

Implications of the Independent Review of Australian Carbon Credit Units (ACCUs) and low integrity ACCUs for Australia's Safeguard Mechanism

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1. Introduction

Under the Albanese Government's climate policy, the Safeguard Mechanism is intended to be the primary mechanism for reducing Australia's emissions and achieving its climate change mitigation targets (43% reduction by 2030 and net zero by 2050). To do this, the Government is making changes to the Safeguard Mechanism to convert it from a regulatory instrument that was originally designed to constrain emission increases into an emissions trading scheme that drives down emissions. Under the enhanced Safeguard Mechanisms, covered facilities will be subject to emission caps based on the emissions-intensity of their operations that will decline over time. These facilities will be able to meet their emission caps (called baselines) by cutting onsite emissions or buying and surrendering either 'Safeguard Mechanism Credits' (a form of emission permit issued to covered facilities if their emissions are below their caps) or Australian carbon credit units (ACCUs).

ACCUs are carbon offsets issued under Australia's carbon offset scheme. Under the scheme, landholders, energy users and other facility operators can register projects that avoid emissions or sequester carbon dioxide (CO₂) in trees, soils or geological formations. Proponents who register and undertake their projects in accordance with specified methods and associated rules are granted ACCUs, a tradable financial instrument. Each ACCU is supposed to represent one tonne of real and additional abatement of greenhouse gas emissions from registered offset projects.

For many of the facilities covered by the Safeguard Mechanism, it is likely to be difficult and expensive to directly reduce their onsite emissions, at least in the short- to medium-term. ACCUs provide a way for these facilities to meet their mitigation obligations by effectively paying someone else to reduce their emissions, where the abatement costs are lower. In theory, allowing facilities with high abatement costs to access offsets should lower the economy-wide cost of reducing greenhouse gases, without sacrificing environmental outcomes. When administered effectively, offsets can also provide biodiversity and social co-benefits.

While theoretically elegant, the cost-effectiveness of policy framework hinges on the integrity of the offsets; that is, the ACCUs must represent **real** and **additional** greenhouse gas abatement. Independent analysis by The Australian National University (ANU) and the University of New South Wales, Canberra (UNSW) Emissions Reduction Fund (ERF) research team suggests there are major problems with the offset scheme's three main methods: landfill gas, avoided deforestation and human-induced regeneration. These three methods account for approximately 75% of the Australian carbon credit units (ACCUs) issued to date.¹ There is strong evidence that at least 30% of ACCUs

¹ Clean Energy Regulator (2023) 'Emissions Reduction Fund project register'. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023).

issued to landfill gas projects, 90% of the ACCUs issued to avoided deforestation projects and 90% of the ACCUs issued to human-induced regeneration projects are ‘high risk’ (or low integrity) credits, in the sense that they are unlikely to represent abatement that is real and/or additional.

In July 2022, the Australian Government established the Independent Review of Australian Carbon Credit Units to, amongst other things, look into the integrity issues raised about the operation of the ACCU market. The terms of reference required the panel to evaluate and advise on:

- the appropriateness of the scheme’s governance arrangements; and
- the integrity of the offset methods, particularly the human-induced regeneration, landfill gas, avoided deforestation, and carbon capture and storage methods.

The review panel’s report was handed down in early January 2023. Its headline finding was that ‘the ACCU scheme arrangements are essentially sound’.² Despite the categorical nature of this finding, the review panel recommended substantial changes to improve the governance of the scheme and fix integrity problems with the three main methods. The Albanese Government has agreed in principle to all of the review’s recommendations.³

If they are implemented fully and professionally, the proposed governance reforms, and several of the method recommendations, **should substantially improve the integrity of new projects**, ensuring that the ACCUs from these projects represent real and additional abatement. This is a positive. The key flaw in the proposed reforms is that **they could largely leave existing projects** untouched.

This paper assesses the impact that high risk, low integrity ACCUs from existing projects could have on the effectiveness of the Safeguard Mechanism in reducing greenhouse gas emissions. The analysis suggests:

- there is the real prospect that existing projects will be allowed to continue to generate ACCUs in accordance with current practice; and
- if this eventuated, the ACCUs generated by existing projects would significantly and adversely affect the Safeguard Mechanism’s capacity to drive down Australia’s emissions; and
- this could jeopardise Australia’s ability to meet its emission reduction targets.

A number of measures are recommended to mitigate the risk that high risk ACCUs pose to the Safeguard Mechanism.

The remainder of the paper is set out as follows. Section 2 summarises the findings and recommendations of the review panel to highlight the risk that existing projects could be left to continue to generate ACCUs in accordance with current practice. Section 3 estimates the number of

² Chubb, I., Bennett, A., Goring, A., Hatfield-Dodds, S. (2022) Independent Review of ACCUs. Department of Climate Change, Energy, the Environment and Water, Canberra, at 2.

