For the Private Sector in Australia's Carbon Market
Opportunities and Challenges

Australia's carbon marketplace

Australia's domestic carbon market operates across all states in Australia and is currently underpinned by the Government's Emissions Reduction Fund (ERF) framework. The market's tradeable commodity is the Australian Carbon Credit Unit (ACCU). Each ACCU represents one tonne of carbon dioxide equivalent[1] (tCO_2-e) avoided or stored.

There are two main market elements that participants can operate in:

1. **The Emissions Reduction Fund (primary demand)**

Driven by government demand for ACCUs to meet international emission reduction commitments and compliance obligations on heavy-emitting industries covered under the Safeguard Mechanism[2].

2. **The voluntary market (emerging demand)**

Driven by voluntary demand for ACCUs (outside of regulated compliance markets) by businesses, State Governments or individuals seeking to reduce their greenhouse gas emissions through offsetting.

Australia is well positioned to scale up the domestic carbon farming industry, with many significant opportunities for the private sector to increase participation and boost investment. There are new, emerging sources of demand in both the compliance and voluntary carbon markets coupled with international demand sources that are expected to strengthen over the next decade as countries look to global markets to meet their national emissions reduction commitments. There are also a number of important challenges that will need to be addressed in order for the industry to move forward. These are summarised in the next section.

Key private sector market participants

Carbon credit purchaser

Heavy-emitting organisations, market brokers & traders, corporate entities and State and Territory governments with voluntary emissions commitments.

Carbon credit investor or provider

Carbon project developers, landholders, Indigenous Groups, corporate entities, carbon market advisers, financial organisations.

[1] Carbon dioxide equivalence (CO_2-e) is an amount of a greenhouse gas measured as an equivalent amount of carbon dioxide which has a global warming potential (GWP) of one. For example, methane has a GWP of 25 and when released to the atmosphere will cause the same amount of global warming as 25 tonnes of carbon dioxide. One tonne of methane is therefore expressed as 25 tonnes of CO_2-e.

[2] The Safeguard Mechanism is a policy mechanism within the Emissions Reduction Fund structure, designed to cap scope 1 emissions and ensure that as the Australian economy grows, increasing industrial emissions do not undo or reverse the domestic abatement achieved across Australia.

OPPORTUNITIES for the private sector

- **Australia currently has a well-designed and well-governed carbon offset market**, with the legal and regulatory frameworks already in place necessary to scale up market activity.
- **Australia's current emissions reduction target** under the Paris Agreement (26-28% below 2005 levels by 2030) **will require significant investment in domestic abatement, which is expected to come primarily from the land sector.**
- **The purchase of abatement by the Clean Energy Regulator through the ERF** helps stimulate the development of long-term carbon projects.
- **Contractual obligations under the ERF are now more flexible**, allowing sellers of ACCUs to contract part of their supply to the Commonwealth whilst keeping the remaining stock for either private contract, or for sale on the secondary or spot markets.
- **Policy and market mechanisms are already in place** that could be built upon to create a market mechanism necessary to drive increased domestic demand for carbon farming activities (e.g. strengthening the Safeguard Mechanism).
- **Companies managing future carbon liability are increasingly developing carbon strategies** and are expected to seek out forward contracts to secure supply. This might include a forward contract with an entity to supply ACCUs, or a contract with an entity to run an ERF project on a company's behalf.
- **A highly skilled carbon services sector already exists in Australia** with deep knowledge and understanding of how to engage with new markets. Capacity-building programs are growing in reach and sophistication, an example being the Queensland Government's CarbonPlus Fund, providing resources to build capacity and equip Aboriginal communities to participate in the carbon market.
- **Australia has a mature and modern agricultural industry** with large land masses available to support a significant scaling up of investment in carbon farming projects.
- **There is support from highly credentialed and motivated research organisations**, looking to assist industry by providing new information and tools to increase participation.
- **State governments are implementing net-zero emissions targets**, which will be important in driving demand for land-sector credits. State and territory demand[3] is growing year by year.
- **The voluntary market has seen significant growth** as companies look to offset their unavoidable emissions and create new demand for offsets. These offsets may be used to obtain carbon neutrality[4] for a company, building, service or to offset emissions related to consumption of a product (flights, petrol etc.) with both of these demand sources increasing and programs allowing for consumer offsetting expanding.

