

Climate Change Authority:
Setting, tracking and achieving
Australia's emissions reduction
targets

submission

July 2023





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The Carbon Market Institute (**CMI**) is an independent member-based institute. CMI's 2025 Strategy, 'Accelerating Climate Action',¹ sets forth our vision towards a prosperous negative emissions, nature positive world and organisational mission to accelerate the best practice use of market-based solutions to support decarbonisation and limit global warming to 1.5°C. Well-designed carbon markets complemented by ambitious targets and adequate regulation will play a crucial role in directing and leveraging investment to better align with the Paris Agreement goals and international cooperation.²

CMI's 150-strong membership includes organisations from across the entire carbon value chain, including Indigenous organisations, primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies. CMI consults with our members to support consultation responses, with policy positions informed by our vision and mission, and approved by our Board.

The recommendations put forward in this submission are CMI's view, independent of members, and do not represent any CMI individual, member company or industry sector.

Strategic outlook

CMI welcomes the opportunity to respond to the Climate Change Authority's (**the Authority**) consultation Issues Paper, 'Setting tracking and achieving Australia's emissions reduction targets' (**Issues Paper**), which opened for consultation on 18 May 2023.³

CMI appreciates that consultation responses will inform the Authority's 2023 reviews of the *National Greenhouse Gas and Energy Reporting Act 2007* (**NGER Act**) and *Carbon Credits (Carbon Farming Initiative) 2011 Act* (**CFI Act**), as well as its 2023 Annual Progress Report and advice to Government on Australia's 2035 Nationally Determined Contribution (**NDC**) target, due in 2025.

Against the backdrop of the spiralling climate and biodiversity crises, CMI is committed to accelerating economic transformation through the establishment of durable economic, social and environmental policies. As we highlight in our 2025 Strategy, this task is urgent but presents once-in-a-generation international and domestic opportunities.

¹ See CMI 2025 Strategy Accelerating Climate Action, Available at <https://carbonmarketinstitute.org/app/uploads/2022/12/CMI-2025-Strategic-Plan.pdf>.

² For example, research by the International Emissions Trading Association (IETA) and University of Maryland highlights how the mitigation efficiencies supported by emissions trading between countries under Article 6 could facilitate significantly more ambitious NDCs, supporting the ratchet mechanism of the Paris Agreement—including the potential to double ambition if savings are reinvested into mitigation – see: IETA and University of Maryland 2023, 'Modelling the Economics of Article 6', https://www.ieta.org/resources/Documents/IETA_A6%20Report%20Final.pdf.

³ CCA 2023, 'Setting, tracking and achieving Australia's emissions reduction targets', <https://consult.climatechangeauthority.gov.au/australias-emissions-reduction-targets>.



To keep the Paris Agreement's 1.5°C global ambition alive, Australia has a responsibility to set progressively more ambitious national targets aligning with its 'fair share' of global efforts.⁴ Achieving these ratcheting NDCs requires a holistic suite of measures to catalyse deep, economy-wide decarbonisation and ensure a just transition.

Australia's climate policy suite should also increasingly balance climate adaptation measures alongside urgent mitigation actions, given the growing impact of the physical effects of climate change on Australian livelihoods, businesses and communities.

CMI commends the Albanese Government's significant uplift in ambition, enshrined in its legislated 2030 national target of a 43 percent reduction in emissions compared to 2005 levels. However, we continue to advocate for Government action to enable at least 50% reductions by 2030.⁵ CMI welcomes the important foundational policy frameworks the Government has progressed since the May 2022 election, including:

- the landmark Safeguard Mechanism reforms that establish a significant carbon pricing driver for 215 heavy polluting facilities across the mining, manufacturing, transport, oil, gas, and waste sectors;⁶
- the Independent Review of Australian Carbon Credit Units (**ACCU Review**) and subsequent ACCU Review Implementation Plan that will strengthen investment and community confidence in Australia's carbon crediting scheme, enabling it to support Australia's economy-wide transition;⁷
- the National Electric Vehicle Strategy and planned introduction of a fuel efficiency standard (FES) that will support the transport sector's transition;⁸
- efforts underway to establish a mandatory climate-related financial disclosure framework and Australian Sustainable Finance Taxonomy that will enable the private sector to better manage the risks associated with climate change and guide investment decisions that support Australia's legislated climate targets and the Paris goals;⁹
- the October 2022 commitment to develop a National Energy Performance Strategy that will deliver the National Energy Productivity Plan;¹⁰ and

⁴ As noted by Climate Action Tracker (CAT), the 'fair share' concept extends from the Paris Agreement's (Article 4.3) notion of 'common but differentiated responsibilities and respective capabilities'. There is no agreed definition, but 'fair share' generally requires developed economies to contribute a greater share of effort before developing country peers – see: CAT 2023, 'Fair share', <https://climateactiontracker.org/methodology/cat-rating-methodology/fair-share/>.

⁵ CMI 2022, 'CMI welcomes new Climate Act as important trigger for ambition, accountability & investment' [media release], 27 July, <https://carbonmarketinstitute.org/2022/07/27/cmi-welcomes-legislated-targets-as-important-framework-for-ambition-accountability-investment/>.

⁶ See CMI, 'Safeguard mechanism reforms' commencement a turning point in Australia's fight against climate change (30 June 2023), Available at <https://carbonmarketinstitute.org/2023/06/30/safeguard-mechanism-reforms-commencement-a-turning-point-in-australias-fight-against-climate-change/>.

⁷ See CMI, 'ACCU Review Implementation Plan provides clarity, shines light on urgent priorities' (9 June 2023) Available at <https://carbonmarketinstitute.org/2023/06/09/accu-review-implementation-plan-provides-clarity-shines-light-on-urgent-priorities/>.

⁸ See CMI, Department of Infrastructure, Transport, Regional Development, Communications and the Arts – Fuel Efficiency Standard (May 2023), Available at https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf.

⁹ See CMI, Treasury Climate-related financial disclosure Consultation Paper Submission (February 2023), Available at https://carbonmarketinstitute.org/app/uploads/2023/02/Carbon-Market-Institute_TSY-consultation_climate-related-financial-disclosure-framework.pdf.

¹⁰ DCCEEW 2023, 'Government priorities: National Energy Performance Strategy', <https://www.energy.gov.au/government-priorities/australias-energy-strategies-and-frameworks/national-energy-performance-strategy>.



- the establishment of the national Net Zero Authority that will work across all levels of government on incentives and workforce support programs that support a just and inclusive transition for the regions.¹¹

As Australia looks to ratchet its ambition towards a strong 2035 NDC, this existing climate policy suite will need to be scaled across all sectors of the economy. The Government will also need to guide the deeper structural transition of Australia's economy to ensure Australian business remains globally competitive in a carbon-constrained economy.

CMI's response to the Authority's Issues Paper takes a holistic approach to the challenges associated with transitioning the Australian economy towards net zero and ultimately net negative emissions. It highlights options and areas where market-based frameworks could accelerate Australia's decarbonisation in line with a Paris-aligned, fair share contribution to global efforts to limit global warming to 1.5°C.

CMI's 17 Key Recommendations are summarised below for the Authority's consideration:

1. Australia's 2035 NDC should target emissions reductions of well over 70 percent based on 2005 levels and establish corresponding targets for adaptation to reflect its parallel importance, informed by the National Climate Risk Assessment and National Adaptation Plan.
2. Australia's 2050 Net Zero Target, and interim ratcheting NDC targets, should be supported by a clear economy-wide plan that apportions a carbon budget nationally and to each sector, with supportive market-based frameworks where appropriate.
3. Australia should develop a National Carbon Market Strategy to guide the role of markets in Australia's transition towards net zero and negative emissions, including to:
 - a) support efficient domestic decarbonisation and nature repair;
 - b) inform Australia's approach to participating in international carbon markets by assessing the costs and benefits of participation; and
 - c) provide policy direction and transparency to investors, businesses and communities about the intended roles for carbon markets, crediting and trading.
4. The NGER Act and legislative rules should be amended so that these better align with the objectives of the Paris Agreement and can effectively facilitate Australia's economic transition, including by:
 - a) progressively lowering the Safeguard Mechanism's coverage threshold to 25,000 tCO₂-e scope 1 emissions to align with the NGER reporting threshold, maintain a long-term carbon pricing driver for entities whose emissions fall below 100,000 tCO₂-e, and extend coverage to more of the economy in a staged approach, informed by the reformed Safeguard Mechanism's scheduled review;
 - b) restricting Safeguard-covered facilities use of ACCUs and Safeguard Mechanism Credits to a rolling five-year vintage window that better aligns with Paris Agreement reporting cycles;

¹¹ See CMI, Net Zero Authority a vital piece of the puzzle in resourcing and guiding the transition (5 May 2023), Available at <https://carbonmarketinstitute.org/2023/05/05/net-zero-authority-a-vital-piece-of-the-puzzle-in-resourcing-and-guiding-the-transition/>.

¹² See further detail in: CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design', February, https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf.