³ Bowen, C. (2023) Government welcomes Independent Review of ACCUs. Media Release. Commonwealth of Australia, Canberra. Available at: <https://minister.dcceew.gov.au/bowen/media-releases/government-welcomes-independent-review-accus> (24 January 2023).

high risk ACCUs from existing projects that are likely to be available for use under the Safeguard Mechanism over the period to 2030. Section 4 presents conclusions and recommendations.

2. The review panel’s findings on the main methods

As of 19 December 2022, there were 1,430 offset projects registered under 42 separate methods. More than 560 of these were registered under the three main method types: landfill gas, avoided deforestation and human-induced regeneration (Table 1).⁴

Table 1. Summary of offset projects and ACCU issuances, to 19 December 2022

	Projects	%	ACCU issuances	%
Human-induced regeneration	369	26%	35,895,510	29%
Landfill gas	133	9%	33,828,279	28%
Avoided deforestation	63	4%	24,989,068	20%
Native forest from managed regrowth	23	2%	2,954,997	2%
Tree planting - modelled environmental and mallee plantings	110	8%	1,563,208	1%
Tree planting - measured reforestation	14	1%	870,611	1%
Plantations - establishment and rotation extensions	48	3%	571,262	0%
Other	670	47%	22,018,961	18%
Total	1,430	100%	122,691,896	100%

Source: Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023).

While the panel’s terms of reference required it to evaluate and advise on ‘whether the methods by which ACCUs are generated meet the Offsets Integrity Standards’, it only did this in relation to the human-induced regeneration method. Further, it only considered four of the scheme’s 37 current methods: landfill gas, avoided deforestation, human-induced regeneration and carbon capture and storage.

- On the landfill gas methods, the panel did not provide advice on whether they satisfy the offsets integrity standards but they recommended the ‘methods and crediting period extensions should incorporate upward sloping baselines’.⁵ This is welcome as it could significantly improve the integrity of the ACCUs issued to landfill gas projects. However, **the panel recommended the adoption of the new baselines be optional for existing projects** – an extraordinary suggestion that prioritises the financial interests of existing project proponents over the integrity and cost-effectiveness of Australia’s climate policy. As a consequence of the proposed approach, the effectiveness of the recommendation in

⁴ Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023).

⁵ Chubb, I. et al. (2022) Independent Review of ACCUs. Department of Climate Change, Energy, the Environment and Water, Canberra, at 24.

improving the integrity of ACCUs from landfill gas projects is dependent on the speed with which a method variation is prepared, the robustness of the varied method, and the goodwill of proponents in voluntarily transferring onto the varied method.

- On the avoided deforestation method, the panel did not advise on whether it satisfies the offsets integrity standards. However, it **recommended ‘no new project registrations be allowed under the current avoided deforestation method’**⁶ [emphasis added] – as the ANU-UNSW ERF research team and others have argued.⁷ To give effect to this recommendation, the Australian Government will need to revoke the method. On the release of the review panel report, Minister Bowen said that ‘the panel has recommended that *no further ACCUs be issued* under the deforestation method’ [emphasis added].⁸ The Minister’s interpretation of the panel’s recommendation is incorrect. This is because, unless the law is changed, the revocation of the method will not affect the existing 63 projects or their ability to generate ACCUs through to the end of their crediting periods.⁹
- On the human-induced regeneration method, the panel found it ‘meets the offsets integrity standards and is administered by a robust regulatory framework’.¹⁰ It then **recommended the method be administered to ‘ensure that all HIR projects conform to its current intent: that it is reasonable to expect that the project area will become native forest, attain forest cover, and permanently store carbon as a direct result of project management actions’**.¹¹ To give effect to this, the panel **recommended that ACCU issuances to existing projects cease until they demonstrate compliance with key eligibility requirements**. Despite claiming the method is ‘administered by a robust regulatory framework’, the panel did not review any projects to assess compliance with these requirements. It openly admits this in its report, stating that ‘the Panel did not review individual projects’. The full and proper implementation of these recommendations would have profound implications for existing projects and the ACCUs they are able to generate. However, to date, the Clean Energy Regulator has refused to admit there are any problems with the scheme or its administration, including with the interpretation and application of the human-induced regeneration method. This behaviour does not inspire confidence that the panel’s recommendations will be fully and properly implemented. The panel’s recommendations are also at risk of being bypassed if existing human-induced regeneration projects are allowed to

⁶ Chubb, I. et al. (2022) Independent Review of ACCUs. Department of Climate Change, Energy, the Environment and Water, Canberra, at 23.

⁷ Butler, D. et al. (2022) Australian National University (ANU)-University of New South Wales (UNSW) ERF research team submission to the Chubb Review. Available at: <https://consult.dceew.gov.au/independent-review-of-accu/submission/list> (24 January 2023); Merzian, R., Hemming, P., Schoo, A. (2021) Non-additionality in the Emissions Reduction Fund’s Avoided Deforestation Method. Australian Conservation Foundation and The Australia Institute, Melbourne.

