**The Government is currently seeking feedback on its Safeguard Crediting Mechanism discussion paper as it looks to establish a pilot phase for a "below-baseline crediting arrangement" from 1 July 2022. The discussion paper explores a number of design options for the mechanism that may incentivise low-cost abatement technology deployment at industrial facilities. Submissions close on 5 October 2021. This briefing note provides relevant background information and resources related to the proposed Safeguard Crediting Mechanism.**

## Background

### About the Safeguard Mechanism

The safeguard mechanism was established as part of the Government's Emissions Reduction Fund (ERF) and was designed to ensure emissions reductions purchased through the ERF were not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy. It commenced in 2016 and applies to facilities that emit greater than100,00 $tCO_2$-e annually. There are currently over 200 facilities covered under the safeguard mechanism, requiring those facilities to measure and manage their emission below an emissions baseline.

The Clean Energy Regulator (CER) administers the safeguard mechanism, and more information can be found on the CER website **here**.

### Discussion Paper: Safeguard Crediting Mechanism

The Government recently released a discussion paper on a proposed "below-baseline crediting arrangement" which was first introduced as part of the 2020 King Review: ***Report of the Expert Panel examining additional sources of low cost abatement***. The King Review Report recommended the following:

- *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.*

This recommendation was supported by the Government, who committed to undertake further consultation. CMI consulted with its membership to develop its response to the King Review recommendation and our position is noted below.

## CMI Position – King Review Recommendation

In July 2020, CMI's response to the King Review recommendation on establishing a below-baseline crediting arrangement recognised the broad range of regulatory and ERF reforms being proposed. At the time CMI was not convinced of the need for this additional policy measure for below-baseline crediting, in particular as it raised issues around market integrity, assurance and stability, and the potential to impact Australia's carbon farming industry.

However, CMI also acknowledged the opportunity this arrangement could provide for facilities to better integrate emissions reduction considerations in business investment decision making that have not been facilitated by current ERF project related methodologies. CMI therefore put forward the following suggested conditions on the ways in which this option could be explored, whilst also highlighting key issues for clarification and consideration.

| Issues for clarification and consideration |
| --- |
| • **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 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.

**Suggested conditions should this mechanism be explored**

- Safeguard Mechanism Credits (SMCs) established under the below-baseline crediting arrangement are limited to use by companies with Safeguard responsibilities.
- SMCs can only be utilised by Safeguard liable entities for compliance purposes 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 Australia's Nationally Determined Contribution (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 Climate Solutions Fund, more appropriately utilising CEFC or ARENA funding, so as not to adversely affect existing investment mandates for ACCU-generating project.
- 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.
- Any initial pilot program be timebound (three to five years).

## Next Steps

CMI will be consulting with its membership to understand industry views across a broad spectrum of carbon market participants and develop a response to the discussion paper. Our final submission will be made publicly available on our website.

## Resources

- **Safeguard Crediting Mechanism: discussion paper**
  https://consult.industry.gov.au/climate-change/safeguard-crediting-mechanism-discussion-paper/
- **CMI Carbon Conversation (recording) – It's time we talked about our safeguard**
  https://carbonmarketinstitute.org/2021/08/25/its-time-we-talked-about-our-safeguard/
- **CMI Media Release – CMI welcomes Safeguard Mechanism consultation, Grattan report findings**
  https://carbonmarketinstitute.org/2021/08/23/cmi-welcomes-safeguard-mechanism-consultation-grattan-report-findings/
- **Grattan Institute Report – Towards net zero: Practical policies to reduce industrial emissions**
  https://grattan.edu.au/report/towards-net-zero-practical-policies-to-reduce-industrial-emissions/