- c)** bringing forward the scheduled 2026–27 Review of the reformed Safeguard Mechanism by one year to ensure that the scheme is fit for purpose to contribute to Australia's NDCs before Australia submits its 2035 NDC to the United Nations Framework Convention on Climate Change (UNFCCC);
 - d)** considering whether current NGER reporting processes for electricity emissions are fit for purpose; and
 - e)** exploring ways to introduce scope 3 reporting into the NGER framework to support transparency in a manner that is streamlined with eventual mandatory climate-related financial disclosure requirements.
- 5.** To support the accuracy of Australia's National Greenhouse Accounts and commitments under the Global Methane Pledge, the Authority's NGER Act Review should investigate more accurate approaches to measuring fugitive methane emissions.
- 6.** Australia should expedite the development of a carbon border adjustment mechanism (CBAM) as a durable solution to address carbon leakage risks presented by the reformed Safeguard Mechanism and consider early commencement for high-exposure sectors like cement and steel, drawing on learnings from the EU CBAM.
- 7.** In determining Australia's approach to engaging with international carbon markets, careful consideration should be given to ensuring high integrity outcomes that both support Australia's net zero transition and contribute to global climate action. This may include:
 - a)** ensuring the ability to surrender carbon credits in the future, whether ACCUs or high integrity international credits, does not dilute the driver for at-point, facility-level decarbonisation of Safeguard Mechanism covered facilities;
 - b)** establishing an appropriate sequencing timetable for linking Australia's carbon market to international carbon markets that prioritises linkages with compliance markets followed by high integrity voluntary markets only after Article 6 rules, modalities and procedures arrangements are clarified; and
 - c)** facilitating the export of ACCUs into international markets to support their contribution to global climate action by ensuring the CFI Act and associated legislation aligns ACCUs with international best practice benchmarking criteria to enable their fungibility in international markets.
- 8.** The Government should provide transparency on the inputs and processes used to compile Australia's National Greenhouse Accounts and UNFCCC National Inventory Reports to:
 - a)** Provide assurance that all abatement, including that achieved through the ACCU scheme, is accurately and consistently accounted for, including avoiding double counting; and
 - b)** ensure that Australia's emissions accounting framework is fit to participate in potential future international cooperative emissions trading arrangements under Article 6, including through the application of corresponding adjustments, if/when appropriate.
- 9.** To strengthen domestic and global confidence in Australia's carbon crediting scheme and enable it to best support Australia's economy-wide transition, the Government should progress the ACCU Review Implementation Plan in a timely manner, expediting recommendations that will increase and optimise scheme- and project-level transparency.



- 10.** The Government should review the CFI Act's 'least cost' ACCU purchasing mandate to allow government-funded purchases to target high priority carbon methods as informed by the NCMS, such as projects that:

 - a)** facilitate emerging abatement and removals technologies;
 - b)** support social and environmental co-benefits aligned with the Sustainable Development Goals (SDGs); and
 - c)** partner with First Nations groups to support social and economic opportunities, including in remote communities.

- 11.** The Authority should take a holistic approach in considering the merits of a scheme-level buffer within Australia's carbon crediting framework to support conservativeness and additionality, as was recommended by the ACCU Review, including by:

 - a)** exploring the potential to build on existing risk of reversal buffers that are intended to deal with permanence to support holistic scheme integrity, rather than targeting individual integrity principles, such as 'additionality' and 'conservativeness';
 - b)** considering whether existing project-level additionality checks in the CFI Act could be strengthened to better support the outcomes they are aimed at; and
 - c)** recommending the Government direct the Clean Energy Regulator to provide transparency around the quantum of abatement that has been discounted through existing risk of reversal buffers and whether/when this collective buffer figure would need to be referred to or adjusted.

- 12.** The Government should clarify that voluntary efforts, including ACCU cancellations—while nested within Australia's National Greenhouse Accounts from an international accounting perspective—may be claimed as 'additional' to Australia's NDC.

- 13.** The Government has a role to play in guiding best practice, high integrity and high ambition voluntary corporate action, including through its Climate Active program, and should consider:

 - a)** evolving the Climate Active program to more closely align with best practice net zero guidance, such as the VCMI Claims Code and ISO Net Zero Guidance, while encouraging companies to use carbon credits to address their emissions as they pursue science-aligned interim decarbonisation targets; and
 - b)** establishing a complementary voluntary program to support nature positive commitments, drawing on the foundational work of the Taskforce on Nature-related Financial Disclosures.

- 14.** The Authority should consider the opportunities for other market-based sectoral approaches and guidance—particularly for electricity, heavy road transport, aviation—that complement the reformed Safeguard Mechanism.

- 15.** The Authority should consider the net zero transition pathway for the agriculture sector to inform a clear Government strategy, carefully balancing the sector's own transition against the opportunities for it to support the broader economy transition through sequestration.



16. The Authority should consider opportunities for the Government to guide deeper structural transition in Australia's economy to ensure Australian business remains globally competitive in a carbon-constrained economy. Priority should be given to the development of sectoral transition pathways that contemplate:
- a) The merits of a regulated, planned approach to phasing out fossil fuels;
 - b) How incentives, regulations, and workforce support programs could be utilised to ensure a just transition, leveraging the expertise of the national Net Zero Authority; and
 - c) How sectoral transition pathways should figure in Australia's mandatory climate-related financial reporting framework alongside the application of corporate transition plans.
17. The Government should clarify the sequencing of its Nature Positive Plan, including *Environment Protection and Biodiversity Conservation Act 1999* reform, to ensure its proposed Nature Repair Market facilitates 'nature positive' outcomes¹³ complemented by effective corporate reporting in accordance with the Taskforce on Nature-related Financial Disclosures framework.

Our recommendations are elaborated in greater detail over the page. Relevant Issues Paper Questions [tagged in blue] at the end of each recommendation.

Should you have questions or wish to discuss CMI's submission in further detail, please contact Gabriella Warden (Manager, Research and Government Relations) at gabriella.warden@carbonmarketinstitute.org.

Yours sincerely

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¹³ Where 'nature positive' outcomes are those that show "a measurable overall net gain in biodiversity" – see: EJ Milner-Gulland 2022, Don't dilute the term Nature Positive', *Nature Ecology & Evolution*, <https://www.nature.com/articles/s41559-022-01845-5>.



Key Recommendations

1. Australia's 2035 NDC should target emissions reductions of well over 70 percent based on 2005 levels and establish corresponding targets for adaptation to reflect its parallel importance, informed by the National Climate Risk Assessment and National Adaptation Plan.

[Issues Paper Questions 5, 8, 9, 14, 15]

In determining an appropriate target for Australia's 2035 NDC, the Government should balance its international legal obligations, diplomatic reputation, and economic position as a leading industrialised economy against the challenges that an ambitious target may present.

We consider that a strong 2035 target of over 70 per cent emissions reduction, based on 2005 levels, would present a range of advantages to Australia, including:

- catalysing a step-change in policy ambition at all levels of government to accelerate Australia's economic transformation;
- signalling to investors Australia's intent to continue investing in and uplifting climate policy efforts, attracting higher levels of private capital in an increasingly competitive global landscape;¹⁴
- better aligning Australia's climate targets with its fair share of effort to limit average global temperature rise to 1.5°C, in line with the Paris Agreement, including the principle of 'common but differentiated responsibilities', that is instructive of developed economies taking a comparatively leading role;
- demonstrating Australia's commitment to credible climate action on the international stage; and
- strengthening Pacific diplomacy and supporting Australia's bid to co-host a United Nations Conference of the Parties (UN COP) with our Pacific neighbours.

In setting and planning to achieve NDCs, the Australian Government should not rely upon the contributions of voluntary actors (see more on the role of voluntary action under Recommendation 12).

CMI notes that the Authority's 2022 Progress Report revealed that Australia was not on track to meet the strengthened 2030 NDC of 43 percent.¹⁵ To address this and support a 2035 NDC of more than 70 percent, further policy reform and public investments are required. CMI outlines options for the Authority to consider in subsequent recommendations.

Further significant investments will also be essential if Australia is to remain internationally competitive in the context of the US\$369 billion Inflation Reduction Act (IRA) and realise its potential as a 'renewable energy superpower'.¹⁶

Alongside an ambitious mitigation target, CMI urges the Authority to elevate targets for climate change adaptation in its advice to the Government on the 2035 NDC. Australia is also one of the developed world's

¹⁴ Here, CMI notes that this is insufficient on its own to compete with international public funding commitments, notably the United States' US\$369 billion Inflation Reduction Act (IRA).

¹⁵ Climate Change Authority 2022, 'First Annual Progress Report: The baseline, global context and methodology', November, <https://www.climatechangeauthority.gov.au/sites/default/files/2022-12/First%20Annual%20Progress%20Report%20FINAL%20pdf.pdf>.

