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Australian Carbon Market and Safeguard Mechanism Reform

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A recently published [independent review](#) of Australia's carbon credit units (ACCU) scheme, commissioned by the Australian government, has found that the ACCU scheme is "essentially sound," but provides 16 recommendations to avoid potential conflicts of interest and enhance transparency. The ACCU scheme, introduced 11 years ago, was developed by the Australian government to "remove greenhouse gases from the atmosphere, or to prevent their emission." The scheme "supports carbon farming initiatives leading to the allocation of one ACCU for each ton[] of carbon abatement." The review explains that the ACCU scheme "also allows some ACCUs to be purchased by the Australian Government, some by emitters to offset a proportion of their continuing emissions, or traded on the domestic market."

In recent years, the ACCU scheme has been criticized for a lack of transparency. Critics highlight that the supposed reduction in carbon did not reflect reality and the lack of public access to the data was suspicious. In March 2022, Professor Andrew Macintosh, whistleblower and former head of the committee responsible for the integrity of the ERF, the Reduction Assurance Committee, [described](#) the carbon credit scheme as "[largely a sham](#)." Considering the importance of the carbon credit scheme for Australia to meet its net zero obligations, these allegations caused a great deal of controversy. As a result, the Australian government announced a review into the carbon market to assess how the system contributes to emission reduction targets.

The executive summary to the Independent Review of Australian Carbon Credit Units states that: "Notwithstanding the criticisms, the Panel concludes that the scheme was fundamentally well-designed when introduced. Nevertheless, after 11 years of operation, the scheme can be improved – applying knowledge gained through implementation or practical experience is the story of continuous improvement. The Panel makes a number of recommendations. The purpose of each is to improve the scheme: to clarify intention where necessary; to clearly identify (and separate) the key roles of integrity assurance, regulation and administration; to remove unnecessary restrictions on data sharing; to enable free prior and informed consent;

and to improve information and incentives, including in relation to non-carbon benefits and attributes. The Panel also observed that it is unwise to assume that what needs to be done can be achieved without adequate resourcing. Given the important role of ACCUs in the suite of climate mitigation policies, and the essential need for their integrity to be unarguable, all the links in the chain need to be able to do the job required of them—and that means resourcing. There is no practical or cheap alternative.”

In a related development, on January 9, 2023, the Australian government opened a consultation on potential reforms to its [Safeguard Mechanism](#). Australia has established a 43% emissions reduction target below 2005 levels by 2030, and net-zero by 2050. The Safeguard Mechanism, which applies to Australian industrial facilities that emit more than 100,000 tons of greenhouse gases annually, covers approximately 215 facilities accounting for nearly 30% of national emissions. “Emissions limits for individual facilities are known as baselines. The sum of all facilities’ baselines form the overall emissions constraint for the scheme.” Under the reforms, baselines would be “weighted towards site-specific levels at scheme commencement, and transition to industry average benchmarks by 2030.” New facilities, on the other hand, “have the opportunity to use the latest technology and build [the] world’s best practice emissions performance into their design. Their baselines would be set at international best practice, adapted for an Australian context.” As a result of the proposed reforms, “net emissions covered by the Safeguard fall from a projected 143 million ton[]s in 2022-23 before the reforms start to no more than 100 million ton[]s by 2030 and capped at 1,233 million ton[]s between 2021 and 2030. The reformed Safeguard Mechanism is expected to deliver an estimated 205 million ton[]s of abatement by the end of the decade.”

Taking The Temperature: We have [discussed](#) how Australia has been very active in terms of climate change regulation, legislation and enforcement. The proposed Safeguard Mechanism reforms reflect the government’s ongoing assessment of progress toward 2030 and 2050 emissions reduction goals, and the need to require more significant action on the part of facilities that are large GhG emitters. On the carbon credit front, in recent years, there has been a substantial growth in the use of carbon credits as nations and companies look to offset their emissions and achieve net zero and other climate related goals. As highlighted in our recent discussion of carbon credits in the context of John Kerry’s [announcement](#) of the “Energy Transition Accelerator” at COP27, this remains a controversial area. A [UN Report](#), published in November 2022, emphasizes that carbon offsets should be high-quality and used only as a last resort.

Australia was one of the early adopters of carbon offset schemes, but is now joined by the U.S. and many other jurisdictions. Various jurisdictions and international bodies are now developing legislation and rules to better standardize their carbon markets and improve transparency on emissions. Last year, the International Organization of Securities Commissions (IOSCO) [announced](#) consultations into both compliance and voluntary carbon markets. We expect continued debate and further regulatory activity on the operation and standards in the carbon markets during 2023.