⁸ Bowen, C (2023) Transcript – Doorstop Interview, Taronga Zoo, Sydney, Monday 9 January 2023. Independent Review of ACCUs.

⁹ CFI Act, s 127.

¹⁰ Chubb, I. et al. (2022) Independent Review of ACCUs. Department of Climate Change, Energy, the Environment and Water, Canberra, at 21.

¹¹ Chubb, I. et al. (2022) Independent Review of ACCUs. Department of Climate Change, Energy, the Environment and Water, Canberra, at 21.

transfer onto the proposed Integrated Farm Method. This could overcome the legal noncompliance issues associated with existing projects, allowing them to continue to generate ACCUs for abatement that is generally neither real nor additional.

- On the carbon capture and storage method, the panel did not advise on whether it satisfies the offsets integrity standards. It merely found that, '[while there has been relatively limited deployment of carbon capture and storage (CCS) nationally or globally, it is considered to have an important potential contribution to limiting the pace and extent of climate change'.¹² No recommendations, findings or opinions of any kind were offered on the method or its integrity. However, at present, there are no projects registered under the method.

The review panel did not comment on the scheme's other methods or the 865 projects registered under them. Several of these methods have known integrity problems, particularly the new plantation and measured soil carbon and coal mine waste gas methods. To date, no measures have been proposed to evaluate the integrity of these methods or their projects.

Due to these issues, there is a real prospect that the existing 1,430 projects will be allowed to continue to generate ACCUs in accordance with current practice. If this eventuated, it would significantly and adversely affect the Safeguard Mechanism's capacity to drive down Australia's emissions.

3. Estimated number of high risk ACCUs from existing projects

3.1 Method

A three stage method was used to estimate the number of high risk ACCUs from existing projects that are likely to be available for use under the Safeguard Mechanism over the period to 2030.

Stage 1: Assessment of the ACCUs that are likely to be issued to existing landfill gas, avoided deforestation and human-induced regeneration projects over the 8-year period, 2022-23 to 2029-30. Conservative assumptions were adopted for these purposes.

- For landfill gas, only generation projects were included in the analysis; flaring-only projects were excluded. This is because the integrity issues are largely confined to generation projects. Likely future issuances to generation projects were estimated on the basis of the four-year average issuances over the period 2018-19 to 2021-22, adjusted, where relevant, for upgrades. Crediting periods were estimated on the basis of method registrations: 12 years for those registered under the *Carbon Credits (Carbon Farming Initiative - Electricity Generation from Landfill Gas) Methodology Determination 2021*¹³ and 7 years for those registered under the *Carbon Credits (Carbon Farming Initiative - Landfill Gas) Methodology Determination 2015* (again, adjusted for upgrades).
- For avoided deforestation, only projects that had reported and received ACCUs as of 19 December 2022 were included in the analysis, reducing the number of projects from 63 to

¹² Chubb, I. et al. (2022) Independent Review of ACCUs. Department of Climate Change, Energy, the Environment and Water, Canberra, at 25.

¹³ Including the *Carbon Credits (Carbon Farming Initiative - Electricity Generation from Landfill Gas) Methodology Determination Variation 2022*.

61. For the purposes of the analysis, the two excluded projects were assumed to generate no ACCUs over the study period. The 61 included projects were divided into three groups: (a) those registered on the *Carbon Credits (Carbon Farming Initiative) (Avoided Deforestation) Methodology Determination 2013*; (b) those registered on the *Carbon Credits (Carbon Farming Initiative) (Avoided Deforestation) Methodology Determination 2013* that transferred onto the *Carbon Credits (Carbon Farming Initiative - Avoided Deforestation 1.1) Methodology Determination 2015*; and (c) those registered after 1 July 2015 on the *Carbon Credits (Carbon Farming Initiative - Avoided Deforestation 1.1) Methodology Determination 2015*. For group (a), the projects were assumed to have 20 year crediting periods, while group (b) and (c) were assumed to have 15 year crediting periods. Groups (a) and (b) potentially have backdated start dates, which are not reported on the public project register.¹⁴ To estimate the start dates for these projects, average annual ACCU issuances were estimated over the period from 1 July in the year after the year of first issuances to 30 June 2022. The number of ACCU issuances in the year of first issuances was then divided by this average. The resulting period (in years) was then added to the period from 1 July in the year after the year of first issuances to 30 June 2022 to provide an estimate of the number of years since the start of the project's crediting period. Average issuances over the remainder of the crediting period for groups (a) and (b) were calculated using the average annual ACCU issuances over the period from 1 July in the year after the year of first issuances to 30 June 2022. For group (c), the crediting start date was assumed to be the date of project registration and the average issuances over the remainder of the crediting period were calculated by extrapolating from the average daily issuances from the date of project registration until 30 June 2022. It was conservatively assumed that projects do not remeasure tree biomass to account for tree growth in the remainder of the crediting period.

