in 2019 and 2021.

<sup>2</sup> Hutley, N and Hartford Davis, S, 2021, [Climate change and directors' duties – further supplementary memorandum of opinion](#), Centre for Policy Development, p.4

This changing context necessarily changes the purpose and standard of the government-backed climate action certification. The Climate Active mark should be reimagined alongside a new understanding of leadership in addressing climate change. A credible approach to the transition to net zero emissions is now the baseline of achievement, rather than the hallmark of climate leadership. To support Australia's ambitions in achieving net zero by 2050, the Climate Active certification should stand to recognise businesses who are leading the pack in their activity. In respect of this, the Climate Active *vision, mission and objectives* are reasonably appropriate, however the vision would be better expressed to include Australian businesses embracing climate leadership and taking meaningful action on climate change.

As the Climate Active certification is entirely voluntary, its ambition must be unimpeachable and its rigour a bastion against greenwashing. The Climate Active mark should signify that the product, service or company is taking climate change seriously by working to minimise the impacts of climate change as far as possible – which means going beyond the minimum acceptable baseline achievement of net zero by 2050. If Climate Active is to retain value, it must be synonymous with climate leadership – not just achieving the minimum necessary.

## 1.2 Responsibility and ambition should be differentiated by sector

Understanding that Climate Active should certify climate leadership, it is appropriate to consider that climate leadership looks different in different sectors. For example, the level of emissions reduction that the operator of a building can reasonably achieve today is significantly greater than the emissions reduction that producers of cement and steel can achieve. A reduction of scope 1 emissions by 30% from a building is a good start but more could be achieved with currently-available technology, whereas reducing emissions from cement manufacture by 30% is extremely difficult with current technology. In this case, the cement manufacturer would be leading in reducing emissions, while the building owner would be sitting in the middle of the pack.

The Australian Government has recognised that different sectors will take different paths and require different timeframes to decarbonise, and has embarked on the preparation of sectoral decarbonisation plans to help facilitate these decarbonisation trajectories. Similarly, Climate Active should consider climate leadership relative to the sector a product or service is in, and the opportunities available to decarbonise.

In some sectors – such as buildings – decarbonising scope 1 and 2 emissions is likely to be technically and financially achievable more quickly than in other sectors. This means that a leader in the buildings sector should be on track to reach net zero emissions *well before* 2050, without needing to use offsets. Similarly, a leader in a harder-to-abate sector may not be able to demonstrate a full pathway to net zero emissions at this stage, but may be able to demonstrate some emissions reductions and a commitment to innovation that will help catalyse the net zero transition in their sector.

While benchmarking sectoral achievement is challenging, there are opportunities to leverage existing work to determine appropriate sectoral targets. Climate Active could look to build on the work of the Science-Based Targets Initiative, or use the forthcoming sectoral decarbonisation plans and associated modelling to help set appropriate sectoral achievement baselines.

### 1.3 Climate leadership should preference domestic decarbonisation

International cooperation is undoubtedly an important part of global efforts to address climate change. However, using international offsets to net off emissions produced in Australia does not advance the transformation of Australia's economy to one that will thrive in a low emissions world. While we understand that international offsets remain a part of the mix in the Climate Active program, the EEC strongly encourages Climate Active to preference decarbonisation *in Australia*. The transition of the program to require some level of direct emissions reduction is a start, however a continued reliance on offsets – particularly international offsets - is not consistent with a net zero Australian economy in the long run.

In the long term, high-quality, genuine negative emissions will be needed to deal with those sectors that we cannot abate using existing technology. High-quality negative emissions are likely to be valuable and of limited supply. This means that climate leaders should be looking at every opportunity to reduce their reliance on offsets by maximising direct emissions reductions first, and the Climate Active program should encourage these efforts.

Similarly, the Climate Active program should very carefully consider whether certification of products that are unlikely to have a future in a net zero economy is really in the best interests of the program and the broader policy objectives of encouraging climate action. Products which consume significant amounts of Australia's remaining carbon budget, rely entirely on offsets and do not have a clearly identified, irreplaceable role in a net zero economy, cannot be considered to be consistent with a net zero trajectory. The Climate Active brand could be more powerful if it did not certify these types of products.

