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# Media Release

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# CLOSING THE GAP ON EMISSIONS REDUCTION – WORK TO BE DONE TO GET POLICY SETTINGS RIGHT

The demand sources for Australian offsets, or Australian carbon credit units (ACCUs), have transformed numerous times over the decade since their introduction in 2011, and Market Advisory Group, known as MAG, can see that it's changing significantly again with the election of the Labor Government. Bringing together the Safeguard Mechanism and an enhanced below baseline crediting scheme will take some clever policy and regulatory work to get it right. It will be crucial in setting demand out to 2030.

## Historic demand for offsets

Australian carbon credit units, or ACCUs, as they are generally referred to, are generated when a project is undertaken to sequester or avoid emissions. They were first introduced under the Australian Government's *Carbon Farming Initiative* in 2011.

Examples of project types that can generate ACCUs include planting trees or making energy-consuming equipment more efficient. ACCUs, often known as 'offsets' can be used to meet emission reduction obligations or purchased by those who wish to offset their own emissions.

The first source of demand for ACCUs came from large emitters who were required to meet their emission reduction obligations under the Gillard government's Carbon Pricing Mechanism, introduced in 2012. Shortly after, the Carbon Pricing Mechanism was controversially repealed by the Abbott government in 2014 and replaced by the Emissions Reduction Fund (ERF).

Under the ERF of approximately \$2B, the Commonwealth Government conducted 'reverse auctions' to purchase abatement. Carbon project developers could bid in a certain quantity of emissions reductions at a *dollar per tonne* value. The cheapest abatement was purchased and contracted via a carbon abatement contract, for delivery over the coming decade. Via this mechanism, between 2015 and 2020, the Commonwealth Government was the primary buyer of ACCUs, as shown in Figure 1.

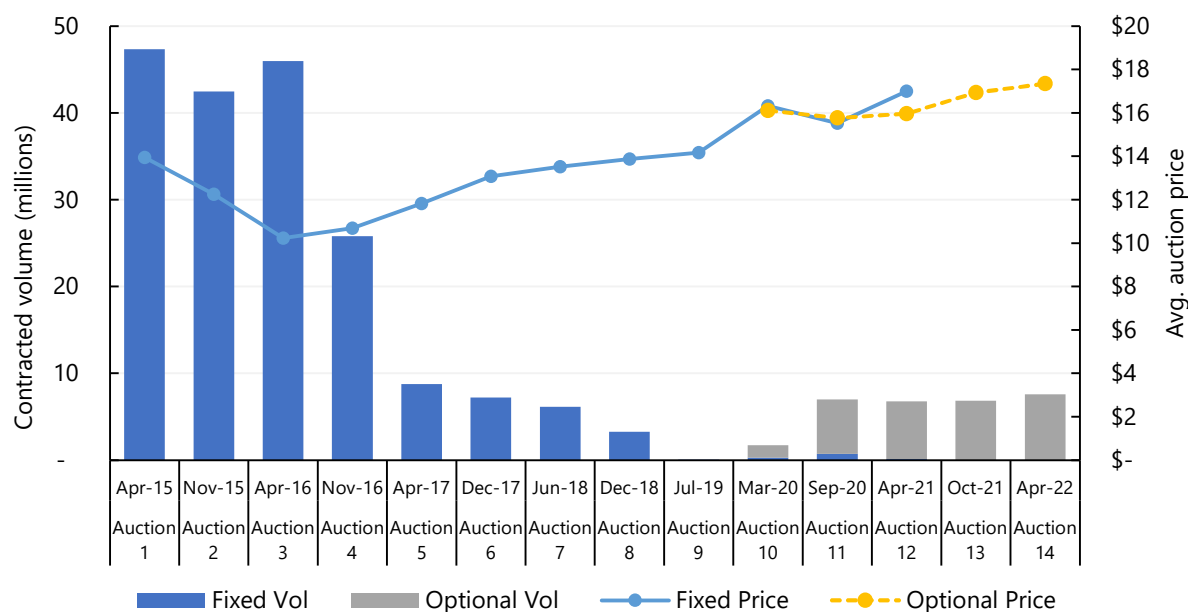


Figure 1: ERF Auction results show that the Government has been the primary buyer of ACCUs until March 2020.

The Government's primary objective was always to purchase the cheapest abatement, mostly delivered through vegetation projects, and therefore Government contract prices stayed between \$10-\$18. Over 70% of the ERF funding is currently contracted to the land sector.

***“Over the last one to two years, we have however seen a trend in state governments and corporate entities making their own ‘voluntary’ commitments to reduce emissions.*”**

**Driven largely by voluntary buyers, investors, and future compliance hedging, ACCU spot market prices shifted as high as \$57.50 earlier this year. This shows that the demand source had been shifting from the Commonwealth Government via the ERF, to other market participants. Under Labor we will no doubt see greater demand from compliance buyers, but the question is how much?" said Raphael Wood, Managing Director, MAG.**

Other buyers of ACCUs included large emitters, covered by the **Safeguard Mechanism**. Introduced in 2016, it currently covers just over 200 of Australia's largest emitters. The mechanism acts as a cap on net emissions at a facility. Each facility covered under the mechanism is assigned a *baseline*, a maximum on its emissions. If exceeded in any financial year, the responsible emitters are required to purchase and surrender ACCUs to bring their emissions back down to their baseline. Baselines have so far been set quite generously, meaning that most facilities do not need to purchase and surrender any ACCUs. Emissions from these sectors have grown in the last 5 years.

