Australian Government response to the Expert Panel Report (the King Review)

CMI Position

July 2020

Carbon Market Institute

The Carbon Market Institute (CMI) welcomes the *Report of the Expert Panel examining additional sources of low cost abatement* and is generally supportive of the Australian Government's response and commitment to improving the efficacy of the Emissions Reduction Fund to support industrial decarbonisation in Australia. As noted below, some recommendations have potentially negative market impacts. CMI has suggested ways of managing these in our response.

CMI is the industry association at the centre of business and climate action. CMI has over 75 corporate and associate members representing the spectrum of business engaged in emissions reduction and atmospheric drawdown. These members include some of Australia's most emissions intensive companies as well as pioneers in the deployment, commercialisation and export of near-zero, zero and negative emission technologies.

CMI's 2050 vision is for a prosperous, climate-resilient net-zero emissions world. Our mission is to help business manage risks and capitalise on opportunities in the transition to a net-zero emissions economy.

General Policy Principles

CMI approaches Australia's emissions reduction policies from the position that:

- Australia, like other countries, needs to increase its current NDC climate ambition and emission reduction target trajectory and achieve net zero emissions by 2050;
- The transition to net-zero emissions will be achieved most cost effectively with the support of policies including carbon market mechanisms;
- That, whilst not the optimal economic policy, the current Safeguard Mechanism and related reporting and assurance frameworks can be evolved to assist this transition, namely by:
    - Changing the role of the Safeguard Mechanism from merely limiting emission increases, to driving emissions reductions across the economy;
    - Making Safeguard baselines decline, at least in line with the ambition of Australia's NDC commitment (with appropriate treatment for relevant sectors, i.e. emissions intensive trade exposed (EITE) sectors);
    - Over time, transitioning the Safeguard Mechanism to a baseline and credit trading scheme, as outlined in CMI's 2019 Options Paper.
- The carbon farming (or biological sequestration) industry is already providing significant carbon abatement, employment, social and environmental benefits particularly for regional Australia. As outlined in the Australian Carbon Farming Industry Roadmap, the industry needs to grow substantially to service both domestic and international markets in emissions reduction, technology and expertise;
- Other initiatives and funding incentives, including industrial opportunities under the Emissions Reduction Fund should assist the national development and deployment of clean technologies for the reduction of emissions and biological, industrial and geological sequestration of greenhouse gases.

It is important that Australia's nascent carbon industry should be nurtured and expanded to ensure Australia manages the risks and maximises the opportunities in the necessary economic and social transition to a net-zero emissions economy by 2050.

The urgency of the social and economic transition required to meet the objectives of the Paris Agreement necessitates a strong suite of complementary policies that seek to (i) drive high quality emissions reductions with strong integrity, transparency and accountability, and (ii) clarify national decarbonisation pathways congruous with a long-term target of net-zero emissions by 2050, that appropriately considers and aligns the views of science, business, community and indigenous stakeholders.

The positions outlined in this document are of a general industry position and are not representative of any CMI individual, member company, or industry sector.

PART A - IMPROVING THE EMISSIONS REDUCTION FUND

In the following section, CMI outlines its position on the policy recommendations related to actions and amendments that could facilitate improvements to operational elements of the ERF. This includes recommendations for streamlining current processes for participants, removing barriers to entry where upfront costs can be prohibitive and exploring co-financing arrangements, drawing on industry knowledge and experience to investigate and pilot new methods as well as improvements to current methods, and ensuring ongoing scheme integrity and appropriate governance.

Ref.	Expert Panel Recommendation	Government Response
5.1	Allow certain ERF methods to award ACCUs on a compressed timeframe. This would reduce the barriers faced by projects with high upfront capital costs. The application of compressed crediting should be assessed on a method by method basis, with the following criteria to apply. 1. Projects must involve significant upfront costs, in the form of resource outlays or foregone profits, which are not materially offset by carbon revenues and secondary benefits (e.g. reduced energy costs) in the early years of the project. 2. The likely abatement from the projects must be able to be easily forecast with a reasonable degree of precision over the crediting period. 3. The realisation of the forecast abatement must not be contingent on the recurrent outlay of significant resources for the conduct of the abatement activity. Rules would be needed to ensure the progressive verification of the delivery of abatement to minimise the risk of credits being issued for abatement that does not subsequently occur.	**Agreed-in-principle** The Government acknowledges that for some ERF methods the 'gap' between revenue (ACCU delivery) and high upfront capital costs can mean that projects that otherwise provide low cost abatement do not proceed. This is contrary to the intent of the ERF, which is to incentivise the adoption of new practices and technologies to reduce emissions at least cost. The Government will consult with stakeholders on the best mechanisms to encourage projects with high upfront costs on a method by method basis.

CMI Response

CMI supports the exploration of this for projects with high capital expenditure, however the integrity of scheme, unit, permanence and crediting periods should not be undermined. For example, this should not unduly put pressure on the Eligible Interest Holder consent, nor should it result in a variation to the current definition and treatment of such ACCUs.

CMI agrees that the application of compressed crediting should be applied on a method by method basis and is supportive of further stakeholder consultation to explore:

a) the possibility for a specific proportion of credits to be issued to project proponents upfront (for example after the first verification audit); and
b) the possible expansion of current timeframes for ERF project contracting periods.