- For human-induced regeneration, only projects that had reported and received ACCUs as of 19 December 2022 were included in the analysis, reducing the number of projects from 369 to 230. For the purposes of the analysis, the 139 excluded projects were assumed to generate no ACCUs over the study period. All 230 of the projects included in the analysis have crediting periods that end after 2030 (all projects have 25-year crediting periods and the first projects were only registered in late 2014). Average issuances over the period to 2030 were calculated using the average annual ACCU issuances over the period from the date of registration to 30 June 2022, adjusted on the assumption that projects reached the modelled age of maximum tree growth on or around 2021.

Stage 2: Assessment of the number of high risk (low integrity) ACCUs that are likely to be issued to existing landfill gas, avoided deforestation and human-induced regeneration projects over the 8-year period, 2022-23 to 2029-30. This analysis was undertaken using the estimated issuances from Stage 1 and the following assumptions regarding the proportion of ACCUs that are likely to be high risk.

¹⁴ *Carbon Credits (Carbon Farming Initiative) Act 2011*, s 69 (C2012C00749). See: <https://www.legislation.gov.au/Details/C2012C00749> (8 February 2023).

- Based on fact that approximately 97% of the combined project area for registered HIR projects is located in intact native vegetation,¹⁵ it was assumed that 90% of credits likely to be issued to existing HIR projects over the study period will be of low integrity.
- Based on an analysis of the percentage reduction in ACCU issuances that would arise from increasing the average baseline for large generation projects (largest 30 by ACCU issuances to December 2022)¹⁶ to 50%, it was assumed that 30% of the credits issued to existing landfill generation projects over the study period will be of low integrity.¹⁷
- It was assumed that 90% of credits likely to be issued to existing avoided deforestation projects over the study period will be of low integrity.¹⁸ This assumption is based on the fact that the historical average 1988-2010 ‘all clearing’ rate (remnant clearing and reclearing) in the Western Local Land Services region, which contains more than 90% of the combined project area, was 4,085 hectares per year.¹⁹ If it is assumed that half of this is eligible clearing under the method (2,043 ha per yr), and all of this eligible clearing would have occurred in the carbon estimation areas of registered projects if they did not receive ACCUs, it suggests that, over the 15-year crediting period, total clearing would have been 30,638 hectares. This compares to an estimated total carbon estimation area of 360,000 hectares; 9% of the total.

Stage 3: Comparison of the results from Stage 2 to the estimated total abatement task for the Safeguard Mechanism to achieve its objective of reducing net emissions from covered facilities from 143 million tonnes of carbon dioxide equivalents (MtCO₂-e) to no more than 100 MtCO₂-e.²⁰

3.2 Results

Likely ACCU issuances to existing landfill gas, avoided deforestation and human-induced regeneration projects

The analysis suggests at least 64 million ACCUs are likely to be issued to relevant existing landfill gas, avoided deforestation and human-induced regeneration projects over the 8-year period, 2022-23 to 2029-30. Of the three methods, human-induced regeneration dominates, accounting for almost 60%

¹⁵ Macintosh, A., Butler, D., Ansell, D. (2022) Measurement Error in the Emissions Reduction Fund's Human-induced Regeneration (HIR) Method. The Australian National University, Canberra. Available at: <https://law.anu.edu.au/research/publications> (24 January 2023).

¹⁶ For these purposes, projects with upgrades were treated as the same project.

¹⁷ Analysis conducted using: Clean Energy Regulator (2022) ‘Electricity sector emissions and generation data’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/NGER/National%20greenhouse%20and%20energy%20reporting%20data/electricity-sector-emissions-and-generation-data> (18 January 2023); Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023); *National Greenhouse and Energy Reporting (Measurement) Determination 2008* (Cth); and an assumed electrical efficiency of 35%.

¹⁸ Generous assumption based on location of projects and implausibility of the assumption that the areas would be cleared within 15 years.

