



## Background

The Minister for Energy and Emissions Reduction, the Hon Angus Taylor MP, has convened an expert panel to undertake targeted consultation with industry and other stakeholders about the potential to incentivise low cost carbon abatement, with a focus on Australia's industrial, manufacturing, agricultural and transport sectors and increased energy efficiency.

The Carbon Market Institute (CMI) is the peak industry group for business and climate action with a membership of over 70 corporations spanning the spectrum of formal, voluntary and business to business carbon markets. Our mission is to help business manage the risks and capitalise on the opportunities in the transition to a net-zero emissions economy.

CMI has been invited to provide feedback to the *Expert Panel Examining Opportunities for Further Abatement* discussion paper, pertaining to matters outlined within and potential options that may help unlock abatement in these areas.

CMI has worked with the Government to assist the notable achievements of the Carbon Farming Initiative and Emission Reduction Fund (ERF) in establishing the world's largest and most robust domestic abatement offset scheme. As noted in the Discussion paper this has made significant achievements in the land and waste sectors. This investment has already led to, and will continue to lead to significant regional employment, social, indigenous and environmental benefits.

CMI's [2017 Carbon Farming Industry Roadmap](#) shows that this industry can continue to grow to provide over 20 000 jobs and up to \$24 billion of investment by 2030, mostly in regional Australia. We have been pleased to see continued support from this Government and recognition, for example, by Hon. Minister Littleproud of the contribution that carbon farming is making as an additional revenue stream for regional communities affected by the drought. The recommendations of this review should not curtail the continued evolution of the carbon farming industry and the contribution it can make to achieving Australia's NDC.

CMI is working with the Government and relevant agencies in streamlining ERF processes and expanding methodologies. As noted in Annex 1. CMI believes there are significant abatement opportunities available with maturation of the existing ERF carbon market and associated processes.

CMI also supports initiatives, such as this review, that seek to engage broader sectors of the economy in the transition towards a prosperous net-zero emissions economy. It is clear that greater initiatives are required to decarbonise industrial, manufacturing, agriculture and energy sectors and to encourage business providing emissions avoidance and reduction, including carbon sequestration. However, as outlined below, great caution to avoid perverse outcomes should be exercised with proposals such as crediting under Safeguard Mechanism baselines.

Given the short consultation timeframe, the below response is in short-form, and is not an exhaustive list of considerations and recommendations, and as such it does not respond in full to each of the considerations outlined in the discussion paper.

### Policy Considerations

The response below covers three broad themes:

1. This process should be a stepping stone towards more detailed inclusive consultations to develop sectoral decarbonisation pathways to address barriers and unlock opportunities in the long-term emissions reduction strategy the Government has committed to conclude by the end of 2020.
2. Greater public and private funding for technology and innovation development can be encouraged by adding to and reprofiling parts of the Climate Solutions Fund for earlier/upfront delivery through ARENA and the CEFC as well as by leveraging appropriately targeted funding schemes.
3. Private sector investment will be best encouraged by a transition from public to long-term, scalable private sector demand signals across the economy for example by declining Safeguard Mechanism baselines, thus freeing up public funds for supporting technology development and deployment.



In addition to the above policy considerations, CMI would like to draw attention to its [Transitioning the Safeguard to a Baseline & Credit Discussion Paper](#) from early 2019, which outlines a broader climate policy trajectory that provides a complementary pathway to drive private-sector investment in technology development, emissions reduction innovation across the economy, and abatement opportunities across multiple under-utilised industrial project types. In particular, the first policy consideration references relevant options in the discussion paper.

Further considerations of Australia's potential policy toolkit are included in CMI's recent [submission to the Climate Change Authority](#).

Based on the options outlined below, CMI welcomes any follow up and/or additional consultation that the Panel may wish to undertake with CMI and its members in due course.

**CMI has sought the views of members in the sectors identified by the Discussion Paper but the views and options expressed in this document are those of CMI and do not necessarily reflect the position of any individual CMI member.**



## POLICY CONSIDERATION 1

**This process should be a stepping stone towards more detailed inclusive consultations to develop sectoral decarbonisation pathways to address barriers and unlock opportunities in the long-term emissions reduction strategy the Government has committed to conclude by the end of 2020).**

While this process can uncover valuable insights, a consistent theme from consultations with our membership is the need for more durable long-term policy to encourage investments. However, the following initiatives should be considered.

