



Australian Emissions Reduction Fund Survey

report on key findings

February 2017





Foreword

This study forms part of the research project titled, “Risk Management System and Implications for Carbon Emissions Reporting and Reduction – A study of Australian Carbon Intensive Firms”. This project is funded by the Australian Research Council (ARC) – a three-year research program partnering with the Association of Chartered Certified Accountants – Australia and New Zealand (ACCA) and the Institute of Internal Auditors – Australia (IIA). The overarching objective of the research program was to identify and examine the drivers and outcomes of risk management systems design to promote organisational capacity to meet greenhouse gas emissions reduction targets and disclosure in relevant Australian entities.

The present study aims to provide insights into the risk perceptions and approaches to risk management by organisations that have registered projects in the Australian Emissions Reduction Fund (ERF), the primary national funding scheme for the reduction of carbon emissions.

The Carbon Market Institute (CMI) is an independent membership-based not-for-profit organisation which aims to assist Australian businesses in meeting the challenges and opportunities associated with market-based approaches to emissions reduction and the transition to a low carbon economy. As the peak body for carbon market participants, CMI has established an important role in the evolution of the carbon market in Australia. The Institute facilitates the networks, knowledge exchange and commercial interaction amongst key government policy makers and regulators, industry, financiers and investors, professional services companies and technology solution providers.

CMI’s role in this study is to provide research assistance in the administration of the survey, data analysis and report preparation.



Executive Summary

This study focuses on understanding the various challenges and risks associated with taking part in the Emissions Reduction Fund (ERF). The ERF is a positive incentive made available for Australian businesses to adopt smarter practices to cut the amount of greenhouse gases they create. Participation is voluntary, and firms can bid for funds to support investments in low carbon emissions technologies and initiatives. The ERF has three elements: crediting, purchasing and safeguarding emissions reductions. The safeguard mechanism will ensure that emissions reductions purchased by the Government are not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy.

Collectively respondents represented organisations with at least 171 contracts under the ERF, with a combined contracted abatement of more than 119 million tonnes of CO₂e. The contracted abatement of respondents represents at least 67% of the total contracted abatement in the first four ERF auctions.

Since 2014, four ERF auctions have been held. This study targeted project proponents who have registered projects under the ERF, seeking feedback and insights into their experience, the different types of risk faced and the approach to managing those risks.

A total of 33 respondents took part in the survey, all of whom represented organisations that have registered projects in the ERF. Survey respondents represented a broad range of positions, with job titles including

- Managing Director
- General Manager
- Senior Carbon Advisor
- Head of Environmental Markets and Strategy
- Finance and Carbon outreach officer
- Technical Manager
- CEO
- Commercial Manager
- GM Corporate Relationships
- Business Development Manager
- Project Officer



Background

Eligible Projects under the Emissions Reduction Fund

Just under 400 emissions reduction projects are already contracted to deliver 178 million tonnes of emissions reductions under the fund, with projects ranging from flaring methane gas at landfills to increasing soil carbon and from increasing energy efficiency through equipment upgrades to regenerating native vegetation.

Projects are eligible to participate in the fund if they are ‘additional’. This means they must be new, not required by law and not already receiving financial support as part of other nominated government programmes.

Project Type	Examples of eligible project activities
 energy efficiency	<ul style="list-style-type: none"> Reducing commercial and industrial energy use by installing high efficiency appliances like refrigeration and fans, or energy efficient street lights. Boosting energy efficiency in small energy users such as households.
 vegetation	<ul style="list-style-type: none"> Protecting native forests by reducing land clearing. Planting trees to grow carbon stocks. Regenerating native forest on previously cleared land.
 savanna burning	<ul style="list-style-type: none"> Managing bushfires in Australia’s savannas to avoid late dry season high intensity fires.
 agriculture	<ul style="list-style-type: none"> Reducing emissions from beef cattle and milking cows through dietary supplements or efficient herd management. Capturing and destroying the methane from effluent waste at piggeries. Building soil carbon through changed farming practices such as crop stubble retention.
 industrial fugitives	<ul style="list-style-type: none"> Capturing and destroying waste methane from coal mines. Reducing fugitive emissions from oil and gas operations. Reducing emissions at Australia’s highest emitting facilities.
 transport	<ul style="list-style-type: none"> Reducing emissions from air, land and sea transport through new technologies and more efficient practices.
 waste	<ul style="list-style-type: none"> Reducing the amount of waste in landfill, through composting, resource recovery, or separating organic household waste using dedicated council bins. Capturing methane from landfills and producing electricity. Treating wastewater at places such as sewerage plants or abattoirs.



Themes and key findings

Future funding of the ERF

- Eighty-one (81) percent of respondents agree an outcome of the Australian government's 2017 Climate Change Policy Review should be to specify the necessary quantum of future ERF funding allocations.
- Seventy-one (71) percent of respondents agree if there is no commitment to further funding of the ERF, it will create uncertainty for the long-term viability of the domestic carbon offsets industry.
- One hundred (100) percent of respondents agree if there is to be no additional public funding for the ERF after the initial \$2.55 billion allocation is exhausted, then it is critical that policies that help transition the ERF from government purchasing of abatement to create a private market for Australian Carbon Credit Units (ACCUs) are implemented.

