

**AIGN Comments on
the Clean Energy Regulator's
*Enabling Deep, Liquid, Transparent and
Accessible Carbon Markets in Australia*
Discussion Paper**

(October 2024)

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1 INTRODUCTION

AIGN welcomes the opportunity to contribute to the Clean Energy Regulator's (CER) *Enabling Deep, Liquid, Transparent and Accessible Carbon Markets In Australia* discussion paper (October 2024).

1.1 About AIGN

The [Australian Industry Greenhouse Network](#) (AIGN) is a network of industry associations and individual businesses.

AIGN provides a forum for discussion on key climate change issues, offering information and analysis in the consideration of national and international climate change policy development, as well as the role industry can play in the transition to net-zero emissions by 2050.

AIGN supports an evidence and principles-based approach to climate policy development; one that prioritises environmental and social integrity, and economic efficiency; that focuses on developing enduring policies; that delivers broad coverage to ensure the responsibility of reducing emissions is equitably shared; and that creates an environment in which Australia's trade competitiveness is supported.

AIGN has a broad membership base with a range of expertise in various sectors of the economy. In conjunction with this submission, the CER should consider the inputs to the consultation process by individual AIGN members.

[AIGN's policy principles](#) form the basis of our input into climate change policy instruments and implementation architecture.

2 CONTEXT

AIGN recognises and supports Australia's Paris Agreement aligned net zero by 2050 target.

The *Climate Change Act 2022* requires developing policies to have regard to this and related matters (e.g., Australia's emissions reduction target of 43% below 2005 levels by 2030), to ensure consistent progress towards the world's goal of limiting global warming.

AIGN recognises that the Australian Carbon Credit Unit (ACCU) Scheme is an important component of the Australian Government's approach to climate change management and its obligations under the Paris Agreement. The development of a deep, robust and credible, internationally connected carbon market is in the interests of the whole economy in striving to achieve net-zero by 2050 in the most economically efficient manner, and therefore at least cost while maintaining integrity.

Credible carbon offsets provide an important pathway to bring forward emissions reductions for many hard-to-abate industry sectors while their technology transformation pathways are being developed.

Offsets also provide a unique opportunity to deliver additional benefits including alignment with First Nations goals, biodiversity, and employment opportunities in regional Australia and developing economies around the world.

The level of ambition required to meet Paris Agreement goals will require deep and rapid global action. The inherent uncertainty in this space justifies the Government's attention to maintaining the international competitiveness of entities operating in Australia.

AIGN recognises the need to strike a careful balance to satisfy multiple priorities and ensure offset abatement is credible, verifiable, and transparently reported.

2.1 Australia's carbon markets should allow for integration with Article 6 markets in future

AIGN supports efficient and effective action to reduce emissions. The establishment of a mechanism under Article 6 of the Paris Agreement will provide the market with a clear suite of governance expectations (including accompanying social and environmental standards) under the internationally agreed transparency framework. As signatories to the Paris Agreement, Australia should support the functioning of its markets by facilitating the participation of Australian entities to both supply and purchase high integrity units.

There is an increasing global commitment to ambitious emissions reduction targets in alignment with the Paris Agreement for both developed and developing countries. It is important that Paris Agreement goals are achieved as soon as possible, and that all credible mitigation and transformation options should be made available, including the use of high-integrity offsets in conjunction with action to progress structural decarbonisation.

Preparing the Australian offset unit infrastructure for potential future creation and use of Article 6 units is a sensible preliminary step.

3 GENERAL FEEDBACK

As a network organisation with association and corporate members spanning a large cross-section of Australian industry, AIGN is well placed to facilitate engagement on the issues raised in the discussion paper.

AIGN encourages the CER to consult closely with our corporate members with specialists in carbon markets and related matters in the designing of the unit and certificate registry and potential exchange trading model.

This submission provides a summary view of AIGN members' priorities, which members will augment with specific and detailed oral and written contributions to the CER's consultation process.

3.1 Market infrastructure should support the integrity of units

AIGN members support the development of efficient and transparent market infrastructure that supports Australia to meet our legislated emissions reduction goals on the way to net zero by 2050. Well designed and functioning carbon markets can be useful in providing signals to reduce emissions and attract investment into abatement and renewable energy projects.

Australia's carbon markets currently include Australian Carbon Credit Units (ACCUs), Safeguard Mechanism Credits (SMCs), Large-scale Generation Certificates (LGCs) and Small-scale Technology Certificates (STCs). Renewable Electricity Guarantee of Origin (REGO) and biodiversity certificates are soon expected to be added to these.