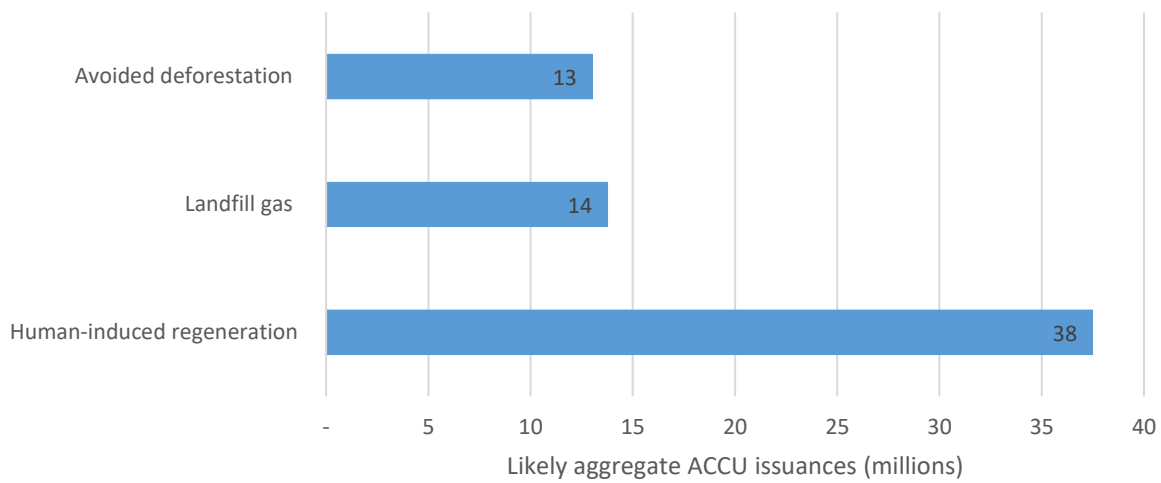
¹⁹ Butler, D. et al. (2022) Australian National University (ANU)-University of New South Wales (UNSW) ERF research team submission to the Chubb Review. Available at: <https://consult.dcccew.gov.au/independent-review-of-accu/submission/list> (24 January 2023).

²⁰ Department of Climate Change, Energy, the Environment and Water (2023) Safeguard Mechanism Reforms – Position Paper. Commonwealth of Australia, Canberra.

of the projected issuances under the three methods. At current ACCU prices of \$36.50, these issuances have an estimated value of almost \$2.4 billion.

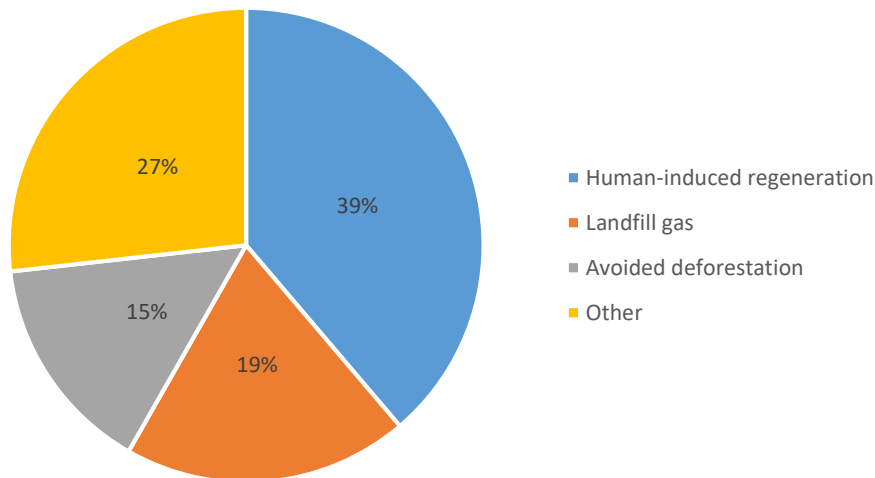
The dominance of existing human-induced regeneration projects is consistent with recent trends in the scheme. As Figure 2 shows, in the 2021-22 financial year, human-induced regeneration projects accounted for almost 40% of all ACCUs issuances. If steps are not taken to address the problems with the administration of the method, existing human-induced regeneration projects are likely to cast an even greater shadow over the scheme, particularly as projects in Western Australia that have not yet reported start to receive credits.

Figure 1. Likely ACCU issuances to existing HIR, landfill gas and avoided deforestation projects, 2022-23 to 2029-30



Source: Authors calculations, based on assumptions outlined in text, and Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023).