¹⁶ Senate Democrats 2022, 'Summary: The Inflation Reduction Act of 2022', https://www.democrats.senate.gov/imo/media/doc/inflation_reduction_act_one_page_summary.pdf.



most acutely vulnerable countries to climate change and physical climate impacts are already materially impacting Australian livelihoods, businesses and communities.¹⁷

A clear statement of Australia's intent to reduce vulnerability to climate impacts and how the Commonwealth, in partnership with states, territories and local governments, will deliver on this should be included in the 2035 NDC alongside the economy-wide emissions reduction target. This statement should be informed by the National Climate Risk Assessment and National Adaptation Plan that the Government has committed to delivering over the next two years.

2. Australia's 2050 Net Zero Target, and interim ratcheting NDC targets, should be supported by a clear economy-wide plan that apportions a carbon budget nationally and to each sector, with supportive market-based frameworks where appropriate.

[Issues Paper Questions 12, 21]

While the Safeguard Mechanism establishes a carbon budget with respect to covered entities representing ~28 percent of Australia's emissions, it does not provide a consistent carbon constraint for individual sub-sectors, with some sub-sectors only partially covered by the Safeguard Mechanism, for example aviation and transport.

As Australia's climate policy suite is scaled towards all sectors of the economy, it is important that a carbon constraint is applied to each sector of the economy, and sub-sector of the Safeguard Mechanism, in a consistent manner.

CMI recommends that sectoral carbon budgets be developed to guide consistent investment decision-making and inform sectoral-specific policies where appropriate. Clarity should also be provided on how sectoral carbon budgets can be expected to interact with the overarching Safeguard Mechanism carbon budget. (See more on the opportunities for additional sectoral approaches and guidance—particularly for agriculture, electricity, heavy road transport, aviation—that complement the reformed Safeguard Mechanism under Recommendations 14 and 15).

3. Australia should develop a National Carbon Market Strategy to guide the role of markets in Australia's transition towards net zero and negative emissions, including to:

- a) support efficient domestic decarbonisation and nature repair;**
- b) inform Australia's approach to participating in international carbon markets by assessing the costs and benefits of participation; and**
- c) provide policy direction and transparency to investors, businesses and communities about the intended roles for carbon markets, crediting and trading.**

[Issues Paper Questions 1, 8, 12, 15, 19, 30]

¹⁷ Australia's acute climate change vulnerability was highlighted in the IPCC's 2022 AR6 WG2 report, 'Climate Change Impacts, Adaptation and Vulnerability' – see more in: B Mackey et al. 2022, 'New IPC report shows Australia is at real risk from climate change, with impacts worsening, future risks high, and wide-ranging adaptation needed', 28 February, The Conversation, <https://theconversation.com/new-ipcc-report-shows-australia-is-at-real-risk-from-climate-change-with-impacts-worsening-future-risks-high-and-wide-ranging-adaptation-needed-176691>.



CMI endorses the Authority's 2022 recommendation that the Government publish a National Carbon Market Strategy (**NCMS**) for Australia.¹⁸

The maturation of Taskforce on Nature-related Financial Disclosure (TNFD), due in late 2023, signals a growing focus on and role for environmental markets in mitigating the twin climate and biodiversity crises. In this context, CMI notes that it may be appropriate for the Government to consider how the scope of the NCMS could be expanded to guide the development of environmental markets more broadly. For example, the NCMS could inform the relationship of the ACCU market with any eventual Nature Repair Market (NRM).¹⁹

CMI recognises that markets are not a silver bullet for addressing climate change or the biodiversity crisis. They must be accompanied by public funding and regulations that reinforce decarbonisation outcomes and support nature repair. They also require clear guardrails to prevent perverse outcomes.

The NCMS could support this, ensuring the considered application of market-based approaches where appropriate, as one tool in Australia's broader climate policy suite. This would also support public and investor understanding of and confidence in the role of carbon markets, and environmental markets more broadly, in Australia's economic transformation.

CMI considers that a NCMS could clarify and guide the roles of carbon markets in Australia's net zero and negative emissions transition by:

- guiding the integration of carbon markets (and potentially other environmental markets) into Australia's climate policy suite and informing their role in relevant sectoral transition pathways—the NCMS could inform where carbon markets can enhance decarbonisation, and also highlight which sectors market-based solutions are appropriate for;
- highlighting policy and regulation required to support the stability, efficacy and integrity of market-based schemes, such as the reformed Safeguard Mechanism;
- informing clear objectives and guardrails to support decarbonisation outcomes, avoiding perverse social and environmental outcomes from carbon markets;
- supporting investment in removal technologies that can be unlocked by carbon finance, and will ultimately be required to compensate for residual emissions as part of 'net zero'; and
- clarifying how the carbon market could support adaptation and climate resilience outcomes—CMI notes that nature-based carbon projects, such as blue carbon, can support dual mitigation-adaptation outcomes;²⁰ and

¹⁸ As recommended in: Climate Change Authority 2022, 'Review of International Offsets', <https://www.climatechangeauthority.gov.au/sites/default/files/2022-08/Review%20of%20International%20Offsets%20-%20Report%20-%20August%202022.pdf>, p. 3.

¹⁹ CMI has indicated our notional support for the NRM but recommended changes to the current NRM Bills before they are passed – see: CMI 2023, 'Senate Inquiry: Nature Repair Market Bill 2023 and Nature Repair Market (Consequential Amendments) Bill 2023 [Provisions]', https://carbonmarketinstitute.org/app/uploads/2023/06/2023.06_Carbon-Market-Institute_NRM-Bill-Senate-Inquiry.pdf

²⁰ CMI notes the need for, and value of, data on changing climate patterns in different regions and geographies across Australia to facilitate evidence-based carbon project planning. CMI notes that the Department of Climate Change, Energy, the Environment and Water (DCCEEW) is progressing this work through the development of a National Climate Risk Assessment (NCRA) and welcomes this valuable work. See: DCCEEW 2023, 'National Climate Risk Assessment', <https://www.dcceew.gov.au/climate-change/policy/adaptation/ncra>.



- provide a roadmap to guide Australia towards the ultimate ambition of net negative emissions by or before 2050—after which Australia could help reverse and ensure only limited overshoot, which the IPCC acknowledges is a likely part of limiting global warming to 1.5C this century.²¹

The NCMS could also inform Australia taking a considered approach to international carbon markets under the Paris Agreement (see more detail on international market participation under Recommendation 7).

In exploring and advising on potential international market linkages for Australia, the NCMS should consider:

- rationale for and/or intended outcomes supported by Article 6.2 agreements (for example whether these are intended to support market liquidity, increase credit supply and/or address cost concerns), which could be informed by analysis CMI understands the Authority is conducting into the supply/demand dynamics of Australia's ACCU market in the context of the reformed Safeguard Mechanism;
- Australia's international climate finance obligations—particularly to least developed countries (LDCs) and small island developing states (SIDs), which face particular challenges in accessing climate finance;²²
- Australia's future-facing role in the Pacific region and regional carbon market development, in consideration of existing capacity building initiatives and strategic partnerships; and
- broader opportunities, risks, barriers and strategic considerations in participating in Article 6 cooperative arrangements—including ensuring that partnerships do not facilitate delayed decarbonisation action in Australia or create other perverse outcomes such as undermining partner countries ability to meet NDCs.

4. The NGER Act and legislative rules should be amended so that these better align with the objectives of the Paris Agreement and can effectively facilitate Australia's economic transition, including by:²³

- a) progressively lowering the Safeguard Mechanism's coverage threshold to 25,000 tCO₂-e scope 1 emissions to align with the NGER reporting threshold, maintain a long-term carbon pricing driver for entities whose emissions fall below 100,000 tCO₂-e, and extend coverage to more of the economy in a staged approach, informed by the reformed Safeguard Mechanism's scheduled review;**
- b) restricting Safeguard-covered facilities use of ACCUs and Safeguard Mechanism Credits (SMCs) to a rolling five-year vintage window that better aligns with Paris Agreement reporting cycles;**
- c) bringing forward the scheduled 2026–27 Review of the reformed Safeguard Mechanism by one year to ensure that the scheme is fit for purpose to contribute to Australia's NDCs before Australia submits its 2035 NDC to the UNFCCC;**
- d) considering whether current NGER reporting processes for electricity emissions are fit for purpose; and**
- e) exploring ways to introduce scope 3 reporting into the NGER framework to support transparency, in a manner that is streamlined with eventual mandatory climate-related financial disclosure requirements. [Issues Paper Question 21, 24]**

²¹ IPCC 2023, 'Climate Change 2023: Synthesis Report – Summary for Policymakers', https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf.

²² Barriers faced by SIDs in accessing climate finance are outlined in: United Nations 2022, 'Accessing Climate Finance: Challenges and opportunities for Small Island Developing States', https://www.un.org/ohrrls/sites/www.un.org.ohrrls/files/accessing_climate_finance_challenges_sids_report.pdf.

²³ See further detail in: CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design', February, https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf.



The NGER scheme is Australia's most comprehensive and binding emissions reporting scheme. Its strengths include that it supports:

- transparency of reporting entities;
- standardisation and common reporting metrics across Australian industry, allowing direct comparison of reporting entities;
- alignment with Paris-era reporting requirements, with data collected under the scheme informing the National greenhouse Accounts and conforming to Global Warming Potential values derived from the IPCC; and
- reporting of emissions by liable entities under Australia's now reformed Safeguard Mechanism, which is the most significant carbon pricing driver in Australia's current climate policy suite.

