Carbon Market Reforms are Generally Positive

On Monday 9 January, the Australian Government published the long-awaited Chubb Review of the Australian Carbon Credits Scheme. So named after the key author, Professor Ian Chubb, formerly Australia's Chief Scientist.

While assuring the overall soundness of the scheme, the review delivered observations, 16 recommendations, and suggestions for further consideration.

While providing limited, yet important recommendations at the methodology level, the Panel determined that the credibility and integrity of the scheme can be improved through the **proposed structural and transparency changes.** These include:

- The **separation** and clarification of **duties**
- Addressing the **appropriate resourcing** of the main bodies contributing to the integrity of the scheme and ACCUs - CER and CAIC (Carbon Abatement Integrity Committee)
- Clarifying and enhancing **Offsets Integrity Standards**
- **Carbon service provider accreditation**

Aimed at ensuring the scheme continuously evolves towards the highest standards of integrity will lead to ACCUs generated under the scheme to be of high quality. Importantly, the credits delivered will be additional, permanent and not double counted in reduced, avoided or sequestered CO2.

In terms of the recommendation related to the specific methodologies, the **Avoided Deforestation** methodology will no longer be eligible for the new projects. We see it as an alignment with the international approach whereby under UN REDD+ methodology and the associated climate finance in relation to avoided deforestation, caused through both legal and illegal activities, the focus is on support for projects in least developed and developing countries. Those countries experience a high risk of deforestation and are lacking either policy or ability to implement the policy preventing undue deforestation, particularly as it is such an important source of revenue for forest communities. We believe that the Australian policy and governance ensures that deforestation risk can be well managed outside the carbon markets, and as such avoided deforestation projects would not meet the additionality criteria.

While the overall criticism of the **HIR** (Human Induced Regeneration) methodologies have not been fully addressed in the relevant recommendations, we believe that the recommendation on the structural changes as well as enhanced data transparency will drive the improvement in the overall quality of HIR projects. Any potential enhancement can be implemented as the HIR methodology comes to an end in July 2023 and will be integrated under the IFM (Improved Farm Management) methodology.

The call for reassessing the baselines of the **Landfill Gas** projects, with the purpose of reflecting the existing State and Territory requirements in relation to the methane management, addresses concerns around over crediting. A better oversight of the scheme and the enhanced transparency as well as the requirements to adjust the baselines, as the regulatory framework in relation to methane

emissions changes, are important recommendations in delivering a credible emission reduction through this methodology.

There has been no specific recommendation around **CCS**, other than the recognition that, as emphasised by the IPCC (Intergovernmental Panel on Climate Change), this methodology will play an important role in addressing climate change. It remains to be seen whether CCS methodology will shift under Safeguard Mechanism Credits, which aim at capturing the emission reduction within the facilities covered by the safeguard. The Panel comment underlying economic considerations in conjunction with the importance of this technology is seen to play a key role in the decarbonisation efforts, which may in turn influence whether the activities will fall under SMC or ACCUs methodologies.

We also welcome the range of recommendations around consultation with and involvement of our **First Nations People**, which we see as a closer alignment with the themes discussed in COP26 and 27 as well as COP15 in Montreal. The indigenous communities both play a vital role in addressing the climate and biodiversity crises, and are already significantly impacted by the devastating changes due to the climate crisis. As such, it is crucial they are not only consulted, but where appropriate involved in the projects, sharing their knowledge on how to best address the challenges through appropriate project design .

Coinciding with the findings of the Chubb Review, the Hon. Chris Bowen, Minister for Climate Change and Energy, released the Safeguard Mechanism Reforms position paper while at the same time inviting consultation on the draft legislative rule changes. Feedback is open until 24 February 2023 with the plan to adopt the legislation from 1 July 2023.

The Safeguard Mechanism is managed by the Clean Energy Regulator and requires any facility that emits in excess of than 100,000 tonnes of CO2e per annum to report these emissions to the Regulator. If emissions were above an agreed baseline emissions level, the facility owner must reduce or offset these emissions through the purchase and retirement of ACCUs. One of the primary problems with the existing scheme is that baselines were set with such headroom as to make the scheme ineffectual. Of the 215 facilities under the Safeguard Mechanism, just six of those exceeded the baseline in FY21.

The redesign of the Safeguard Mechanism is aimed squarely at supporting the Government's commitment to reducing overall emissions by 43% compared to the 2005 level by FY30, as part of Australia's now legislated NDC (Nationally Determined Contribution). Safeguard facilities emitted an aggregate of 137m tonnes of CO2e in FY21 with the reforms targeting a decline to 100m tonnes in FY30. In order to achieve this, on average, the proposed Safeguard Mechanism trajectory will require facilities to reduce emissions by a compounding 4.9% per annum from FY24 to FY30.

We expect baselines to be reset at or near current emissions levels on a production-intensity basis. Facilities that operate below their baseline will generate Safeguard Mechanism Credits that can be traded or banked to offset future shortfalls. Also featuring in the position paper:

- Up to $600m available in grants to support decarbonisation efforts available for trade-exposed industries
- A hybrid baseline model, transitioning to industry average baselines by FY30
- A cost containment measure would make Government-held ACCUs available at $75 per tonne of CO2-e in 2023-24, indexed at CPI plus 2 percent each year (to be reviewed in FY27)
- The ability for companies to go into a shortfall deficit by borrowing up to 10% of their compliance requirement, a 10% interest rate.