Figure 2. ACCU issuances to the three main types of offset projects, 2021-22

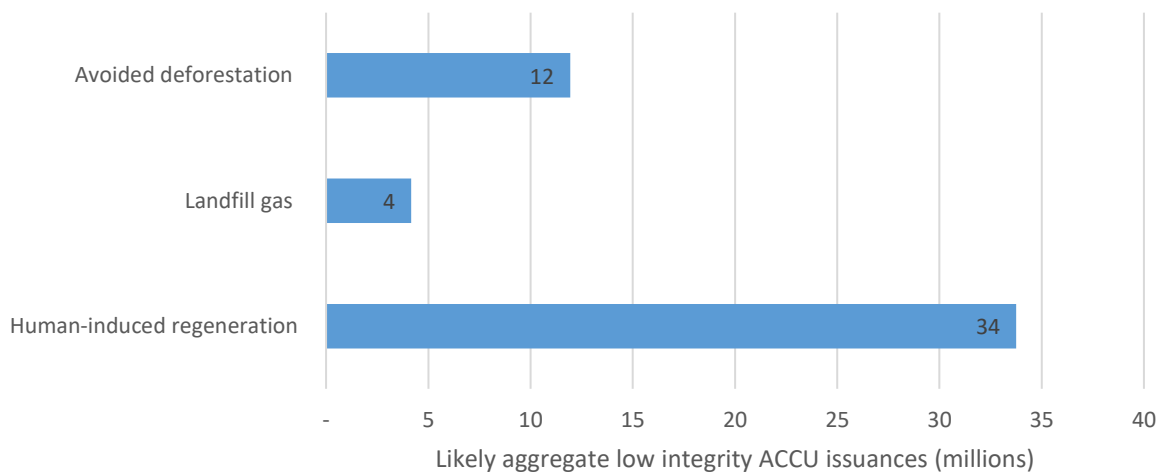


Source: Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023).

Likely high risk ACCU issuances to existing landfill gas, avoided deforestation and human-induced regeneration projects

The analysis suggests that, unless steps are taken, at least 50 million high risk (low integrity) ACCUs are likely to be issued to existing human-induced regeneration, landfill gas and avoided deforestation projects over the 8-year study period to 2030 (**Figure 3**). Not surprisingly, the issuances of high risk credits are dominated by human-induced regeneration projects.

Figure 3. Likely high risk ACCU issuances to existing HIR, landfill gas and avoided deforestation projects, 2023 to 2030



Source: Authors calculations, based on assumptions outlined in text, and Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023).

High risk ACCU issuances and the Safeguard Mechanism

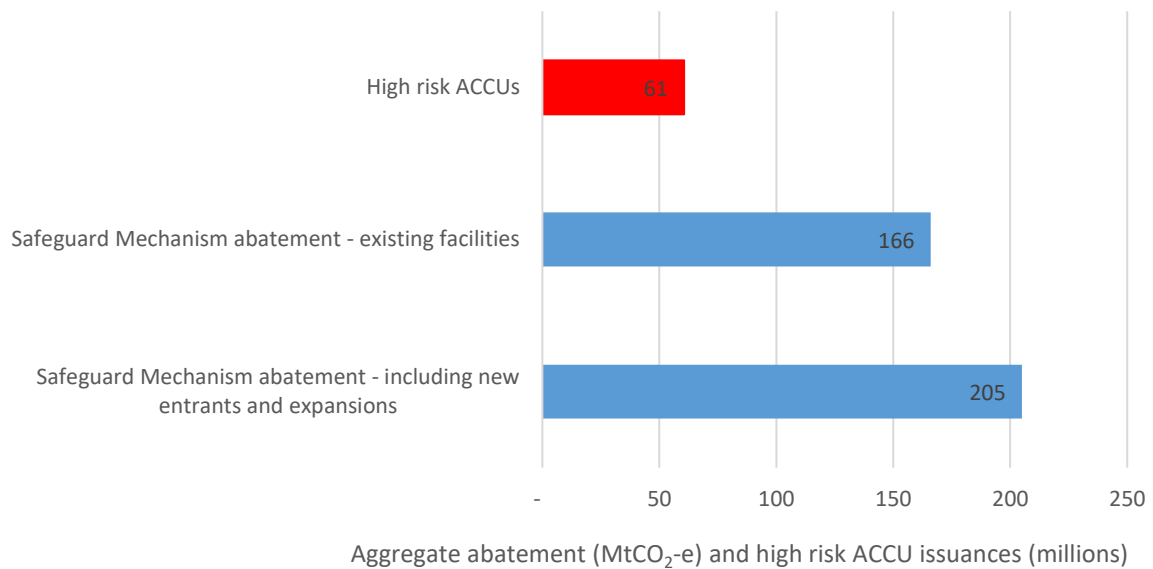
The results of the analysis suggests that, at a minimum, 50 million high risk ACCUs are likely to be generated from **existing** HIR, landfill gas and avoided deforestation projects over the period 2023-2030. This equates to almost 25% of the total abatement projected to be achieved by the Safeguard Mechanism through to 2030, and 30% of the abatement from existing covered facilities over the same period.²¹

These estimates are likely to substantially understate the risks posed by existing offset projects because they do not account for the low integrity ACCUs that could be issued under other methods (e.g. plantations and measured soil carbon), or the 141 human-induced regeneration and avoided deforestation projects that have not yet reported and were excluded from the analysis. They also do not account for the 20 million ACCUs that are currently in holding accounts, which can be sold to

²¹ It should be noted that a proportion of the low integrity ACCUs are likely to be currently contracted for sale to the Clean Energy Regulator. Following changes announced in early 2022, parties can withdraw from carbon abatement contracts by paying an exit fee, equal to the contract price multiplied by the quantity of ACCUs to be released. If prices continue to increase and go significantly above \$45 per ACCU, a substantial proportion of parties are likely to opt to withdraw and sell them to facilities covered by the Safeguard Mechanism and other private buyers.