Nevertheless, as we highlighted in response to the Government's Safeguard Mechanism design consultation,²⁴ the following amendments could be implemented to the NGER Act and legislative rules to improve the Safeguard Mechanism's performance in terms of driving industrial decarbonisation:

- lowering the coverage threshold for the Safeguard Mechanism coverage to 25,000 tCO₂-e scope 1 emissions to align with the threshold for NGER reporting, ensure that liable entities maintain a long-term carbon pricing driver after their emissions fall below 100,000 tCO₂-e, and extend coverage to a greater portion of the economy;
- restricting ACCU and Safeguard Mechanism Credit (SMC) vintages to a rolling five-year vintage window that better aligns with Paris Agreement reporting; and
- bringing forward the 2026-27 Review of the reformed Safeguard Mechanism by one year to consider the above recommendations and ensure that the scheme is fit for purpose to contribute to Australia's NDCs before the submission of the 2035 NDC.

The Authority should also explore whether changes are needed to ensure that there are no loopholes or discrepancies created by current processes for reporting electricity emissions, regarding the following matters:

- electricity emissions may be reported as scope 1 or scope 2 emissions by NGER facilities, depending on whether generation is on- or off-site. Some CMI members voiced concern that this may encourage Safeguard covered facilities with on-site generation to source electricity from third-party suppliers. This could allow entities to shift electricity-related emissions from scope 1 into scope 2 emissions, and thus out of their baseline liability. Theoretically, this could lead to emissions increases if, for example, a facility shifted on-site electricity to a third-party emission-intensive supply source such as diesel generation;
- ensuring electricity sector emissions intensity data reported through NGER aligns with that utilised by the Australian Energy Market Operator (AEMO) to ensure electricity generator emissions intensity is calculated consistently from energy (MWh) dispatched from each facility, as CMI members noted that counting the energy consumed before it is dispatched may cause emissions intensity to appear lower.

More broadly, there is a need for Australia's regulatory frameworks to facilitate accurate reporting and disclosure of Scope 3 emissions to improve business management of Scope 3 emissions. We consider that the NGERs framework should facilitate ways for scope 3 emissions to be reported by NGER facilities to provide a

²⁴ See CMI, DCCEEW Safeguard Mechanism Rules: Consultation on proposed design (February 2023), Available at https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf.



minimum level of transparency that could be subsequently incorporated into mandatory climate-related financial disclosure requirements once this is implemented.

Further commentary on the importance of Scope 3 emissions reporting and management is provided under Recommendation 16.

5. To support the accuracy of Australia's National Greenhouse Accounts and commitments under the Global Methane Pledge, the Authority's NGER Act Review should investigate more accurate approaches to measuring fugitive methane emissions.

[Issues Paper Question 22]

More transparent and accurate measurement, reporting and verification of methane emissions in Australia is critical to ensure the veracity of Australia's National Greenhouse Accounts and support Australia's commitments under the Global Methane Pledge.

Recent studies based on top-down satellite data have suggested that fugitive methane emissions at Australia's open cut coal mines are underreported.²⁵ This is potentially due to the inadequacy of default emissions factors, based on national and state averages, stipulated in Method 1 of the NGER reporting framework. This issue was canvassed in the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) recent NGER scheme 2023 Amendments consultation, which deferred a solution to the Authority's 2023 NGER Act Review.²⁶

CMI notes that the United Nations has announced a new worldwide satellite monitoring system that will use top-down methods to provide greater oversight of global fugitive methane emissions.²⁷ CMI suggests that the Authority's NGER Act review should investigate practical methods for measuring fugitive methane emissions at mines that are based on site-specific actuals.

6. Australia should expedite the development of a carbon border adjustment mechanism (CBAM) as a durable solution to address carbon leakage risks presented by the reformed Safeguard Mechanism and consider early commencement for high-exposure sectors like cement and steel, drawing on learnings from the EU CBAM

[Issues Paper Questions 21, 24]

CMI is highly supportive of the Government's commitment to exploring a CBAM as highlighted in its final policy approach to the Safeguard Mechanism.

²⁵ See: S Assan 2022, 'Tackling Australia's coal mine methane problem', 8 June, Ember, <https://ember-climate.org/app/uploads/2022/06/Ember-Tackling-Australias-Coal-Mine-Methane-Problem-2.pdf>; Australasian Centre for Corporate Responsibility (ACCR) 2022, 'Glencore's Methane Problem', <https://www.accr.org.au/research/glencore%E2%80%99s-methane-problem/>.

²⁶ DCCEEW 2023, 'National Greenhouse and Energy Reporting (NGER) Scheme: 2023 Amendments – Consultation Outcomes Paper', https://storage.googleapis.com/files-au-climate/climate-au/p/prj25b794744762ba7f9facb/public_assets/2023%20NGER%20consultation%20outcomes%20paper.pdf, pp. 6–7.

²⁷ See: J Bowler 2022, 'UN announces new methane monitoring program – challenging Australia's coal industry', 11 November, Cosmos Magazine, <https://cosmosmagazine.com/earth/un-mars-methane-satellite-australia-emissions/>.



The Authority should highlight the potential value of this mechanism in supporting the competitiveness of Australian industry as it commercializes and how this can also protect Australian heavy industry from being blocked market access in Europe as the European Union's CBAM enters into application in its transitional phase from October 2023 and full operation from January 2026.

7. In determining Australia's approach to engaging with international carbon markets, careful consideration should be given to ensuring high integrity outcomes that both support Australia's net zero transition and contribute to global climate action. This may include:

- a) **ensuring the ability to surrender carbon credits, whether ACCUs or international high integrity international credits in the future, does not dilute the driver for at-point, facility-level decarbonisation of Safeguard Mechanism covered facilities;**
- b) **establishing an appropriate sequencing timetable for linking Australia's carbon market to international carbon markets that prioritises linkages with compliance markets followed by high integrity voluntary markets only after Article 6 rules, modalities and procedures arrangements are clarified; and**
- c) **facilitating the export of ACCUs into international markets to support their contribution to global climate action by ensuring the CFI Act and associated legislation aligns ACCUs with international best practice benchmarking criteria to enable their fungibility in international markets.**

[Issues Paper Questions 15, 24, 28, 30]

We note the Government has committed to consulting on legislative amendments that would be required to permit international trade of carbon credits between Paris Agreement country parties that wish to use carbon markets to cooperatively pursue their NDCs.

We consider it would be prudent for the Government to consult, alongside any exposure draft legislation, on the market conditions or thresholds that would be appropriate to trigger the import and use of high-integrity international units. This would include carefully sequencing the introduction of necessary amendments into Parliament. The NCMS mentioned in Recommendations 3 and 10 could support this sequencing and planning.

The Government should establish an appropriate sequencing timetable for linking Australia's carbon market to international carbon markets that prioritises linkages with compliance markets followed by high integrity voluntary markets only after Article 6 rules are established.

On the matter of whether international units should be permitted to be used for Safeguard Mechanism compliance, the key consideration is ensuring the ability to surrender carbon credits, whether ACCUs or international high integrity international credits in the future, does not dilute the driver for at-point, facility-level decarbonisation of Safeguard Mechanism covered facilities. As we have previously highlighted, the Safeguard Mechanism milestone review that is currently scheduled for 2026-27 should assess the effectiveness of the regulatory settings against real world at-point decarbonisation investments, as well as use of ACCUs, SMCs and other flexibility measures.²⁸

²⁸ See CMI, DCCEEW Safeguard Mechanism Rules: Consultation on proposed design submission (February 2023), Available at https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf.



CMI notes that any consideration of eventual amendments permitting the use of international units under the Safeguard Mechanism is currently not slated until at least the 2026–27 review and supports this timeline. We also note that it is unlikely that Article 6 rules and associated infrastructure will have matured to facilitate this being contemplated much earlier than 2026.

Beyond considerations about the sequencing of Australia's linkage with international markets and the need to design Australia's carbon market to best incentivise investment in decarbonisation, consideration should also be given to enabling Australia's carbon market to support international climate action in the future through the export of ACCUs into overseas markets.

To support future Government decisions about the export and international trade of ACCUs, the Authority's 2023 CFI Act review should canvas potential amendments that may be required to align ACCUs with emerging international 'high integrity carbon credit' benchmarking criteria and tools. Such alignment may be required to support international ACCU demand.

For example, eligibility criteria from the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is increasingly used as a benchmarking tool for high-integrity international carbon credits.²⁹ For example, Singapore will use CORSIA criteria to determine which carbon credits are eligible for use by emitters seeking to partially reduce their liability under changes to its carbon tax.³⁰ CMI members have highlighted that ACCUs may not be CORSIA compliant and that this may affect the international standing of Australia's carbon unit in the future.