Supply and demand for ACCUs

- Fifty-eight (58) percent of respondents agree there is a business case for investing in projects that generate ACCUs, even outside of the auction process, as there will be future demand coming from the private sector who are either covered under the safeguard mechanism or participating in the voluntary market.
- According to over half (54 percent) of survey respondents the international carbon market may evolve in a way that creates a demand for ACCUs generated under the ERF to be potentially exported to other jurisdictions.

Structure of the ERF and associated risks

- Ninety-four (94) percent of respondents agree a significant investment in staff time, professional services and administration is required to register projects regardless of whether they participate in or are successful at auction.

- Fifty-six (56) percent of respondents disagree that the weighted average volume price for ACCUs over the first four auctions is high enough to attract new participants to register new projects in the ERF.
- Fifty-eight (58) percent of respondents agree the lack of confirmation of eligible interest holder consent at project registration for some contracted projects creates a risk that the projects will not proceed.
- Seventy-six (76) percent of respondents agree some contracts from the first four auctions may not be concluded due to project proponents who are unable to fulfil associated conditions precedents.
- Seventy-six (76) percent of respondents agree the financial risk for investors in ERF projects is minimised due to the nature of secure government contracts for the delivery of abatement.

ERF contracts and stakeholder risks

- Based on a majority of survey respondents (66 percent), there is a degree of uncertainty around whether there are adequate resolution procedures in place to ensure the settlement of disputes between land owners, project developers and/or service providers.
- A number of survey respondents (42 percent) were unsure whether project proponents entering into carbon abatement contracts related to sequestration projects understand their ongoing exposure to relinquishment requirements during the permanence period.
- Many survey respondents (41 percent) were unsure if land holders who work under aggregator or agency business models typically understand the legal risks of the projects they have entered into.

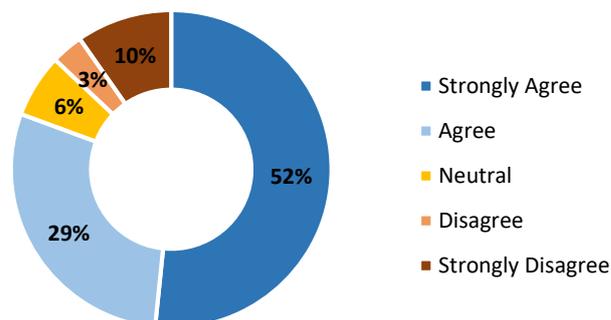


QUESTION 1

An outcome of the Australian government’s 2017 Climate Change Policy Review should be to specify the necessary quantum of future ERF funding allocations.

RESPONSE

Eighty-one (81) percent of survey respondents believe an outcome of the Australian government’s 2017 Climate Change Policy Review should be to specify the necessary quantum of future ERF funding allocations.



Comments

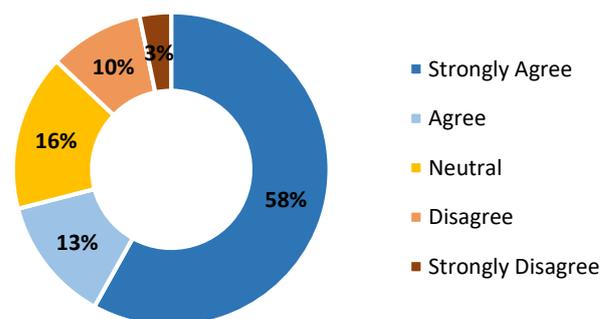
Respondents believe certainty around future funding of abatement through the ERF is critical for generating interest in emissions reductions and carbon abatement projects. Specifying the quantum of future public funding of abatement is a high priority for many project developers.

QUESTION 2

If there is no commitment to further funding of the Emissions Reduction Fund (ERF), it will create uncertainty for the long-term viability of the domestic carbon offsets industry.

RESPONSE

Seventy-one (71) percent of respondents either strongly agree or agree if there is no commitment to further funding of the ERF it will create uncertainty for the long-term viability of the domestic carbon offsets industry.



Comments

If there is to be no further public funding of the ERF, respondents believe it is crucial that the government sets in place the necessary measures to generate emissions reductions and demand for ACCUs through other policy mechanisms. Some respondents indicated that broader policy developments such as tightening of baselines under the safeguard mechanism can replace the government funding of the ERF by generating demand for offsets from the private sector.

- *“The extent of uncertainty will also be affected by whether the safeguard mechanism is strengthened by reducing baselines, and therefore increasing need to purchase offsets” (survey respondent comment)*
- *“Broader policies also play a role in determining the future of the industry” (survey respondent comment)*

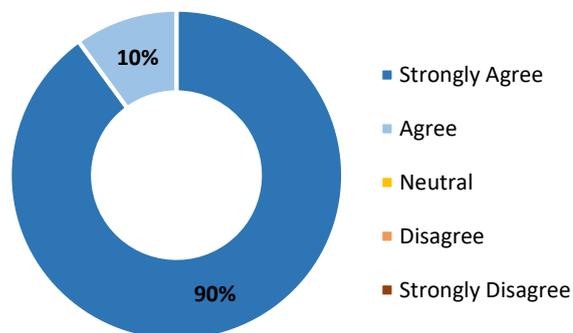


QUESTION 3

If there is to be no additional public funding for the ERF after the initial \$2.55 billion allocation is exhausted, then it is critical that policies that help transition the ERF from government purchasing of abatement to create a private market for Australian Carbon Credit Units (ACCUs) are implemented.