facilities covered by the Safeguard Mechanism.²² If only the ACCUs in holding accounts are accounted for, the number of high risk ACCUs available for use under the Safeguard Mechanism to 2030 is likely to increase to at least 60 million (**Figure 4**).²³ Issuances to other high risk project types and the excluded human-induced regeneration and avoided deforestation projects could push this beyond 75 million – more than 1/3rd of the Safeguard Mechanism’s intended abatement task to 2030.²⁴

Figure 4. Estimated high risk ACCUs from existing HIR, landfill gas and avoided deforestation projects available for use under Safeguard Mechanism versus cumulative Safeguard Mechanism abatement task, 2023 to 2030



Source: Authors calculations, based on assumptions outlined in text, and Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023); Department of Climate Change, Energy, the Environment and Water (2023) Safeguard Mechanism Reforms – Position Paper. Commonwealth of Australia, Canberra.

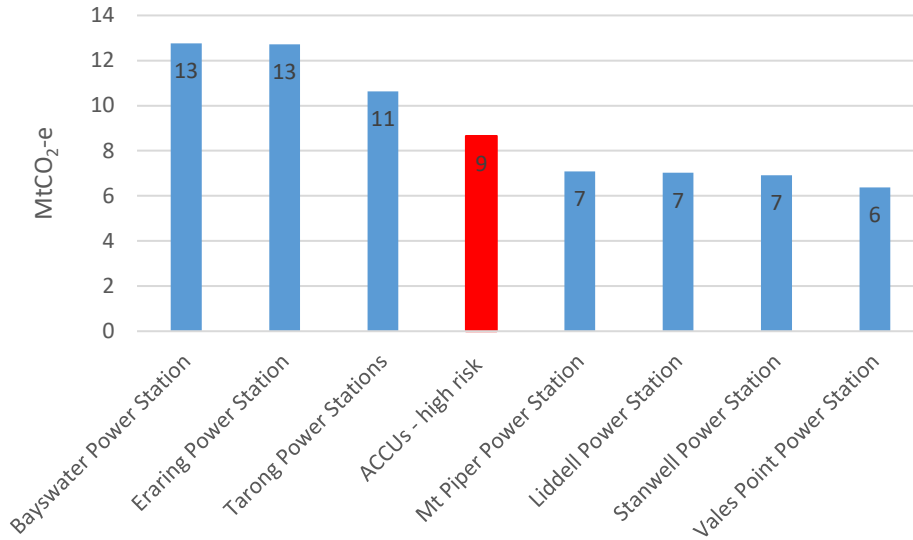
To put these results in context, **Figure 5** shows the average annual high risk ACCUs that are likely to be available for use under the enhanced Safeguard Mechanism relative to the annual emissions from Australia’s seven largest black-coal electricity generators in the 2020-21 financial year.

²² Clean Energy Regulator (2022) Quarterly Carbon Market Report September Quarter 2022. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/Infohub/Markets/quarterly-carbon-market-reports> (9 February 2023).

²³ Assumes at least 73% of ACCUs in holding accounts are from landfill gas, avoided deforestation and human-induced regeneration projects (as per 2021-22 issuances), and that 30% of ACCUs from landfill gas projects, and 90% of ACCUs from avoided deforestation and human-induced regeneration projects, are high risk.

²⁴ Department of Climate Change, Energy, the Environment and Water (2023) Safeguard Mechanism Reforms – Position Paper. Commonwealth of Australia, Canberra.

Figure 5. Average annual high risk ACCUs available for use under the Safeguard Mechanism to 2030 versus annual emissions from Australia’s seven largest black-coal electricity generators, 2020-21



Source: Authors calculations, based on assumptions outlined in text, and Clean Energy Regulator (2023) ‘Emissions Reduction Fund project register’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register> (18 January 2023); and Clean Energy Regulator (2022) ‘Greenhouse and energy information by designated generation facility 2020-21’. Commonwealth of Australia, Canberra. Available at: <https://www.cleanenergyregulator.gov.au/NGER/National%20greenhouse%20and%20energy%20reporting%20data/electricity-sector-emissions-and-generation-data> (9 February 2023).

4. Implications and recommendations

The analysis shows the magnitude of the threat posed by existing offset projects to the Safeguard Mechanism. If measures are not put in place to mitigate the risks posed by these projects, low integrity ACCUs will undermine the effectiveness of the Safeguard Mechanism in reducing emissions and thereby put at risk Australia’s ability to meet its emission reduction targets.

To address these risks, we recommend both quantitative and qualitative restrictions on the use of ACCUs by facilities covered by the Safeguard Mechanism to ensure that emissions reductions occur in line with the Australian Government’s stated intent. The imposition of quantitative and qualitative restrictions on the use of offsets is consistent with international practice – most carbon pricing schemes in other countries have restrictions on the use of offsets, which reflects the fact they are a high risk policy instrument.

