BCA
Business Council of Australia

Carbon market infrastructure for holding and trading certificates and units – Clean Energy Regulator Discussion Paper

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1. Introduction

The Business Council of Australia welcomes the opportunity to respond to the Clean Energy Regulator's Discussion Paper regarding carbon market infrastructure for holding and trading certificates and units.

A successful transition is being able to achieve a net zero economy while maintaining energy security, reliability and affordability, as well as our international competitiveness — each vital to maintaining living standards and economic prosperity.

The key to driving a successful transition and attaining these broader goals is to make Australia one of the most attractive investment destinations in the world. The Net Zero Australia study estimates a cumulative capital investment of $7 to 9 trillion would be required to transition our economy to net zero.

In two BCA reports — Achieving a net zero economy (2021) and Seize the moment (2023) — we offer detailed blueprints for a broader government policy framework and approach to make Australia an attractive investment destination.

2. Carbon markets' contribution to net zero

As highlighted in both these reports, carbon markets have a critical supporting role to play within the broader government policy framework and in attracting the investment needed to transition our economy and global economy to net zero. The Intergovernmental Panel on Climate Change stated that the deployment of carbon dioxide removals to counterbalance hard to abate residual emissions is unavoidable if net zero emissions are to be achieved globally.[1]

It is worth highlighting some of the benefits of a robust, liquid and scalable carbon market.

- It provides much needed flexibility for businesses as they transition their business models and balance sheets from where they are today to where they need to be in a future net zero economy — in some sectors and for some sources of emissions, zero and low emission technology is commercially deployable, but in other cases the technology is either not commercially viable or technically ready to be scaled up.
- It enables a wide range of potential sources of abatement across the economy to be deployed over time depending only on their relative costs — for example, land sector contributes to Australia's emission reduction targets directly and via the industrial sector because the carbon market is connected to the Safeguard Mechanism.
- It enables the balancing of abatement costs between easier-to-abate and harder-to-abate sectors, within the Australian economy and also potentially between Australia and other countries — a fully implemented Article 6 and related policy mechanisms under the Paris Agreement could enable lower global abatement costs over time.
- It enables shareholders, consumers and civil society to help reduce emissions voluntarily, which has been vital to help signal green premiums in markets in the absence of a comprehensive economy wide carbon signal — for example, where household consumers of retail energy and aviation services are offered carbon neutral product options supported by carbon credits.
- It enables an additional source of financing for low and zero emission technologies, thereby accelerating their development and commercial deployment — a recent International Energy Agency report highlights

[1] IPCC, Climate Change 2022 Mitigation of Climate Change Working Group III Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change Summary for Policymakers.

the importance of carbon credits in helping to scale up low emissions hydrogen, sustainable aviation fuels and direct air capture and storage technologies.[2]

- It enables regional communities to monetise land based and technology based carbon market supply opportunities, often realising significant regional co-benefits in the process — which is generally supportive of a more equitable transition to net zero 2050, given the regional location of many emissions intensive industries.

3. Confidence in abatement outcomes

The most recent review of Australia's carbon market architecture led by Professor Ian Chubb concluded that, while there was room for improvement, the policy foundations of the domestic carbon market were sound. The BCA has publicly supported the Chubb Review recommendations for improvements to Australia's carbon market architecture and the government's implementation plan for giving effect to these recommendations as soon as practicable.

It is the BCA's strong contention that the overall contribution of our carbon market to achieving net zero can only be fully realised if there is general and durable confidence in the abatement outcomes of the carbon market, first and foremost.

All carbon market units created under the Australian Government's architecture represent an authentic reduction in emissions, regardless of the method and underlying source of abatement and any other attributes and co-benefits. Once created, a carbon unit's integrity should be beyond reproach from an investment perspective.

A perception that 'not all carbon units are created equal' from an abatement perspective:

- causes unnecessary market fragmentation;
- inhibits investment in market scaling and growth;
- adds to market complexity and cost; and
- reduces the transition benefits available.

When participants take a position and invest in the carbon market, on either the demand or supply side, they are putting their capital, resources and reputation at risk. It is critical that these investments are backed in by the broader government policy framework, including the Safeguard Mechanism, Sustainability Disclosures Legislation and the Australian Sustainable Finance Taxonomy.

Where relevant, individual climate policies in Australia need to either tacitly or explicitly acknowledge the authenticity of carbon market units as 'generic' emission reductions.

The Safeguard Mechanism compels covered facilities to declare the method type underling the carbon units acquitted for compliance purposes. The Safeguard Mechanism also compels covered facilities to declare the proportion of own site emission reductions versus carbon unit (emission reductions).

Mandatory requirements such as these only serve to fuel perceptions that 'not all carbon units are created equal' from an abatement perspective.

[2] IEA and GenZero, The Role of Carbon Credits in Scaling Up Innovative Clean Energy Technologies, April 2024.

4. Modern registry features and functionality

We concur with the Discussion Paper, that the Australian National Registry of Emissions Units and the Renewable Energy Certificate Registry have provided market participants with a basic level of service and security in terms of accurately recording and tracking units and certificates.