Consultation on this matter should consider the overall objectives and whether they could be met by other initiatives such as ARENA or CEFC co-investment. The potential impact on credibility/eligibility for such ACCUs generated under compressed crediting arrangements to be traded internationally, should also be carefully considered.

Ref.	Expert Panel Recommendation	Government Response
6.1	Establish a new process to provide third parties with the opportunity to propose and prepare ERF methods. This would encourage innovation and accelerate method	**Agreed** The Government agrees that giving industry greater opportunity to support the development of new methods would encourage innovation and new method

	development, thereby helping to promote greater participation and the realisation of low-cost abatement opportunities. A multi-stage review, development and approval process would ensure third party methods are robust, meet the ERF's offsets integrity standards, and are administratively sound.	development. In response to the Panel's recommendation, the Government has already given industry early-stage involvement in the initial scoping of a Carbon Capture and Storage/Carbon Capture, Use and Storage (CCS/CCUS) method. This new approach will include earlier engagement with the independent Emissions Reduction Assurance Committee (ERAC) to ensure methods are designed to meet the offsets integrity standards and enable greater project participation. The Government will also investigate deeper industry involvement in method development and prioritisation through the provision of in-kind support (for example, by supporting drafting of new methods or procurement of new datasets to support the scientific integrity of methods). See also recommendation 6.13 below.

CMI Response

CMI is supportive of this recommendation and welcomes avenues for industry and technical experts to be involved in ERF method development. CMI would welcome early engagement with ERAC in this regard, acknowledging the current resourcing challenges within ERAC.

CMI could facilitate a six-monthly or annual priority recommendation for methodologies that cover avoided emissions and biological, industrial or geological sequestration. It is critical however for the government to clarify how it will engage with industry in this regard, including how it will collaborate, receive information, advice and expertise.

Given the broad public benefits, it is appropriate for government to provide support to facilitate this. In particular, it is important to understand to what extent expansion of existing, or creation of new methods could create pathways to pull through new low-emissions technology, and in doing so potentially obviate the need for a different Safeguard Mechanism crediting scheme as outlined in item 9.1.

Ref.	Expert Panel Recommendation	Government Response
6.2	Establish a pilot method program to test new method ideas and expedite method preparation. This would encourage early action and improve the robustness of methods. Pilot methods would be developed for activities where there is uncertainty in the underpinning science or complications with the design of the method. Proponents of pilot projects would be required to share data and project information to assist in developing the final method. Further consideration should be given to whether pilot projects would be awarded ACCUs or an alternative credit type for sale to the Regulator.	**Agreed** The Government agrees with the concept of pilot methods to expedite new method development and enable the ERF to achieve a greater range of low cost abatement. The Government also notes that pilot method programs may facilitate the faster adoption of new technologies. The Government will work with stakeholders to establish a regulatory sandbox to inform method development through pilot projects.

CMI Response

CMI supports the establishment of a pilot method program, acknowledging the desire for flexibility on the newness requirement for these pilot activities. The ability for pilot activities to generate ACCUs (if the method is successful) would incentivise private sector investment/partnerships.

One option is for government (CER and/or State governments) to act as a back-stop to purchase units or options through the ERF in the event that the pilot activity results in a method being developed. As for all responses social and environmental integrity is paramount.

Ref.	Expert Panel Recommendation	Government Response
6.3	Introduce a formal 'duty of utmost good faith' on participants in the ERF. This would lessen the need for proscriptive project eligibility rules and foster a collective responsibility for the scheme. Similar to the implied duty of utmost good faith that applies to insurance contracts under the Insurance Contracts Act 1984 (Cth), the duty would require ERF participants to act in the utmost good faith in their engagements with the scheme, including in relation to implementing projects, judging whether projects are additional, and measurement, reporting and verification. To have its desired effect, the overarching duty would need to be coupled with administrative mechanisms to reinforce the importance of ethical behaviour. These could include requirements for project proponents to pledge to act in good faith and to describe how they have complied with the duty in offsets reports.	**Agreed** The Government agrees that a duty of utmost good faith could facilitate less prescriptive rules while maintaining the integrity of the ERF. The Government will consult stakeholders on options to implement this recommendation.

CMI Response

The CMI welcomes this proposal and looks forward to consulting with government and stakeholders on how this could integrate with the Carbon Industry Code of Conduct. In such considerations, the integrity of the carbon market and participants would be the paramount priority.

There is opportunity to evolve and position the Code as a co-regulatory arrangement with the CER administration of the CFI Act. Code of Conduct participation could be a criteria for fulfilling the duty, acknowledging the need for clarity and alignment on the obligations for the various market participants.

Ref.	Expert Panel Recommendation	Government Response
6.4	Review the ERF's governance arrangements to ensure the efficient and effective operation of the scheme. The review should include the structure and staffing of the Emissions Reduction Assurance Committee (ERAC), and whether it should be staffed and supported by officers from the Department, the Clean Energy Regulator, or another agency.	**Agreed** The Government will conduct a review of the governance arrangements of the ERF by the end of 2020.

CMI Response

CMI is supportive of this recommendation on these governance reviews, acknowledging the importance of ensuring that the ERAC is independent, adequately resourced and free of potential conflicts, real or perceived, that may arise from staff support arrangements.

