A guide to the frameworks supporting Australian Carbon Credit Units and the domestic carbon market

Carbon Market Institute

Overview

The Australian Carbon Credit Unit (ACCU) Scheme - formerly known as the Carbon Farming Initiative, and the Emissions Reduction Fund - has provided the overarching framework for Australia's carbon market since 2015, when it was established as the successor to the Carbon Pricing Mechanism (CPM).

The ACCU Scheme incentivises emissions reduction, sequestration (storage) and avoidance activities across the Australian economy through three key elements: crediting, purchasing and safeguarding emissions reductions. The Scheme's regulation is overseen by the Clean Energy Regulator (CER), the government body responsible for administering legislation for reducing greenhouse gas emissions and increasing clean energy use.

Following the 2022 Independent Review of ACCUs, outstanding ACCU Scheme method development was shifted from the CER to the Department of Climate Change, Energy, the Environment and Water (DCCEEW), and is transitioning towards a proponent-led process overseen by the Emissions Reduction Assurance Committee (ERAC). Methods under the ACCU Scheme are legislative instruments, and must be made by the relevant Minister upon adivice from the ERAC following mandatory public and scientific consultation.

Crediting Emissions Reductions

ACCU Scheme methods and projects

The ACCU Scheme enables organisations and individuals that adopt new practices and technologies that reduce their emissions to generate and sell ACCUs. The Scheme oversees a range of emissions reduction, sequestration and avoidance activities. To earn ACCUs, registered projects implement these activities in accordance with project guidelines and rules known as methodology determinations, or methods. Methods set out how a particular activity or project type must be undertaken, how emissions reductions are calculated, and the monitoring and reporting requirements for creating an ACCU. One ACCU is generated for every tonne of carbon dioxide equivalent (tCO2-e) calculated to have been avoided, reduced or removed from the atmosphere.

Approved ACCU methods fall under the following project types:

- Vegetation
- Landfill and waste
- Agriculture
- Savanna burning
- Energy efficiency
- Carbon Capture and Storage
- Transport Facilities

Purchasing Emissions Reductions

ERF Auctions and Pilot Exit Agreements

When the ACCU Scheme was first established, the Federal Government allocated $2.55 billion to purchase ACCUs through reverse auctions. These funds were topped up with an additional $2 billion assigned to the ERF through the Climate Solutions Fund (CSF), available from 2020. Under the ERF, taxpayer-funded auctions were the central policy lever driving emissions reductions to help Australia achieve its climate targets, with the Federal Government the primary purchaser of ACCUs.

ERF auctions were announced in advance by the CER and held twice annually, over a two-day period. Participants in the auction had to register their project(s) and qualify for the specific auction, allowing them to bid their project. Successful participants immediately entered into a Carbon Abatement Contract (CAC) with the CER to deliver ACCUs to the Federal Government at the price bid at auction. At that time, the government had a least-cost abatement purchase mandate, so lower cost land-based projects overwhelmingly make up CACs. All the details regarding contract requirements, such as length, delivery schedule, abatement volume and price were established and agreed to between the participant and the Federal Government as part of the auction registration, qualification and bidding components. These were "fixed" contracts requiring delivery to the CER. However, the last auction was entirely of "optional" contracts allowing sale to other buyers, should better prices be on offer.

In March 2022, the Morrison Government enabled a staged process whereby participants with fixed delivery requirements can sell previously contracted ACCUs to private entities with the payment of an exit fee. Although historically the Federal Government was the primary buyer of ACCUs, private entities are now the primary demand source for ACCUs. Some organisations purchase ACCUs to meet voluntary emissions reduction targets under voluntary programs such as the Science-based Targets Initiative, or the Climate Active Program. However, the primary driver of private sector demand for ACCUs is the compliance market, which covers entities with obligations under the Safeguard Mechanism.

The Safeguard Mechanism

From safeguarding Australia's emissions reductions to driving industrial decarbonisation

The Safeguard Mechanism, was initially established following the repeal of the Carbon Pricing Mechanism, to incentivise emissions reductions in the industrial sector, specifically covering large organisations with annual scope 1 emissions exceeding 100,000 tCO_2-e. However, under the original design, the Safeguard Mechanism baselines were determined as an average of a facility's emissions for the preceding 5 years, or 100,000 tCO_2-e, whichever was larger. Because many facilities were already reducing emissions through energy efficiency upgrades, most facilities never exceeded their baselines and thus did not need to invest in ACCUs or decarbonisation to comply. Following the 2022 election, the Labor Government commenced a reform of the Safeguard Mechanism covers the industrial sector, which is comprised of large businesses with annual emissions exceeding 100,000 tCO2-e. These facilities must keep their emissions below a calculated baseline set by the CER. Facilities who exceed their baseline can remain compliant under the mechanism by purchasing and surrendering ACCUs. Facilities who exceed their baseline can remain compliant under the mechanism by purchasing and surrendering ACCUs.

Next steps for ACCUs and the Australian carbon markets

Improving integrity and drivingthe net zerotransition

Following the change of government, the Albanese Government reformed the Safeguard Mechanism into a declining baseline and credit scheme. Under the reformed safeguard mechanism, a 4.9% additional annual decline is placed on emissions restrictions - capped at 100,000tCO_2-e unless there is a facility-level exemption in place. The reformed Safeguard Mechanism is expected to deliver over 200 million tonnes of abatement by 2030, achieving zero emissions in the industrial sector by 2049-50.[1]

Under the reformed Safeguard Mechanism, liable facilities can use ACCUs to meet up to 30% of their compliance obligations without written justification. If more than 30% ACCUs are used to meet compliance obligation, the facility must provide written justification. Facilities that decrease their emissions by a greater amount than the decline rate can receive a new type of emissions unit calls a "Safeguard Mechanism Credit. These credits can be sold to other facilities, or can be banked for future use.

These changes to the Safeguard Mechanism were implemented in July 2023, from which point the primary driver of ACCU demand shifted from taxpayer-funded purchases through ERF auctions to the compliance market, established by the Safeguard Mechanism. Following the 2022 ACCU Review, the Federal Government is still considering its role in future ACCU purchases. Currently, existing CACs are being fulfilled by the Powering the Regions Fund (PRF), with ACCUs delivered into the Safeguard Mechanism Cost Containment Measure, which will provide a store of ACCUs that facilities can purchase from the Government should there be insufficient supply.

The PRF was established with remaining uncommitted funds from the ERF and the preceding Carbon Solutions Fund. It is unclear what proportion of these funds will be committed to purchasing ACCUs beyond pre-existing CACs, versus the additional purposes outlined in the PRF's expanded remit, which is also geared at:

- Supporting industry with its decarbonisation priorities, such as energy efficiency improvements and fuel switching;
- Developing new clean energy industries, such as green hydrogen production and export, and bioenergy;
- Workforce development, such as training existing workers in new technologies.

[1] Department of Climate Change, Energy, the Environment and Water, Safeguard Mechanism Overview, 1 October 2025.

More Information

About the ACCU Scheme https://www.dcceew.gov.au/climate-change/emissions-reduction/accu-scheme

About The Safeguard Mechanism https://www.dcceew.gov.au/climate-change/emissions-reporting/national-greenhouse-energy-reporting-scheme/safeguard-mechanism/overview#the-emissions-reduction-task

Safeguard Mechanism Hub https://carbonmarketinstitute.org/safeguard-mechanism-reform/

Carbon Farming Industry Roadmap https://carbonmarketinstitute.org/australian-carbon-farming-industry-roadmap/