## Looking to the future

After a decade of tumultuous climate policy shifts and toxic debates, we again have a more ambitious climate agenda. Labor have formally committed Australia to a 43% emission reduction target, going back to 2005 emissions levels, up from the 26-28% undertaking made by the Coalition.

A 43% emissions reduction target creates a large gap between current emissions forecasts and where emissions need to be by 2030. The current projections for each sector, based on existing policies, has been forecast by the Department of Industry, Science, Energy and Resources to produce each bar in the graph in Figure 2. The yellow dashed line, added by MAG, indicates the emissions reduction task that lies ahead. This additional effort needs to come from all the sectors in the bar chart below, but principally will be energy and fugitives.

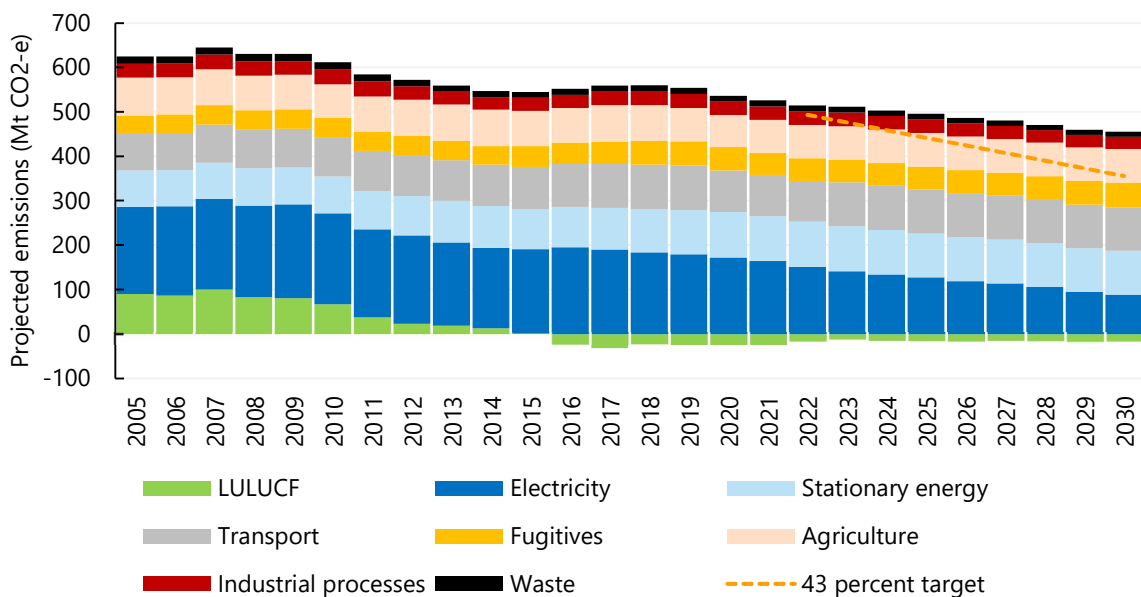


Figure 2: Emissions projections from the Department of Industry, Science, Energy and Resources.

LULUCF, representing sequestration from vegetation, will continue to be driven through the creation of ACCUs. Labor has announced it will use Coalition's existing Safeguard Mechanism, to bring emissions down from the industrial and transport sectors. So far, they have publicly stated that baselines, which have stayed largely static over the last few years, will be gradually lowered. Facilities who are unable to stay below their baseline, will still be able to use ACCUs to bring their emissions under their baseline.

However, in addition to ACCUs, Labor has stated it will also introduce a new credit (called a Safeguard Mechanism Credit or SMC), that will be issued to facilities whose emissions come in under their baselines. It is assumed that the SMCs will be allowed to be sold to other Safeguard facilities who exceed their baselines.

## Key questions yet to be answered

This will create a market for SMCs, but it is still uncertain to what extent these SMCs will impact the demand for ACCUs. Indeed, several aspects of introducing the SMCs remain unclear. How conservatively baselines are set, and who can purchase and use SMCs as offsets will be two key factors.

Other issues also include whether ACCUs will be opened to the international market, or how international carbon offsets or voluntary emissions reductions will be accounted for towards our Paris targets.

***“Given the potential demand source from Safeguard entities, and the interaction between ACCUs and Safeguard Mechanism Credits, the focus is on the design principles of the new safeguard policy. To respect and preserve Australia’s high integrity carbon market, the policy parameters around the Safeguard Mechanism and the resulting ‘new’ credits need to be robust. It is vital that the SMC’s incentivise the most efficient achievement of emission reductions to meet the 2030 international target”, said Raphael Wood, Managing Director, MAG.***

## Who is MAG?

MAG are a strategically designed, independent team of carbon experts with diverse skills and capabilities, working together to deliver tailored solutions through education, advice, knowledge, due diligence, and project services.

We deliver transparency to our clients through the knowledge of our expert team, with a unique combination of rigorous analytical insight and on-the-ground experience. We offer a progressive perspective, innovative solutions, and nurture long term relationships with the ultimate focus of helping our clients to achieve their carbon goals and to collectively work towards a more sustainable future for us all.

## MAG Media Contact

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