

BCA Submission

ACCU Review Discussion Paper

October 2023

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Overview

The Business Council of Australia welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water's ACCU Review Discussion Paper.

International and domestic markets for carbon offsets have a critical supporting role to play within a holistic climate policy approach to reducing emissions and addressing climate change. In 2022 the Intergovernmental Panel on Climate Change stated that the deployment of carbon dioxide removals (offsets) to counterbalance hard to abate residual emissions is unavoidable if net zero emissions are to be achieved.¹

In the domestic context, Australian Carbon Credit Units (ACCU) have a vital role to play in the achievement of our nationally determined contributions.

Recent reviews of ACCU Scheme arrangements attest to it being built on "globally recognised emissions measurement and reporting systems"² and being "successful in activating low-cost abatement"³.

The most recent review led by Professor Ian Chubb concluded that, while there was room for improvement, ACCU scheme arrangements "are essentially sound, incorporating mechanisms for regular review and improvement".⁴

The BCA is broadly supportive of the Chubb review panel's recommendations for improvement and the government's implementation plan for giving effect to these recommendations as soon as practicable.

We make the following key points in this submission:

- The incorporation of Principles into the scheme's legislative framework needs to be accompanied by a clear, transparent and certain process for their application to method development.
- Information required from ACCU market participants needs to balance the need for transparency of information with the need to protect of commercially sensitive information.
- The Government's evolving role as a buyer of ACCUs needs to be clear and transparent in terms of its objectives and benefits, and particularly where the least cost criterion becomes less important.
- We support a proponent-led approach capable of promoting innovation and a greater uptake of methods and identify some key considerations for ensuring these outcomes.

Key points

ACCU Scheme Principles

The ACCU Review found that introducing ACCU Scheme Principles could provide additional clarity and guidance, improve transparency and reduce ambiguity about 'how' the ACCU Scheme is administered and 'what' is considered during decision making processes.

The Discussion Paper proposes that six ACCU Scheme Principles be incorporated into the scheme's legislative framework via a legislative rule. While the principles proposed in the Discussion Paper are sound in their own right, it is not clear how they would be used to serve their stated purpose.

¹ International Panel on Climate Change, *Climate Change 2022, Impacts, Adaptation and Vulnerability Summary for Policymakers, Technical Summary and Frequently Asked Questions*, 2022.

² Department of Industry, Science, Energy and Resources (2020), *Report of the Expert Panel examining additional sources of low cost abatement (The King Review)*, February 2020, p.6.

³ Climate Change Authority (2020), *Review of the Emissions Reduction Fund*, October 2020, p.8.

⁴ Professor Ian Chubb, The Hon Dr Annabelle Bennett Ariadne Gorrington, Dr Steve Hatfield-Dodds, *Independent Review of Australian Carbon Credit Units, Final Report*, December 2022.

The function of 'Principles' in the method development process and overall administration of the scheme needs to be distinguished from the function of 'Offset Integrity Standards' and 'Objects' contained in the Act.

If the application of the proposed Principles remains vague, their incorporation into the legislative framework will add to project finance risks and overall investment uncertainty by making methods open to legal challenge in the future (for potentially breaching the Principles).

The incorporation of Principles into the scheme's legislative framework needs to be accompanied by a clear, transparent and certain process for their application to method development. To be effective this process would ensure that new methods categorically complied with the Principles before being finalised and approved.

Maximising ACCU Scheme transparency

The BCA concurs with the ACCU Review finding that the ACCU Scheme's governance, and public trust and confidence in the ACCU Scheme, could be improved by increasing its transparency.

Project co-benefits is a key area where more information could be published and in a way that enables useful comparisons between projects with the same and different underlying sources of abatement.

However, the requirement for ACCU market participants — on both the demand and supply side — to publish information also needs to ensure that commercially sensitive information is protected.

Information about the identity of the holders of ACCUs is a key area where these protections should apply. Bargaining power and other competitive dynamics need to be preserved in the ACCU market so that buyers and sellers are treated fairly and encouraged to participate in the interests of market depth and liquidity.