Other international criteria and frameworks that the Authority to consider when assessing the CFI Act to support the Government readying the ACCU scheme for international trading include the Integrity Council for the Voluntary Carbon Market (IC-VCM) Core Carbon Principles (CCPs)³¹ and the newly released Voluntary Carbon Market Integrity Initiative Claims Code of Practice (VCMI Code).³²

- 8. The Government should provide transparency on the inputs and processes used to compile Australia's National Greenhouse Accounts and UNFCCC National Inventory Reports to:**
- a) provide assurance that all abatement, including that achieved through the ACCU scheme, is accurately and consistently accounted for, including avoiding double counting; and**
 - b) ensure that Australia's emissions accounting framework is fit to participate in potential future international cooperative emissions trading arrangements under Article 6, including through the application of corresponding adjustments, if/when appropriate.**

[Issues Paper Questions 21, 24, 29]

In its review of the NGER Act and CFI Act, CMI encourages the Authority to examine how Australia's National Greenhouse Accounts and UNFCCC National Inventory Reports are compiled to ensure they are fit for purpose in the Paris Agreement era.

²⁹ International Civil Aviation Organization (ICAO) 2023, 'CORSIA Emissions Unit Eligibility Criteria', https://www.icao.int/environmental-protection/CORSIA/Documents/TAB/CORSIA%20Eligible%20Emissions%20Units_March2023.pdf.

³⁰ P Kierman 2022, 'Singapore to use CORSIA eligibility criteria for offsets in carbon tax scheme, door open for greater credits role', 11 May, Carbon Pulse, <https://carbon-pulse.com/159011/>.

³¹ IC-VCM 2023, 'The Core Carbon Principles', <https://icvcm.org/the-core-carbon-principles/>.

³² VCMI 2023, 'Global launch: New VCMI Claims Code to accelerate corporate use of voluntary carbon markets as part of net-zero pathways', 28 June, <https://vcmintegrity.org/launch-claims-code/>.



CMI understands that Australia's National Greenhouse Accounts are compiled from a range of sources, and that abatement from ACCU projects is not a direct input. The Government should provide greater transparency on how abatement achieved through the ACCU scheme is represented in the National Greenhouse Accounts to support public understanding, and provide assurance that eligible emissions reductions and removals are contributing to Australia's NDCs and double counting is avoided.

For example, the Government should clarify that reported NGER emissions feed into the National Greenhouse Accounts in gross (not net) terms. This will ensure that abatement associated with land-based ACCUs cancelled by Safeguard facilities is not double counted, given that land sector emissions—including abatement derived from land-based ACCU projects—are already calculated and factored into Australia's accounts through the Full Carbon Accounting Model (FullCAM).³³

The Government should moreover consider whether Australia's current accounting arrangements are fit for participation in Article 6 cooperative emissions trading arrangements, or whether a more direct relationship between ACCU scheme cancellations and the National Greenhouse Accounts would be required to facilitate the future export of ACCUs and associated corresponding adjustments (more on international considerations under Recommendation 7). An Australian NCMS (as advocated in Recommendation 3) could further guide these considerations.

9. To strengthen domestic and global confidence in Australia's carbon crediting scheme and enable it to best support Australia's economy-wide transition, the Government should progress the ACCU Review Implementation Plan in a timely manner, expediting recommendations that will increase scheme- and project-level transparency.

[Issues Paper Questions 24, 25, 28, 29]

CMI welcomed the findings of the ACCU Review, which concluded that the scheme was “essentially sound” and recommended improvements to ensure Australia's carbon crediting framework remains fit-for-purpose, with several longer-term structural reforms also proposed to ensure continued investment and community confidence in the scheme, enabling it to support Australia's economy-wide transition.

CMI notes that to ensure carbon markets and crediting frameworks are supporting decarbonisation and credible climate action, constant review, reform and improvement is necessary. We recognise the Authority's regular review of the CFI Act, which oversees the ACCU crediting framework, as an important component of that process.

We find that improvements to scheme- and project-level transparency can be achieved through the implementation of the ACCU Review recommendations, as outlined in the Government's ACCU Review Implementation Plan.³⁴

When consultation on the Government's ACCU Review Implementation Plan priority actions opens, CMI will advocate for the progression of transparency recommendations in a manner that supports greater project-level transparency for the ACCU scheme, as is the case under international voluntary carbon market standards

³³ See more information in: DCCEEW 2023, 'Tracking and reporting greenhouse gas emissions', <https://www.dcceew.gov.au/climate-change/emissions-reporting/tracking-reporting-emissions>.

³⁴ DCCEEW 2023, 'Independent Review of Australian Carbon Credit Units: Implementation Plan', July, <https://www.dcceew.gov.au/sites/default/files/documents/accu-review-implementation-plan.pdf>



(Verra's VCS, Gold Standard), and benchmarking criteria (CORSIA, CCPs). Amendments to the CFI Act that will facilitate public disclosure and transparency around project-level information that is at present protected information, where possible, will also support further transparency.³⁵

CMI also supports development of a comprehensive National Data Platform, as recommended by the ACCU Review, which will further enhance transparency and data accessibility in the future.

10. The Government should review the CFI Act's 'least cost' ACCU purchasing mandate to allow government-funded purchases to target high priority carbon methods as informed by the NCMS, such as projects that:

- a) facilitate emerging abatement and removals technologies;**
- b) support social and environmental co-benefits aligned with the Sustainable Development Goals (SDGs); and**
- c) partner with First Nations groups to support social and economic opportunities, including in remote communities.**

[Issues Paper Question 24]

CMI reiterates calls for the Commonwealth ACCU purchase 'least cost abatement' mandate—outlined in Section 20G of the CFI Act—to be amended to facilitate more targeted purchases.³⁶

Under the reformed Safeguard Mechanism, private sector compliance purchases will support demand for least-cost ACCUs. In this context, CMI recognises an enduring role for Commonwealth purchases to support investment in emerging abatement and removal technologies. This will help bring down marginal abatement costs and commercialise these solutions, which will be vital to limit and reverse overshoot on the journey to 1.5C.³⁷ Carbon credits with targeted co-benefits to support SDG outcomes and partnerships with First Nations organisations should also be prioritised. For example, ACCU methods like blue carbon have high implementation cost but hold significant social and biodiversity potential, including supporting coastal adaptation and other co-benefits (see Recommendation 1). Strategic priorities for targeted ACCU purchases should be guided by the NCMS (see Recommendation 3).

CMI understands that the Government intends to continue funding ACCU purchases through the Powering the Regions Fund (PRF). We would welcome the Government apportioning funding from this collective pool—of which we note \$1.4 billion has already been allocated to support industrial decarbonisation³⁸—to provide market confidence. The Government should also consider outline its intention to continue this funding in forward budgets.

³⁵ For more details on the increased transparency that CMI has and will continue to advocate for under the ACCU scheme through amendments to the CFI Act, please see Position 3 on 'Rigour and Integrity of ERF Methods and Priorities' in our submission to the ACCU Review here: CMI 2022, 'Australian Government Independent Review of ACCUs', <https://carbonmarketinstitute.org/app/uploads/2022/10/FINAL-CMI-ACCU-Review-submission.pdf>, pp. 6-7.

³⁶ See: Ibid, pp. 3, 8; CMI 2022, 'Safeguard Mechanism Reform – Consultation on draft legislation', https://carbonmarketinstitute.org/app/uploads/2022/11/20221101_CMI-submission_Safeguard-Mechanism-Reform-consultation-on-draft-legislation.pdf, pp. 5-6.

³⁷ IPCC 2022, 'The evidence is clear: the time for action is now. We can halve emissions by 2030', <https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease/>.

³⁸ DCCEEW 2023, 'Government priorities: Powering Australia', <https://www.energy.gov.au/government-priorities/australias-energy-strategies-and-frameworks/powering-australia>



11. The Authority should take a holistic approach in considering the merits of a scheme-level buffer within Australia's carbon crediting framework to support conservativeness and additionality, as was recommended by the ACCU Review, including by:

- a) exploring the potential to build on existing risk of reversal buffers that are intended to deal with permanence to support holistic scheme integrity, rather than targeting individual integrity principles, such as 'additionality' and 'conservativeness';**
- b) considering whether existing project-level additionality checks in the CFI Act could be strengthened to better support the outcomes they are aimed at; and**
- c) recommending the Government direct the Clean Energy Regulator to provide transparency around the quantum of abatement that has been discounted through existing risk of reversal buffers and whether/when this collective buffer figure would need to be referred to or adjusted.**

[Issues Paper Questions 23, 24, 25, 26, 27]

When discussing scheme wide buffers to support additionality and conservativeness, CMI members noted that 'conservativeness' is embedded at the method level through the legislated Integrity Standards (OIS).³⁹ Members also noted that 'additionality' is supported at the project level, with projects required to pass a 'newness' test in the approval process.⁴⁰

CMI notes that current 'newness' tests were written into the CFI Act in 2014 following the repeal of the Carbon Pricing Mechanism (CPM) when the former Government shifted the ACCU scheme into the voluntary, incentive-based Emissions Reduction Fund (ERF) approach. As an alternative to a scheme-wide buffer that may better support more targeted additionality assurances, the Authority should consider whether the previous 'newness' checks that applied under the CPM could provide more targeted additionality assurances that better align with the design of Australia's carbon crediting framework that guards additionality through the individual project methodologies.