RESPONSE

One hundred (100) percent of respondents either strongly agree or agree that if there is to be no additional public funding for the ERF after the initial \$2.55 billion allocation is exhausted, then it is critical that policies that help transition the ERF from government purchasing of abatement to create a private market for Australian Carbon Credit Units (ACCUs) are implemented.



Comments

Respondents understand if Australia is to meet its 2030 emissions reduction target, as well as any future targets, then it is critical that there is an increase in the demand for ACCUs coming from the private sector. Respondents indicated that if there is to be no additional government purchasing of abatement, then there needs to be clear sources of private sector demand to generate the necessary emissions reductions.

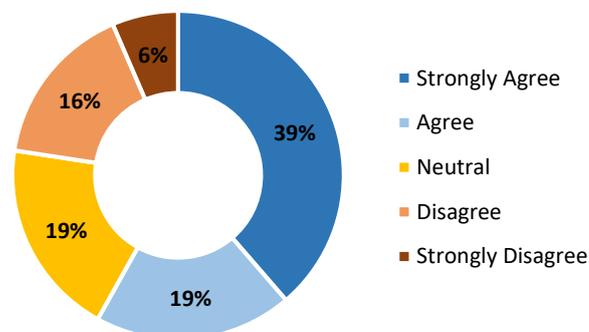
- *“Introducing requirements for emitters to pay for pollution (e.g. a pricing mechanism). This is the most feasible option for market creation” (survey respondent comment)*

QUESTION 4

There is a business case for investing in projects that generate ACCUs, even outside of the auction process, as there will be future demand coming from the private sector who are either covered under the safeguard mechanism or participating in the voluntary market.

RESPONSE

Fifty-eight (58) percent of respondents believe there is a business case for investing in projects that generate ACCUs, even outside of the auction process, as there will be future demand coming from the private sector who are either covered under the safeguard mechanism or participating in the voluntary market.



Comments

There were a number of respondents who cited the need for tightening of baselines under the safeguard mechanism to generate the necessary certainty of a future market.

- *“The uncertainty surrounding the timing and extent of demand, underpinned by policy uncertainty, makes the business case less clear” (survey respondent comment)*

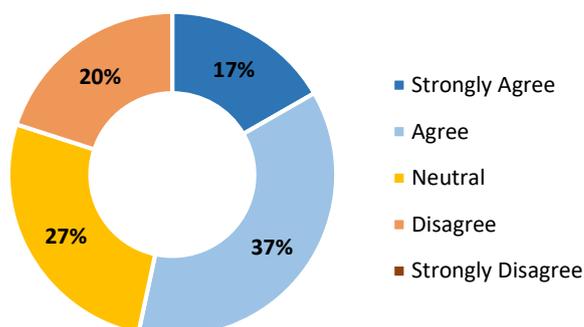


QUESTION 5

The international carbon market may evolve in a way that creates a demand for ACCUs generated under the ERF to be potentially exported to other jurisdictions.

RESPONSE

Fifty-four (54) percent of respondents believe the international carbon market may evolve in a way that creates a demand for ACCUs generated under the ERF to be potentially exported to other jurisdictions.



Comments

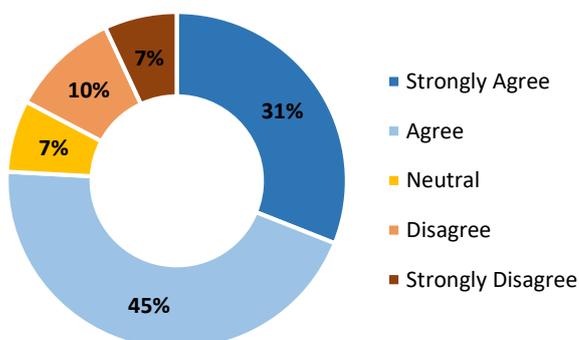
If there is greater fungibility of ACCUs into international markets, there is a stronger business case for investment without being completely dependent on domestic demand.

QUESTION 6

The financial risk for investors in ERF projects is minimised due to the nature of secure government contracts for the delivery of abatement

RESPONSE

Seventy-six (76) percent of respondents believe the financial risk for investors in ERF projects is minimised due to the nature of secure government contracts for the delivery of abatement.



Comments

- *“The risk is reduced but it is not to its lowest possible point” (survey respondent comment)*

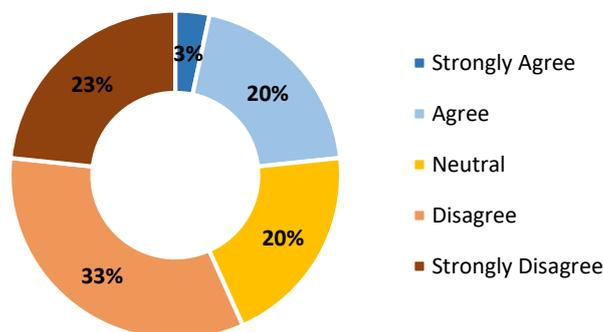


QUESTION 7

The weighted average volume price for ACCUs over the first four auctions is high enough to attract new participants to register new projects in the ERF

RESPONSE

The majority of respondents (56 percent) do not believe the weighted average volume price for ACCUs over the first four auctions is high enough to attract new participants to register new projects in the ERF. Only twenty-three (23) percent of respondents agreed it was the case.