1. **A higher price paid for ACCUs by the Clean Energy Regulator's ERF contracts will provide a stronger market signal and support increased participation in the ERF scheme.**
  - The Government should modify the Clean Energy Regulator's 'lowest cost abatement' mandate for ACCUs purchased through ERF contracts, enabling higher prices for projects that could enable viable payback for larger-scale kit upgrade or replacement in industrial/manufacturing method projects. Often the price that a large scale industrial or manufacturing facility would receive for ACCUs through a government-contracted ERF project, is not sufficiently viable payback to cover the capex/opex from upgrading or replacing existing kit on an emissions basis alone.
  - An alternative to higher prices would be upfront crediting based on a deeming or modelled approach, such as is used in existing white certificate schemes, such as those operating in Victoria, South Australia and New South Wales. Whilst this would more naturally apply to energy efficiency projects, it could also be explored for a range of project types with high upfront capital expenditure, which would further incentivise investment (including some landscape and agricultural-based activities).
  - Using a portion of the Climate Solutions Fund for reverse auctions or similar technology or market development initiatives for particular sectors or technologies under this changed mandate should be considered in light of the considerable success of CEFC/ARENA initiatives in the energy sector.
  
2. **The Government should expand, update and streamline existing industrial methods to increase participation, whilst also creating opportunities to develop new methods for uptake by industry participants.**
  - Examples of such methods to be improved in this regard include the below items, *recognising a longer consultation period would result in a more complete list, and further detail on these specific methods:*
    - a) **Facilities Method:** could benefit from updated treatment of boundaries for specific processes and technologies, so other facility emissions sources do not influence overall abatement project outcomes;
    - b) **Land & Sea Transport Method:** could benefit from increased transparency of determinations of, and updates to decline rates (more specifically regarding parity treatment of rail and road operations with aviation determinations), as well as exploration of flexible crediting periods beyond seven years.
    - c) **Industrial Electricity & Fuel Efficiency:** could benefit from review of limitations that restrict production improvements that result from emissions reduction processes (noting the need to avoid an increase in absolute emissions increases, even if the emissions intensity has decreased).
    - d) **Landfill Gas (Electricity Generation) Method:** could benefit from review of crediting periods at the end of the current crediting period in 2021, that include financial additionality considerations, and a stronger focus on regulatory additionality, i.e. what landfills are required to do vs what landfill gas operators are actually doing onsite (noting this would be supplementary to a recently undertaken ERAC review of the method in 2018).
    - e) **Waste Coal Mine Gas Method:** could benefit from amendments to eligibility requirements to allow additional abatement which is not currently being undertaken to be credited (for example, at open cut coal mines).



- Exploration of new ERF methodologies to incentivise industrial emissions reduction could include (but not be limited to) the following activities, *recognising a longer consultation period would result in a more complete list, and further detail on specific method development*:
    - a) Electrification or fuel switching of transport & related infrastructure;
    - b) Hydrogen-driven electrification of manufacturing and industrial production facilities;
    - c) Other Hydrogen-related fuel & energy activities;
    - d) Carbon Capture, Use & Storage (CCUS) for high emissions industries including steel, cement and oil and gas (noting the importance of managing perverse outcomes where such activities prolong due or scheduled closure of older, high emissions-generating facilities).
  - Safeguard reporting timelines may not align with ERF crediting periods. As noted in Box 1 (section 3 (4)), this can cause complications as ACCUs issued at a Safeguard-covered facility must be added back on to that facility's net emissions to avoid double counting (thus ensuring facilities cannot receive ACCUs for reducing emissions and then sell or surrender these ACCUs to further reduce their net emissions or net emissions of another facility). The Government should explore options for flexibility in these activities to allow more streamlined uptake of ERF activities by facilities and efficient reporting as part of Safeguard compliance.
- 3. The Government should work with state governments to ensure uptake of existing and rollout of complementary federal initiatives, to minimise market and price distortions and avoid crowding out private investment.**
- We note that three state-based energy efficiency schemes are already operating in New South Wales, Victoria and South Australia. These schemes, (as well as other grant programs) are valuable for small to medium-sized businesses, whilst also placing some mandatory requirements on energy retailers.
  - Such schemes also provide large corporate and industrial players with easily accessible expertise and knowledge on managing energy productivity, appliance and building energy standards, and related emissions reduction activities. These schemes should be supported and better promoted by the federal government as an existing avenue through which to engage business on emission reduction.
- 4. The Government should support sector-led activities that connect with global market trends, and in doing so maintain the reputation, environmental integrity and credibility of Australian abatement industry**
- Australian companies are increasingly joining with global sector-based emission reduction initiatives (including aviation, shipping and steel industries). The Government should explore different financing models (e.g. public private partnerships, blended finance, specific tax treatment etc) that can support and leverage private sector funding for decarbonisation processes that can not only impact domestic emissions but lead to commercialisation and export of such technologies.
  - The Government should recognise the potential reputation risk that arises from heavy emitting sectors receiving taxpayer funds for emissions abatement that is either business as usual; or that is perceived by investors, shareholders, consumers or media as an emissions source that the entity itself should bear sole responsibility for. This can affect industry uptake of ERF projects that receive government contracts, and indeed impact the additionality and credibility of abatement generated.



