

Victorian Government – Interim Emissions Reduction Targets submission

July 2019



The Carbon Market Institute (CMI) welcomes the opportunity to contribute to the public consultation to inform the Victorian Government's decision on interim targets for 2025 and 2030, and to identify priority actions to reduce emissions. In doing so, CMI would like to acknowledge the excellent report prepared by the Independent Panel on Emissions Reduction Targets chaired by the Hon Greg Combet AM. We would also like to acknowledge the climate leadership being demonstrated by the Victorian Government.

Through the Climate Change Act 2017 (the Act), Victoria has committed to setting five-yearly interim greenhouse gas emission reduction targets on the path to net zero emissions by 2050. Through the Act, Victoria also recognises and supports the Paris Agreement on climate change, in which the international community has committed to “holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C”.

The Premier and the Minister for Environment, Energy and Climate Change must set Victoria's first two interim targets (for the periods 2021-2025 and for 2026-2030) by 31 March 2020. The Act requires the Minister to seek independent expert advice before setting these targets.

The Carbon Market Institute operates at the interface of climate change policy and business in Australia. Independent and non-partisan, we're the peak industry body for climate change and business and we are dedicated to helping business seize opportunities in evolving carbon markets. We believe that market-based approaches are the most efficient policy mechanism to address the challenge of climate change.

CMI's preference is for a nationally coordinated strategy that is aligned with the long term warming and emission goals of the Paris Agreement and reflects the urgency of the transition required for Australia to help efforts to limit warming to 1.5°C. (see CMI's recent [National Climate Policy Position](#)). In the absence of a nationally coordinated strategy reflecting sufficient ambition and urgency, CMI supports states, subnational governments, corporations and financial institutions adopting stronger targets to manage risks and maximise opportunities.

CMI was pleased to participate in the recent consultation workshop.

CMI would welcome the opportunity to discuss the details of our consultation submission further at the government's convenience.

Recommendations & considerations:

Interim targets for 2021-2025 and 2026-2030

- CMI endorses the use of carbon budgets in calculating emissions reduction trajectory and the use of analysis applied by the Commonwealth Climate Change Authority.
- CMI encourages the Victorian Government to set targets at the higher level of the recommended target range of 45-60% below 2005 levels in 2030, to establish a trajectory consistent with limiting warming to 1.5°C. Whilst we acknowledge this may bring challenges in the short term, this will mitigate the even more rapid and severe reductions required post-2030 to bring about 1.5°C consistency.
- Australia's current Nationally Determined Contribution (NDC) of 26 to 28 % reductions on 2005 emissions by 2030 has been noted as more consistent with global efforts that will result in three degrees warming ([Climate Action Tracker](#)). Indeed, current collective NDCs have the world on track to three degree warming, requiring significant increases in current NDCs but especially so for the next post 2030 NDC's required under the Paris Agreement by 2025. States and other entities can best



manage this potential volatility with stronger targets more accurately aligned to the Paris Agreement long term objectives.

- CMI believes that interim targets should be ratcheted-up over time, taking into account technological developments and general progress towards the net zero target and therefore agree with the Expert Panel’s recommendation that the Victorian Government reviews its interim target for 2030 in 2023. This will allow it to align with the global stocktake under the Paris Agreement and subsequent considerations of national governments’ 2035 NDCs.
- CMI also strongly concurs that recommended targets, specifically those consistent with a 1.5°C trajectory, are more cost effective than targets that delay substantial emissions reduction until after 2030.
- Any real decision on setting interim targets cannot be done without a supporting net zero emissions reduction transition strategy, outlining actions, finance and policy measures.

Emissions reduction opportunities for Victoria

Victoria’s land sector has been identified by the Expert Panel Report as the second highest opportunity, after the electricity sector, with “significant potential to increase the carbon sink from on farm forestry and changes in forest management on public land”. Whilst the Report highlights the potential for the land sector to reduce its emissions, and forestry sequestration opportunities, CMI would like to see a strong emphasis on the potential of the carbon farming industry to be a vibrant sector in the Victorian economy, providing a strong source of jobs and revenue for the range of market participants, whilst making a significant contribution to Victoria’s net zero emissions trajectory through to 2050.

CMI’s Carbon Farming Industry Roadmap identifies that carbon farming could generate \$8 billion of investment and up to 21,000 jobs by 2030. Most of that would be of direct benefit to regional communities.

Australia has a thriving, robust yet nascent carbon abatement and domestic offset sector. Victoria has the potential to significantly increase its participation in carbon farming enabling greenhouse gas mitigation and sequestration producing carbon reduction and Victorian carbon offset units. This can support the growing carbon farming industry and indigenous participation therein as well as in valuing the significant environmental, social and economic benefits that can flow from carbon farming projects.

- 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 companies and investors pricing and trading carbon emissions.
- The current primary market for Australia’s carbon emissions involves the purchase of Australian Carbon Credit Units (ACCUs) through the Emissions Reduction Fund – (ERF) by the Commonwealth Government. The use of public funding to purchase abatement under the ERF is joined by a small but growing secondary market for ACCUs, with demand from entities looking to voluntarily offset their emissions or go carbon neutral, as well as compliance demand from entities covered by Federal Government’s Safeguard Mechanism. Victoria should examine how it can leverage the existing legislative architecture of the ERF, incentivise supply and demand in the secondary market and capitalise on the opportunities associated with domestic offsets.