The use of offset restrictions would significantly increase the domestic carbon price, particularly in the short term due to the relative absence of low risk (high integrity) ACCUs. It will take between three and five years before a reasonable supply of high integrity ACCUs will be available in the market, assuming the Australian Government works expeditiously to implement the reforms recommended by the independent review. Over this interim period—and assuming offset restrictions and the independent review recommendations are fully implemented—we recommend the Australian Government lower the proposed price cap under the Safeguard Mechanism to a

starting price of \$50-\$55 per tCO₂-e in order to facilitate a smooth transition to a more orderly and efficient market.

Further details of the recommended reforms are provided below.

4.1 Safeguard Mechanism recommended changes

1. **Quantitative restriction.** Impose a quantitative limit (or cap) on the use of ACCUs by facilities covered by the Safeguard Mechanism, set as a percentage of any annual exceedance above the applicable baseline.
2. **Qualitative restrictions.** Prohibit facilities that are covered by the Safeguard Mechanism from meeting their liabilities using ACCUs that are derived from existing projects registered under the human-induced regeneration, landfill gas, avoided deforestation and other suspect methods, including the two measured soil carbon methods, and the plantation forestry method.²⁵ The following exceptions should apply to these qualitative restrictions:
 - (a) existing landfill gas projects that are flaring-only (i.e. do not destroy methane using an electricity generator);
 - (b) landfill gas projects involving the use of electricity generators, provided the baseline for the project exceeds 50% of the gas combusted at the facility;
 - (c) existing human-induced regeneration projects if they have transitioned onto a new method that limits eligibility to areas that have previously been forest that has been comprehensively cleared and where pre-existing mature trees and shrubs are required to be excluded from the areas that are credited; and
 - (d) plantation projects involving either the establishment of new plantations on land that was previously used for other non-forest purposes or the conversion of short-rotation plantations to long-rotations, provided they have 100-year permanence periods.
3. **Safeguard Mechanism transparency.** Require facilities covered by the Safeguard Mechanism to disclose details of the provenance of the ACCUs they use to meet their liabilities (i.e. ERF project number for all ACCUs surrendered).
4. **Lower the price cap.** The government has proposed a \$75 per tCO₂-e price cap, implemented through the sale of ACCUs. ***If, and only if, the Government imposes appropriate restrictions on the use of ACCUs and fully implements the recommendations of the review:***
 - (a) the price cap should be lowered to \$50-\$55 per tCO₂-e (indexed to CPI plus 2%) for an interim period of up to five years; and
 - (b) the cap should be converted to a standard penalty price, without the need for the re-sale of ACCUs.

²⁵ To prevent human-induced regeneration projects from transitioning onto the proposed new Integrated Farm Management method in order to circumvent the restriction, the prohibition should be drafted to include ACCUs issued in relation to land previously included in an existing human-induced regeneration project.

The rationale for (a) is based on the fact that the above quantitative and qualitative restrictions would significantly reduce ACCU supply for covered facilities, putting upward pressure on the price of eligible ACCUs. This should incentivise the registration of new, high integrity offset projects. However, because of the lags involved, it will take at least 3-5 years before eligible ACCU supply is able to recover and normalise. This would impose substantial costs on many covered facilities, for little benefit. In effect, the facilities would be punished for offset integrity problems caused by the Australian Government. Lowering the price cap would mitigate these effects. It would also provide revenue that could be hypothecated for use to support carbon abatement projects, including industrial projects and land sector projects that generate co-benefits for biodiversity. In relation to (b), the rationale is that it would avoid the need for the government to continue to purchase low-integrity ACCUs.

4.2 Additional reforms to ensure high integrity ACCUs

Finally, to reduce the risk of future problems with ACCU integrity, we recommend the following additional changes to the offset scheme, beyond those suggested by the independent review.

1. **Guarantee transparency.** Ensure the panel's recommendations for greater transparency are fully implemented by including requirements in the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth) (CFI Act) that mandate the disclosure of offset reports, audit reports, carbon estimation areas, any data submitted to evidence compliance with eligibility requirements and all data relied on by the proposed Carbon Abatement Integrity Committee in evaluating and endorsing methods. The offset registry should also be required to include details of the crediting periods for registered projects.
2. **Access to justice.** Amend the CFI Act to include open standing provisions to allow third parties to seek judicial review of administrative decisions made under the Act and to seek injunctions to restrain breaches of the Act.
3. **Mandatory transitions from low integrity methods.** Amend the CFI Act to allow projects to be removed from low integrity methods prior to the completion of their crediting period. At present, once projects are registered, they are allowed to stay on a method until the end of their crediting period, regardless of whether the method is subsequently found to have integrity flaws. The crediting periods range between 7 and 25 years. This means that projects can knowingly receive low integrity ACCUs for several decades. This reform would address this issue by ensuring the Minister has the power to force proponents off methods that are found to have integrity problems.