CMI notes that buffers are already applied to all land-based sequestration projects to reduce reversal risks. Projects with 100-year permanence periods have a five percent discount applied to every credit application before ACCUs are issued, while those with 25-year permanence periods attract a further 20 percent discount on top of this. Some members noted that, while geared at addressing risk of reversal, these buffers can be seen to provide more holistic scheme-wide protections already. CMI notes that there are further protections at the project level, whereby abatement reversal will result in credits being held until the reversal is repaid.

CFI Act legislative rules allow discount rates to be adjusted for projects over time.⁴¹ In its CFI Act review, we encourage the Authority to explore circumstances under which these rates should be adjusted, or if the blanket 5 percent discount approach should be amended. For example, Verra's Verified Carbon Standard's (VCS) 'Non-Permanence Risk Tool' (NPRT) takes a project-level, risk-based approach to calculate project-specific discount rates. Discounted credits are deposited into a shared buffer account that acts as a quasi-insurance policy for all projects in the case of extreme weather events and other scenarios.⁴² CMI notes that if

³⁹ All methods created under the CFI Act must have 'conservative' estimates, projections or assumptions for calculating abatement – see Section 133 (g) of the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth).

⁴⁰ See Section 4A of the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth).

⁴¹ CER 2018, 'Risk of reversal buffer', <https://www.cleanenergyregulator.gov.au/ERF/Choosing-a-project-type/Opportunities-for-the-land-sector/Risk-of-reversal-buffer>.

⁴² Please note, Verra is currently reviewing the VCS for update – see details of the NPRT and proposed changes in Verra's consultation paper: Verra 2023, 'Public consultation on proposed updates to the VCS Program', https://verra.org/wp-content/uploads/AFOLU_Non-Permanence_Risk-Tool_v4.0.pdf, p. 10.



such an approach was applied to the ACCU scheme, it should look for ways to feed in data on changing climate and weather patterns to calculations, for example through data provided by the future National Climate Risk Assessment.⁴³

CMI also recommends that the Government direct the Clean Energy Regulator to provide transparency around the quantum of abatement that has been discounted through existing risk of reversal buffers and whether/when this collective buffer figure would need to be referred to or adjusted.

In making recommendations to adjust or apply new scheme-wide buffers, CMI encourages the Authority to balance a rigorous approach with ensuring projects remain investible. For example, a supply side buffer would place further costs on proponents. A demand-side buffer applied through government purchases would address this, but may constrain supply and impact prices at a time of growing demand with Safeguard reforms.

CMI understands that the Authority is conducting research and modelling into the potential impacts of scheme-wide buffers on demand and prices and encourages the Authority to make these studies public.

12. The Government should clarify that voluntary efforts, including ACCU cancellations—while nested within Australia's National Greenhouse Accounts from an international accounting perspective—may be claimed as 'additional' to Australia's NDC.

[Issues Paper Questions 6, 14, 20]

CMI considers voluntary corporate action to have an important role in augmenting the achievement of Australia's NDCs, up to and beyond 2030.

We maintain that voluntary actions are, by definition, efforts that an organisation elects to make, beyond requirements imposed on them by government policies and regulation.⁴⁴ It is therefore appropriate for organisations undertaking voluntary climate action to be able to claim these efforts as being 'additional'.

However, CMI shares the Authority's view that corporate greenhouse accounts—including all related ACCU cancellations, whether voluntary or compliance driven—are nested and accounted for within Australia's National Greenhouse Accounts.⁴⁵

That said, the Government should not rely on voluntary efforts to set or achieve NDCs (see Recommendation 1). Instead, a best practice approach to NDCs entails setting an ambitious, 'fair share' target and implementing targeted policy actions to achieve targets. Projected voluntary efforts should not be factored into NDC achievement.

Under such an approach, the achievements of voluntary efforts will be 'additional' to the NDC, even when they are accounted for in the national inventory, because they will contribute to the over and above achievement of Australia's NDC.

⁴³ DCCEEW 2023, 'National Climate Risk Assessment', <https://www.dcceew.gov.au/climate-change/policy/adaptation/ncra>.

⁴⁴ See in: CMI 2022, 'Review into the use of international offsets under Commonwealth programs' (submission), April, <https://carbonmarketinstitute.org/app/uploads/2022/04/CCA-Review-of-international-offsets-CMI-Submission-April-2022.pdf>, pp. 11-12.

⁴⁵ Climate Change Authority 2022, 'Review into the use of international offsets', <https://www.climatechangeauthority.gov.au/sites/default/files/2022-08/Review%20of%20International%20Offsets%20-%20Report%20-%20August%202022.pdf>, p. 2.



As Article 6 procedures and modalities mature, the Australian Government should provide guidance on potential implications for voluntary commitments.

To support transparency of the quantum of voluntary participation on the ACCU market, the Government could transparently report these cancellations collectively as a separate line item in the National Greenhouse Accounts. However, we note this may not be possible without adjusting how the national accounts are compiled to allow for the direct attribution of ACCU cancellations (see comments under Recommendation 8). An alternative would be increasing the visibility and consistency of voluntary corporate ACCU cancellations in the Clean Energy Regulator's (CER) Quarterly Carbon Market Reports.⁴⁶

13. The Government has a role to play in guiding best practice, high integrity and high ambition voluntary corporate action, including through its Climate Active program, and should consider:

- a) evolving the Climate Active program to more closely align with best practice net zero guidance, such as the VCM Claims Code and ISO Net Zero Guidance, while encouraging companies to use carbon credits to address their emissions as they pursue science-aligned interim decarbonisation targets; and**
- b) establishing a complementary voluntary program to support nature positive commitments, drawing on the foundational work of the Taskforce on Nature-related Financial Disclosures.**

[Issues Paper Questions 6, 7, 28]

The Government's Climate Active program should guide and promote best practice voluntary corporate climate action, including on the use of carbon credits, for Australian businesses.

While we appreciate that Climate Active certifies voluntary action, we note that certification provides significant reputational benefits to participating entities that stems from it being a government-administered scheme. We consider it is important that Australia does not establish competing regulatory frameworks and institutions that may result in inconsistent approaches to integrity. Over time, we also believe that Australia should work towards establishing legal standards for net zero targets by non-state actors that reflect harmonised international guidance.⁴⁷

CMI recommends that the Government review Climate Active, to build on its carbon neutral approach and align the program with emerging consensus on net zero, science-aligned action.

To do so, the Government should look to the emerging international guidance including the ISO Net Zero Guidelines published at COP27 in 2022.⁴⁸ For corporates engaging with carbon markets as part of their voluntary action, the new VCM Claims Code of Practice provides guidance for the high ambition, high integrity use of carbon credits to support 'beyond value chain mitigation' (BVCM) as a complement to net zero aligned interim targets and should also be considered in this review.⁴⁹

CMI acknowledges that it may not be possible for all currently certified Climate Active organisations to comply with an updated standard. However, we consider that any voluntary, Australian Government-endorsed

⁴⁶ Voluntary ACCU cancellations are reflected in the CER's Quarterly Reports, but inconsistently – access reports here: CER 2023, 'Quarterly Carbon Market Reports', <https://www.cleanenergyregulator.gov.au/Infohub/Markets/quarterly-carbon-market-reports>.

⁴⁷ See further CMI Submission to the UN High-Level Expert Group on Net-Zero Commitments of non-State Entities, available at https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_CMI-sub_UNHG-Net-Zero-Emissions-Commitments-of-Non-State-Entities.pdf.

⁴⁸ International Organization for Standardization (ISO), 'Net Zero Guidelines', <https://www.iso.org/netzero>.

⁴⁹ VCM 2023, 'VCM Code of Practice', <https://vcmintegrity.org/vcmi-claims-code-of-practice/>.



certification standard should reflect the highest standard of international best practice and attaining certification should involve significant behavioural shifts. With growing speculation around the legitimacy of 'carbon neutral' and 'climate neutral' claims under Australian Consumer Law, it is critical that Australia's climate certification standards align with Australian law, acting as a positive complement to the guidance and regulatory enforcement activities of the ACCC and ASIC in upholding corporate best practice on climate risk management and greenwashing.⁵⁰

CMI notes that there may be cases where organisations seeking voluntary certification may also have a compliance obligation under the Safeguard Mechanism. Any Climate Active review should also consider the potential need for guidance in such cases to ensure these entities do not 'double use' ACCUs or SMCs for voluntary commitments and compliance obligations where the emissions boundaries are not overlapping. This guidance should be provided well in advance of the Safeguard Mechanism's first acquittal in April 2025.