Ref.	Expert Panel Recommendation	Government Response
6.5	Establish a scheme to subsidise the costs of directly measuring the abatement associated with certain types of project activities, particularly the sequestration of carbon in agricultural soils.	**Agreed-in-principle** The Government agrees that the costs of direct measurement and the conservativeness of model-based methods are significant barriers to the uptake of some methodologies, particularly soil carbon projects.

	The costs of directly measuring abatement is acting as a significant barrier to the uptake of soil carbon projects and certain other project activities. This barrier is most acute where there are no model-based methods for the activities or the available modelled methods are highly conservative because of scientific uncertainty concerning the impact of project activities. The scheme would provide subsidies for measurement costs on the condition recipients share data to help resolve scientific uncertainties and improve model-based methods. The scheme could run on a cost recovery basis (for example, by requiring proponents to sell credits to the Regulator at a discount).	The Government is eager to support Australian farmers and land managers to realise the productivity and emissions reduction benefits from agricultural practices that increase soil carbon levels. The Government will consider all options to support increased uptake of methodologies that increase agricultural productivity, including through revision of existing methods, mechanisms introduced in response to recommendation 5.1, and options to increase the economic efficiency of direct measurement. The Government has also committed to developing a National Soil Strategy to address soil degradation and increase the resilience of the agricultural sector, as it aims to become a $100bn industry by 2030. This Strategy aims to improve the availability and coordination of soil data, and has the potential to provide productivity, environmental and sequestration benefits.

CMI Response

CMI supports this recommendation, and notes that industry is willing to work with the government on developing co-financing processes for improving soil carbon and other landscape carbon potential. CMI is well placed to facilitate this with members active in these areas and government support could accelerate this with efficiency and impact.

In circumstances where other upfront costs for a project present a significant barrier to implementation, consideration should be given to subsidising such costs, in addition to direct measurement of abatement, where relevant.

CMI would also support this recommendation being aligned with the CCA 2020 Climate Policy Toolkit recommendation on setting up a fund:

- *"Introduce a Land and Environment Investment Fund (that is, a Clean Energy Finance Corporation (CEFC) for the land) to invest in actions to support low-emissions and climate-smart agriculture and associated environmental services."*

CMI notes that this should also include actions for carbon abatement and sequestration in marine environments. Like the CEFC, this should be targeted at encouraging private sector investment to increase demand.

Ref.	Expert Panel Recommendation	Government Response
6.6	Create a fixed priced purchasing desk for small projects under the ERF. This would encourage project uptake, particularly agriculture and small-scale energy efficiency projects, by reducing price risks and marketing costs. Eligibility to access the platform would be limited to proponents of generally small projects (e.g. based on projects' forward abatement estimates or another similar metric). The creation of the fixed priced purchasing desk would ideally be done in tandem with the work on small-scale methods and method stacking (recommendations 6.7 and 6.9).	**Agreed** The Government agrees that smaller projects should be enabled to participate and access the benefits of the ERF. The Clean Energy Regulator will further consult with stakeholders on the implementation of this recommendation.

CMI Response

CMI appreciates many carbon farming projects are too small to attract large-scale finance and investment and would support further consultation with stakeholders on this matter. In addition to agriculture and small-scale energy efficiency projects, indigenous and community project assistance should also be considered as part of this consultation.

Such a purchasing desk is an idea worth exploring, however there are alternative options to a fixed-price purchasing desk that should also be considered, including:

- A floor price rather than fixed price;
- Developing new models for aggregation, e.g co-operatives or supportive regional entities; and
- Working closely with project developers to ensure methods are suited to new scalable aggregation models.

Ref.	Expert Panel Recommendation	Government Response
6.7	Create tailored small-scale ERF methods for particular types of agriculture projects, including shelterbelts. Small-scale methods would have streamlined measurement, reporting and verification requirements, reducing transaction costs and driving participation from small agriculture projects.	**Agreed** The Government will consult with stakeholders on the potential for methods and other mechanisms to support uptake of abatement opportunities through small scale projects.

CMI Response

CMI is supportive of this recommendation and refer to the comments in our response to recommendation 6.6, above.

Ref.	Expert Panel Recommendation	Government Response
6.8	The Clean Energy Regulator should continue its work on optional delivery contracts under the ERF to reduce price uncertainty and risk for proponents by giving them the right (but not the obligation) to sell ACCUs at a set, pre-determined price during a specified period.	**Agreed** In December 2019, the Clean Energy Regulator announced they would, for the first time, be offering optional delivery contracts at the March auction. The auction was held on 25 and 26 March. Optional delivery contracts were awarded to eight projects, for a total of 1.4 million tonnes of abatement. The Clean Energy Regulator will continue to assess the viability of these and other optional delivery mechanisms.

CMI Response

CMI supports this recommendation, acknowledging that there are a range of views within the industry on the Regulator having optional or firm contract standing offers out of auction cycle.

More specifically, CMI supports the optional delivery contract mechanism, noting the importance of a clear (voluntary or compliance) demand signal to incentivise uptake outside of the usual auction contracting process.

