Australian Government
Clean Energy Regulator

Carbon market infrastructure for holding and trading certificates and units

Coversheet for submissions

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Do you want this submission to be treated as confidential? Yes ☐ No ☒

Submission instructions

Submissions are due by **Friday 22 November 2024**. Any submissions received after this date will be considered at our discretion. Submit your submission via carbonmarkets@cer.gov.au. Include this coversheet with your submission.

Confidentiality and privacy

The Clean Energy Regulator will treat all submissions as public documents, unless the author requests the submission be treated as confidential. Public submissions may be published in full on the Clean Energy Regulator's website. If published, the submission will include the individual's or organisation's name along with the relevant state or territory.

A request may be made under the *Freedom of Information Act 1982* (Cth) for a submission marked 'confidential' to be made available. Such requests will be determined in accordance with provisions under the *Freedom of Information Act 1982*.

The agency will deal with personal information contained in, or provided in relation to, submissions in accordance with the privacy policy.

Australian Forest Products Association

AUSTRALIAN FOREST PRODUCTS ASSOCIATION

Submission to Clean Energy Regulator

Consultation on carbon market infrastructure for holding and trading certificates and units. Responding to discussion paper 'Enabling deep, liquid, transparent and accessible carbon markets in Australia'.

Due: 22 November 2024

22 November 2024

Clean Energy Regulator

Via carbonmarkets@cer.gov.au

To whom it may concern

The Australian Forest Products Association (AFPA) appreciates the opportunity to participate in this consultation. The transparency, accessibility, and functionality of Australia's carbon markets, are critical to achieving Australia's climate goals.

Importance of the Forestry Sector

The forestry sector plays a central role in Australia's environmental and economic landscape, contributing to sustainable resource management, carbon sequestration, and rural employment. Through responsible forest management, the sector not only captures carbon but also generates valuable co-benefits, including boosting biodiversity and providing economic opportunity to regional and indigenous communities.

Our submission is attached.

We look forward to continuing to work with the CER to build a carbon registry that is robust, transparent, and supportive of Australia's sustainable forestry objectives and carbon market development.

Sara Bray
Senior Policy Manager
Australian Forest Products Association

Submission by the Australian Forest Products Association (AFPA)

1. **What registry features and functionality will be the most important to address the current challenges faced by carbon markets?**

   To address challenges in Australia's carbon markets, the registry should prioritise:

   - Enhanced Data Accessibility: Allow market participants to access detailed, standardised data on unit attributes. This would improve decision-making by ensuring transparency around unit quality and project origin.
   - API Integration and Real-Time Updates: The registry's API capabilities should enable real-time data exchange and back-office automation, reducing the time and costs associated with manual processes.
   - Counterparty Risk Management: Introduce licensed clearing and settlement facilities to mitigate risks currently managed manually by participants.
   - Co-Benefit Data: Include options to display verified information (to help attract premium pricing and investment.

2. **What registry features and functionality will be the most important to take advantage of the opportunities presented by the growth in carbon markets?**

   To capitalise on market growth, it will be crucial for the registry to:

   - Best-practice user Interface for diverse participants: Provide a user-friendly interface suitable for institutional, retail, and project-level participants, enabling a broader, inclusive market.

3. **Should information about the co-benefits associated with units and certificates be made available in the registry?**

   - **Yes, this should include both third-party verified information.** Verified co-benefit data can enhance market transparency, encourage sustainable investment, and allow users to make informed choices aligned with their environmental, social, and governance (ESG) goals.

4. **What existing frameworks could be relied upon to verify co-benefits?**

   Verification could rely on established frameworks, such as:

   - PEFC (Programme for the Endorsement of Forest Certification) and FSC (Forest Stewardship Council), which provide internationally recognised certifications for sustainable forestry practices addressing biodiversity, community benefits, and ethical resource management.
   - Existing ACCU Scheme methods. I.e successful registation of a project under the Reforestation by Mallee or Eucalypts Plantings method verifiies a biodiversity co-benefit.
   - Nature Repair Market (when established)

5. **What types of digital platforms and marketplaces would be useful to have connected directly to the registry? What are the key benefits and risks of allowing this connectivity?**

   No comment

6. **Are the criteria to allow external systems to connect directly to the registry appropriate?**

   - **Yes.** The proposed criteria effectively address key concerns such as data security, interoperability, and legal compliance, all critical for safe and transparent market operations.

7. **What registry data would external systems connecting directly to the registry need access to?**

   External systems would need access to:

   - **Unit attributes**, including project location, type, and co-benefits.
   - **Transaction history** and **price data** for ACCUs and SMCs.
   - **Real-time** updates on market availability and trading status for transparency and market efficiency.

8. **Are there any other areas, suggestions, or concerns with the registry that should be noted?**

   Clear and achievable timelines for delivery are essential. Providing clear timelines for registry delivery will give both ACCU producers and purchasers the certainty needed to plan and invest in carbon abatement projects and activities, thereby maximising abatements.

   A case study to avoid is the update and release of the land sector ACCU Scheme carbon estimation model, FullCAM 2016. The update to FullCAM 2016 aimed to increase accuracy and functionality, enabling more types of ACCU Scheme Plantations Method projects, thus enhancing abatement for Australia. Originally, this update was slated for public release in 2023. However, after several extensions and public releases for testing and comment, FullCAM has yet to be updated. Its current release date is unclear, presumably 2025 at best.

   The uncertainty surrounding the release and functionality of FullCAM has eroded confidence in the regulator and shceme. This has led to delays and reduced investment in carbon abatement projects, particularly in the establishment of new forest plantations.