Comments

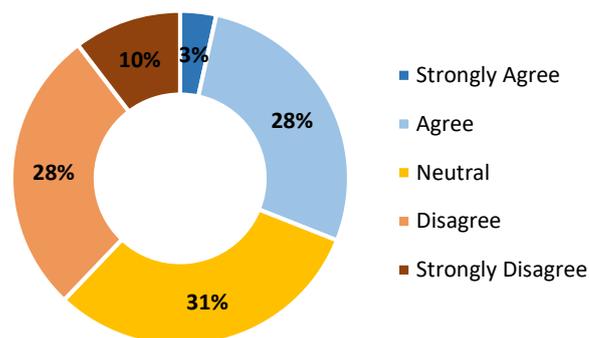
- *“Not under current prices” (survey respondent comment)*
- *“Once cheap land projects (e.g. avoided clearing) are taken up the price is too low” (survey respondent comment)*

QUESTION 8

There is enough liquidity in the secondary market to help project proponents manage delivery risk of ACCUs under their contract obligations.

RESPONSE

Thirty-eight (38) percent of respondents either strongly disagree or disagree that there is enough liquidity in the secondary market to help project proponents manage delivery risk of ACCUs under their contract obligations, while thirty-one (31) percent of respondents either strongly agree or agree, the remaining thirty-one (31) percent of respondents remain neutral.



Comments

Respondents differ in their views on whether or not there is enough liquidity in the secondary market to help project proponents manage delivery risk of ACCUs under their contract obligations.

- *“First trades are starting to occur now. However, there just isn’t a lot of uncommitted supply sitting on the shelf to feed into existing contracts” (survey respondent comment)*

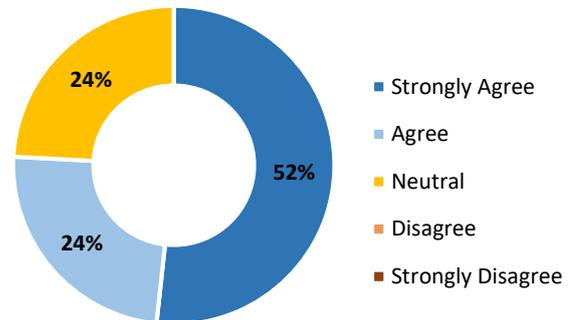


QUESTION 9

Some contracts from the first four auctions may not be concluded due to project proponents who are unable to fulfil associated conditions precedents.

RESPONSE

Seventy-six (76) percent of respondents believe some contracts from the first four auctions may not be concluded due to project proponents who are unable to fulfil associated conditions precedents.



Comments

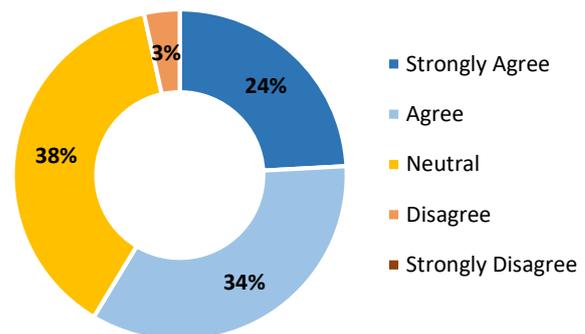
- *“There are a handful of projects which from the outset were never going to meet delivery requirements” (survey respondent comment)*

QUESTION 10

The lack of confirmation of eligible interest holder consent at project registration for some contracted projects creates a risk that the projects will not proceed.

RESPONSE

Fifty-eight (58) percent of respondents believe the lack of confirmation of eligible interest holder consent at project registration for some contracted projects creates a risk that the projects will not proceed.



Comments

- *“Upfront consent should be a requirement for all projects” (survey respondent comment)*
- *“This number could be quite significant, because some of the projects don't have State legislation to back up lodging carbon rights and covenants on the land” (survey respondent comment)*

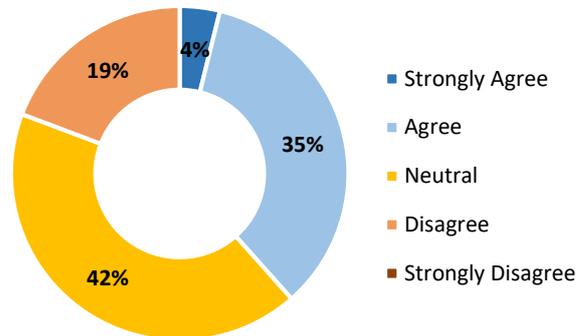


QUESTION 11

Project proponents entering into carbon abatement contracts related to sequestration projects understand their ongoing exposure to relinquishment requirements during the permanence period.

