Proposed Revisions to the Reef Credit Scheme

1 Introduction

1.1 Background

The Reef Credit Scheme was conceived in response to the emerging consensus that a market-mechanism to incentivize water quality improvements across catchments of the Great Barrier Reef was urgently needed. In early 2017, work began on designing the Reef Credit Scheme by foundation partners Terrain NRM, NQ Dry Tropics and GreenCollar as part of two reef water quality Major Integrated Projects (MIPs) funded by the Queensland Government.

In mid-2017, the Queensland Government committed support to the development of the Scheme, funding the establishment of a Reef Credit Secretariat for the start-up phase. The Reef Credit Scheme (including the Standard and Guide) was developed by the Interim Steering Committee. Advice and assistance were provided by the environmental markets and standard development consultants, Winrock International, via the working paper Reef Credit Scheme Design Options and a review of existing standards was conducted to ensure consistency with current good practice.

The finalised Reef Credit Standard and Guide were published in March 2019 and thus began beta phase of the Reef Credit Scheme. This was followed by the development of the Methodology Approval Procedures and establishment of the Technical Advisory Committee. Since then, peer review and subsequent approval of both the Method for Accounting Reduction in Nutrient Run-off through Management Fertiliser Application (DIN Method) and the Method of Accounting for Reduction in Sediment Run-Off through Gully Rehabilitation (Gully Method) has occurred. In mid 2020, the first Reef Credit project were registered, followed by the issuance of the first Reef Credits in October. In December 2020, the independent Scheme administrator, Eco-Markets Australia was established and has since appointed an inaugural Chair and Board of Directors.

The purpose of this review is to transition the Scheme from beta phase to fully operational. This document contains summary information of the proposed revisions based on a combination of experience operating the Reef Credit Scheme during beta phase and stakeholder input during this time.

1.2 Scope of review

The review of the Reef Credit Scheme covers all elements of the Reef Credit Scheme. Revised or new versions of the following documents have been released for public comment:

- *Reef Credit Guide*
- *Reef Credit Standard*
- *Project Crediting Procedures*
- *Methodology Approval Procedures*
- *Tool for the Demonstration and Assessment of Additionality in Reef Credit Projects*

This document provides a summary of key revisions that are proposed across these documents. Future public consultation will be invited on other documents required for the administration of the Reef Credit Scheme.

1.3 Review process

The draft Reef Credit Standard and Guide v2.0 and supporting documents are open for public comment from 19 July 2021 to 18 August 2021. We encourage all stakeholders to submit comments via the consultation website page: www.eco-markets.org.au/consultation. Submissions should specify the relevant section of the Standard, Guide or supporting document or may respond directly to any of the questions listed below.

Review process timeline:

Item:	**Date:**
Public consultation on draft Reef Credit Standard and Guide v2.0 commences	19 July 2021
Targeted stakeholder engagement on draft Reef Credit Standard and Guide v2.0	Throughout July - August
Public consultation on draft Reef Credit Standard and Guide v2.0 concludes	18 August 2021
Eco-Markets Australia Board to approve Reef Credit Standard and Guide v2.0 and supporting documents	30 August 2021
Reef Credit Standard and Guide v2.0 and supporting documents to be published	September 2021

We are seeking constructive feedback that includes comments on specific sections of the review documents, suggested changes and explanation. All submissions will be compiled and published on the website at the conclusion of the public consultation process.

Please note: Comments that include contact details, personally identifying or commercially sensitive information will not be published or otherwise disclosed.

2 Conversion Factors

2.1 Background

Conversion factors are used to convert different types of pollution reductions from different project activities into a common, fungible Reef Credit. The conversion factors are derived from reef wide pollution reduction targets described in the Reef 2050 Water Quality Improvement Plan (2018).

Section 2.2 of the Standard states that the targets, and conversion factors, may be updated from time to time.

2.2 Proposed revisions

Section 2.2 of the Standard will be revised to clarify when projects need to adopt updated conversion factors. Three options are proposed to revise section 2.2 to clarify when the updated conversion factors are applied:

- The first option requires projects to use the updated conversion factors as soon as they are released by requiring them to be included in the project's monitoring plan. This ensures the most recent targets are applied to projects as soon as possible, but reduces certainty and increases risks for project proponents.
- The second option requires the conversion factors to be updated at the end of each crediting period. This provides maximum certainty to project developers, but could either result in long-term over or under-crediting projects that apply very long crediting periods and the conversion factors are updated early in the project's crediting period.
- The third option is a compromise between the 2, and requires conversion factors to be updated at least every 5 years or when a baseline is renewed, whichever comes first.

2.3 Questions for stakeholders

Question #1: Which option is preferred? If option 3 is preferred, is 5 years appropriate?

3 Backdating

3.1 Background

During the beta-phase projects could not be backdated and an earliest start date allowed was 1 July, 2017. Timing project start date to coincide with validation and registration can be challenging and could delay implementation of projects that deliver benefits to the Great Barrier Reef.

