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Offsetting coal emissions could be the answer to the policy impasse.

One possible way to achieve cross party and industry acceptance of coal fired generation under the proposed Clean Energy Target (CET) is by requiring coal fired generators to offset their emissions using carbon credits from Emission Reduction Fund (ERF) projects. This may be the solution to link climate and energy policies and drive down absolute emissions in line with our 2030 Paris Agreement targets.

“An economy wide, market-based approached to emissions reduction, an explicit carbon price signal, and internationally linked emissions markets is what we need to drive investment in new generation, and efficiently transition to a net-zero emissions economy”, says Peter Castellas, Chief Executive Officer of the Carbon Market Institute.

“Currently Australia’s greenhouse gas emissions are on the way up. Ignoring the need for energy and climate policy to drive below business as usual emissions to meet our Paris targets is not an option,” says Castellas.

“If coal fired generation is to continue as a core part of our energy mix in the medium-term, then carbon emissions from those facilities need to be offset so that Australia can reduce its absolute emissions across the economy in line with its Paris Agreement commitments”, says Castellas.

“One way to achieve possible cross-party acceptance of coal fired generation under the CET (or whatever version of this proposed policy the Government lands on) is by requiring coal fired generators to offset a portion of their emissions using Australian Carbon Credit Units (ACCUs) from ERF projects’, says Castellas.

“The cost to offset emissions over the life of any new asset would be built into the capital cost of the plant through a carbon price (cost), which investors are now factoring in anyway’, says Castellas.

“ERF credits can be fungible into the CET and tools like the World Bank’s Mitigation Action Assessment Protocol enable the conversion and fungibility of MWh to tCO₂e (ACCUs) with rigor”, says Castellas.

“In the same way that renewable energy generators will need to meet reliability obligations and invest in storage, coal fired generators could be required to purchase a percentage of their emissions through carbon offsets. Under Finkel’s design, this could bring coal fired generators under a CET benchmark threshold by reducing the generator’s emissions profile”, says Castellas.

“This requirement to offset emissions would then address the key issue of reducing emissions as well as providing a much needed private sector market for our domestic carbon offset industry. This requirement on coal fired generation, along with an enhanced safeguard mechanism that has baselines that decline over time, will create a sustainable private market demand for credits generated under the ERF, obviating the need for significant ongoing public funding of ERF auctions”, says Castellas.
“The offsets would likely be sourced from regional and rural Australia - where the majority of ERF land sector projects exist - creating additional economic activity and jobs for communities in rural electorates. That’s got to appeal to the National Party members”, says Castellas.

“The credits from forestry projects are effectively low-cost carbon capture and storage”, says Castellas.

“For Australia to play its role in meeting global emissions reduction under Paris Agreement commitments, the Government must, through the climate policy review, define the long-term emissions reduction goal for Australian beyond 2030 that leads to a net-zero emissions economy by 2050”, says Castellas.

“Large emitters in Australia expect a compliance obligation, and a carbon price will kick back in at some point. Many owners of facilities covered under the safeguard mechanism expect baselines to decline, if the policy is to endure. This will mean business will need to access least-cost abatement in order to manage their carbon liability under increasingly ambitious emissions reduction targets. Australia must secure the supply and begin to scale up production of domestic offsets whilst simultaneously linking our economy with international markets, enabling flexible access to international units to meet possible shortfalls in domestic supply of ACCUs”, says Castellas.

“To meet emission reduction targets at lowest cost to the economy, Australia should open opportunities to link and trade with international markets. This year the Paris Agreement rule book is being negotiated and it is critical that the Government engage in the international discussions to clarify the conditions, process and pathway to open up opportunities for both import of eligible units and potentially for the export of Australian Carbon Credit Units into other markets” says Castellas.

“The Turnbull Government brought climate and energy together under one Minister and the outcomes of the Finkel Review and the national review of climate policies need to be implemented in sync to deliver our absolute emission reduction goals”, Castellas says.

“The implementation of a new policy for the electricity sector should be done in combination with the climate policy review that is already underway and which has received over 350 submissions and must report this year”, says Castellas.

“A key policy question for the Government in undertaking this review, is what percentage level of emissions reduction does the electricity sector contribute to our overall emissions reduction challenge”, says Castellas.

“A primary metric for the development of any new National Electricity Market (NEM) policy, is the way in which the electricity sector will shoulder its fair share of absolute emissions reductions in line with our international target and UNFCCC obligations under the Paris Agreement”, says Castellas.

“At a time when we are reviewing our national climate policies, we need a mature forward-thinking approach in Australia. We need our Prime Minister and senior cabinet ministers to stand firm and articulate clearly the case for a pragmatic and long-term evolution of our climate and energy policies in line with the transition that is underway in the global economy”, says Castellas.

“Business is committed to working towards our national emissions reduction targets under the Paris Agreement and we call on the Government to act unwaveringly to ensure policies are implemented in our long term economic interest”, says Castellas.

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The Carbon Market Institute is at the centre of climate change policy and business 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 impact on climate change.

Engaging leaders, shaping policy and driving action, we’re helping business to seize opportunities in the transition to a low carbon economy.