The CER maintains and regulates high integrity standards for ACCUs and other units, and the registry infrastructure should support the Government's defensible position that these units represent genuine abatement. This is how abatement 'shows up' in the atmosphere; it does not differentiate by method, state, or any other division – emissions simply increase or decrease based on economic activity.

While participants in the over the counter (OTC) market may adopt a position on units of varying provenance, and the Government has policy positions on limited unit differentiation (e.g. demarcating the use of SMCs for Safeguard Mechanism compliance purposes), the infrastructure enabling the movement of units through the economy should be designed to reflect the abatement they represent.

3.1.1 The registry must meet the needs of compliance buyers

AIGN supports the development of market infrastructure that fulsomely addressed the needs of compliance buyers in meeting their emissions obligations. As such, unit differentiation present in the registry and a possible exchange trading model should be limited to instances where Government policy necessitates distinctions, e.g. the use of SMCs in the Safeguard Mechanism compliance space.

The registry and exchange trading model should treat units as financial instruments that are tradable/transferable, verified, standardised, enforceable and acquittable.

3.1.2 The differentiation of ACCUs should continue to be facilitated via the OTC market

AIGN acknowledges that unit buyers (whether for compliance or voluntary purposes) must have the means to purchase ACCUs and other units according to their needs, including limiting purchases by provenance. This supports the transparent functioning of the carbon market.

AIGN supports the continuation of the OTC market for compliance and other buyers who wish to access co-benefits. The OTC market is the appropriate instrument to categorise units based on project detail (e.g. type, location, vintage). This is not a priority for the registry and carbon exchange trading model.

4 RESPONSES TO QUESTIONS

The below tables outline member feedback AIGN has received to the questions posed in the discussion paper.

4.1 Unit and Certificate Registry Questions

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

AIGN members have communicated a range of needs the registry should meet to serve the smooth functioning of carbon markets.

- Compliance-based carbon instruments are effectively financial instruments; to be consistent with other financial instruments, they should not be linked back to their origin.
- Carbon instruments should be standardised across jurisdictional lines (both domestic and international) and across registries and programs (both compliance and voluntary).
- The registry should enable:
 - Access to all credit types (SMCs, ACCUs, REGOs, future international units, etc);
 - derivatives, futures and options to be tied to carbon instruments;
 - blockchain functionality (for assurances);
 - market analysis and management; and
 - the integration of Application Programming Interfaces (API)

- Conversely, some members have expressed a desire to have full access to metadata in account holdings, with improved provision of information and the ability to easily filter between metadata for accounts with large portfolios. AIGN member specialists can offer further detail.

Note the provision of this data to registry account holders (e.g. vintage, project name, method, location, co-benefits, developer, proponent, issuance details, etc) should not be confused with the CER facilitating trading based on unit differentiation (noting that the ability to transfer specific units should be maintained). As such, this functionality could be offered on an optional basis.

- Access to transaction and stock history for independent assurance purposes would be valuable.
- The registry should facilitate multiple reporting requirements and the ability to export data in various formats (e.g. Excel, CSV).
- Some members would like the ability to aggregate smaller parcels to allow sellers to transfer smaller volumes across multiple projects in one activity. This would be an improvement on the current process, which limits transfer activity by parcel; this can be time consuming for moving small volumes, and could create problems if a seller wishes to fill a buyer bid from across multiple parcels.

- AIGN members with experience using the current system have reported that the CER's willingness to work collaboratively with account holders is a key strength of the system. This has been instrumental in account holders successfully meeting compliance obligations in the past. AIGN is confident the CER will carry this principle of collaboration forward into its work to design and implement the new registry.
- The single log-in account for ANREU and other platforms enables smooth transitions between applications and accounts. AIGN members have had good experiences with this approach and would like to see it continue.
- Other registry activities could be improved to reduce the manual load on system users. For example, transfers could be made much less time intensive by automating and aggregating tasks. AIGN member specialists would be open to further consultation with the CER to explore potential improvements.
- Some members have suggested functionality to allow users to customise the fields they would like visible for the inventory under their ANREU accounts.
- An additional column on methodology has also been suggested, to help ANREU account holders to more easily transfer the correct type of ACCUs.
- The ability for receivers to accept or reject a transfer of ACCUs could help address cases of transfer error.

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

Members have indicated the following functionality and initiatives would be useful to allow them to capitalise on carbon market opportunities and improve underpinning platforms:

- Pricing, demand and supply tracking and forecasts
- Liquidity assessments and tracking
- Optional metadata functionality and aggregations of volumes (see Q1 above)
- Testing beta version platforms with end users/emitters, in addition to stakeholders currently involved in the CER's work to improve platforms and applications underpinning the ACCU market. Several end users have large carbon demand, and testing platforms with them would help improve them. This could include opening the beta version of any upgrades to the system to key users for testing and feedback.
- Communicating with all stakeholders about upcoming works and improvements (including key dates and proposed scheduling), and updates on progress made towards target dates for completion, is key. This could support users when planning for upcoming work (e.g. planning the meeting of compliance obligations across multiple accounts).