## POLICY CONSIDERATION 2

**Greater public and private funding for technology and innovation development can be encouraged by adding to and reprofiling parts of the Climate Solutions Fund for earlier/upfront delivery through ARENA and CEFC as well as by leveraging appropriately targeted funding schemes.**

1. The Government should ensure that the Australian Renewable Energy Agency (ARENA) receives future funding to ensure ongoing operation and an expansion of its mandate to support grant funding and commercialisation of non-renewables emissions reduction innovation and technologies.
  - The Australian Renewable Energy Agency Act (2011) established Commonwealth funding for ARENA between FY2012 - FY2022, however did not provide funding for FY2023 and beyond. On current funding trajectories, it is likely that ARENA will make final capital allocations in the 2020 calendar year. The Government should continue funding of ARENA but enable it to support zero or net-negative emissions technology and innovation development towards commercialisation and adoption across the economy.
  - To support the commercialisation and adoption of zero or net-negative emissions technology, the ARENA mandate could be expanded to include non-renewable technologies – i.e to ‘...**improve the competitiveness of renewable energy, zero-carbon, and net-negative emissions technologies and increase the supply of renewable energy in Australia.**...’. These activities could include (but not be limited to) processes, technologies and innovations across industrial, agricultural, manufacturing, waste management and transport sectors.
  - Expansion of this mandate to explore commercialisation and uptake of these technologies would provide a platform for technology-focused co-funding opportunities, leveraging private sector investment or partnerships (ensuring that government-side requests for information and assessment processes are aligned with industry-side stage-gate processes). Additionally, stronger ties with the Clean Energy Regulator, the Emissions Reduction Assurance Committee and the ERF methods team with the Department of Environment and Energy could enable such activities to result in creation of new processes/technologies that could form new methods under the ERF.
2. The Government should explore expansion of the Clean Energy Finance Corporation’s (CEFC) mandate to support the deployment at scale of non-renewables emissions reduction innovation and technologies across the economy.
  - In addition to additional funding, and the expansion of ARENA’s remit, the Government could also explore expansion of the CEFC’s mandate to enable investment in businesses and activities focused on the commercialisation and deployment at scale across the economy of non-renewables zero-carbon and net-negative processes, technologies and innovations for carbon farming, industrial, agricultural, manufacturing, waste management and transport sectors.
  - Expansion of this mandate to explore commercialisation and uptake of these technologies would provide a platform for technology-focused co-funding opportunities, leveraging private sector investment or partnerships. Additionally, stronger ties with other federal agencies and industry partners could enable the export of such technologies and solutions to regional trading partners and neighbours, further aligning Australia’s aid, trade and diplomatic efforts in the region and further afield under the Paris Agreement.
3. The CER should be enabled to make joint investments with state government funds or private initiatives.
  - As the Discussion paper notes there an increasing number of sub-national government funds and initiatives such as the Queensland Government’s Land Restoration Fund. Leveraging these funds for additional and proven technology or market development goals should be enabled.
  - CSF funding could be further leveraged by exploration of other mechanisms to support industrial and transport emissions reduction projects, including accelerated depreciation rates, grants and discounted debt funding.

**POLICY CONSIDERATION 3**

**Private sector investment can be best encouraged through a transition from public to long-term, scalable private sector demand signals across the economy, for example, by declining Safeguard Mechanism baselines and freeing up public funds for supporting technology development.**

1. In the absence of a clear, stable long-term policy demand signal, business will not invest in technology or innovation at the scale required to reduce emissions across the economy.
  - Australia's current climate policy settings do not provide Australian business with a long-term national emissions trajectory to 2030, and beyond, that is required to:
    - a) incentivise investment in abatement; nor
    - b) manage the carbon liability of emissions-intensive assets.
  - The role of the Safeguard Mechanism should be redefined in the Government's stipulated review of the mechanism by the end of 2020, to:
    - a) drive below business-as-usual emission reductions that at least align with the trajectory of Australia's 2030 NDC emissions target; and
    - b) build in flexibility for the mechanism to adequately support future NDC targets which are likely to be set at more ambitious levels leading to a net-zero emissions economy.