Ref.	Expert Panel Recommendation	Government Response
6.9	Facilitate 'method stacking', where multiple ERF projects are taken on the same property using different methods, by making rule changes to allow: • proponents of stacked projects to submit a single, aggregated offsets report covering each individual component of the stacked project; and	**Agreed** The Government will work with industry to identify the best ways to simplify and streamline method stacking. In response to the Panel's recommendation, the Clean Energy Regulator has commenced work to streamline transaction costs for projects, which is likely to support method stacking.

	• stacked projects' audits to cover all projects at one time rather than auditing each individual component at different times.	

CMI Response

CMI fully supports the potential for method stacking, and CMI's Landscape Framework Taskforce is in the process of exploring this and will be making recommendations in this regard.

CMI suggests that the government provide a clear and transparent process for how they will engage with and receive expertise from industry, noting CMI is well placed to play a key representative role in this (also referring to CMI's response to recommendation 6.1).

Ref.	Expert Panel Recommendation	Government Response
6.10	The Clean Energy Regulator should continue its efforts to streamline ERF audit requirements at an administrative level and to explore the potential to use "big data" as an alternative to more traditional audit processes.	**Agreed** The Clean Energy Regulator is undertaking work to review audit requirements with a view to streamlining the audit process to identify efficiencies for both auditors and project proponents. The Regulator is also exploring aspects of ERF activity where new geospatial tools, apps and improvements to online systems may complement existing audit processes or be an alternative assurance mechanism.

CMI Response

CMI welcomes the opportunity to work with the Regulator and CMI's members in this regard. This has significant potential for reducing transaction and audit costs but also important gains for regional natural resource management and biodiversity stewardship outcomes.

Ref.	Expert Panel Recommendation	Government Response
6.11	Amend the ERF legislation to enable a method to be developed for carbon capture and storage and/or carbon capture, utilisation and storage.	**Agreed** In response to the Panel's recommendation, in April the Government commenced consultation with industry on the development of a Carbon Capture and Storage/Carbon Capture, Use and Storage method, including any necessary legislative amendments.

CMI Response

CMI supports the exploration of new ERF methodologies to incentivise industrial emissions reduction. This includes Carbon Capture, Use & Storage (CCUS) for high emissions industries including steel, cement and oil and gas (noting the importance of managing perverse outcomes where such activities prolong due or scheduled closure of older, high emissions-generating facilities).

Other methods noted in our submission to the King Review included:

a) Electrification or fuel switching of transport & related infrastructure;
b) Hydrogen-driven electrification of manufacturing and industrial production facilities; and
c) Other hydrogen-related fuel & energy activities.

Ref.	Expert Panel Recommendation	Government Response
6.12	Undertake consultation on amending the water requirements that apply to farm forestry and plantation	**Agreed** In response to the Panel's recommendation, in April the

	projects under the ERF. There are significant abatement opportunities associated with farm forestry and the expansion of plantation estate. The water requirements that apply to these project types are acting as a barrier to the realisation of these opportunities. Consultation would help identify the need for and impacts of the water requirements, and the best way of addressing the concerns about the potential adverse hydrological effects of plantations.	Government amended the water rule to reduce the regulatory burden for farm forestry and plantation forestry projects. These changes will be fully implemented by mid-2020.
CMI Response		
CMI is supportive of this recommendation and proposed changes to water requirements.		

Ref.	Expert Panel Recommendation	Government Response
6.13	Develop and publish a formal policy governing the prioritisation and development of ERF methods. This would provide stakeholders with greater confidence about method development processes and the opportunities for consultation and collaboration.	**Agreed** The Government agrees a published policy on prioritisation of method development would provide greater transparency for ERF proponents and help ensure a robust prioritisation process. The Government will align method development priorities with the Technology Investment Roadmap process.
CMI Response		
CMI is strongly supportive of this and, as noted above (6.1), is happy to assist in facilitating a process to support the prioritisation and development of ERF methods.		

PART B – INCENTIVISING VOLUNTARY ACTION ON A BROADER SCALE

In the following section, CMI outlines its position on the policy recommendations related to activities that could facilitate increased voluntary market activity and further incentivise emissions reductions across the economy in the transition to net-zero emissions. The positions outlined below acknowledge the importance of maintaining strong integrity, transparency and accountability in Australia's carbon industry and the need to manage risks and maximise opportunities that effective market mechanisms present for an economic and social transition to a net-zero emissions economy by 2050.

Ref.	Expert Panel Recommendation	Government Response
7.1	Adopt a convention that the implicit carbon content, or "carbon exchange rate", for a LGC will be based on either the average grid carbon intensity per MWh or the state-based grid emission factor for the jurisdiction in which the LGC creating renewable generator is located. This would assist in the development of voluntary participation in offset markets, ensuring consistency and transparency in the use of LGCs for offset purposes. The implications for grid security and reliability associated with additional renewables deployment driven by voluntary market demand will be managed through the Retailer Reliability Obligation.	**Agreed** The Government notes that record deployment of intermittent energy generation and associated thermal generator closures necessitate further measures to support reliability and security in the National Electricity Market. At its March 2020 meeting, the COAG Energy Council agreed to a range of interim measures to support reliability and strengthen the Retailer Reliability Obligation. The Government will undertake further work to assess the best approach to account for the implicit carbon content in an LGC, including the most appropriate methodology for determining a conversion factor. The proposed convention would provide additional information to assist buyers and sellers in voluntary markets to understand the carbon content of LGCs. For the avoidance of doubt, the proposed convention is not intended to allow for LGCs to be used to meet compliance obligations under the National Greenhouse and Energy Reporting Act 2007 (for example, to meet surrender obligations under the Safeguard Mechanism), contractual obligations under the Emissions Reduction Fund, or for any other uses relevant to the Australian National Registry of Emissions Units Act 2011.

