SMCs vs. ACCUs
Similarities & Differences

Carbon Market Institute

Basic Similarities

An Australian Carbon Credit Unit (ACCU) and a Safeguard Mechanism Credit (SMC)[1] are both tradable financial products representing 1 tonne of CO_2 equivalent (tCO_2-e) emissions. Both units are managed by the Clean Energy Regulator (CER) and held in a business's Australian National Registry of Emissions Units (ANREU) account.

Since 2015, ACCUs have largely been purchased by the Government, but the market is also open to private buyers driven by compliance obligations and voluntary commitments. Under the enhanced Safeguard Mechanism, the ACCU market will see private, compliance-driven purchases increase as facility baselines decline over time. The Government will continue to purchase some ACCUs (including through existing carbon abatement contracts), through the Powering the Regions Fund (PRF).

Differing Methodologies and Issuance

ACCUs are issued under the Carbon Credits (Carbon Farming Initiative) Act 2011 (CFI Act). There are 37 approved methodologies for generating ACCUs under Australia's carbon crediting scheme, the Emissions Reduction Fund (ERF). ACCUs are typically generated from land-based projects involving practice changes such as livestock removal, forest regeneration, native plantings and savanna burning. There are also industrial project methods. Landfill gas (LFG), where methane from landfill is flared or converted to biogas or electricity, and carbon capture and storage (CCS) are two examples.

SMCs will be issued to facilities covered by the reformed Safeguard Mechanism that 'beat' their emissions limit or 'baseline' Facilities will be credited one SMC for every below-baseline tCO_2-e.

SMCs will not be subject to the same additionality standards as ACCUs — defined under the CFI Act as activities that encourage carbon sequestration that would not have occurred in the absence of them —because they are generated within a regulated emissions limit provided by the Safeguard Mechanism design.

Industrial sites will no longer be able to register new projects that solely generate ACCUs from reductions relating to covered emissions. Instead, they will receive SMCs if an emissions reduction activity takes them below their baseline. However, Safeguard-covered facilities can still register ACCU projects that are not related to Safeguard-covered emissions — scope 2 emissions — for example land sector projects, and projects that reduce electricity use.

The Government proposes that baselines will be set using a production adjusted (emissions-intensity) framework. Emissions-intensity values will combine industry average performance with the performance of each facility. They will start close to each facility's actual emissions intensity but move to an industry average benchmark by 2030. Baselines will decline over time to incentivise emissions reductions from Safeguard-covered facilities.

SMCs are not issued if a facility surrenders ACCUs to beat their baseline by reducing their net emissions because the number of SMCs issued is based on the facility's total scope 1 emissions rather than their net emissions. Anti-avoidance measures will be put in place to ensure that facilities within the same company do not separate operations and effectively transfer emissions to push themselves below the baseline and receive SMCs.

[1] The creation and trading of SMCs under the enhanced Safeguard Mechanism is contingent on the passage of the Safeguard Mechanism (Crediting) Amendment Bill 2022 through Parliament and would commence on July 1, 2023.

Restrictions on SMC Creation

SMC creation will not be available to the following facilities under the proposed design:

- Facilities that have "borrowed" from future emissions baseline budgets: The Government proposes borrowing will be permitted for up to 10 per cent of covered facilities' baseline each year.
- Facilities with approved multi-year monitoring periods: The Government proposes to permit five-year multi-year monitoring periods (up to 2030) where a facility has exceeded its baseline due to a lack of available technology, but has a firm and credible plan in place to reduce cumulative emissions before the end of that period.
- Covered landfills will not be eligible to create SMCs in the initial years of the enhanced Safeguard Mechanism: This is intended as an interim measure while long-term arrangements for landfills are considered prior to the 2026-27 milestone review.

Banking and retirement

Facilities may bank SMCs for future use.
The Government has proposed that there be unlimited banking of SMCs until 2030. Alternatively, facilities can sell their SMCs to other Safeguard-covered sites that exceed their baselines. SMCs can only be surrendered for use once to avoid double counting, and all transactions must be registered via the ANREU account.

There are currently no restrictions for facilities banking ACCUs for future use. CMI has suggested that the Government could adopt a rolling vintage window approach to ACCU eligibility (see CMI Safeguard Mechanism Rules: Consultation on proposed design).

Some areas to watch:

- Extent to which the proposed cost containment reserve measure (See CMI Safeguard FAQ) will inform ACCU and SMC prices;
- Proposed application of extended multi-year monitoring periods (see CMI Safeguard FAQ) for companies demonstrating a case for deferred liability emerging technologies (see draft Rule for details);
- How varied baselines will be determined and applied for trade-exposed facilities (see draft Rule for details); and
- How the government will resolve the treatment of landfill facilities beyond the interim arrangements proposed.

Additional resources

The Carbon Market Institute (2022), "ACCUs and the Australian Domestic Market"
The Carbon Market Institute (2022), "Safeguard Mechanism FAQs"
The Carbon Market Institute (2022), "Safeguard Mechanism Rules: Consultation on proposed design"
Department of Climate Change, Energy, the Environment and Water (2023), "Safeguard Mechanism Reforms: Position Paper"
Department of Climate Change, Energy, the Environment and Water (2023), "NGER (Safeguard Mechanism) Amendment (Reforms Rules 2023 Compilation"