9. **Please identify the specific carbon exchange user segment(s) applicable to you:**

AFPA is representatives of:

- Project Proponent
- Emitter – Compliance Market (Safeguard responsible emitter)
- Emitter – Voluntary Market (not a Safeguard responsible emitter)

- Exchange Participant
- Investor in ACCUs

10. **Does the market need a central carbon exchange to be established?**

    Yes, a central carbon exchange would enhance price discovery, liquidity, and transparency, which are critical for a mature and accessible carbon market.

11. **Are there alternative options to a carbon exchange that could provide greater accessibility, liquidity, and price discovery for ACCUs and other certificates?**

    No comment

12. **What challenges do you foresee in the use of the CDI framework to support the carbon exchange and the proposed process to convert CDI holdings into ACCU holdings?**

    No comment

13. **Would you use a carbon exchange that is developed using the prototype model outlined above and in Appendix A?**

    Yes. The outlined model provides a promising framework that aligns with AFPA's commitment to transparent, efficient carbon trading.

14. **What quantities of ACCUs do you anticipate buying or selling through the carbon exchange?**

    AFPA members expect moderate trading volumes aligned with project timelines and market demand, likely scaling up as market familiarity and confidence grow.

15. **How frequently do you anticipate buying or selling ACCUs through the carbon exchange?**

    Trading frequency will vary by project timelines and compliance cycles but is expected to be quarterly on average.

16. **Do you prefer the quotation of ACCUs on the carbon exchange to be:**

    - **Option 2: Bifurcated into 2 classes – carbon sequestration and emissions avoidance.**

17. **Do you anticipate any market implications from bifurcating listing to carbon sequestration and emissions avoidance?**

    Yes, bifurcation could attract diverse investor types focused on specific climate outcomes, enhancing the market's appeal to certain investors.

18. **Are there other classes that should be considered for quotation of ACCUs on the carbon exchange?**

    A vegetation method (include plantation forestry)

19. **Would the public disclosure of the project method of an ACCU that is received, and then subsequently surrendered or cancelled, under a system-generated random allocation process when converting CDIs to ACCUs:**

- **Adversely impact your intended use of the carbon exchange?**
  What do we think? Yes, public disclosure of the project method under a random allocation process could impact the intended use of the exchange for certain stakeholders. Disclosure may affect the flexibility of exchange participants to use specific ACCU attributes aligned with project-based preferences, such as co-benefits or particular emissions reduction methods.

- **Is any such adverse impact mitigated by option 2 above, that is, limiting ACCUs received to those generated under a project method classified as involving 'carbon sequestration' or 'emissions avoidance'?**
  Yes, bifurcating ACCUs by 'carbon sequestration' or 'emissions avoidance' could mitigate adverse impacts, as this option allows for broader classification while preserving some specificity. It aligns with market demands for differentiated value based on project characteristics while maintaining general categories suitable for trading.

20. Do you support placing controls or disincentives on the cycling of ACCUs off and onto the exchange with the intention of exchanging one ACCU with certain attributes for another, or should such cycling be allowed?

Support placing controls. Allowing unrestricted cycling may lead to market inefficiencies and speculative behavior that could distort market prices and affect transparency. Controls or disincentives would promote stability and deter behavior aimed at continuously seeking ACCUs with specific, preferential attributes.

21. If controls or disincentives against cycling off and onto the exchange are to be introduced, should they involve:

- **Restrictions on the use of ACCUs following the collapse of a CDI so that they must be surrendered for Safeguard Mechanism compliance or voluntary cancellation for offsetting purposes?**
  Yes, restricting ACCUs post-conversion could ensure their integrity within the compliance framework and support transparent offsetting activities. This would reduce speculative trading and ensure that ACCUs fulfill their primary purpose in emissions reduction.

- **Restrictions or economic disincentives on cycling ACCUs allocated upon conversion from CDIs back onto the exchange but not otherwise restricting the use of those ACCUs (e.g., so that they may be sold on the OTC market)?**
  Economic disincentives could be effective, allowing flexibility in usage while dissuading frequent trading aimed solely at acquiring specific ACCUs. This approach would maintain fluidity without excessive cycling on the exchange.

- **Some other form of restriction or disincentive?**
  Introducing a cooldown period after each cycle or placing limits on the number of times an ACCU can be cycled back could further deter excessive cycling. This would help maintain the exchange's function as a stable trading environment.

22. Will the proposed exchange model complement the OTC market?

Yes, the proposed exchange model complements the OTC market by offering an alternative pathway for trading. The exchange would support broad-based transactions, while the OTC market would continue catering to participants seeking specific ACCUs

with unique attributes. Together, these options would enhance market liquidity and allow participants to select the trading venue best suited to their needs.

23. Are there other issues beyond those set out in this paper with only identifying the project method and other specific attributes of an ACCU after conversion from a CDI?

Additional issues include potential investor concerns regarding transparency and the need for traceable project-level data. If participants cannot assess full project attributes prior to conversion, it may limit their confidence in selecting ACCUs that meet their ESG or compliance criteria, potentially limiting market participation.

24. Are there any other areas, suggestions, or concerns with the proposed exchange trading model that should be noted?

The exchange could benefit from integrated data analytics tools to provide insights into trading trends, participant behaviors, and price fluctuations. This would help build market transparency and support strategic decision-making for all users. Furthermore, offering educational resources on carbon trading and ACCU usage could encourage broader participation and understanding among new entrants and small-scale investors.

Australian Forest Products Association

AFPA is the peak national industry body representing the resources, processing, and pulp and paper industries covering the forest products value chain.

AFPA represents all elements of the value chain from the sustainable harvesting of plantations and multiple use natural forest resource including forest establishment and management, harvesting and haulage, processing of timber resources and manufacture of pulp and paper.

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