3.2 Proposed revisions

Section 3.2.1 of the Standard will be revised to allow the start date to commence before the date of validation while retaining 1 July, 2017 as the earliest possible start date for a

project. This reflects the time it can take between initiating a project and submitting it for validation and registration and brings the Reef Credit scheme in line with common practice in other environmental markets.

The current revisions propose allowing up to 5 years between the start data and a project being submitted for validation.

3.3 Questions for stakeholders

Question #2: What is the maximum time period that should be allowed between the start date and a project being submitted for validation?

Considerations: Allowing a large time gap may raise questions about the additionality of a project, whereas too short a time period may not give project proponents sufficient time to develop project documentation and submit a project for validation.

4 Crediting Periods

4.1 Background

Section 3.2.2 of the Standard stipulates the crediting period should be between 5 and 25 years and does not cap the number of times a crediting period can be renewed. This opens up the possibility for projects to continue indefinitely, which may be problematic depending on what is re-assessed when a project's crediting period is renewed.

4.2 Proposed revisions

The scope of what is reviewed when a crediting period is renewed will be clarified.

Whether additionality is excluded or other limitations placed on the number of times a crediting period will be further revised after the public comment period has closed.

4.3 Questions for stakeholders

Question #3: Is 5 – 25 years still an appropriate time period for a project's crediting period, or should either or both bounds be revised?

Question #4: Should different project types have different requirements for the duration of their crediting periods and/or the number of times they can be renewed?

Question #5: Should projects specify an end date or limit to the number of times a project can renew its crediting period and issue Reef Credits?

Question #6: Should a project be required to demonstrate additionality at the start of each crediting period, or periodically (e.g. after X years or Y renewals of a crediting period)?

Considerations: Other environmental markets such as GHG offsets do not require additionality to be re-assessed when a crediting period is renewed. However, these markets also limit the number and/or duration of crediting periods and have different rules for the

length of a crediting period for different project types. Allowing both unlimited crediting periods and no additionality test when a crediting period is renewed may therefore allow crediting indefinitely which may be problematic. Either the number of project crediting periods should be capped, or the additionality should be re-assessed periodically, or a combination of both.

5 Safeguards

5.1 Background

Section 3.2.9.3 of the Standard required Project Proponents to "consult with local stakeholders on the impact of the Project prior to Project Validation and comply with the principles of Free Prior and Informed Consent." The Free Prior and Informed Consent requirement reflects best practices, but was vaguely worded and needs to be clarified.

5.2 Proposed revisions

Section 3.2.9 on Safeguards will be revised to clarify how and when Free, Prior and Informed Consent is applicable in a new sub-paragraph 5.

A mechanism for stakeholders adversely affected by a Reef Credit Project to lodge grievances with the Secretariat was also created to reflect best practices.

5.3 Questions for stakeholders

Question #7: Is the new text in Section 3.2.9.5 sufficiently clear and appropriate for the Reef Credit Scheme?

Question #8: On what basis should a Project Proponent be required to undertake consultation in addition to that required by applicable local council, state or Commonwealth planning and environmental legislation?

Question 9#: Are the Free, Prior, and Informed Consent requirements in the Standard needed and/or appropriate, or is current Queensland and Australian law sufficient?

6 Tracking and Transfer of Reef Credits

6.1 Background

Section 3.8 of the Standard limited transactions to a single transfer and limited the validity of a Reef Credit to 12 months after it was first transferred. These provisions were intended for the beta-phase of the Reef Credit Scheme to take account of the time needed to develop a fully operational Registry where Reef Credits could be traded multiple times before being retired.

Further procedures regarding Reef Credit transfers have also been developed in the *Project Crediting Procedures*.

6.2 Proposed revisions

Section 3.8 will be revised to allow unlimited transactions through the Registry until a Reef Credit is retired.

Restrictions that limited the duration a Reef Credit could be used after an initial transfer will be removed.

The validity period of 3 years is open for comment. The rationale for the compulsory retirement of Reef Credits after 3 years or other period of time is to ensure the environmental benefits of the Reef Credit Scheme are being delivered.

The 3-year validity period may be updated to roll Reef Credit expiration into quarters to simplify portfolio management.

The Project Crediting Procedures will also be updated further to reflect procedures being established as part of the Registry system.

6.3 Questions for stakeholders

Question #10: Is 3 years an appropriate validity period for Reef Credits before they must be retired? Should the validity period be connected to the duration or periodic review of the Reef 2050 Water Quality Improvement Plan?

Question #11: Should expiration be rolled up into quarterly periods when Reef Credits expire, or should Reef Credits expire on a rolling basis 3 years after they were issued?

Question #12: Should the Secretariat collect price information on all transactions, and release periodic (e.g. quarterly) summary information on transaction prices and volumes?