CMI Response

CMI agrees in principle to the provision of more information to the market that allows for better transparency and integrity, however has deep reservations about the need for this where it could result in perverse outcomes for the Australian offsets market in the future (namely, reduced voluntary ACCU purchases).

CMI strongly supports that this convention does not allow for LGCs to be used to meet compliance obligations under the *National Greenhouse and Energy Reporting Act 2007* (for example, to meet surrender obligations under the Safeguard Mechanism), contractual obligations under the Emissions Reduction Fund, or for any other uses relevant to the Australian *National Registry of Emissions Units Act 2011*. We note the lack of clarity on what the Government would see as other uses outside of these restrictions.

Without a clear long-term demand signal or strengthened compliance mechanism settings, creation of new fungible units could undermine the development of the broader carbon crediting industry. Regarding these concerns, please note CMI's response to recommendations outlined in item 9.1 (Safeguard Mechanism Crediting). Other alternatives such as an extension of the RET could also be considered.

Ref.	Expert Panel Recommendation	Government Response
7.2	The Clean Energy Regulator should accelerate its efforts to encourage the emergence of exchange-traded markets for certificates, and the work already underway to support the	**Agreed** The Government's view is that offset markets are best placed to value co-benefits and that the efficient

	deepening and strengthening of voluntary private markets by improving registry systems to provide information about the provenance of certificates and support private quality branding of co-benefits associated with different abatement units.	functioning of the market is best supported through enhanced information sharing. The Clean Energy Regulator has upgraded its registry to enable better information to the market regarding the provenance of different abatement units. This will help the market to incorporate the value of co-benefits when buying units. The Regulator is exploring the requirements needed to support vibrant carbon market trading for the schemes it operates and the growing business appetite to meet corporate sustainability goals by voluntarily surrendering units to offset emissions.

CMI Response

CMI supports enhanced information sharing with regards to co-benefits. CMI agrees that offset markets are best placed to value co-benefits and looks forward to working with the Regulator to explore the development of more vibrant carbon market trading and validation of co-benefit frameworks. CMI notes that recent upgrades to the CER Registry are to ANREU accounts accessible only by market participants. CMI encourages broader and public registration of such co-benefits on CER or indeed CMI Marketplace Registries.

We note also that this recommendation could result in more information being provided on the provenance and integrity of international units held in ANREU accounts or other registries, and agree that further transparency and better management of registry accounts in this regard would serve well the future expansion of Australia's carbon market and potential linkage with international markets under Article 6 of the Paris Agreement.

Ref.	Expert Panel Recommendation	Government Response
7.3	The Commonwealth should work with state and territory governments to encourage their use of the national crediting architecture for the purposes of offsetting emissions from particular developments. There should also be continued partnership and education between the Regulator and state and territory officials to build awareness of this architecture. This will promote simplicity and consistency between jurisdictions, reduce transaction and compliance costs for proponents and reduce administrative costs for state governments.	**Agreed** The Government supports the use, wherever possible, by state and territory governments of the Commonwealth's crediting architecture in their emissions reduction policies. It is important these State and Territory efforts contribute to meeting (and, where possible, beating) Australia's international emissions reduction obligations. In the first instance, the Government will look for opportunities to do this through the implementation of bilateral agreements being developed with various states and territories covering energy and emissions reduction. In early 2020, the Commonwealth and NSW Governments struck the first such bilateral agreement. The Department of Industry, Science, Energy and Resources and Clean Energy Regulator will also work with state and territory agencies at an officials' level to build awareness and education regarding the Commonwealth's crediting architecture. For example, the Regulator has already engaged closely with Queensland officials on the use of ACCUs in Queensland's Land Restoration Fund.

CMI Response

CMI welcomes the leverage of the national market with state participation and is working with Queensland and other State governments to encourage their further use.

State and national governments should clarify how this coordination could be represented in COAG or national cabinet processes, including the development of complimentary state and federal regulatory frameworks and education and outreach programs.

Ref.	Expert Panel Recommendation	Government Response
8.1	Establish a knowledge sharing and outreach program to address information barriers impeding the uptake of ERF projects and investment in cost-effective abatement opportunities. The program would involve the creation of dedicated knowledge sharing hubs for key sectors, with a focus on energy efficiency in SMEs, agriculture, road freight, the property sector and industrial facilities. These knowledge-sharing hubs should be developed in consultation with the relevant industry bodies.	**Noted** The Government continually looks for ways to build skills and knowledge within industry and remove information barriers to the uptake of ERF projects. One example is the Government's $11.7 million Business Energy Advice Program, announced in the 2019-20 Budget, which is already helping to build the knowledge and capability of SMEs regarding energy efficiency. The Government will look to simplify and streamline knowledge sharing and communications efforts with current and potential ERF project proponents to remove information barriers impeding the uptake of cost-effective abatement opportunities.