3. Should information about the co-benefits associated with units and certificates, (for example First Nation community outcomes and environmental benefits) be made available in the registry? If so, should this include third-party verified and unverified information?

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

While AIGN members are generally agreeable to information about co-benefits being made available on the registry, it is not considered to be a primary function of the registry. The focus of the registry should remain on enabling carbon units to function as financial instruments.

- Some members feel the provision of co-benefit information should be optional, to support a focus on least cost abatement, as well as the ability of the OTC market to continue to offer differentiated pricing to cater to buyer preferences. Co-benefit descriptors should be able to be used, and legally separable from the original carbon instrument.

Some AIGN members feel that co-benefits should not be associated with ACCUs in order not to complicate the function and value of ACCUs. Co-benefits could be completely separate and evaluated on their own merits or via a different scheme.

- Members had a range of views on the independent assurance of co-benefits. Some members feel that if a co-benefit can generate a compliance based tradable property right, independent verification would be required. Voluntary based instruments could be coupled with a non-verification disclaimer or treated in the same manner as compliance-based instruments. Some members believe all property rights should be verified via an internationally fungible standard.
- Significant preparatory work would be required to establish a standardised co-benefits framework so they can be appropriately governed and quantified.

4. 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?

- Member feedback indicated a preference for blockchain platforms.
- For ACCU projects, all information should be accessible via ANREU accounts against each project for which units are being held. ANREU accounts should be able to connect with SAP or similar ERP software to support inventory management and reporting and other requirements.
- A connection between key market brokers and registries could help to streamline information flow.

5. Are the criteria to allow external systems to connect directly to the registry (as listed in the table above) appropriate? Are there any other considerations that should be taken into account?

Limited member feedback indicated some additional considerations:

- Receipts to evidence:
 - Retirement/surrender
 - Transfers
 - Compliance met (i.e. 'completed' status)
- Additional, more user friendly filter options

<ul style="list-style-type: none"> Some members expressed concerns around cybersecurity. These members would prefer to keep the registry segregated from other external systems, believing the functionality to download information through APR or Excel would be sufficient.
<p>6. <i>What registry data would external systems connecting directly to the registry need access to?</i></p>
<p>Feedback indicated system users will have some variation in their needs.</p> <ul style="list-style-type: none"> Some members provided specific lists around carbon instrument details only (date of issuance, ID number, longevity, assurances), while others supported the provision of all metadata Once compliance instruments are created, there should be no need to link to a specific project For the Hydrogen Guarantee of Origin (GO) Scheme, some members indicated they would desire some form of automated connection to either SAP or PRS.
<p>7. <i>Are there any other areas, suggestions or concerns with the registry that should be noted?</i></p>
<p>It is important that sufficient screening and access-related criteria be in place to prevent platforms from gaining access under false or misleading pretenses, i.e. platforms that do not actively, and solely, trade units.</p>

4.2 Exchange Trading Model

Some members have reflected that the CER's support to design the exchange trading model is essential; however, it is equally vital for the design of the platform to be led by the market and cater to market needs.

Exchange Trading Model:

<p>9. <i>Please identify the specific carbon exchange user segment(s) applicable to you:</i></p> <ol style="list-style-type: none"> <i>Project proponent</i> <i>Emitter – compliance market (Safeguard responsible emitter)</i> <i>Emitter – voluntary market (<u>not</u> a Safeguard responsible emitter)</i> <i>Exchange participants</i> <i>Investor in ACCUs</i> <i>Other – please specify</i>
<ul style="list-style-type: none"> AIGN members participate in the carbon market primarily as emitters with Safeguard Mechanism compliance obligations (option b) although there may be some crossover into other user segments (e.g. project proponent).
<p>10. <i>Does the market need a central carbon exchange to be established?</i></p>
<ul style="list-style-type: none"> Several members feel a central exchange would improve standardisation, transparency and liquidity. Liquidity in particular facilitates market confidence and increases the likelihood of further investment. Ensuring cost and registration criteria for sellers and buyers are not prohibitive will further support market liquidity.

