# The Emissions Reduction Fund **An overview**



## Background

The Emissions Reduction Fund (ERF) is the successor to the Carbon Farming Initiative (CFI), which was a voluntary national scheme that ran between 2011 and 2014. The CFI provided land and landfill managers the opportunity to create carbon offsets (Australian Carbon Credit Units or ACCUs) through projects such as revegetation, environmental plantings, and capturing and combusting landfill gas. In 2014, the CFI was integrated into the ERF and expanded to include the industrial sector, energy efficiency and transport projects.

Under the CFI, the main purchasers of carbon offsets were liable entities (high-emitting businesses) under the former Carbon Pricing Mechanism (CPM), which was a form of 'cap and trade' emissions trading scheme. These liable entities bought CFI carbon offsets to meet their compliance requirements under the CPM. When the ERF replaced the CFI, the Federal Government, rather than the private sector, became the primary purchaser of carbon offsets created under the newly established ERF. To purchase carbon offsets, the ERF incorporated a reverse auction mechanism.

On 25 February 2019 the Australian Government announced the \$2 billion Climate Solutions Fund (CSF), which builds on the achievements of the ERF in providing additional opportunities for investment in ERF projects and participation in Australia's carbon market.

The Clean Energy Regulator (CER) administers the ERF and associated legislation for reducing carbon emissions and increasing the use of clean energy.

## **The Emissions Reduction Fund**

The ERF provides an incentive mechanism for organisations, businesses and individuals to adopt new practices and technologies that reduce carbon emissions. The ERF oversees a range of carbon reduction activities that organisations can choose to implement in accordance with project rules and guidance known as methods. Each ERF method specifies how a project must be undertaken, how emissions reductions from these activities are calculated, and sets out the monitoring and reporting requirements for creating an ACCU.

Approved ERF methods fall under the following project types:

- Vegetation
- Landfill and Waste
- Agriculture
- Savanna Burning
- Energy Efficiency
- Industrial Fugitives
- Transport

ACCUs can be sold to generate income, either to the Federal Government through an ERF auction and subsequent contract (primary market), or to a private entity outside the auction mechanism (the secondary market). One ACCU is equal to one tonne of carbon dioxide equivalent (tCO<sub>2</sub>-e) stored or avoided by a project.





# **The ERF Project Cycle**

Regardless of whether an ERF participant intends to sell ACCUs to the Federal Government through auction, or to the private market, the following steps in the ERF process are common to all projects:

- 1. Registration of the organisation and project, including establishment of an Australian National Registry of Emissions Units (ANREU) account.
- 2. Undertaking the project according to the nominated methodology.
- 3. Reporting on the project to the CER, as instructed and project auditing by an approved auditor, as required.
- 4. Submission of a claim for ACCUs to the CER for the emissions reductions the project has achieved. Once certified the ACCUs will be issued to the ANREU account.
- 5. The ACCUs are then available to sell to a buyer, who will also have an ANREU account, to which the ACCUs can be transferred.

There are additional steps for those who choose to sell their ACCUs to the Federal Government, through the auction mechanism, which requires participation in an ERF auction.

### **The ERF Auction**

On establishing the ERF, the Federal Government allocated \$2.55 billion to purchase ACCUs through a reverse auction process. An additional \$2 billion funding source has been assigned through the CSF and made available from 2020 for forward contracting at future ERF auctions.

The ERF auction component is the Federal Government's central policy lever to incentivise emission reductions to help Australia achieve its emissions reduction targets. The following principles guide the Federal Government's purchase of emissions reductions at auction:

to purchase emissions reductions at lowest cost;

- to maximise the volume of emissions reductions that can be purchased;
- to conduct the process in a manner that ensures that administrative costs are reasonable;
- to conduct the process in a manner that ensures its integrity;
- to encourage competition;
- to provide for fair and ethical treatment of all participants in the process.

Auctions are announced in advance by the CER and held twice annually, over a two-day period. Participants in the auction must have their project(s) registered and have their project(s) and themselves registered and qualified for the specific auction, allowing them to bid at auction. If a participant is successful at auction, they will immediately enter into a Carbon Abatement Contract with the CER to deliver ACCUs to the Federal Government at the price bid at auction. All the details regarding contract requirements, such as length, delivery schedule, abatement volume and price are established and agreed to between the participant and the Federal Government as part of the auction registration, auction qualification and auction bidding components.

## **Queensland ERF Projects**

Reflective of its significant biophysical potential, Queensland has secured a large portion of contracted land sector abatement under the ERF. Independent analysis by Energetics<sup>1</sup> indicates that under the right policy settings, Queensland could generate up to \$8 billion from land and agriculture offsets cumulatively by 2030, abating between 270 and 502 million tonnes. This abatement could be achieved through five existing methods: human induced regeneration, native forest from managed regrowth, avoided clearing of native regrowth, savanna burning, and reforestation by environmental plantings.

#### **More Information**

The Land Restoration Fund <u>www.qld.gov.au/landrestorationfund</u> Carbon Farming Industry Roadmap <u>carbonmarketinstitute.org/roadmap</u> Emissions Reduction Fund <u>cleanenergyregulator.gov.au/ERF/Pages/default.aspx</u> Climate Solutions Fund cleanenergyregulator.gov.au/csf/Pages/Home.html



<sup>&</sup>lt;sup>1</sup> Unlocking value for the Queensland economy with the land and agriculture offsets, Energetics <u>www.qld.gov.au/\_\_\_\_\_\_data/assets/pdf\_\_file/0017/67310/unlocking-value-qld-from-offsets.pdf</u>