CARBON MARKET INSTITUTE

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The ERF & Safeguard Mechanism must evolve to be an effective market based approach to emissions reduction.

The Carbon Market Institute says that with increasing uncertainty over a new Clean Energy Target it has become critical for the Government to provide clarity on their Direct Action Plan - the Safeguard Mechanism and the Emissions Reduction Fund (ERF) - and how these policies will evolve to meet our Paris targets.

“Large emitting Australian business covered under the Safeguard Mechanism face an uncertain future emissions liability and clarity is needed on the conditions and criteria for how the Safeguard Mechanism will evolve,” says Peter Castellas, Chief Executive Officer of the Carbon Market Institute.

“The Government needs to reduce absolute emissions below business as usual, in order to meet its 2030 target. Transitioning the Safeguard Mechanism to an effective trading system that can be scaled up over time and effectively limits and then reduces emissions from covered facilities, will enable the mechanism to become a long term and stable instrument which underpins emissions reduction across the economy and puts a price on carbon,” says Castellas.

“In its current form, the Safeguard Mechanism is unlikely to make a significant contribution to reducing emissions below business as usual levels. If this mechanism is to be one of the primary components of the policy tool kit then the Government’s review of climate policies underway, should determine the specific contribution (in terms of the quantum and/or percentage of emissions reductions) the Safeguard Mechanism is to make to Australia’s targets, and define the conditions and the criteria to adjust and decline the baselines accordingly,” says Castellas.

A Liquid Secondary Market Will Need To Emerge

“There is widespread recognition in the business community that domestic policy settings will have to tighten in the near future, and that this will inevitably include a form of emissions trading and a carbon price signal,” says Castellas.

“The Safeguard Mechanism is already legislated and the first-year compliance period has passed. Although the baselines over covered facilities were initially set at historically high emissions levels, we will find out after Energy and Greenhouse (NGERS) numbers are reported at the end of October if any facilities have exceeded their baselines and are required to purchase Australian Carbon Credit Units,” says Castellas.

“If, as expected, Safeguard Mechanism baselines tighten over time, there will be an increased requirement for a viable supply of domestic offsets to be purchased by facilities emitting above their baseline,” he says.

“If there is a shortage of domestic units, the cost for compliance will be higher than if there is adequate supply and a liquid secondary market. Therefore, ensuring the continued development of the domestic supply of carbon credits under the ERF will be a critical factor in ensuring we meet the emissions reduction targets at lowest cost to the economy,” says Castellas.

More Funding For The ERF

"Under the assumption that demand for domestic units under the Safeguard Mechanism will increase in a post-2020 environment (enabling a transition to private sector funding of abatement), it is important there is additional interim government funding committed to the ERF auctions for the years 2018 – 2020." says Castellas.

"We must ensure we have an ongoing supply of domestic credits, especially as private sector demand is set to increase, otherwise the cost for compliance will increase," says Castellas.

"The Government should commit a quantum of additional funding allocation to the ERF that is required to ensure the continuity of the domestic carbon offset industry until the time it transitions to a market driven by demand under the Safeguard Mechanism." says Castellas.

"At the same time more funding needs to be allocated to R&D to increase scope and diversity in carbon abatement methods that can be utilised by the land sector and industry," says Castellas.

Accessing International Units: Understanding Supply & Demand

It will be important that entities covered by an effective Safeguard Mechanism also have the flexibility to access low-cost, high quality abatement from international sources, if they are available. This will become increasingly relevant as baselines under the Safeguard Mechanism become more stringent. However, there is no certainty that there will be an available supply of low-cost international units available in the post 2020 period.

"The Kyoto Protocol is due to draw to a close in 2020, and consequently the future of the underlying Clean Development Mechanism (CDM) and associated 'cheap' international offset credits remain unclear. Going forward, Australia will also increasingly compete with demand for international abatement from other countries to meet their Paris commitments," says Castellas.

The Chinese Emissions Trading Scheme (ETS) – which is set to cover approximately 5 billion tonnes of CO2 and be the world's largest market is set to come online this year.

"The launch of the Chinese ETS this year will be a game changer and, once the rules become clear, it will be an important factor in understanding the future supply, demand and price of international units," says Castellas.

"Taken together, the emergence of new sources of demand and declining supply, will have strong bearing on the future price and availability of international units," he says.

"The Turnbull Government's climate policy review should consider how the balance of international and domestic units can be determined and what quantitative and qualitative restrictions are important for maintaining a domestic abatement industry and the international competitiveness of Australian business," says Castellas.

"Over 90 countries have identified the possible use of carbon markets in achieving their Paris Agreement commitments. As Australia's major trading partners implement policies to achieve deep emissions reduction cuts, we should also examine the pathway to open up market opportunities for the transfer and export of ACCUs into other markets," says Castellas.

"A potentially significant export market exists for Australian carbon credits, and Australia needs to ensure it is part of regional and international discussions to ensure we don't miss out on market opportunities when they arise," says Castellas.

Key to establishing this will be to understand the rules of trading under the new market based rules being developed under Article 6 of the Paris Agreement.

Australia Needs A Seat At The Table

“Australia needs to optimise our position in international carbon markets as they rapidly evolve. Our government and private sector needs to be actively engaged in the development of the rules for international carbon markets,” says Castellas.

Next month in Bonn, Parties to the Paris Agreement will gather to discuss the Rulebook for how the Accord will be implemented. The Carbon Market Institute will be leading a delegation of Australian business to ensure, where possible, an Australian private sector voice is factored into how the rules - particularly for international markets - are written.

“Almost all the focus of the political discourse recently has been on energy policy but over 350 submissions have been made to the national climate policy review and we now need to shift the focus back to ensuring climate policies remain effective in achieving Australia’s 2030 target and Paris Agreement commitments,” says Castellas.

“The Government needs to now be clear on the process and timeline for the review, and what outcomes they can confirm before the end of the year,” he says.

The Carbon Market Institute’s Submission to the 2017 Review of Climate Policies outlines options, considerations and recommendations on what the Government needs to do so the existing policies will meet the 2030 target and provide the policy stability needed to stimulate the necessary private sector investment to transition ultimately to a net zero carbon economy.

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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.