11. <i>Are there alternative options to a carbon exchange that could provide greater accessibility, liquidity and price discovery for ACCUs and other certificates?</i>
<ul style="list-style-type: none"> Currently there are several sources for carbon credit and price discovery. Centralising these into one exchange should support the development of the market.
12. <i>What challenges to 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? How might these challenges be mitigated?</i>
<ul style="list-style-type: none"> Some members are of the view that the introduction of the CDI framework can increase speculative purchasing as an ANREU account would not be required.
13. <i>Would you use a carbon exchange that is developed using the prototype model outlined above and in Appendix A, and if so:</i> <i>a. what quantities of ACCUs do you anticipate buying or selling through the carbon exchange?</i> <i>b. how frequently do you anticipate buying or selling ACCUs through the carbon exchange?</i>
<ul style="list-style-type: none"> Member responses varied greatly. Some members may purchase potentially up to 100% of their requirements, while others believe they are unlikely to participate at all in the proposed platform. Some members believe the proposed segregation of ACCUs based on perceived quality would increase the significance of co-benefits (including unverified co-benefits), which should not be encouraged at a scheme level. The CER and its regulatory instruments should prioritise ensuring that one ACCU represents one tonne of carbon dioxide equivalent without segmenting the market based on other factors. This could divert capital spent on offsets away from decarbonisation.
14. <i>Do you prefer the quotation of ACCUs on the carbon exchange to be:</i> <i>a. as a single generic class (option 1); or</i> <i>b. bifurcated into 2 classes – carbon sequestration and emissions avoidance (option 2)?</i>
<ul style="list-style-type: none"> AIGN received member responses for both options, depending on their needs and priorities. Members who prefer option 1 communicated this option would be better for liquidity (which is central to the success of the exchange). Option 1 also supports the notion that ‘a tonne is a tonne’ and will support the integrity of units. All projects able to generate units should be of high quality, which Observing how other jurisdictions manage the issuance of units may be instructive. The California Compliance Offset Program, for example, has no price stratification across different methodologies (although price differentiation exists based on location). The market for California Carbon Offsets is fungible and liquid. The Voluntary Carbon Market (VCM) has highly diversified pricing on credits across methodologies, vintages and regions. This market struggles with liquidity in the standardised products offering trading.

15. Do you anticipate any market implications from bifurcating listing to carbon sequestration and emissions avoidance?
<ul style="list-style-type: none"> • Bifurcating listings as outlined may cause a two-tiered market, creating challenges for liquidity and unit credibility by implying one type of ACCU is better than another (which may suggest some methodologies are insufficiently robust). The scheme should focus on encouraging emission reduction. • Valuing co-benefits within this framework could also increase compliance and consequently operational costs for Safeguard facilities.
16. Are there other classes that should be considered for quotations of ACCUs on the carbon exchange?
<ul style="list-style-type: none"> • AIGN members expressed no firm views on this, preferring the exchange to start simply and develop the list of units it displays for trade
17. Would the public disclosure of the project method of an ACCUS that is received, and then subsequently surrendered or cancelled, under a system generated random allocation process when converting CDIs to ACCUs:
<ol style="list-style-type: none"> a. adversely impact your intended use of the carbon exchange? and b. 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' (as applicable to the class of ACCUs traded)?
<ul style="list-style-type: none"> • Some members would prefer project anonymity to support the integrity of all ACCUs and avoid the public impression that some ACCU types are more robust than others. • However, other members stated that public disclosure of projects would not impact on their use of an exchange.
18. 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?
<p>AIGN members had diverging views on this.</p> <ul style="list-style-type: none"> • Some members expressed that if all ACCUs are to be viewed as of equal credibility, cycling of ACCUs should not be an issue. • Other members felt that cycling should not be permitted.
19. If controls or disincentives against cycling off and onto the exchange are to be introduced, should they involve:
<ol style="list-style-type: none"> a. 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? b. 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)?
<ul style="list-style-type: none"> •

<i>20. Will the proposed exchange model complement the OTC market?</i>
<ul style="list-style-type: none"> • A well designed and smoothly operating carbon trading exchange would provide another avenue to trade ACCUs and support market transparency. There is a role for both the OTC market and a carbon exchange. • A model that focuses on market fragmentation should be discouraged.
<i>21. Are there other issues beyond those set out in this paper with only identifying the project method or other specific attributes of an ACCU after conversion from a CDI?</i>
<ul style="list-style-type: none"> •
<i>22. Are there any other areas, suggestions or concerns with the proposed exchange trading model that should be noted?</i>
<ul style="list-style-type: none"> •

5 CONCLUSION

Thank you for the opportunity to provide input to the CER's discussion paper. AIGN welcomes future opportunities to engage with the CER.

AIGN recognises the CER's important role in the seamless and sensible implementation of key elements of the Australian Government's climate policy suite.

AIGN's position on climate change and energy policy is underpinned by [our policy principles](#), which have been the basis of AIGN's contributions to the climate change policy discussion for many years.