



Facilitating the transition to a Net-Zero economy

Submission

Safeguard Mechanism Reforms: Consultation Paper

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Thank you for the opportunity to submit our inputs to the Department of Climate Change Energy, the Environment and Water's *"Safeguard Mechanism Reforms: consultation paper"*.

Carbon & Clean Energy Solutions (CCES) is a Melbourne-based company, established in 2015, that develops carbon projects for its clients through expert technical consulting, management and advisory services, in Australia and overseas. CCES has experience developing pilot Article 6.2 carbon projects under the Paris Agreement and consulted international organisations on Article 6.2 project development.

CCES is a member of the Carbon Market Institute (CMI) and a founding member of the Victorian Clean Tech Cluster (VCC).

Our submission relates to Section 4.3, *"International Offsets"*, of the consultation paper.

We welcome the Australian government's commitments and actions in reforming the Safeguarding Mechanism, which will not only assist the country in meeting its enhanced NDC target under the Paris Agreement but also pave the way for climate diplomacy and action in the region through the implementation of IPCOS and other future bilateral/multilateral international carbon projects under Article 6.2 of the Paris Agreement.

We understand that the government is considering international offsets in the Safeguard Mechanism only if the units are of high integrity and the mitigation outcome can be formally transferred to count towards Australia's Paris Agreement commitments; however, international offsets are not proposed to be part of the initial enhanced Safeguard Mechanism.

We encourage the provision of using high integrity international carbon offsets created under Article 6.2 (i.e. ITMOs¹) in the enhanced Safeguard Mechanism. Reasons outlined below:

1. Liquidity of Safeguard Mechanism Credits (SMCs)

We foresee liquidity as one of the prime issues for SMC credits that need to be looked at more closely. We believe that to have a robust and efficient carbon market; a market environment needs to be created where Australian businesses can trade SMCs that will increase liquidity and bridge gaps in supply and demand.

A company/facility under the enhanced Safeguard Mechanism, generating SMCs will primarily use the credits for meeting its compliance obligations and are most likely to bank it for meeting its future obligations, meaning other liable entities who cannot create SMCs by themselves will only rely on ACCUs to meet its obligations. In addition, there seems to be no role for market intermediaries, exchanges or brokers who are market-makers in an efficient carbon market system and can trade on their accounts to increase market liquidity.

¹ Internationally Transferred Mitigation Outcomes

It is important to note that participants in the Australian carbon market are not only companies that need to reduce their emissions under the Safeguard Mechanism but also other market participants such as institutional investors, commercial and investment banks, and project developers. These participants make the carbon market more liquid and promote innovation in carbon markets.

Accepting the use of high-integrity international carbon credits (i.e. ITMOs) that are created through Article 6.2 will create liquidity in the market. It will provide alternative options for the liable entities in meeting their obligation under the Safeguard Mechanism and also provide an opportunity for other Australian market participants, such as institutional and private investors, banks and project developers, to invest in innovative carbon projects in the region, ultimately helping meet Australia's climate targets and the overall global ambition of emissions reductions.

2. Price Discovery and Price Control Measures

Aside from liquidity and transparency, an efficient compliance carbon market has a few key features: price discovery, reducing costs and volatility through price control measures.

In our view, the way SMCs will be created, used, banked (privately held) or bilaterally traded under the enhanced Safeguard Mechanism, price discovery could be an issue, which often leads to price volatility. Usually, price discovery and price control measures and improved market liquidity enable compliance entities in a carbon market to hedge their carbon exposure and bring diverse participants into the market.

Permitting high-integrity international carbon credits in the enhanced Safeguard Mechanism, created under the Article 6.2 mechanism, will help soften the price volatility to a certain extent. Creating trading opportunities for SMCs in the market along with ACCUs and international credits (i.e. ITMOs) will help in price discovery and enhance market transparency.

3. Unlocking private finance

Letting Article 6.2 based high-integrity international credits, from the Australian Government's Indo-Pacific Carbon Offset Scheme (IPCOS), will help unlock much-needed finance to implement carbon projects with high environmental, social and economic impacts on the poor and vulnerable communities in the Indo-Pacific region.

The inclusion of such credits will create compliance demand. It will boost Australian business confidence in investing in the neighbouring pacific countries, which may not happen without demand from the compliance market. Therefore, Article 6.2 based international offsets shall be a part of the initial enhanced Safeguard Mechanism.

4. Historic opportunity for Australia to become the Climate Leader in the region

As Australia is in the race to host COP 29 in 2024, we believe it is imperative that Australia participates in the international carbon markets as early as possible. Paris Agreement calls for global emissions reductions, focusing only on domestic emissions and **Not** participating in the international carbon market may disadvantage Australia compared to its Asian trading partners such as South Korea and China. The latter have domestic trading schemes in operation for several years and have learnt the ropes of international carbon markets ahead of every other country in the region. We foresee these countries leveraging their international carbon expertise in securing Article 6.2 projects in the region.

At times, “international credits” implies cheap and compromised environmental integrity credits, a foreshadowing of the Kyoto era. In the Paris era, international carbon credits generated through the Article 6.2 mechanism are going to be of high integrity simply because no credits (i.e. ITMOs) can be transferred into a country’s national registry without the authorisation of both host and buyer countries, and these projects go through a high level of scrutiny and due diligence from both host and buyer countries before and after project implementation.

The rules for Article 6.2 were finalised at COP 26 in Glasgow. Unlike Article 6.4; Article 6.2 projects can be developed using its agreed rules in Glasgow. These projects are created through a bilateral agreement between two countries and don’t require a global registry or infrastructure to be up and running. For instance, Switzerland and Sweden are already developing Article 6.2 projects in various African and Latin American countries. Both these countries are going to use the Article 6.2 credits as part of meeting their emissions reduction obligations under their respective NDCs.

We recognise that the development of international carbon projects under Article 6.2 has a longer lead time; however, the use of international carbon credits (i.e. ITMOs) in the enhanced Safeguard Mechanism has merit and therefore be a part of discussion. Inclusion of Article 6.2 credits will boost Australian businesses’ confidence in developing/investing in the international carbon projects in the region, help our pacific neighbour reduce their emissions and provide Australia with a historic opportunity to become the climate leader in the region.

Thanks again for the opportunity; should you have any questions, please do not hesitate to contact us; we are happy to share our experience and are open to a bilateral discussion if required.



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