CMI Response

CMI is supportive of this and holds the position that the government should have reference to CMI's Carbon Farming Industry Roadmap and Australia's Carbon Marketplace, considering the potential of these resources to provide core information services and pathways to create jobs in regional and rural areas towards the advancement and scale-up of Australia's national abatement industry.

Noting that with the creation of the CFI Act, CMI with the support of government has previously acted as a Registered Training Organisation to support the development of skills in the industry. Other options include the utilisation of state and national agricultural extension services and agencies including ABARES and CSIRO.

Ref.	Expert Panel Recommendation	Government Response
8.2	Undertake a review to determine the extent of skills shortages associated with abatement activities and whether there is a need for additional measures to address relevant training needs, particularly in regard to the availability of trained energy efficiency experts in the industry and building sectors.	**Noted** The Government has, through the COAG Energy Council, worked with states and territories to develop and implement the National Energy Productivity Plan (NEPP). Several measures pursued through the NEPP have focussed on building service provider capability. The Government is co-ordinating a review of the NEPP, which will be presented to COAG Energy Council once finalised. The Government's $585 million Skills Package – Delivering skills for today and tomorrow – will help train highly skilled and qualified workers, including in regional areas, to meet Australia's future workforce needs. As part of the Skills Package, the Government will establish a National Skills Commission to oversee the Government's investment in VET and drive research and analysis of future skills needs across industry.

CMI Response

CMI supports this, and recommends skills identification and training development programs - likewise for the land sector.

Ref.	Expert Panel Recommendation	Government Response
8.3	Expand the National Australian Built Environment Rating Scheme (NABERS) and the Commercial Buildings Disclosure (CBD) scheme to a broader range of commercial building types (e.g. hotels).	**Noted** In 2019, the COAG Energy Council agreed the Trajectory for Low Energy Buildings, which sets a trajectory towards zero energy buildings for Australia and outlines implementation arrangements and responsibilities for a range of targeted initiatives. This follows the Government's commitment, through the Climate Solutions Package, that it would improve rating tools for commercial buildings, such as NABERS. In line with these commitments, it has been working with state and territory governments on a range of measures to improve the energy efficiency of commercial buildings and has allocated $3.4 million over 2019-20 and 2020-21 to accelerate the expansion of NABERS. The Government is also committed to periodic reviews of the Commercial Building Disclosure Program, which will consider the case for expanding the Program.
CMI Response		
CMI acknowledges this recommendation.		

Ref.	Expert Panel Recommendation	Government Response
8.4	Develop an energy performance rating scheme for new and existing residential buildings based on the Nationwide House Energy Rating Scheme (NatHERS) as a matter of priority.	**Noted** Through the Climate Solutions Package, the Government committed to provide resources, training and tools to help building owners and occupiers reduce energy consumption. In line with this commitment, the Government has been working with states and territories on a range of measures to improve the energy efficiency of residential buildings, and in 2019, the COAG Energy Council agreed the Trajectory for Low Energy Buildings, which sets a trajectory towards zero energy (and carbon) ready buildings for Australia. The Government has allocated $7.2 million over 2019-20 and 2020-21 towards relevant measures for the residential sector to be implemented by the Commonwealth.
CMI Response		
CMI acknowledges this recommendation.		

Ref.	Expert Panel Recommendation	Government Response
8.5	The Commonwealth should work with state and territory governments to introduce mandatory energy performance disclosure obligations for the residential sector linked to the rating system (recommendation 8.4).	**Noted** The Government has been working with state and territory governments on a range of measures to improve the energy efficiency of residential buildings, including energy performance disclosure obligations. In 2019, the COAG Energy Council agreed the Trajectory for Low Energy Buildings, which sets a trajectory towards zero energy buildings for Australia and outlines a timeline for state and

		territory governments to examine, and potentially develop and implement residential energy performance disclosure obligations. While mandatory energy performance disclosure obligations for the residential sector is the responsibility of the state and territory governments, a national framework for disclosure of home energy ratings has been agreed by COAG Energy Council and will support homebuyers, renters and renovators to benefit from more energy efficient homes, incentivise sellers, and assist the finance sector to better value and manage risks. The Government will continue to work with the state and territory governments through the COAG Energy Council as this work unfolds.

CMI Response

CMI acknowledges this recommendation.

Ref.	Expert Panel Recommendation	Government Response
9.1	Establish a 'below-baseline crediting arrangement' for large facilities using the Safeguard Mechanism architecture. The arrangement would provide credits to facilities who reduce their emissions below their Safeguard baselines by undertaking 'transformative' abatement projects. The below-baseline crediting mechanism would help realise abatement opportunities in industrial facilities that are not being accessed by the ERF. Key design parameters would include the following. • The crediting mechanism would not be an offset scheme; it would be a low-emissions technology deployment incentive scheme, not unlike the RET. • Initially the mechanism would operate as a pilot, trial phase. • Units generated under the scheme should be differentiated from ACCUs and could be known as Safeguard Mechanism Credits (or SMCs). • The crediting mechanism would be implemented through the National Greenhouse and Energy Reporting Act and its subordinate legislation. • Crediting should be targeted at reductions in emissions intensity to avoid crediting reduced production or facility closures. • SMCs could be used to meet compliance obligations under the Safeguard Mechanism, purchased by the private sector, or purchased by the Government through a new arrangement under the Climate Solutions Fund. Firms would be required to submit a transformation statement summarising what specific investments have been made to reduce their emissions intensity.	**Agreed** The Government agrees that establishing a low-emissions technology deployment incentive scheme to reduce emissions from Safeguard-covered facilities would help realise abatement opportunities that are not being accessed by the ERF. As noted by the Panel, substantial consultation will be required with industry on how to best implement such a scheme and maximise co-investment. In this context, the Government will undertake further consultation with affected businesses and other stakeholders on the detailed design and implementation arrangements.