- Victoria is currently under-represented in terms of contracted abatement under the ERF, with only 67 projects registered under the ERF out of a total of 780 projects nationally¹. The majority of these 780 projects are land sector projects and, as highlighted in the Report, **there is enormous potential for the Victorian land sector to become involved in carbon farming.**
- Victoria should work to scale up the domestic offset scheme to create real abatement across the landscape, whilst generating jobs on the land, additional revenue streams for landholders, and additional benefits for regional and rural communities as outlined in CMI’s Australian Carbon Farming Industry Roadmap.
- **Victoria should explore the range of measures, incentives, schemes with the aim of increasing participation in the domestic offset scheme by Victorians.** There are considerable market drivers creating opportunities to be harnessed by participants including; increasing compliance measures for liable entities and a supply-constrained market, a fast-growing voluntary market (businesses/ industries going carbon neutral or providing carbon neutral services), sub-national and municipal initiatives, international carbon market linkage and trading, which are currently under negotiation through the rules of the Paris Agreement with the potential for Australia to support international demand for offsets, as well as initiatives to reduce emissions in international aviation (CORSA) and shipping.
- Victoria should undertake independent analysis to map its carbon potential and the quantum of the opportunity and match with highest potential ERF methodologies. Some high potential method types to explore are land-based methods such as soil carbon and forestry, as well as agriculture methods and blue carbon. Other geological and industrial sequestration processes should continue to be developed.
- Victoria should provide a quantum of investment funding in R&D to help develop new or amend current methodologies and pilot projects and/ or mechanisms to support uptake and increase the supply of offsets in Victoria. Increasing the viability of the business case for developing carbon farming projects in the State will not only help incentivise emissions reductions but deliver interstate investment into Victoria from the development of projects and the purchase of Victorian offsets.
- Victoria should map the strategic opportunities for investment in the land sector, including for blue carbon projects. Supply of ACCUs requires creating a liquid secondary market and demand for long-term contracts for domestic abatement suppliers. There is a role for state governments to directly fund positive land-use change through carbon farming projects, and the purchase of various environmental credits. Likewise, state governments can provide incentives (lease arrangements, tax concessions) for land holders to achieve positive land management outcomes as a result of carbon farming.
- Victoria should examine the myriad co-benefits of carbon farming within a state context, particularly with regard to just transition concerns and collaborate in developing metrics for the quantification and valuation of these co-benefits. Co-benefits, or direct positive outcomes associated with carbon farming projects that are additional to the emissions avoided or carbon stored, including job creation, indigenous inclusion and empowerment, increased farm productivity to name a few. At the least, government should be offsetting direct operational emissions by investing in projects that deliver co-benefits.

¹ Clean Energy Regulator, Emissions Reduction Fund cumulative projects across Australia – May 2019.



- **Victoria should adopt the [Carbon Farming Industry Roadmap](#)** and specifically develop and undertake targeted State outreach and education programs for land sector stakeholders to participate in carbon markets.

Just Transition

Whilst looking at opportunities and priorities, particularly with regards to the transition of the electricity sector, CMI recognises the need to manage the transition required. It is critical that a 'Just Transition' pathway is assured and that communities and regions are assisted in strengthening, diversifying and/or transforming their economies to attract new industries, employment opportunities and share of co-benefits. The Expert Panel Report encourages the Victorian Government to work with affected communities to develop clear plans and measures to support local economic transition. CMI would recommend a quantum of funding be assigned to developing a Just Transition authority, strategy and related projects that would identify skills needs and develop training programs to support carbon market participation as well as economic and social transition.

The Use of Offsets in Victoria's Climate Strategy

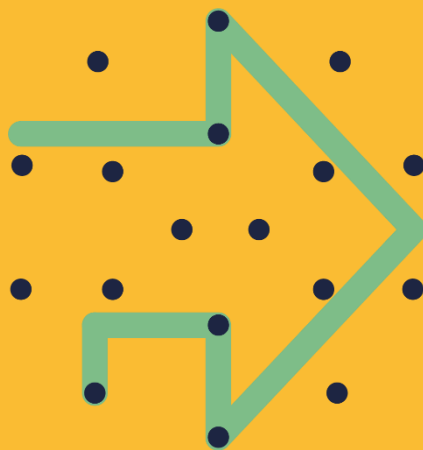
The *Victorian Climate Change Act of 2017* has established in law a state-wide target of net zero greenhouse gas emissions by 2050. If Australia and Victoria are to reduce absolute emissions across the economy, the potential use of domestic and international offsets have an important role to play. Offsets are mentioned within the Expert Panel Report as a cost-effective flexibility mechanism for achieving Victoria's targets but with a caveat prioritising Victoria's own economy so as to bring about significant local benefits. CMI would emphasise that these two elements are not mutually exclusive and that in fact, encouraging a strong carbon farming industry and the provision of domestic offsets can provide important benefits for the triple bottom line delivering valuable economic, environmental, social and cultural outcomes.

A key action in Victoria's climate transition strategy should be to expand carbon farming in Victoria as a significant industry development goal, establishing funding mechanisms to drive regional market developments and positive-land use change and setting policy that helps stimulate a viable secondary market for offsets.

Conclusion

CMI commends the work of the Independent Panel and, in the absence of appropriate national targets and strategies, recommends adoption of the higher level of its emission reduction target range. This can best assist Victoria in maximising opportunities and minimising risks in the transition to a net zero emission economy aligned with the goals of the Paris Agreement. With appropriate supporting policies Victoria can assist economic and community development that delivers a range of social, indigenous and environmental benefits through cleaner industry, renewable energy and carbon farming. Doing so will also help manage the volatility inherent in the more drastic emission reductions required the longer appropriate action is delayed.

The recommendations and considerations in this submission of CMI and are not representative of any CMI individual or company member.



for more information please contact

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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 zero carbon economy.