RESPONSE

A large number of respondents (42 percent) were unsure whether project proponents entering into carbon abatement contracts related to sequestration projects understand their ongoing exposure to relinquishment requirements during the permanence period. Thirty-nine (39) percent agree that this is the case.



Comments

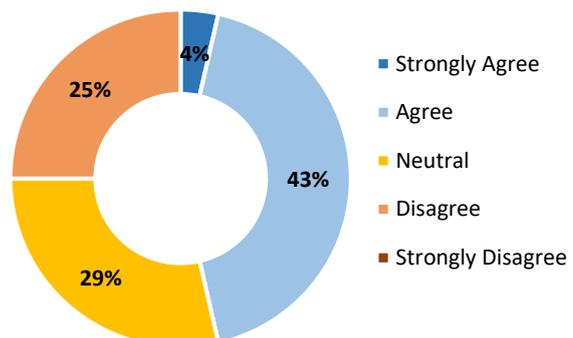
- *“Too early to say in the savanna burning field” (survey respondent comment)*
- *“The level of understanding has yet to be tested” (survey respondent comment)*

QUESTION 12

ERF abatement contracts have sufficient flexibility provisions in place to manage the risks of variation in abatement delivery

RESPONSE

Forty-seven (47) percent of respondents believe ERF abatement contracts have sufficient flexibility provisions in place to manage the risks of variation in abatement delivery.



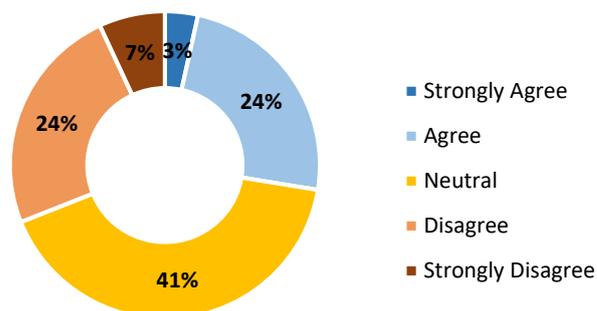


QUESTION 13

Land holders who work under aggregator or agency business models typically understand the legal risks of the projects they have entered into.

RESPONSE

A large number of respondents (41 percent) indicated that they neither agreed nor disagreed that land holders who work under aggregator or agency business models typically understand the legal risks of the projects they have entered into.



Comments

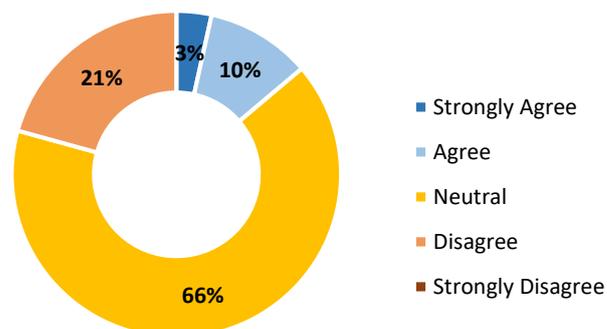
- *“The extent to which land holders understand the legal risks associated with projects is unclear” (survey respondent comment)*

QUESTION 14

There are adequate resolution procedures in place to ensure the settlement of disputes between land owners, project developers and/or service providers.

RESPONSE

Only thirteen (13) percent of respondents believe there are adequate resolution procedures in place to ensure the settlement of disputes between land owners, project developers and/or service providers.



Comments

The majority of respondents (66 percent) gave a neutral response, with a number of respondents stating that they were unsure how disputes between various stakeholders would play out, suggesting that this is still unknown and too early to provide a definitive answer.

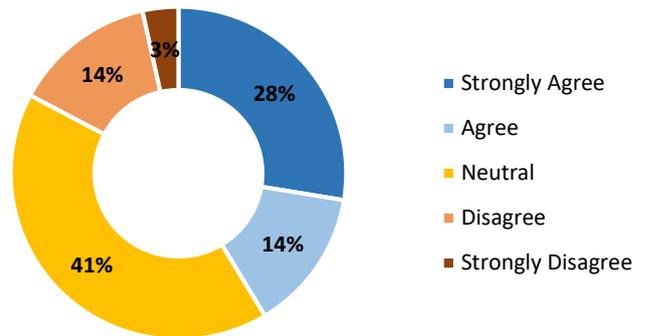


QUESTION 15

Non-land sector methods developed under the ERF are not as commercially attractive to project developers and investors as the land sector methods.

RESPONSE

Forty-two (42) percent of respondents either strongly agree or agree that Non-land sector methods developed under the ERF are not as commercially attractive to project developers and investors as the land sector methods. A further forty (40) percent of respondents are neutral on the issue.



Comments

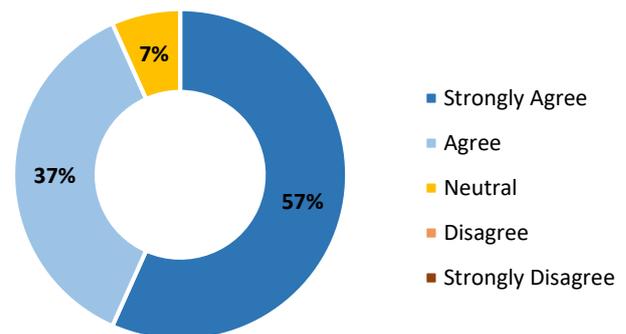
- *“We have tried many angles with the various methods, but very few stack up on either 'newness' requirements, scale or technical eligibility” (survey respondent comment)*
- *“Energy efficiency is NOT viable in most cases” (survey respondent comment)*

QUESTION 16

A significant investment in staff time, professional services and administration is required to register projects regardless of whether they participate in or are successful at auction.