CMI Response

The Safeguard Mechanism below-baseline crediting proposal has raised both interest and concerns amongst CMI's membership, specifically three conflicting views that the SMC proposal:

1. represents an opportunity to integrate emissions reduction considerations in business investment decision making which have not been facilitated by current ERF project related methodologies;
2. raises deep concerns about the potential impact on the carbon farming industry, particularly if these credits could be traded in current nascent voluntary markets; and
3. creates market integrity, assurance and stability issues, namely from:
    - confusion caused by entry of another non-ACCU credit in a low demand market;
    - complexity associated with developing a potential second facility baseline ("reference level") to enable emissions reduction crediting at the facility level, and:
    - potential undermining of the original intent and design of the safeguard mechanism to safeguard the value of public funds spent under the Emissions Reduction Fund through the creation of new credits requiring extra mechanisms of assurance, namely clear, transparent and accessible ACCU equivalence measures and information.

CMI also recognises the other ERF update work supported by the Government's response to the King Review (particularly regarding industrial methods with low uptake), may obviate the need for an additional crediting mechanism at all. To this end, the Government should continue to expand, update and streamline existing industrial methods to increase participation, whilst also creating opportunities to develop new methods for piloting, and uptake by industry participants. Other considerations include flexibility around crediting periods, and additionality/newness (particularly in the context of piloting of new activities).

Given that the Government is already supportive of some of the above ideas, and that the Clean Energy Regulator is already undertaking efficiency and flexibility reforms, CMI is not convinced of the need for this additional policy measure. However, the ways in which this option could be explored are outlined below.

Suggested conditions for SMC exploration

Noting a strong desire from some industry participants to investigate this idea further, CMI supports further exploration of this concept (SMC), but only under the following conditions:

- That SMC eligibility applies only to companies with Safeguard responsibilities;
- That credits generated can only be utilised by those Safeguard covered entities and not traded into the voluntary market (i.e only fungible for Safeguard compliance);
- That the concept of a reference baseline under existing baselines be deployed; this reference baseline trajectory should decline in line with NDC or science-based Paris agreement trajectories (noting the need for specific treatment of different sectors, e.g. EITE sectors);
- That any public funding for SMC activities should come from sources outside the CSF, more appropriately utilising CEFC or ARENA funding, so as not to adversely affect existing investment mandates for ACCU-generating projects;
- That the transformation statements and accountability measures in the King Review be supported, including statements of how the projects and reference trajectory align with Paris Agreement trajectories; and
- Any initial pilot program be timebound (three to five years).

Issues for clarification/consideration

If exploring the SMC proposal further, the government should clarify and consider:

- **the objective of the below baseline crediting arrangement** and whether the acceleration of low-emissions technology deployment in high emitting sectors can be achieved through other means such as changes to ERF methodologies to remove barriers to uptake of ERF method in certain high emitting sectors, or other financing arrangements to better enable private sector investment;
- **the definition of transformative and additional abatement activities which could be eligible** under the below baseline crediting arrangement and how market integrity will be maintained to build market confidence and ensure abatement activities are transparent and credible.
- **the intended markets that a potential new unit ("SMC") should be available/limited to**, noting that their use outside of a compliance market will have broader market implications for those actively engaging in the generation and trade of ACCUs; and
- **the real-time market implications of moving to a below baseline crediting arrangement for Australia's current carbon market and the impact on ACCU development projects**, in particular in the absence of a robust carbon trading mechanism where emissions limits or allowances allocated to liable entities decline over time.

PART C – UNLOCKING THE TECHNOLOGIES NEEDED TO TRANSFORM KEY SECTORS

In the following section, CMI outlines in position on the policy recommendations that can support the development and deployment of innovative emissions reduction technologies at scale. Importantly, an expanded mandate for ARENA and the CEFC beyond renewables, can be an enabler and bring forward investment in the technologies that will align with a trajectory that helps limit warming to 1.5°C and achieve net-zero emissions by 2050.