7 Revising Methodologies

7.1 Background

Section 4.9 of the Standard allowed for Reef Credit Methodologies to be periodically reviewed or revised but did not provide sufficient details on the process.

7.2 Proposed revisions

Section 4.9 will be revised completely and replaced with new text that:

- Differentiates between minor revisions and corrections and all other revisions.
- Clarifies who can initiate revisions.
- Clarifies review procedures and who bears the cost of a revision.
- Establishes a 60-day grace period whereby old methodologies can be used after they have been updated.

7.3 Questions for stakeholders

Question #13: Should revisions other than minor corrections or errors be subject to the same review processes as a new methodology, or an abbreviated process?

Question #14: Is a 60-day grace period appropriate?

8 Summary of other revisions

Several other revisions will be made to the Standard and other documents. These are summarized below. Specific questions related to these revisions has not been prepared, but interested stakeholders are invited to comment on any aspects of the Reef Credit Scheme as part of the current review as needed.

8.1 Definitions

The definition of DIN will be updated to include nitrogen present as ammonium, nitrate and nitrite based on expert peer review input of the DIN Methodology.

8.2 Grace period at the close of the beta-phase

Projects that have started to be developed under earlier versions of the Reef Credit Guide and Standard but have not been registered before Version 2.0 is released will be able to use earlier versions of the documents for a period of time. Section 1.3 of the Standard stipulates a grace period of 30 days whereby projects can choose to apply for registration under Version 1 of the documents if needed.

8.3 Legal right and consent

Section 3.2.5 of the Standard will be revised to clarify Reef Credits may not be issued if there is a lapse in legal right to carry out the Project or other consents rather than an outright delisting of a Project.

8.4 Leakage

The requirements governing how leakage is to be assessed will be revised to make it clear that only leakage that occurs within the Great Barrier Reef catchment area needs to be considered. For example, if de-stocking under a gully restoration project results in relocating cattle to other parts of Australia outside the Great Barrier Reef catchment, this will not have any impact on water quality affecting the reef so does not need to be considered as a form of activity shifting leakage. Similarly, if de-stocking produces market effects occur across Australia, the impacts of this within the Great Barrier Reef catchment area will be de-minimus and do not need to be accounted for.

8.5 Baseline Scenario

Section 3.3.3 that describes how to apply assumptions and values to develop the Baseline Scenario will be clarified to include a requirement to explain the assumptions.

8.6 Monitoring Period

Section 3.5.3 will be revised to eliminate the requirement for a Monitoring Period to be between 6 and 12 months. This is considered an unnecessary limitation. Projects should define the Monitoring Period based on the applicable methodology.

8.7 Non-Compliance

Section 7 on Non-Compliance and the definition of Non-Compliance will be updated for clarity and link to the newly created grievance mechanism.

8.8 Permanence Period

The Definition of Permanence Period referred to 50 years or another period defined in a Methodology. The original definition created the possibility for a Methodology to define a significantly shorter Permanence Period that could undermine the environmental credibility of the Scheme.

The Definition of Permanence Period will be revised to require a minimum period of 50 years, while still allowing a Methodology to define a longer period.

The Monitoring requirements will also be revised to make it clear that:

- The Permanence Period starts at the end of the last Crediting Period.
- The Monitoring Period must also cover the entire Permanence Period, and not just the Crediting Period.
- A Methodology can establish different monitoring requirements for the Permanence Period and Crediting Period.

8.9 Risk of Reversal Buffer

Section 3.2.10 dealing with Permanence contains a formula that did not take into consideration all the details needed to estimate Reef Credits, or provide sufficient detail on how the Risk of Reversal Buffer operates. The section and corresponding definitions will be revised.

The requirement to notify the Secretariat of a reversal may also be shortened from 60 days to 30 days.

8.10 Project Area vs. Project Boundary

The Definition of Project Area and Project Boundary were very similar and could lead to confusion. The only difference between the terms was a temporal element included in the definition of Project Boundary. To simplify the definitions and terms used, Project Boundary will be deleted and edits made to capture the temporal aspect in other parts of the Scheme's documents as needed.

8.11 Governance

The sections referring to governance of the Reef Credit Scheme will be moved to the Guide as the Guide is the overarching document for the Reef Credit Scheme. The governance structure of the Scheme has not changed, however the references to beta phase that is now closed were updated and now reflect the establishment of the independent administrator, Eco-Markets Australia.

8.12 Streamlining

Several edits were made to the Guide, Standard, Definitions, Project Crediting Procedures, and Methodology Approval Procedures to streamline the documents and text.

- The objectives of the Standard will be revised to focus on the objectives of the Standard document itself rather than the overall Scheme. The overall objectives of the Reef Credit Scheme remain unchanged.
- The Governance and Dispute resolution sections of the Standard will be moved to the Guide as the Guide is the overarching document for the Reef Credit Scheme.
- References to the beta-phase that is now closed will be updated.
- Other minor text revisions to eliminate redundant text, improve readability and improve clarity will be made across all documents.