



Harnessing carbon markets to accelerate to Net Zero

Introduction

In 2022, the Climate Change Authority recommended that the Australian Government develop and publish a National Carbon Market Strategy.¹ This policy brief outlines seven key components that the Carbon Market Institute (**CMI**) considers should be included in Australia's National Carbon Market Strategy to support an uplifted 2035 Nationally Determined Contribution (**NDC**) and a more comprehensive approach to the bipartisan 2050 net zero target.²

A National Carbon Market Strategy for Australia

As the Australian Government develops its six sectoral decarbonisation plans to guide Australia's economy-wide net zero transition by 2050, CMI believes an enduring national climate policy framework requires robust consideration of market-based frameworks.

Carbon markets are a vehicle for boosting ambition and accelerating decarbonisation both within and between sectors and economies. They do so by allowing for the cooperative purchase and transfer of greenhouse gas mitigation outcomes between economic sectors and/or across national borders. In doing so, carbon markets allow hard-to-abate industries to finance abatement elsewhere while solutions for their own at-point decarbonisation are still developing.

Designed with broad economic coverage, appropriate guardrails, and supporting policies to drive transformational investments, Australia's carbon market can play a vital role in linking the six sectoral transition plans. Australia has well over a decade of experience with national carbon markets, with reforms underway to enhance transparency and integrity following the Independent Review of Australian Carbon Credit Units (**ACCU Review**) led by former Chief Scientist Professor Ian Chubb, and a separate review by the Australian National Audit Office.

By leveraging carbon markets, including the reformed Safeguard Mechanism for the industrial sector, Australia can reinforce long-term signals for investment in whole-of-economy emissions reductions and removals, and accelerate cross-sectoral decarbonisation. These investment signals will ultimately be best aligned with consistent carbon constraints across all sectors. The Renewable Energy Target, incoming New Vehicle Efficiency Standard (NVES), and proposed Guarantee of Origin certificates for renewable electricity, hydrogen and other resources, will all leverage Australian carbon market expertise and infrastructure, including registries.

¹ See Recommendation 7 in: Climate Change Authority (CCA) 2022, 'Review of international Offsets', <https://www.climatechangeauthority.gov.au/sites/default/files/Review%20of%20International%20Offsets%20-%20Report%20-%20August%202022.pdf> p. 41. See also: CCA 2023, '2023 Review of the Carbon Credits (Carbon Farming Initiative) Act 2011', <https://www.climatechangeauthority.gov.au/sites/default/files/documents/2023-12/2023%20Review%20of%20the%20Carbon%20Credits%20Act%202011%20-%20publication.pdf>, pp. 79-81.

² See also: CMI 2023, 'Climate Change Authority: Setting, tracking and achieving Australia's emissions reduction targets submission', https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf; CMI 2023, 'Department of Climate Change, Energy, the Environment and Water: ACCU Review Discussion Paper submission', https://carbonmarketinstitute.org/app/uploads/2023/10/2023.10_CMI_ACCU-Review-Discussion-Paper_submission.pdf; CMI 2024, 'Department of the Treasury 2024-25 Pre-Budget Consultation submission', https://carbonmarketinstitute.org/app/uploads/2024/01/FINAL_CMI_2024-25-pre-budget-submission.pdf; CMI 2023, 'CMI Policy Positions', https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf.



The strategic use of carbon markets can help Australia meet its 2030 emission reduction goals, and to lodge and achieve a significantly uplifted 2035 NDC of well over 70 percent emissions reductions, based on 2005 levels. A carbon market strategy can also support an orderly and accelerated transition towards achieving net zero and negative emissions by, and ideally before, 2050.

On the international stage, Australia's strategic engagement with carbon markets—including under Article 6 of the Paris Agreement—can also support accelerated regional decarbonisation. By leveraging carbon markets, Australia can cooperate with regional neighbours to channel finance into high-cost mitigation technologies and actions that may otherwise be out of their reach. This can help bridge mitigation gaps and support developing countries to meet higher-ambition conditional NDCs that require extra international investments.

Capacity building, including pilot project investments, should be at the heart of Australia's regional engagement with carbon markets. Supporting knowledge transfer and skills uplift will equip neighbouring countries to establish carbon markets and cooperative agreements in a way that supports their broader climate resilience and development goals.

Ensuring that emissions reduction projects are designed to deliver additional socio-economic and environmental outcomes is also crucial.

Key components of a National Carbon Market Strategy

To be successful, a National Carbon Market Strategy for Australia should:

- 1. Strengthen current market-based frameworks and develop a pathway towards a consistent carbon constraint for all sectors of the Australian economy, including by:**
 - a) clarifying the evolution of the reformed Safeguard Mechanism following the 2026-27 scheduled review, to broaden and deepen the scheme by progressively dropping the coverage threshold to 25,000 tCO₂-e scope 1 emissions and extending its application to other sectors of the economy;
 - b) strengthening the guardrails within the Safeguard Mechanism to sharpen the long-term investment signals it provides, for example through rolling vintage windows for carbon credits; and
 - c) establishing complementary market-based frameworks to drive transformational investments in the energy, transport and aviation sectors, leveraging the Guarantee of Origin framework and fuels standards.

- 2. Expedite the Government's proposed legislative and policy reforms following the ACCU Review to enhance scheme governance, transparency and participation model to ensure integrity and facilitate investor confidence in ACCU supply.** This should include:
 - a) ensuring the proposed reforms to the *Carbon Credits (Carbon Farming Initiative) Act 2011* (CFI Act) are enacted before the end of 2024, including the establishment of the Carbon Abatement Integrity Committee;
 - b) ensuring DCCEEW's role in the new method development process maximises equitable participation by all proponents under the proponent-led co-design model;
 - c) expediting the development of a national data platform (ACCU Review Recommendation 4.2) and maximising transparency, data access and data sharing through interoperability with Environment Information Australia and other aspects of the Nature Positive Plan;
 - d) clarifying the long-term permanent arrangements for the carbon abatement contract (CAC) exit pilot program; and



- e) establishing a mechanism to improve Indigenous participation in the ACCU Scheme and support amended Indigenous free prior and informed consent arrangements.