However, a significant registry technology upgrade is needed to support recommendations from both the Chubb Review and the Climate Change Authority, and to enable the scaling and growth of the carbon market. A recent report by Carbon Market Institute (CMI) underscores the critical and far reaching role of technology in this regard.[3]

> *The role of technology in scaling carbon markets therefore extends beyond mere facilitation. It is a catalyst for trust, efficiency, and expansion. As we navigate the intricate landscape of environmental stewardship, embracing technological advancements on a national and international scale is crucial to growing robust and efficient carbon markets that underpin our shift to a net-zero economy.*

A modern, fit for purpose registry needs to deliver the following.

- An uplift in the richness of information available in the registry — accessible and easily uploaded meta data is required to deliver increased transparency about project design, implementation, and performance.
  - On the supply side, the public sharing of project documentation and audit reports will encourage a minimum standard of project execution, with those that fall short of the standard likely to experience a lack of demand for their product, or a lack of investment in future projects.
  - On the demand side, it should arm buyers of carbon units with greater granularity of information to assess the alignment of a particular methodology, project, or proponent with their own compliance or ESG objectives.
- Interoperability of registry infrastructure nationally and internationally — ensuring seamless interoperability between registries, exchanges, and risk infrastructure will minimise costs within carbon markets.
  - Notwithstanding strong governance arrangements, the current system involves disjointed infrastructures and manual processes that increase the risk of errors and delays, including settlement and credit risks.
  - The potential for carbon market unit trading between jurisdictions under Article 6 of the Paris Agreement will be greatly facilitated if Australia's registry infrastructure and the registry infrastructure models operating in other jurisdictions can effectively 'talk to each other'.
  - Future registry technologies may also become the basis to accurately monitor and record the relevant provenance and emissions intensity of a range of commodities to ensure accurate pricing and benchmarking to meet consumer expectations and legislative requirements (for example to support border carbon adjustment mechanisms and renewable energy guarantee of origin schemes).
- The unit holding information of individual registry participants should not be published because this information can be misleading to the market — for example, ACCUs are often held by intermediaries on behalf of registry participants, or ACCUs held on the registry are being inventoried for annual compliance purposes (which means they have already been allocated and not actually available).
  - Registry account holders should be able to view and access all information and metadata relating to their holdings and this information should clearly show the project ID, method, volume, vintage, date received etc.

[3] CMI, Carbon Markets & Australia's Net Zero Challenge, Carbon Market Report 2024, p 52.

- Safeguard Mechanism facilities should be able to retire ACCUs from the registry for their compliance purposes throughout the compliance period and more frequently than annually (as is currently the case) .
  - This would improve market liquidity and help Safeguard Mechanism facilities manage their risk, disclosure and compliance obligations more efficiently overall.

5. Exchange trading of carbon units

A recent report by CMI calls out 'unpredictability' as a major factor limiting the pace and scale of business efforts to decarbonise and achieve a net zero economy.[4]

> *It is driven by a range of factors, from evolving government policy to changing investor and consumer expectations. Addressing unpredictability and improving certainty is key to growing investment in the carbon market and maximising abatement potential.*

Exchange trading of carbon market units could be a value tool to help business address unpredictability, but only if it complemented and enhanced the existing over the counter market and the new environmental futures market.

As noted in the Discussion Paper, a key challenge is being able to develop an exchange model that could operate within the Carbon Credits (Carbon Farming Initiative) Act 2011, Australian National Registry of Emissions Units Act 2011 and National Greenhouse and Energy Reporting Act 2007, and provisions and the requirements for licensed markets clearing and settlement facilities, without the need for significant legislative amendments.

However, the perception that 'not all carbon units are created equal' from an abatement perspective, is an even more fundamental hurdle to the potential benefits of an exchange model being realised.

- Market liquidity on an exchange would derive from substantial volumes of a generic, standardised product being traded on the basis of price — but high levels of market fragmentation on the basis of integrity/reputation, co-benefits and method differentiation are better suited to bilateral markets, limiting the potential market liquidity on an exchange.
- Compliance buyers under the Safeguard Mechanism are likely to be the largest potential users of an exchange over time — but compelling covered facilities to declare the method type underling the carbon units acquitted for Safeguard compliance purposes, runs counter to this group being able to use an exchange.
- Market perceptions about differing abatement integrity across carbon unit sources could drive a carbon price wedge in carbon markets — where high integrity/reputation carbon units are traded in bilateral markets for a carbon price that reflects the cost of abatement, while low integrity/reputation carbon units effectively default to the exchange for a heavily discounted carbon price.
- A structural carbon price wedge between the opaque bilateral markets and the transparent exchange could be completely counterproductive to businesses' efforts to scale up decarbonization investments — corporate stakeholders, including financiers, shareholders, NGOs, would have strong visibility of the exchange price and lower visibility of bilateral market prices.
- The consequence is that businesses could be measured against carbon prices that don't reflect their real carbon costs or at least create confusion about what the market cost of abatement is.

[4] CMI, Carbon Markets & Australia's Net Zero Challenge, Carbon Market Report 2024, p 42.