RESPONSE

The overwhelming majority (94 percent) of respondents either strongly agree or agree that a significant investment in staff time, professional services and administration is required to register projects regardless of whether they participate in or are successful at auction.



Comments

- *“It is extremely difficult to justify investing this effort with both uncertainty of ACCU price and how much abatement the CER are willing to purchase” (survey respondent comment)*

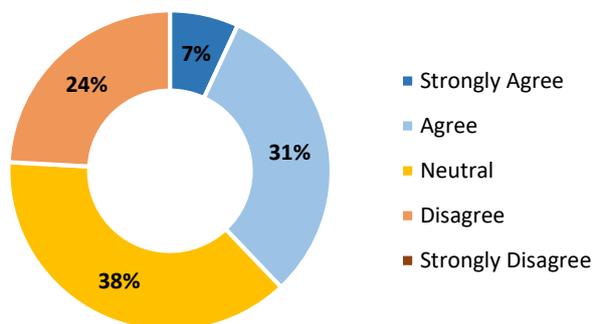


QUESTION 17

In order to effectively manage and monitor risk, ERF participants need better quality assurance/auditing systems.

RESPONSE

Thirty-eight (38) percent of respondents strongly agree or agree that in order to effectively manage and monitor risk, ERF participants need better quality assurance/auditing systems. A further thirty-eight (38) percent of respondents are neutral on the issue, leaving only twenty-four (24) percent of respondents to disagree with the statement.



Comments

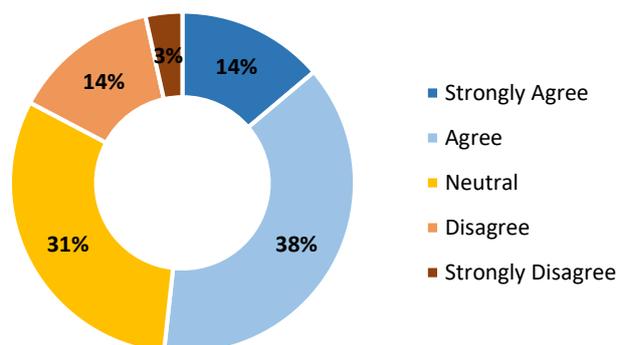
- *“Record keeping, monitoring and audit requirements as set out under the methods are already onerous” (survey respondent comment)*
- *“If the suggestion here is that audit intensity needs to be increased, we would strongly argue against that” (survey respondent comment)*

QUESTION 18

The Clean Energy Regulator (CER) has adequate measures in place to mitigate the risk of fraud and other unethical activity.

RESPONSE

Fifty-two (52) percent of respondents either strongly agree or agree that the Clean Energy Regulator has adequate measures in place to mitigate the risk of fraud and other unethical activity.

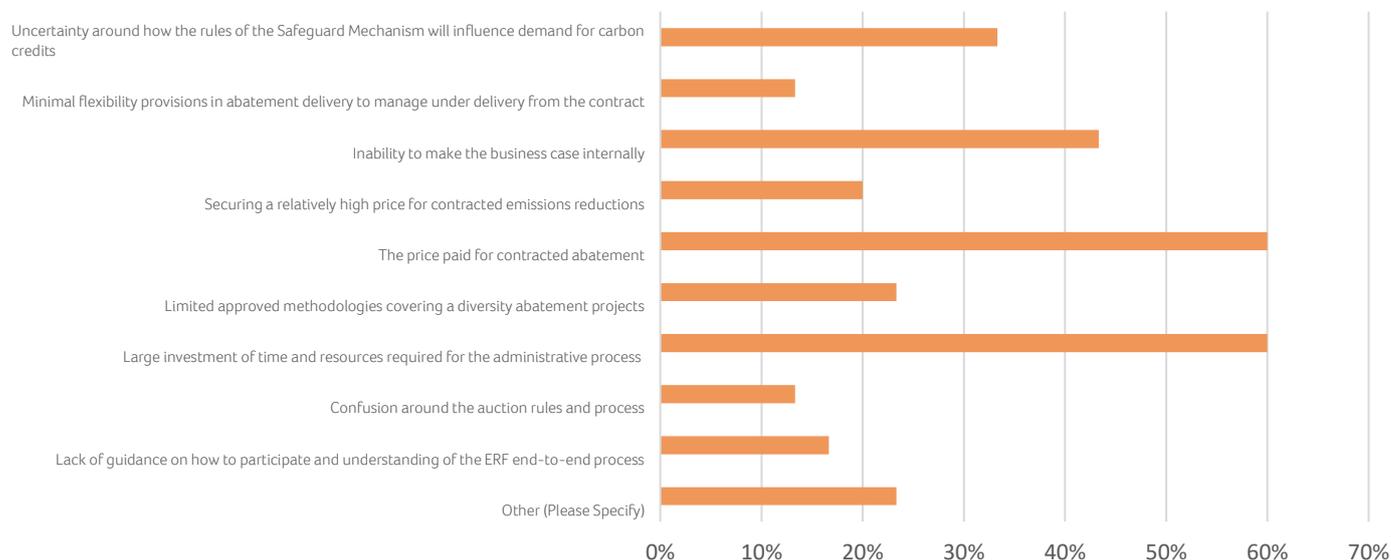




QUESTION 19

In your view, what statements from the following best describe why organisations with large abatement potential chose not to participate in the ERF (choose up to 3)?

