

## Submission

### Carbon Credits ( Carbon Farming Initiative) Bill 2011

### Australian National Registry of Emissions Units Bill 2011

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Overall this bill is immensely impressive and well-constructed. It covers all of the primary issues and concerns.

Carbon Trade Exchange has one significant issue and that is the origination date (vintage) being in the financial year. This is because it's in direct contradiction of the international markets. Countries all over the world have a different end of financial year, such as March in the UK and December in the USA. All international carbon markets are based on the calendar year to provide one simple standard in terms of the year "vintage". We submit that all vintage credits should be based on calendar year. This also applies to the retirement of credits. Companies simply modulate their accounting records to suit their own financial year.

#### There are some issues that need clarity...

Are we right to assume the translation, in global industry language, Kyoto credits means CER's (Certified Emission Reductions) or ERU's (Emission Reduction Units) and non-Kyoto means VER's (Voluntary /Verified Emission Reductions)? Assuming that is the case, then presumably the CER's/ERU's would be issued in the same process, as for other international projects under the Clean Development Mechanism (CDM) or Joint Implementation (JI) and require signoff by the UN?

Is it the intention for the Australian Government to issue the VER's directly? How would this be handled, executed and managed appropriately to meet the requirements for the international standards involved? Does the Australian government wish to manage under a single portfolio all credits including those issued by an international standard? (Given that the Australian government is not endorsed to issue credits by these standards, how will this process work?)

Will projects have credits issued by VCS and Gold Standard under their methodologies?

Does this mean companies who are going carbon neutral under NCOS, could purchase and retire either VCS, Gold Standard or ACCU's?

Is it correct that credits could be transferred to another international registry?

**For example:** Could VER ACCU's be transferred to the Market Environmental Registry? This needs clarification...

There appears to be nothing which precludes the ACCU's National Registry from linking electronically with an exchange such as Carbon Trade Exchange. This should be clearly noted.

*Note: The Beijing exchange just conducted its first electronic trade of China's 'Panda Standard' carbon credits last week.*

On the issue of Greenhouse Friendly credits, is it the intention to simply transfer these over in their entirety into ACCU's? or must they meet the requirements under the new methodologies? We submit that not all methodologies under Greenhouse Friendly would have met the robust standards of VCS or Gold Standard, and therefore presumably, not the ACCU methodologies.

The concept of transference undermines in our view the credibility and value of the new units in the crucial early phase, as these would be all VER ACCU's. Therefore our submission is that all projects should in fact requalify under the new methodologies and if necessary make operational adjustments to meet the new standards. Alternatively an expert panel assesses a ratio option; like a currency transfer, at which they will convert **OTHER** than 1:1.

**Goods and Service Tax (GST):** Clarity is required on GST and it must be addressed immediately.

Although unrelated to this Bill directly, it will create confusion and/or an impediment to implementation. It is our submission that ACCU's should be exempt of GST, so the origination and sale does not attract GST. The situations of fraud in Europe, in relation to VAT (GST), all evolved due to some countries insisting on the payment of VAT and therefore being required to allow a deduction against it, which is the fraud opportunity.

This needs to apply to both forms of credits i.e. CER's and VER's.

*Note: EU temporarily dropped VAT, but now VAT applies to carbon credits in a new way under a reverse charge system (introduced NOV 2010). Under this new approach, a customer accounts for VAT on the receipt of a supply of goods or services, as if it was both supplier and customer, thus shifting the tax to the jurisdiction where the customer has its business establishment. VAT is then calculated according to the rate in the country where the customer is VAT registered.*

The problems of VAT fraud may well persist even under this new methodology. Given the intangible nature of a Carbon Credits, and even more specifically allowances, an exemption for GST will simply encourage and stimulate activity, and in our submission remove the opportunity for fraud.

**Income / Company Tax (Tax) :** We submit that the sale of ACCU's should be income assessable and the purchase deductible, becoming an intangible asset until retired when they are then expensed.

This would insure that net profit from resale is recognised and taxable.

## **Australian National Registry**

We are very happy with this Bill, as it allows for electronic instructions and transfer of credits to other registries.

Carbon Trade Exchange will proudly provide Global Electronic linkage to buyers and sellers via an electronic interface either

- A. Directly with the ANREU Registry
- B. Existing linkages with Foreign Registries
- C. Both

The provision of data relating to project type and Social or Biodiversity benefits conforms with our international platform and allows credits to trade at their correct market value

END