[3] State and territory demand arises from government commitments and policies to offset emissions for specific activities within their jurisdictions (e.g. vehicle fleet emissions).

[4] In Australia, carbon neutral certification can be obtained against the Climate Active Carbon Neutral Standard climateactive.org.au

- **International demand for offsets is expected to strengthen** over the next decade and countries may be looking to source quality, robust, trusted units from Australia. Global compliance markets will see increased activity around Paris Agreement targets that will be revised, and ambition increased. Meanwhile, international emission mitigation schemes for sectors are emerging and are likely to drive significant demand, including aviation (CORSIA[5]) and international shipping.
- **The Paris Agreement – Article 6 is currently being finalised**, providing a framework for 'Internationally Transferred Mitigation Outcomes' allowing for trade of domestic offsets under an international scheme. The supply and demand dynamics of international offsets are changing as international climate policy and carbon markets develop under Article 6, and liable entities in Australia are increasingly seeking to understand the features of international units and potential compliance costs under the Safeguard Mechanism.
- **New method development offers significant opportunities for environmental markets** in Australia (e.g. blue carbon in Queensland and a soil carbon project, which was recently issued the first carbon credits under the approved methodology). Revisions to existing methods will allow new project participants, unlocking new sources of supply, particularly new geographical area entrants (e.g. farm forestry and plantation forestry methods). Innovation and science (R&D) will drive potential new methods, practices/efficiencies and there are numerous opportunities for the private sector to directly invest in, or co-finance, R&D and support development of new carbon farming methods.
- **Premium carbon offset units are increasingly being sought** in the voluntary market and under State and Territory schemes. Climate Active certified organisations are typically looking for offsets that can provide additional non-carbon benefits (co-benefits) and are willing to pay a premium for credits with a positive 'story' that aligns with their corporate values and Sustainable Development Goals. This market provides tangible positive outcomes in Australia with companies often having a portfolio with a mix of high-cost and low-cost units.
- **Carbon neutral certification, particularly with premium carbon offset units, provides high-profile branding and marketing opportunities** for companies as well as increased customer and employee engagement. There are opportunities for the private sector to partner with government and carbon service providers to develop standards and branding for premium carbon offsets (carbon plus co-benefits).

CHALLENGES for the private sector

- **Policy certainty at the federal level is required to assure private-sector demand and the large-scale investment** necessary for Australia to meet its 2030 emissions reduction target.
- **There are complexities with state policy and regulation**, with competing initiatives among environmental and agricultural markets **creating barriers to investment**.
- **The benefits of carbon farming need to be better understood** among banks, insurers and other financial institutions, with creation of financial products to incentivise investment.
- **New models for aggregation are needed to attract large-scale finance and investment** for carbon farming projects, as well as new metrics for quantifying associated benefits.
- **Whole-of-farm agricultural ERF methods must be developed**, that take into account the practical realities of farming systems and associated risks.
- **The benefits of carbon farming need to be widely promoted to landholders**, as well as how projects align with traditional agricultural practices. There is a need to demonstrate more clearly how carbon farming can improve the value of a property and how this can complement a traditional agricultural enterprise, thereby increasing financial viability. This would counter the perception that contracts 'lock up' land for long periods and that carbon farming is always an exclusive use of land.
- **Complex methods, expensive and timely auditing and reporting requirements and a lack of digestible information** remain a barrier to increasing participation for farmers and land managers.
- **Markets are typically difficult to predict** and whilst trends show that there is market uptake for carbon credits with co-benefits at a premium price, it is uncertain that purchasers will continue to be prepared to pay a higher price than the current weighted average market price.

More Information

Carbon Farming Industry Roadmap carbonmarketinstitute.org/roadmap

Emissions Reduction Fund www.cleanenergyregulator.gov.au/ERF/Pages/default.aspx

Clean Energy Regulator ACCU Market Updates www.cleanenergyregulator.gov.au/Infohub/Markets/buying-accus/australian-carbon-credit-unit-market-updates

[5] The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) aims for carbon neutral growth from 2020.

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