RESPONSE



Comments

When asked to choose three out of ten reasons why organisations with large abatement potential chose not to participate in the ERF, sixty (60) percent of respondents indicated that both the price paid for contracted abatement and a large investment of time and resources required for the administrative process were the main factors. Forty-three (43) percent of respondents indicated that an inability to make the business case internally was responsible, with thirty-three (33) percent citing that it was due to uncertainty around how the rules of the safeguard mechanism will influence demand for carbon credits. Limited approved methodologies covering a diversity of abatement projects (23 percent) and securing a relatively high price for contracted emissions reductions elsewhere (20 percent) were also highlighted.

Twenty-three (23) percent of respondents indicated “other” as being a reason why large organisations with large abatement potential chose not to participate in the ERF, some of the reasons were:

- *“Not seen as a core activity, therefore low priority for business” (survey respondent comment)*
- *“Competition for capital and also scale of ERF projects is not big enough to make it a priority” (survey respondent comment)*
- *“State/territory energy efficiency schemes (ESS, VEET, etc.) offer far more certain returns on investment and more certain energy savings” (survey respondent comment)*
- *“Scale is often a killer - need massive emissions reduction delivery to make a case to proceed at current pricing” (survey respondent comment)*

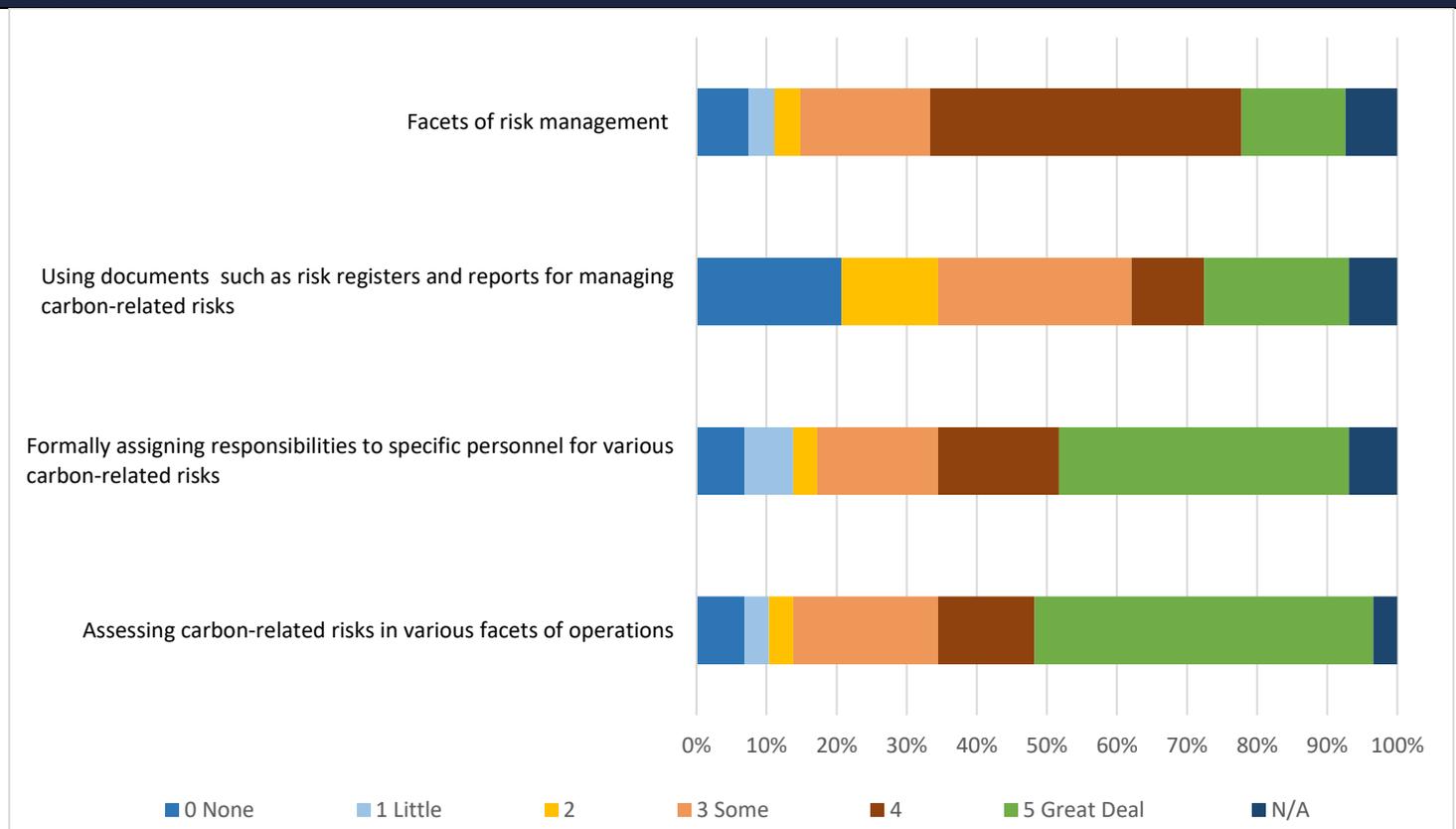
* It should be noted that the survey sample was principally project developers’ not large greenhouse gas emitting organisations.