### 1.4 Scope 2 emissions treatment should keep pace with the changing electricity system

Similarly, our rapidly changing electricity system should catalyse a rethink of how scope 2 emissions are treated within the Climate Active certification. As we transition to higher levels of renewable energy within our grids, the time and place at which electricity is used has a material effect on the emissions that are associated with that electricity use. Electricity used at midday on a bright Spring day - when solar PV is at maximum generation and underlying demand is relatively low - is likely to give rise to very few additional emissions. In contrast, electricity used in the evening peak during a cloudy, still winter is likely to be heavily emissions intensive.

The EEC is of the view that programs and policies should make the link between the time and place of use of electricity and its related emissions much more explicit, particularly for those with the capacity to manage that energy use to reduce emissions. The capacity to monitor real-time emissions intensity in the National Electricity Market and South-West Interconnected System is available today, making it possible for a more accurate reporting of scope 2 emissions possible.

By focusing attention on *actual* scope 2 emissions, rather than those derived from averaged emissions factors, firms will be incentivised to better manage those emissions by more closely matching their energy consumption with times of low-emissions energy. This takes an important step towards businesses using 24/7 renewable energy as part of their operations.

This is an analogue of moving towards direct decarbonisation. The use of power purchase agreements (that are not time-matched) or large-scale generation certificates is essentially an offsets-based approach to scope 2 emissions, and a climate leadership approach should be based on decarbonisation rather than offsets. While it may not be possible for firms to source 24/7 renewable energy to date, Climate Active should consider incorporating guidelines that require certified products and services to both minimise *actual* scope 2 emissions, and source and increasing amount of electricity from verifiable 24/7 renewable energy sources.

## 2 Specific reform proposals

*Proposal 1: All participants must produce an emissions reduction strategy that includes a near-term and long-term gross emissions target aligned with Australia's NDC (at a minimum) applicable to the item being certified.*

1.1 *Do you support a requirement for participants to set near-term and long-term gross emissions reduction targets? Why/why not?*

Yes. The EEC is strongly of the view that policies and programs should encourage and require genuine direct emissions reduction where possible. Setting near-term and long-term emissions reduction targets is now being seen as an essential part of normal corporate governance, making this action part of the minimum necessary actions to address climate change. However, the EEC notes these targets should be **ambitious**, consistent with the differentiated decarbonisation potential of different sectors.

1.2 *Do you agree with aligning the near-term gross emissions reduction target with Australia's NDC at a minimum? Why/why not?*

Consistent with the differentiated ability of different sectors to decarbonise, aligning with the NDC at a minimum may be appropriate in some sectors. In sectors that have access to technologies to decarbonise more quickly, it would be appropriate to require more ambitious emissions reduction targets to ensure that Climate Active denotes climate **leadership**, not just activity that meets the minimum standards.

1.3 *Do you agree with how the department proposes to calculate alignment to Australia's NDC (i.e. 2.7 per cent annual reduction from Australia's emissions in 2021 to correspond with the start of the NDC period)? Why/why not?*

A 2.7% year-on-year reduction is aligned with the Australian NDC commitment. However, the EEC is of the view that those sectors that can decarbonise more quickly should be required to do so in order to demonstrate climate leadership.

*Proposal 2: Businesses and organisations must demonstrate that they are on track to meet their near-term gross emissions reduction targets to be certified.*

2.1 *Do you support limiting certification to businesses and organisations that have demonstrated they are on track to meet their near-term emissions reduction targets? Why/why not?*

Yes. Without credible action to meet near-term goals, a company cannot be considered to be addressing climate change. A company that is not currently on

track, but is credibly putting in place initiatives to get on track, could be provided with provisional certification.

*Proposal 3: Develop additional guidance to support businesses and organisations to establish robust emissions boundaries, including mandating specific indirect (scope 3) emissions sources.*

*3.1 Do you support the department developing additional guidance on emissions boundaries? Why/why not?*

*3.2 Do you support mandating specific indirect (scope 3) emission sources for all certification types? Why/why not?*

*3.3 If so, which scope 3 emission sources should be considered mandatory?*

The EEC is supportive of including scope 3 emission sources in all inventories. This is consistent with other initiatives (such as climate related financial disclosure and transition planning). The EEC notes that scope 3 remains an emerging area of focus and would support further work on developing appropriate emissions boundaries.

*Proposal 4: All eligible international carbon offsets used under the program are subject to a 5-year rolling vintage requirement.*

*4.1 Do you support the introduction of a 5-year rolling vintage rule for eligible international carbon offsets used under the program? Why/why not?*

The EEC strongly supports the introduction of qualitative and quantitative limits on the use of offsets in the path towards achieving net zero. In general, the use of international offsets of any kind does not progress Australia's own transition towards net zero, and the EEC encourages their use to be limited.

