

Media release

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Safeguard Mechanism Reboots Australia's Carbon Market

Data released on Wednesday by the Clean Energy Regulator indicates that under the first year of the Government's ERF Safeguard Mechanism sixteen facilities have exceeded emissions limits, collectively surrendering 448,097 Australian Carbon Credit Units (ACCUs) to meet compliance obligations.

"Today's announcement by the Clean Energy Regulator clearly indicates that Australia has a functioning carbon market," says Peter Castellás, Chief Executive Officer of the Carbon Market Institute.

"Companies that had a liability under the Safeguard Mechanism were able to purchase ACCUs directly from project developers or on the secondary market – and the market was able to meet supply," says Castellás.

The [Safeguard facility reported emissions data](#) for the first year of the Safeguard's operation to 30th June 2017, shows that of the 154 responsible emitters covered by the Government's Safeguard Mechanism, sixteen facilities emitted higher CO₂-e levels than permitted by their legislated baselines, and so engaged in carbon market activity to purchase and retire ACCUs to acquit their respective liabilities by the 28th February 2018 deadline. This first compliance and reporting period has seen 100% compliance by responsible emitters.

"This successful carbon market trading under the first year of the safeguard mechanism augers well for a time when the demand for carbon credits increases. Safeguard Mechanism baselines will inevitably have to decline if we are to meet below business as usual emissions required under Australia's Paris Agreement commitments," says Castellás.

"The Safeguard Mechanism in its current form was not expected to result in a liability for covered entities. I think the data released today will alert many large greenhouse gas-emitting companies to existing climate risks, and that they are going to increasingly need to look at a carbon liability hedging strategy in anticipation of Safeguard Mechanism baselines declining at some point," he says.

"It is now more important than ever that the government define the conditions and criteria on how Safeguard baselines will decline to align with the trajectory of our Paris targets. Business needs clarity to manage future liabilities under the Safeguard Mechanism," says Castellás.



“The purchasing of ACCUs in the first compliance year of the Safeguard sends an important private sector market signal to suppliers and developers of carbon abatement projects. This transition from government-funded carbon abatement under the ERF to a private carbon abatement market is underway,” he says.

“It now brings into focus the key questions of how the market will evolve, and how domestic supply will meet demand,” says Castellás.

“Demand for carbon offsets is likely to come from numerous potential sources: future ERF auctions; the Safeguard Mechanism; the National Energy Guarantee; the voluntary market; new funds like Queensland’s Land Restoration Fund; international demand from the aviation sector; and other international markets,” he says.

“The ERF’s \$2.55 billion fund has been critical to ensuring the longevity of Australia’s domestic offset scheme, but the transition to a Safeguard-led private demand signal is the critical turning point that will begin to drive increased demand for ACCU supply,” says Castellás.

“It will be crucial for government and the private sector to work together to ensure our domestic offset supply can meet this demand by investing in new abatement methods, more R&D, innovative financing, and engaging stakeholders on the land,” he says.

“Australia has a well-designed, well-governed domestic offset scheme and deep project development capabilities. With clear market and policy signals the industry could scale up to meet increasing domestic demand and potentially develop an export market for ACCUs,” says Castellás.

The Carbon Market Institute views a market-based approach to emissions reduction as providing an effective and efficient framework to meet emissions reduction goals and challenges at lowest cost. The primary policy instruments to reduce emissions across the economy should involve emissions trading and putting a price on carbon.



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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.