QUESTION 20

How much emphasis has your organisation placed on each of the following?

RESPONSE



Comments

On a scale of 0 to 5, with 0 being none, 1 being little, 3 being some and 5 being a great deal, survey respondents were asked to indicate how much emphasis their organisation has placed on certain issues around risk and carbon risk management.

Eighty-three (83) percent of respondents indicated that their organisation places somewhere from some to a great deal of emphasis on assessing carbon related risks in various facets of operations. The average rating for respondents on this issue was 3.85, with forty-eight (48) percent giving it a rating of 5, a great deal of emphasis.

The average rating from respondents when asked how much emphasis their organisation places on formally assigning responsibilities to specific personnel for various carbon related risks was 3.69. Seventy-six (76) percent indicated that their organisation lies somewhere from some to a great deal, with forty-one (41) percent of respondents revealing their organisation places a great deal of emphasis on the issue.

Sixty-two (62) percent of respondents said they place no to some emphasis on using documents such as risk registers and reports for managing carbon related risks, with an average response of 2.77. Twenty-eight (28) percent of respondents with either none or not applicable for their organisation.

Seventy-eight (78) percent of respondents indicated that their organisation places somewhere from some to a great deal of emphasis on facets of risk management. The average response rating across all respondents was 3.46. Forty-four (44) percent of respondents gave a rating of 4, half way between some and a great deal.



Discussion

The results from this survey highlight the various types of risks associated with the ERF, in particular those that are experienced by project proponents, project developers and service providers. As can be seen from the responses, the ERF is subject to different types of risk, including technical risk, political risk, commercial risk, governance risk and abatement delivery risk. The findings taken from 33 ERF participants and their survey responses show how different aspects of the current policy and associated structure of the ERF expose various stakeholders to these different types of risk, as well as providing some insight into how scheme participants manage these issues.

The survey brings to light some of the concerns ERF participants hold over the continuity and long-term viability of the domestic offsets industry. Importantly, the survey highlights how there is a need for greater certainty around the quantum of future funding of abatement, in addition to specifying how the private sector will play an increasingly significant role in creating demand for ACCUs. Without this certainty and clarity around where the sources of future demand will come from, it casts some doubt over the long-term viability of the domestic carbon offsets industry.

Respondents were able to give insight into how they see the future supply and demand for ACCUs in both domestic and international markets. The survey highlights both the risks and opportunities that will become increasingly apparent as the international carbon market evolves, as well as understanding the feasibility of investing in carbon abatement projects, considering additional demand outside of the ERF.

The survey findings confirm there is still uncertainty around a number of issues concerning the structure of the ERF, the individual contracts and how this can impact various stakeholders. It remains to be seen how the delivery of abatement will stack up against the total abatement contracted and how various stakeholders might be exposed if there are disputes or repercussions around legal risks for landholders, eligible interest holder consent and/or ongoing relinquishing requirements.



Conclusions

After four successful ERF auctions during 2015 and 2016, a total of 178 million tonnes of carbon abatement has been contracted to a total of 397 projects. The ERF has been the central pillar of the Government's climate change policy over this period and has delivered, and will continue to deliver genuine greenhouse gas emissions reductions, playing a key role in helping Australia meet both its 2020 and 2030 greenhouse gas emissions reduction targets. The survey findings point to some of the risks that the ERF and scheme participants are exposed to, highlighting the importance of various monitoring and management strategies moving forward. In addition, the survey has implications for domestic climate policy, and the role it can play in minimising risks around the ERF and indeed the domestic offsets industry.

Risks emerging from the ERF include:

- Risk associated with the continuity of the domestic offsets industry based on demand for ACCUs
- Risk associated with the future funding of the ERF
- Risk associated with supply and demand for ACCUs under current policies
- The nature of ERF contracts and risk for various stakeholders

As a result, there some organisational strategies ERF participants have in place to effectively manage any potential exposure to the above-mentioned risks. Where possible survey respondents have identified their organisations willingness to place a large amount of internal emphasis on:

- Assessing carbon related risks in various facets of their organisations operations
- Formally assigning responsibilities to specific personnel for various carbon related risks associated with the ERF

The survey findings also point to several policy considerations that can assist in alleviating risks associated with the ERF, including:

- The appropriate quantum of future funding allocations to the ERF required to ensure the continuity of the domestic carbon offset industry
- How additional sources of private demand for carbon units credited under the ERF can be created
- The evolution of the international carbon market, and how methods developed under the ERF can be aligned with international standards, and how developments under the implementation of the Paris Agreement can enhance the integration of markets and possible export market opportunities for ACCUs



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