The Government's review could also consider the opportunity to establish a complementary voluntary program, through Climate Active, to support voluntary 'nature positive' commitments. This should draw on the foundational work of the TNFD.⁵¹

CMI notes that the Government would need to increase funding for Climate Active to ensure the program is backed with adequately strong resourcing to support increased needs of both growing numbers of participants and checking and enforcing compliance, in coordination with the Australian Competition and Consumer Commission (ACCC) and Australian Securities and Investment Commission (ASIC).

14. The Authority should consider the opportunities for other market-based sectoral approaches and guidance—particularly for electricity, heavy road transport, aviation—that complement the reformed Safeguard Mechanism.

[Issues Paper Questions 2, 4, 5, 7, 12, 18, 19]

As a complement to the reformed Safeguard Mechanism, sub-sectoral targets, regulation and market-based frameworks could play a critical role in accelerating the transition of Australia's aviation, heavy road transport, electricity and agriculture sub-sectors.

CMI reiterates our view of the reformed Safeguard Mechanism is a significant, yet alone itself insufficient, step towards establishing an effective climate change policy framework to guide the net zero transition of Australia's economy.⁵²

To complement the price signal created by declining baselines for Safeguard-covered entities and ensure that key sub-sectors have consistent decarbonisation policy drivers, the Government should explore:

⁵⁰ For example, in May 2023, the Australia Institute referred the Climate Active program to the Australian Competition and Consumer Commission (ACCC), citing concerns that its trademark "provides potentially misleading or deceptive representations about a company's carbon neutral status" (The Australia Institute 2023, 'ACCC Legal Letter', 14 February, <https://australiainstitute.org.au/report/accc-legal-letter/>). The EU has also announced a crackdown on companies making misleading claims about the climate impacts of their products, including around 'carbon neutrality' and 'climate neutrality' (I Kaminski, 'Regulators crack down on corporate carbon neutrality claims', 17 May, Climate Home News, <https://climatechangenews.com/2023/05/17/regulators-crack-down-on-corporate-carbon-neutrality-claims/>).

⁵¹ Taskforce on Nature-related Financial Disclosures (TNFD) 2023, <https://tnfd.global/>.

⁵² See: CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design', February, https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf, p. 3.



Aviation: The reformed Safeguard Mechanism creates an inconsistent pricing driver for domestic aviation, covering only two carriers (Qantas and Virgin Australia). To reduce Safeguard-covered carriers' reliance on ACCUs and encourage sector-wide investment in solutions to reduce emissions-intensity, the Government should:

- amend the NGER Rule to require all domestic air carriers to report nationally as one entity;
 - introduce a jet fuel emissions trading system (ETS) to encourage the uptake of sustainable aviation fuel (SAF) among all domestic carriers;
 - consider targeted government co-investment to support the development of SAF, particularly in the early years of a market-based framework; and
 - fund further research and development (R&D) through the Australian Renewable Energy Agency (ARENA) and Clean Energy Finance Corporate (CEFC) to bring down support the development and commercialisation of low-carbon aviation technologies and bring down the cost of SAF.⁵³
- **Heavy road transport:** The reformed Safeguard Mechanism covers 65 percent of direct emissions from rail freight, but only 2 percent of emissions from road transport freight.⁵⁴ To prevent rail freight emissions from 'leaking' into road transport to avoid coverage and accelerate transport decarbonisation, the Government should consider policy solutions including the following:
 - holistic policy approaches in partnership with State, Territory and local governments;⁵⁵
 - a heavy vehicle FES;⁵⁶ and
 - similar to the SAF ETS proposed above for aviation, a liquid-fuel ETS for heavy vehicles—noting that this should encourage uptake of renewable diesel and 'drop-in' biofuels for existing, older vehicles and not reduce incentives for low and zero emissions vehicles (LZEVs) in freight, minimising potential trade offs between fuel and food/fibre production in the agriculture sector.
 - **Electricity:** The Government should contemplate its approach to driving continued renewable uptake following the 2030 conclusion of the Renewable Energy Target (RET) to ensure that broader economic electrification contributes to Australia's 2035 NDC and beyond. In CMI's 2022 Australian Business Climate Survey, 72 per cent of respondents indicated that additional policy instruments are required to drive clean energy investment and 76 per cent indicated that the RET should be reformed to accelerate decarbonisation.⁵⁷ Thinking is also required on policy drivers to increase grid capacity, particularly

⁵³ This work would build on existing Government commitments, such as the recent \$30 million invested by ARENA to support producing SAF from agricultural feedstocks – see: Minister for Climate Change and Energy and Minister for Infrastructure, Transport, Regional Development and Local Government, 21 June, 'Joint media release: Sustainable aviation fuels set for take-off', <https://minister.dcceew.gov.au/bowen/media-releases/sustainable-aviation-fuels-set-take>.

⁵⁴ Freight on Rail Group (FORG) 2022, 'Submission in response to the Safeguard Mechanism Consultation Paper' (submission), p. 1 (available for download at: <https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper/submission/list>).

⁵⁵ See: CMI 2023, 'The Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia submission', May, https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf, p. 5-6.

⁵⁶ See: CMI 2023, 'The Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia submission', May, https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf, p. 4.

⁵⁷ See further CMI, Australian Business Climate Survey (2022), Available at https://carbonmarketinstitute.org/app/uploads/2022/10/Australian-Business-Climate-Survey-2022_FINAL.pdf.



considering the Government's aspiration to transform Australia into a green hydrogen and renewable energy superpower.⁵⁸

15. The Authority should consider the net zero transition pathway for the agriculture sector to inform a clear Government strategy, carefully balancing the sector's own transition against the opportunities for it to support the broader economy transition through sequestration.

CMI recommends that targeted research be undertaken by the Authority to inform advice to Government.

Australia's agriculture sector is well-placed to support the sequestration needs of other hard-to-abate sectors as well as address its own emissions. However, there are growing concerns that Australian food and fibre producers may face barriers to market access if they are not able to address their emissions, as demand-side climate policies like the EU CBAM mature and proliferate.

To reduce uncertainty and ensure trade-offs are managed appropriately, CMI recommends the Authority's advice to Government on the net zero transition pathway for the agriculture sector be informed by research on the following matters:

- supporting sectoral accounting and reporting methods for the sector by providing guidance to support capacity, capabilities and readiness for future supply chain reporting requirements—drawing on the New Zealand approach, where on-farm reporting capabilities will be followed by an on-farm reporting and pricing system from 2025;⁵⁹
- support insetting methodologies and approaches, drawing on international standards such as the GHG Protocol's Land Sector Removals Guidance,⁶⁰ while ensuring a consistent approach as that to ACCU projects, with regulatory oversight of both from the Clean Energy Regulator;⁶¹
- consider approaches to incentivise agriculture emissions reduction in other regions, notably the EU's effort-sharing approach for sectors not covered by EU ETS;⁶²
- potential trade offs between insetting and the ACCU market, and how to manage these and make informed decisions about participating in the ACCU market that do not hinder foreign market access down the track.⁶³

⁵⁸ For example, see: Minister for Climate Change and Energy and Victorian Minister for Climate Action, Energy and Resources and the State Electricity Commission 2023, 24 June, 'Joint media release: Bolstering Australia's green hydrogen potential in Albury-Wodonga', <https://minister.dcceew.gov.au/bowen/media-releases/bolstering-australias-green-hydrogen-potential-albury-wodonga>.

⁵⁹ New Zealand Government 2022, 'Greenhouse gases: Farm Planning Guidance' (3rd edition), March, <https://hewakaekenoa.nz/wp-content/uploads/2022/03/He-Waka-Eke-Noa-Greenhouse-gases-Farm-Planning-Guidance-March-2022-Final.pdf>.

⁶⁰ GHG Protocol 2023, 'Land Sector and Removals Guidance', <https://ghgprotocol.org/land-sector-and-removals-guidance>.

⁶¹ See comments made in: CMI 2022, 'Climate Active Consultation on Draft Guideline: Accounting for Carbon Sequestration from Tree Plantings', October, https://carbonmarketinstitute.org/app/uploads/2022/10/FINAL_CMI-Climate-Active-Draft-Vegetation-Accounting-Guideline.pdf.

⁶² European Commission, 'Effort sharing 2021-2030: targets and flexibilities', https://climate.ec.europa.eu/eu-action/effort-sharing-member-states-emission-targets/effort-sharing-2021-2030-targets-and-flexibilities_en.

⁶³ Building on research initiatives such as that undertaken by the Southwest Queensland Regional Organisation of Councils (SWQROC): C Adcock 2022, 'SWQROC undertake carbon study', 4 July, <https://www.queenslandcountrylife.com.au/story/7594644/carbon-farming-study-plans/>.



A National Carbon Market Strategy (Recommendation 3) could then help operationalise and guide findings to ensure trade offs are managed with appropriate consideration of risks and opportunities, including building on existing Carbon Farming Outreach Program.⁶⁴

16. The Authority should consider opportunities for the Government to guide deeper structural transition in Australia's economy to ensure Australian business remains globally competitive in a carbon-constrained economy. Priority should be given to the development of sectoral transition pathways that contemplate:

- a) The merits of a regulated, planned approach to phasing out fossil fuels;**
- b) How incentives, regulations, and workforce support programs could be utilised to ensure a just transition, leveraging the expertise of the national Net Zero Authority; and**
- c) How sectoral transition pathways should figure in Australia's mandatory climate-related financial reporting framework alongside the application of corporate transition plans.**

[Issues Paper Questions 12,16]

As CMI highlighted in its submission on the Safeguard Mechanism proposed design⁶⁵, to guide the broader structural transition of Australia's economy towards net zero emissions economy, a range of additional measures will be needed alongside market-based frameworks such as the Safeguard Mechanism.