*Proposal 5: Mandate a minimum percentage of renewable electricity and use of the market based method to set emissions liability.*

*5.1 Do you support introducing a requirement for businesses and organisations to source a minimum percentage of renewable electricity under the market-based method? Why/why not?*

*5.2 What minimum percentage of renewable electricity should be required (i.e. percent by year)?*

*5.3 Should all businesses and organisations be required to use the market-based method to calculate their electricity emissions liability? Why/why not?*

The EEC is of the view that an offsets-based approach to scope 2 emissions, such as the markets-based and location-based accounting approaches is no longer fit for purpose in signifying climate leadership. The EEC strongly recommends that Climate Active scope 2 reporting should move towards the reporting of *actual* emissions associated with electricity usage, rather than calculation of scope 2 emissions based on averages (see section 1.4). Neither the markets-based nor location-based accounting methods properly characterise the actual emissions value of a business's activities, and neither encourage businesses to manage their energy use to better align with low-emissions electricity, which can help accelerate the electricity system transition.

*Proposal 6: In future, abatement from all ACCUs used under Climate Active would count toward meeting Australia's emissions reduction target under the Paris Agreement.*

*6.1 Do you support this proposal? Why/why not?*

The EEC has no particular views on the treatment of ACCUs used by Climate Active toward Australia's emissions reduction target but notes that offsets of all

types have a limited role in net zero, and that Australia's interests are best served by reducing our cumulative emissions between now and 2050 as far as possible.

Where ACCUs are used in the Climate Active program, there must be robust processes to ensure that the abatement quantified through the ACCU is not double counted against Australia's greenhouse gas inventory. Any abatement due to ACCUs used under Climate Active must be netted off against the appropriate inventory sector to ensure the integrity of Australia's emissions accounting and reporting.

*Proposal 7: Discontinue the term 'carbon neutral' to describe the certified claim.*

*7.1 Do you support discontinuing 'carbon neutral' to describe the certified claim?*

*Why/why not?*

*7.2 If so, what claim should members be able to make once they have achieved certification?*

*7.3 If not, why do you think that the term 'carbon neutral' should be retained?*

In the transition to net zero, carbon neutral is no longer an appropriate marker of climate leadership. The transition to net zero requires genuine direct emissions reduction by all emitters. Climate Active should no longer stand for carbon neutral, which does not signify action that is compatible with the transition to net zero by 2050 – Climate Active should stand for leadership in addressing climate change. 'Certified Climate Active' products, services and companies should be able to proudly and rigorously claim leadership in addressing climate change – above the minimum standard.

*Proposal 8: Introduce a certification pathway.*

*8.1 Do you support the proposed certification pathway? Why/why not?*

Yes. The EEC supports the proposed certification pathway. Companies that are taking credible climate action, but cannot yet demonstrate achievement, should still be able to demonstrate their investment and genuine intentions.

*8.2 What name should be given to the 'Pending' stage?*

'Provisionally certified' might be an appropriate name – it indicates that should a company undertake its planned activities, it is expected to be within the requirements of Climate Active.

*8.3 Are the requirements to meet the 'Pending' stage appropriate?*

*8.4 What claims, if any, should participants in the 'Pending' stage be able to make?*

*8.5 Is 3 years an appropriate maximum timeframe for participation in the pending stage?*

The requirements for the 'pending' stage are appropriate. Provisionally certified companies should be able to claim that they are provisionally Climate Active certified, and 3 years is a reasonable timeframe to demonstrate achievement against an agreed set of actions.

*8.6 Should a longer timeframe be considered for hard to abate sectors to demonstrate they are on track to meet their target (i.e. longer than 3 years)?*

*Why/why not?*

*8.7 To transition from 'Pending' to 'Certified' stages, what should the minimum amount of time be to demonstrate progress towards meeting their reduction targets? E.g. 1 or 3 years of reductions against their base year.*

The EEC considers that demonstrated climate leadership to be attested by 'climate active' will require a bespoke plan in each sector, informed by the available decarbonisation opportunities. A longer provisional certification time is likely to not be appropriate – for example, if a company requires five years to meet its climate targets, their status as a 'leader' in addressing climate change could be tenuous.

The EEC has no particular view about minimum transition times, however the company must be able to demonstrate genuine and persistent emissions reduction, rather than one-off or windfall emissions reduction that may not be related to actions taken to reduce emissions.