



bp Australia Pty Ltd  
A.B.N. 53 004 085 616  
717 Bourke Street  
Docklands Victoria 3008  
Australia

20 September 2022

### **bp Australia response to the Safeguard Mechanism reforms: draft legislation**

bp welcomes the opportunity to provide comment on the draft *Safeguard Mechanism Reforms (Crediting) Amendment Bill 2022 (the draft Bill)* and draft *Carbon Credits (Carbon Farming Initiative) Amendment (Safeguard Facility Eligibility Requirements) Rules 2022 (the draft Rules)* and the associated *Explanatory Document*, released on 10 October 2022. This follows our 20 September 2022 submission on the Consultation Paper: Safeguard Mechanism Reforms.

bp reiterates its support for reforms to the Safeguard Mechanism to provide incentives for large emitters to reduce their emissions in support of Australia's emission reduction targets and the goals of the Paris Agreement.

bp understands that much of the detailed design for the reformed safeguard mechanism is intended to be set out in revised safeguard rules and that the draft legislation is focused on providing flexibility to implement the various options that have been canvassed to date. bp's views on the detailed design are covered in our earlier submission. In this submission we focus on those elements outlined in the draft legislation.

#### ***Legislation to support crediting below baseline***

It is bp's view that the proposed crediting of emissions performance below the safeguard baseline and the ability to trade those credits is essential to the reformed mechanism in driving incentives to reduce emissions. bp is therefore very supportive of the draft legislation that allows for these new Safeguard Mechanism Credits (SMCs) to be issued, held and traded within the registry.

We are also encouraged the SMCs will have similar legal characteristics to ACCUs, for example regarding tax treatment, being defined as a financial product and under anti-money laundering laws.

#### ***Compliance arrangements***

bp also supports the draft legislation allowing for SMCs to be used to reduce a safeguard entities net emissions number (that is, for compliance with the baseline), along with ACCUs that are already eligible. We agree with the approach that they be equivalent to 1 tonne of CO<sub>2</sub>e for this purpose.

bp notes the proposed new power in section 22XN to allow for the rules to specify limits on the types of units that can be used for compliance. As drafted, bp understands this is a very



broad power, covering not just SMCs but also ACCUs and allowing for limits and restrictions well beyond banking between phases. Confidence in the compliance options is fundamental to the function of the reformed safeguard mechanism, so adding new restrictions/limits and any subsequent changes should not be taken lightly. Safeguard entities and other actors in the market will need confidence in the compliance options well in advance to plan their emission reduction activities and investments. Unexpected and frequent adjustments to the compliance options will add uncertainty and ultimately costs to Australia's transition. Ideally the bounds of this new power would be clearer, perhaps setting out matters to be considered when setting limits or restrictions, and/or requiring consultation and minimum notice be given to safeguard entities before limits and restrictions can take effect.

### ***Other uses of SMCs***

bp supports the draft legislation including SMCs in the Australian National Registry of Emissions Units and for SMCs to have the same ownership and transfer arrangements as other units. We understand that this means the draft legislation would allow for SMCs to be voluntarily cancelled which would allow for voluntary action to drive additional emissions reductions under the safeguard mechanism.

bp notes that other schemes like ClimateActive and State based arrangements will need to consider how they will interact with the reformed safeguard mechanism and the SMCs. bp encourages these schemes to avoid a double compliance burden for safeguard entities that might also participate in these schemes, while at the same time avoiding double counting of emissions reductions.

### ***SMCs and Emissions Intensive Trade Exposed Entities (EITEs)***

While bp recognizes the government should consider the potential risk of carbon leakage in designing the reformed safeguard, we do not support the option proposed in the consultation paper that would provide SMCs to EITEs that would otherwise be issued to those entities that outperforming their baseline. We believe that this option undermines incentives to reduce emissions and should not be pursued further. bp therefore does not support the proposed power in the draft legislation that would allow the rules to specify a proportion of SMCs issued to be transferred to a holding account.

### ***Avoiding double counting***

bp is understand the Government's proposed approach to no longer issue ACCUs for reductions in emissions covered by the safeguard mechanism to avoid potential double counting of abatement. bp does however recommend the legislation and draft rules allow for eligible offset projects to be registered where they reduce both safeguard and non-safeguard emissions with ACCUs issued only for abatement from non-safeguard emissions. For example, a CCS project that captures and stores both emissions from safeguard entities and non-safeguard entities should be able to be registered and issued ACCUs for those emissions not covered by the safeguard mechanism.

### ***Improving transparency***

bp supports the draft provisions that would require the regulator to regularly publish the holdings of ACCUs and SMCs. This additional transparency can help with the proper functioning of the market. bp encourages government to pursue other arrangements that



might also enhance function market, for example to limit hoarding and support better price discovery.

#### ***International offsets***

bp reiterates its support for the use of international offsets and the implementation of Article 6 by Governments to achieve the goals of the Paris Agreement. International offsets have the potential to quicken the pace and scale of action needed to support the global transition to net zero.

We again encourage the Australian government to accept the Climate Change Authority's recommendation to prepare a carbon market strategy that sets out how Australia intends to use international markets to achieve its emission reduction goals. Use under the safeguard mechanisms could be determined inline with that strategy.

#### ***Closing remarks***

bp reaffirms its support for reforms to the safeguard mechanism to provide incentives for large emitters to reduce their emissions in support of Australia's emission reduction targets. We support the goals of the 2015 Paris Agreement on climate change and believe ambitious climate policies, like the safeguard mechanism reforms, will be essential to enable the world and Australia to meet these goals. We look forward to working with the government as the reforms are finalized.