Australian Government purchasing of ACCUs

The BCA understands that the government's role as the largest buyer of ACCUs is changing in light of the recent Safeguard Mechanism reforms and other drivers of growth in demand for ACCUs from the private sector.

The Discussion Paper proposes that the government target its purchases of ACCUs from projects that deliver specific benefits, rather than being focussed exclusively on least cost abatement (at least in the short to medium term).

It is critical that as part of this new approach, government is clear and transparent about its objectives and the benefits of purchasing ACCUs at a premium and about what ACCU characteristics are driving the premium (where the least cost criterion becomes of second order importance). This clarity and transparency is needed to ensure that tax payers are receiving value for money when paying a premium for abatement (or other) outcomes and to ensure there is a signal guiding investment towards the projects with the specific characteristics and benefits being sought by the government.

In conjunction with revising its role as a buyer in the ACCU market, the government should also review the standard terms of optional or fixed delivery arrangements to enable (least cost) debt financing to be more efficiently mobilised to fund upfront project development costs. This would be particularly valuable for smaller scale and indigenous-led projects that can have limited access to sources of funding.

Proponent-led method development

The ACCU Review recommended the government move from the current policy-driven method development process to a proponent-led approach to method development. The BCA supports a proponent-led approach capable of promoting innovation and a greater uptake of methods to underpin the sustained growth of Australia's ACCU market over time.

The following considerations will be important to building this method development capability.

Government assistance with method development costs

Government financial assistance may be needed to contribute to funding method development, particularly where ‘would be’ proponents have insufficient resources to underwrite the development process — especially when considering that an investment in method development does not guarantee success and nor does it enable a proponent to recoup their investment (fully and directly at least).

This assistance could be provided through existing policy support vehicles such as grants from ARENA.

Transition arrangements for varied or new method requirements

The provision of legislative rules to compel existing projects to be carried out in accordance with varied or new method requirements will add to project finance risks and overall investment uncertainty.

- Mandatory transition to new or varied methods (or modules or tools) would create significant uncertainty for project investors and may be an unacceptable risk for many sources of funding. Debt and equity investors are required to make long term investment decisions to support 25+ year project lives. Introducing an unquantifiable regulatory risk that may only result in adverse impacts to revenue (for example, reduction in future ACCU issuance) and costs (for example, increased audit/reporting or other requirements) is likely to have the effect of both substantially reducing the investment appetite to fund projects and increasing the cost of funding. There would be a higher required rate of return to compensate for this additional risk.
- Project proponents and their investors can’t be expected to be technical experts on the underlying science of various methods and should not be penalised where they have followed the rules set out by the scheme. It is also noted that mandatory transition may have a disproportionately negative impact on smaller projects and their proponents such as farmers and indigenous communities who are less likely to have the financial resources to navigate unanticipated method changes and their financial impacts.

Transitional arrangements should be designed to attenuate this impact, for example by grandfathering existing requirements for some appropriate fixed period, regardless of future changes etc.

Leveraging methods developed in other jurisdictions

Methods from other jurisdictions that are assessed as having the prospect of meeting the ACCU Scheme Offset Integrity Standards (and where any perceived risks can be addressed) should be leveraged in the Australian method development process. This would serve to attract the creation of ACCUs on shore rather than the creation of another offset unit, on shore, but under an international framework.

Durability of the framework

Once established, the new method development process needs to be resilient to future changes in policy and government, to the extent possible. Durability of the framework for creating and varying methods, as well as certainty for the adoption of methodologies, is critical to minimising project risks, maximising investor certainty and encouraging participants into the ACCU market.

Eligible interest holder consents

The ACCU Review considered that achieving positive outcomes for First Nations Australians requires the ACCU Scheme to ensure alignment with the principles of free, prior and informed consent and recommended that to achieve this, the ability to conditionally register a project without Eligible Interest Holders consent should be removed.

The BCA agrees with this approach and in addition, calls for adequate financial (and other resources) to be made available to support communities and First Nations project proponents when they are being asked to provide consent to a carbon project.