Ref.	Expert Panel Recommendation	Government Response
10.1	Establish a goal-oriented technology co-investment program to accelerate the uptake of transformative, high abatement potential technologies that are not currently cost competitive. Key design parameters would include the following: • The program would focus on the 'hard-to-abate' sectors, for example heavy industry, freight transport and aviation, where capital costs are high and progress in driving down costs has been slow. • Safeguard and non-Safeguard covered projects would be eligible. • The program would target novel and ambitious technologies with the potential to transform key sectors. • The program would involve co-investment by the Government and industry, with Government funds provided substantially upfront. • The program would be undertaken in collaboration, and with co-investment, from state and territory governments where possible. The program's design should provide assurance that funded projects are technically and commercially feasible.	**Agreed-in-principle** Driving down the cost of transformative, high abatement potential technologies is the cornerstone of the Government's emissions reduction agenda. The Government is developing a national Technology Investment Roadmap as part of Australia's long-term emissions reduction strategy. The Government agrees that ARENA and the CEFC should provide support to the widest range of low emissions technologies and notes that their investments will be guided by the Technology Investment Roadmap. The Government is currently consulting on the development and implementation of the Technology Investment Roadmap and the role of ARENA and the CEFC in that context. The Technology Investment Roadmap will prioritise goal-oriented co-investment for relevant Commonwealth agencies, including ARENA and the CEFC. The Government will consider the merits of amending ARENA and the CEFC's legislation through this process.

CMI Response

CMI supports the expansion of the CEFC and ARENA's mandate to facilitate the development and deployment at scale of emissions reduction innovation and technologies, in addition to renewables. This would need to come with additional resourcing (with preference to be additional to Climate Solutions Fund funding) and could align with the proposed Land and Environment Investment fund. CMI's submission to the Technology Investment Roadmap Discussion Paper made the following key recommendations:

a) The Roadmap, and Long-Term Emissions Reduction Strategy (the Strategy) to follow, should have a clear goal of net-zero emissions by 2050 with a science-based emissions reduction trajectory guiding the strengthening of Australian interim targets
b) A dashboard approach that highlights employment, environmental service, decarbonisation as well as indigenous and other social benefits should be developed as criteria for prioritising technologies and be included in annual statements and other reports.
c) The Roadmap and Strategy should include processes to develop and evolve sectoral decarbonisation pathways.
d) Any criteria for assessing technologies for public investment should include how such investments support technologies providing greater infrastructure and community resilience to growing climate impacts.
e) Australian governments have and should develop policies that address genuine concerns for emissions intensive trade exposed industries in a timely transition to net-zero emissions
f) CMI recommends a significant quantum of funding be assigned to developing a just transition strategy and related projects that would identify skills needs and develop training programs to support carbon market participation as well as economic and social transition across a range of sectors.

g) CMI supports the recommendation by the Climate Change Authority for the establishment of a Land and Environment Investment Fund… this Fund should have a budget of $1 billion over 5 years [Unless Government policy evolves the Safeguard Mechanism], this Fund must be in addition to the almost $2 billion over 15 years in the Climate Solutions Fund which the Government has dedicated to the Emissions Reduction Fund.

Ref.	Expert Panel Recommendation	Government Response
10.2	Provide ARENA and the CEFC with an expanded, technology-neutral remit so they can support key technologies across all sectors and be involved in the delivery of the Goal-oriented co-investment program (recommendation 10.1).	**Agreed-in-principle** The Government is developing a national Technology Investment Roadmap as part of Australia's long-term emissions reduction strategy. The Government agrees that ARENA and the CEFC should provide support to the widest range of low emissions technologies and notes that their investments will be guided by the Technology Investment Roadmap. The Government is currently consulting on the development and implementation of the Technology Investment Roadmap and the role of ARENA and the CEFC in that context. The Technology Investment Roadmap will prioritise goal-oriented co-investment for relevant Commonwealth agencies, including ARENA and the CEFC. The Government will consider the merits of amending ARENA and the CEFC's legislation through this process. The Roadmap will establish a framework for strategic and system-wide technology investments over the near, medium and long-term, sending a clear signal to the private sector on the Government's technology investment priorities. The Government's $1 billion Grid Reliability Fund will have an expanded technology remit and will provide the CEFC with additional investment options. The CEFC's existing legislation and investment mandate enable the CEFC to invest in low emissions technologies like gas and hydrogen as well as enabling technologies such as transmission.

CMI Response

As above (10.1), CMI supports the expansion of the CEFC and ARENA's mandate to facilitate the development and deployment at scale emissions reduction innovation and technologies, in addition to renewables. This would need to come with additional resourcing and could align with the proposed Land and Environment Investment fund.

CMI supports the development of a technology co-investment mechanism to reduce cost and risk of private sector investment in new technology innovation and development.

Technology development assistance needs to be guided by criteria of achieving net-zero emissions by 2050 with an emissions trajectory that helps limit warming to 1.5°C.

Ref.	Expert Panel Recommendation	Government Response
10.3	Establish a single database to publish funding decisions for low emissions technologies through the co-investment program, CEFC, ARENA and similar schemes. The published information could include details of the funding recipients and technologies, a statement of reasons for the investment support, progress reports on implementation, and an account of project outcomes.	**Agreed-in-principle** ARENA, the CEFC and the Clean Energy Regulator already disclose considerable information regarding the projects and initiatives supported through their programs and activities. The Government will examine whether there are further opportunities to make this information more consistent and accessible, including by consolidating in a single database.

CMI Response

a) CMI supports further transparency of information. As noted above, our submission to the Roadmap Discussion Paper recommended a "dashboard approach that highlights employment, environmental service, decarbonisation as well as indigenous and other social benefits should be developed as criteria for prioritising technologies and be included in annual statements and other reports.

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The Carbon Market Institute is at the centre of business and climate action in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive response on climate crisis.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a net zero-carbon economy.

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