3. Clarify the Government's purchasing role in carbon and nature markets, to support strategic investment priorities and avoid market distortions where the government competes with private market participants. Actions should include:

- a) amending the CFI Act's 'least cost' ACCU purchasing mandate to allow Commonwealth procurement to target high priority abatement methods that more holistically service the objects of the CFI Act;
- b) articulating investment priorities drawing on models such as the Queensland Land Restoration Fund's (LRF) Priority Investment Plan and establishing a process for periodic review;
- c) clarifying the purchasing entity for government procurement of ACCUs and, potentially in future, government procurement of Nature Repair Market certificates (see below);
- d) clarifying when the government will engage as a buyer in the Nature Repair Market, thereby underwriting projects and reduce the risk profile for landholders and other stakeholders on the supply side, as this new market matures;
- e) confirming permanent arrangements following the pilot exit arrangements for fixed delivery CACs, in a way that balances fairness and equity for contract holders with durability and market certainty;
- f) committing to reinvest revenue saved and raised by CAC exits into the ACCU Scheme; and
- g) ensuring that future Government purchase agreements require robust benefit-sharing arrangements with project stakeholders, including First Nations groups.

4. Ensure complementary policy frameworks and regulations facilitate deep structural transition in Australia's economy and mitigate the risk of inappropriate use of carbon markets that could delay decarbonisation of Australia's industrial and energy sectors. Aligning complementary policies will require:

- a) ensuring alignment of carbon market mechanisms with investments made under adjacent initiatives, such as the Future Made in Australia package, the National Reconstruction Fund, and the Powering the Regions Fund, as well as funding exercised under mandates for the Clean Energy Finance Corporation and the Australian Renewable Energy Agency (ARENA);
- b) charting a clear pathway towards phasing out fossil fuels in partnership with our key trading partners to implement Australia's international commitments made at COP28;
- c) establishing a more rigorous assessment framework for emissions-intensive developments in Australia by introducing a requirement for new developments to demonstrate their impact on the climate, and by incorporating a climate trigger into Australia's environmental laws; and
- d) developing additional regulatory guidance and standards, which draw upon international standards, to support the credible and high integrity use of market-based solutions in company net zero and nature positive targets and transition plans.³

5. Guide the carbon market towards increased investment in removal projects, while continuing to support the important role that avoidance credits play in the short to medium term in accelerating the global transition. International best practice guidance⁴ underscores the need to

³ CMI welcomes the Government's budgetary commitment of \$1.3 million to develop and release best practice guidance for disclosing net zero transition plans³ and looks forward to supporting the development of fit-for-purpose regulatory guidance and standards. See further <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/investing-future-made-australia>.

⁴ Oxford University (2024), Oxford Principles for Net Zero Aligned Carbon Offsetting (revised 2024), available at: <https://www.smithschool.ox.ac.uk/sites/default/files/2024-02/Oxford-Principles-for-Net-Zero-Aligned-Carbon-Offsetting-revised-2024.pdf>.



transition investment towards carbon removal projects with durable storage to compensate for residual emissions at a state of net zero, while also facilitating net negative emissions to address the possible overshoot of the 1.5C target. As adjacent regulations are strengthened to prevent deforestation and restore ecosystems, the carbon market can still play a vital role in halting and reversing forest loss and land degradation through carbon credits earned from emissions avoidance projects. Government policy and regulation can play a key role in managing this shift by:

- a) setting targets and establishing incentives to scale investment in carbon removal projects with durable storage, while balancing competition risks with clean energy development and land space for agricultural production;
- b) establishing a governance framework which considers restriction on the use of removal credits to fund carbon dioxide removal technologies where this would extend the use of fossil fuels or impact the economy-wide carbon budget;
- c) ensuring ACCU methods for nature-based carbon storage support the Glasgow Leaders Declaration on Forests and Land Use to halt and reverse forest loss and land degradation by 2030, as well as the goals and targets under the Kunming-Montreal Global Biodiversity Framework; and
- d) continuing to support investment in nature-based solutions and carbon removals, while strengthening other regulations to prevent deforestation.

6. Support mutual complementarity between Australia's carbon and nature markets, including interoperability between the ACCU Scheme and the Nature Repair Market to minimise or avoid administrative duplication and encourage broad participation in both markets.

7. Guide Australia's engagement with international carbon markets, ensuring high integrity outcomes that support Australia's net zero transition and contribute to global climate action, including by:

- a) articulating a timetable for linking Australia's carbon market with international emissions trading schemes and policies, prioritising achieving an ambitious NDC, giving due consideration to supporting stability and price in Australia's carbon market, and balancing supply/demand outlook;
- b) ensuring that the ability to surrender carbon credits in the future, whether using ACCUs or high integrity international credits, does not dilute the driver for the at-point, facility-level decarbonisation of Safeguard Mechanism covered facilities; and
- c) supporting international cooperative initiatives to harmonise carbon market frameworks, including through the G7 Climate Club and the taskforce recently established by the WTO and other international monetary bodies that will create a methodology to determine global carbon prices and support equity across markets; and
- d) reinvigorating the Indo-Pacific Carbon Offsets Scheme (IPCOS) to ensure it meets regional needs, including capacity building and pilot projects.