In part, this is because the Safeguard Mechanism only addresses scope 1 emissions of covered facilities and has no implications for the scope 3 emissions footprint of these facilities. CMI notes the growth in global efforts to account for and address Scope 3 emissions. This is particularly significant for Australia, as one of the world's top exporters of downstream emissions. If Australia is serious about its renewed commitment to supporting our Pacific Neighbourhood to mitigate and adapt to the impacts of climate change, the Government must begin contemplating an approach to managing Australia's scope 3 emissions footprint and its impact on global climate policy efforts.

More broadly, the enhanced Safeguard Mechanism is not sufficient to address the structural economic transition that will be required to support the transition away from high emission industries and towards the industries of the future that will best support a net zero emissions economy.

To address the broader policy challenge associated with structural economic transition, CMI recommends the Authority consider, among other things, the below matters in its advice to Government.

- a) The merits of a regulated, planned approach to phasing out fossil fuels**

International best practice guidance points towards the climate imperative to phase out fossil fuels and scale up renewable energy. By way of example, the UN High-Level Expert Group's *Integrity Matters* report highlights the IPCC's conclusion that existing planned and approved fossil fuel infrastructure will exhaust the remaining carbon budget as well as the International Energy Agency's view that new fossil fuel supply is incompatible

⁶⁴ More information on the Government's Carbon Farming Outreach Program can be found here: business.gov.au 2023, 'Funding the delivery of training and advice to Australian farmers to reduce emissions', <https://business.gov.au/grants-and-programs/carbon-farming-outreach-program>.

⁶⁵ See CMI's Safeguard Mechanism Rules: Consultation on Proposed Design submission (February 2023), available at https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf.



with the required emissions trajectory to achieve net zero, including new supplies of natural gas and LNG exports, which must peak and decline by the end of this decade.⁶⁶

Structural transition away from fossil fuels should be prioritized in the Government's approach to sectoral transition pathways as well as its approach to a National Carbon Market Strategy and supporting finance, as is already reflected in the limitation on access to funding through the Powering the Regions Fund for new or expanding coal or gas facilities.

Through the Net Zero Authority, once established, there is an opportunity to work across governments to guide Australia's structural adjustment away from high-emissions industries and towards the industries of the future that will best support a net zero emissions economy.

This mandate could be supported by reform to establish a form of climate trigger into EPBC Act, but not a trigger that results in an automatic ban on large-emitting projects. This could facilitate assessment of the impact of individual projects on Australia's carbon budget.

Scope 3 emissions reporting could also be facilitated both through Australia's mandated climate-related financial disclosure framework and through NGER (as recommended above under Recommendation 4). Supporting carbon accounting and reporting capabilities in agriculture (see Recommendation 15) will improve the ability of companies to report on supply chain and scope 3 emissions. These should be disclosed to ensure transparency as a minimum standard before moving to regulate scope 3 emissions themselves as part of the phase down and out of Australia's fossil fuel industries that is needed to support the structural readjustment of the Australian economy.

Careful consideration should also be given to Australia trade relationships to establish pathways that are mutually beneficial and aligned with the Paris Agreement. Australia should work closely to support the energy security of key trading partners to which we have traditionally supplied fossil fuels and look to replace these supply arrangements with the export of renewable energy, as Australia moves to embrace its potential as a global renewable energy superpower.⁶⁷

- b)** How the Net Zero Authority can play a critical role in guiding incentives, regulations, and workforce support programs to ensure a just transition for affected workers and communities, in accordance with its proposed terms of reference.
- c)** How sectoral transition pathways should figure in Australia's mandatory climate-related financial reporting framework alongside the application of corporate transition plans.

⁶⁶ See further: UN High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Region' (2022), available at https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf.

⁶⁷ Again, see: Minister for Climate Change and Energy and Victorian Minister for Climate Action, Energy and Resources and the State Electricity Commission 2023, 24 June, 'Joint media release: Bolstering Australia's green hydrogen potential in Albury-Wodonga', <https://minister.dcceew.gov.au/bowen/media-releases/bolstering-australias-green-hydrogen-potential-albury-wodonga>.



As we highlighted to Treasury in response to its consultation on Climate-related financial disclosure⁶⁸, CMI recommends that Australia's regulatory framework draw upon international best practice guidance on corporate transition to support the integrity of business approaches to effectively managing climate risk. In particular, the Government should consider the UK Financial Conduct Authority's introduction of rules for listed companies and large regulated asset owners and asset managers to disclose transition plans as part of their TCFD-aligned disclosures from 2023 and the UK Transition Plan Taskforce's associated guidance.⁶⁹

We also note the European Commission's proposal in February 2022 for a Directive on corporate sustainability due diligence that would mandate climate transition plans compatible with limiting global warming to 1.5°C.⁷⁰

As highlighted above under Recommendation 2, sectoral transition pathways will be a critical element of Australia's structural economic adjustment and it is therefore important that these pathways be underpinned by an apportioned carbon budget.

We also consider that that sectoral transition pathways could be figured within transition planning guidance to support compliance with Australia's mandated climate-related financial disclosure framework, thereby guiding high integrity outcomes.

17. The Government should clarify the sequencing of its Nature Positive Plan, including *Environment Protection and Biodiversity Conservation Act 1999* reform, to ensure its proposed Nature Repair Market facilitates 'nature positive' outcomes complemented by effective corporate reporting in accordance with the Taskforce on Nature-related Financial Disclosures framework.

[Issues Paper Question 31]

As detailed in our submission to the Senate Inquiry into the Nature Repair Market Bills, CMI supports the intent and potential of the proposed NRM, particularly in contributing to the transition to a negative-emissions, nature-positive economy, in alignment with the carbon market.⁷¹

However, we maintain that before the NRM is progressed, the Government should provide a more comprehensive upfront overview of how the NRM would be set up so it can consider the ongoing outcomes of the *Environment Protection and Biodiversity Conservation Act 1999* reform and implementation of the ACCU Review recommendations as these are progressed.⁷²

⁶⁸ See CMI's submission to Treasury's Climate-Related Financial Disclosure Consultation Paper (February 2023), available at https://carbonmarketinstitute.org/app/uploads/2023/02/Carbon-Market-Institute_TSY-consultation_climate-related-financial-disclosure-framework.pdf.

⁶⁹ See further: UK Transition Plan Taskforce, available at <https://transitiontaskforce.net/>.

⁷⁰ See further: European Commission, Corporate Sustainability due diligence, available at https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en.

⁷¹ CMI 2023, 'Senate Inquiry: Nature Repair Market Bill 2023 and Nature Repair Market (Consequential Amendments) Bill 2023 [Provisions]', https://carbonmarketinstitute.org/app/uploads/2023/06/2023.06_Carbon-Market-Institute_NRM-Bill-Senate-Inquiry.pdf.

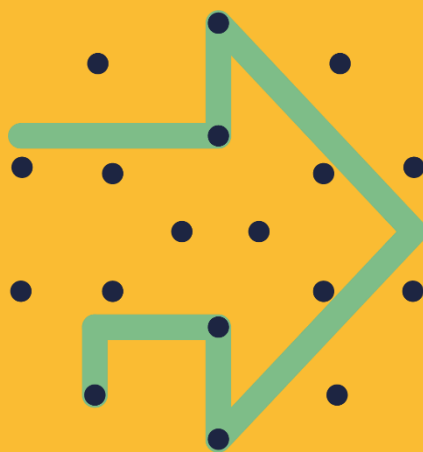
⁷² As advocated by CMI in the public hearing for the Senate Environment and Communications Committee's Inquiry into the Nature Repair Market Bills – transcript available for download at: Parliament of Australia 2023, 'Public hearings', https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/NatureRepairMarket/Public_Hearings.



Environmental markets are not a silver bullet. They must be accompanied by public funding and regulations that prevent environmental degradation and support restoration. They also require appropriate safeguards to avoid perverse outcomes.

That said, approached carefully, CMI considers that Australia's NRM could provide a world-first investment framework that mobilises finance to incentivise and reward scheme participants for delivering 'nature positive' outcomes—that is, outcomes that show a “measurable overall net gain in biodiversity”.⁷³ The NRM would also provide a regulated framework for corporate investments into 'nature positive' outcomes, which we anticipate there will at some stage be growing appetite for as the TNFD framework matures following its finalisation in late 2023.

⁷³ See: EJ Milner-Gulland 2022, 'Don't dilute the term Nature Positive', Nature Ecology & Evolution (available at: <https://www.nature.com/articles/s41559-022-01845-5>).



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