*82% of respondents to CMI's 2018 Australian Climate Policy Survey agree that Safeguard Mechanism baselines must be set to reduce over time, in line with Australia's 2030 emissions reduction target trajectory.*

2. The Government should provide increased certainty for industry as to how Safeguard Mechanism baselines will be adjusted over time and send a clear market signal for facilities covered under the Safeguard to invest in abatement, as well as emissions reduction technology and innovation. CMI's [Transitioning the Safeguard to a Baseline & Credit Discussion Paper](#), recommends options for decline rates and sectoral treatment, as below:
  - Adjust baselines to decline at:
    - a) a staggered rate (or aligned to interim targets); or
    - b) a linear rate, to help achieve Australia's long-term emissions reduction targets.
  - Set baseline decline rates that either:
    - a) do not differ between industry sectors; or
    - b) treat sectors differently, taking into consideration a particular industry sector's capability and capacity to reduce emissions.
3. The Government should use the existing structure of the Safeguard Mechanism to capture a broader group of facilities and sectors. This could avoid lost time/additional cost in creating new policy structures that include entities not currently covered by the mechanism and spread the burden of emissions reduction across the economy. One option could be to:
  - Reduce the Safeguard Mechanism threshold from 100,000 tCO<sub>2</sub>-e to a new threshold which best balances the capacity of facilities to contribute to emissions reductions across the economy with the administrative effort and cost of compliance.

*76% of respondents to CMI's 2018 Australian Climate Policy Survey agree that the Safeguard threshold should expand to cover other entities.*



4. Whilst it would be possible to credit emissions reductions below facility baselines for entities covered by the Safeguard Mechanism, this represents a legislative change that could perversely impact both the integrity of Australia's emissions reductions and the future of the Australia's carbon abatement industry.
- As the main domestic offset credit in Australia is the ACCU, simply allowing covered facilities to be issued with 'credits' for emission reductions below their baseline may not align with the integrity, transparency and credibility of ACCUs in the current market. This could create the perverse outcome of establishing a credit, or permit, that is not considered an ACCU under the ERF legislation and therefore not subject to the same offset integrity standards as exist under the ERF. This approach could create distortion if these credits were intended to be fungible with ACCUs.
  - There would also be the potential for an impact on the existing ACCU market if these 'credits' were fungible with ACCUs but sold at a fixed price.
  - Crediting below the baseline (without a clear demand signal) may disincentivise investment in other existing energy efficiency, waste, industrial or land-based carbon abatement projects. This would be particularly impactful for carbon farming projects which provide multiple benefits to regional and remote communities across Australia, including drought and landscape resilience, employment, revenue, productivity, social, environmental, and indigenous community engagement.
  - Success of below-baseline crediting is dependent on the presence of a clear market demand signal; without this signal, the creation of credits for below-baseline activities has the potential to flood the market with ACCUs (or an alternative form of credit), thus deflating ACCU prices and effectively pricing other land-based and industrial credits out of the market.
  - The option of crediting below the baseline (without due regard given to integrity, transparency, credibility and market demand signals) could further delay actual emissions reduction activities by enabling Safeguard-covered entities to receive credit for reductions without requiring below business-as-usual activities.
  - Conversely, transitioning the Safeguard Mechanism to a Baseline and Credit scheme would provide a clear demand signal and facilitate a timely increase in the supply of ACCUs, avoiding price shocks and enabling companies to manage increasing emissions liabilities over time at lowest cost. Under an effective transition model, as per Section 5 of CMI's [Transitioning the Safeguard to a Baseline & Credit Discussion Paper](#), covered facilities could generate ACCUs proportional to the level that their emissions are reduced below their baseline:

#### **BOX 1: Options for crediting emissions reductions**

##### **Covered facilities can generate ACCUs proportional to the level that their emissions are reduced below their baseline.**

Under the current Safeguard Mechanism, covered facilities are eligible to participate in the ERF and create ACCUs from eligible emissions reduction projects at their facility, use these ACCUs for a liability at other facilities they are responsible for and/or sell their ACCUs to other parties. To avoid the double counting of emissions, ACCUs issued for emission reductions at a facility are added back on to that facility's net emissions. This ensures facilities cannot receive ACCUs for reducing emissions and then sell or surrender these ACCUs to further reduce their net emissions or net emissions of another facility.

Under this option the Australian Government could consider providing an incentive for covered facilities to reduce emissions below their emissions baseline. Noting the above double counting rules, this provision could look at a fair and equitable way of allowing covered facilities that reduce emissions below their baseline to be issued ACCUs under an approved ERF methodology. The number of ACCUs could be proportional to the level of emissions below their baseline. This could act as an incentive to reduce emissions below baselines and provide one way for covered facilities to manage their compliance obligations. This would help drive increased ambition under the scheme. This option would need careful consideration to prevent any additionality issues or perverse outcomes.

- One CMI member has estimated that Safeguard benchmarks have previously been (on average) around 16% above actual safeguard facility emissions, and that about 95% of safeguard facilities report emissions under their benchmark. We recognise that over FY19 & FY20 facilities are required to transition to a calculated baseline: this will address some of the "high benchmark" issue noted above. However, in developing this proposal care needs to be taken to ensure that facilities are not rewarded for activities that do not reflect genuine abatement. For example, where a facility experiences production issues that reduce its emissions below its annual benchmark, this should not result in offsets being awarded to the facility.



## CONCLUSION

CMI appreciates the Panel's consideration of the above points and would be happy to discuss them further with the Panel. There are significant opportunities to expand the achievements of the ERF while continuing to support the evolution of the carbon farming industry and its employment, social, indigenous and environmental co-benefits. CMI is keen to ensure that initiatives such as crediting under Safeguard baselines do not lead to perverse outcomes and urge the Panel to play close attention to such matters. As one of CMI's larger members has commented "the value and integrity of ACCUs should be a priority when considering crediting approaches." CMI looks forward to working with the Panel and the Government in assisting the transition to a prosperous, climate resilient, net-zero emissions economy.

## ANNEX 1: Land-based Abatement Opportunities

As noted above CMI and its members are working with the Government to streamline and improve current processes under the ERF. CMI is engaging directly with Commonwealth and state governments to continue to develop markets and technologies in the land-based sector. CMI has also recently established Taskforces to accelerate abatement in blue carbon and landscape areas.

The most immediate opportunity to develop significant abatement is to expand and improve the existing land-based methodologies to better align with the reality of how land is managed. Conservative estimates indicate this could bring online an additional 100 million tonnes of abatement across Queensland and NSW in the short term. The active landscapes package could be achieved within 3-6 months with relatively simple changes, ahead of the CSF coming online. This would include the following:

- Expanding the scope and eligibility criteria of the native forest regeneration and avoided clearing methods to better incentivise retention and expansion of tree cover across agricultural lands
- Include options within the existing vegetation methods such as Human Induced Regeneration to apply a direct measurement or calibrated model approach to carbon accounting. This approach is already used for some methods including Native Forest Protection and Farm Forestry.
- Recognise and account for below 2m carbon sequestration from under storey vegetation that occurs as a result of eligible land use change via a new, or existing methods.
- Enabling stacking of multiple carbon methods within a single project to enable landholders to undertake multiple types of action on their properties, including combining vegetation and agricultural methods such as beef herd management in one project.
- Reducing transaction costs to minimise commercial barriers to participation.

A significant advantage of this package is that it focuses on taking approaches and principles already approved and operational in existing methods that are currently underutilised and simply standardising them across the land sector. For example, inclusion of debris pools, direct measurement or model calibration and risk-based approaches to eligibility.

Combined these actions would deliver in excess of 100 million tonnes of additional abatement from expansion of existing carbon farming projects and new uptake of carbon farming in agricultural regions where the current methods are not commercially viable. This not only delivers fast, comparatively low cost, abatement outcomes, but it also improves drought resilience and provides new economic opportunities for regional, rural and remote Australia.

CMI members are working on other methodologies for savanna fire management, woodlands and other landscapes that can also expand abatement opportunities and benefits.

Although action in other sectors of the economy is important, changes to the safeguard mechanism or energy efficiency sector are complex and expanding the carbon farming framework to include these actions may jeopardise scheme integrity (including principles of additionality and the market stability) and should be carefully considered.

Reforms to land-based abatement processes can provide a platform for further success of the CSF, promoting regenerative agriculture and optimised land management by delivering high integrity measured and verified carbon abatement outcomes at scale.