



THE AUSTRALIAN CARBON MARKET

1 September 2022



A REGULATED MARKET PRIMARILY DRIVEN BY VOLUNTARY DEMAND

MARKET STRUCTURE

The carbon market in Australia offers a robust issuance and verification platform to generate and trade carbon credits.

The Carbon Farming Initiative Act 2011 (CFI Act) enables landholders, corporations and other entities to receive carbon credits in exchange for conducting emissions sequestration or avoidance projects. The carbon credits issued in Australia are **Australian Carbon Credits Units (ACCUs)**.

ACCUs are a financial product issued and regulated by the Clean Energy Regulator (CER), and can be issued under any of its prescribed methodologies. The methodologies cover a wide range of activities, and like voluntary methods, fall into two categories; **land-sector** (nature-based) methods and **industrial** (engineered) methods.

The primary Australian national carbon market is managed and regulated under the CER administered **Emissions Reductions Fund (ERF)**. It comprises the voluntary ERF scheme and the compliance market (called the Safeguard Mechanism) - ACCUs are used for voluntary and compliance purposes. The voluntary ERF scheme enables project developers to earn ACCUs by working on eligible projects that reduce or remove emissions. For a project to be eligible, it must pass certain criteria set out by the CER, and the developer responsible for the project must report to the CER about the conduct as well as the outcome of the project. These projects can also apply to participate in an auction and enter into a Carbon Abatement Contract (CAC) with the ERF to sell their ACCUs to the ERF. The ACCUs earned can also be traded in the private market.

The Australian National Registry of Emissions Units (ANREU) is the **registry for ACCUs in Australia**. The ANREU is administered by the CER and tracks the ownership and location of ACCUs issued under the ERF. ACCUs are traceable through the ANREU and for this reason are a low risk of double counting.

VOLUNTARY DEMAND

Historically, demand for ACCUs has been largely spoken for by the ERF, which has allocated **\$4.5 billion** to the purchase of ACCUs. However, over the past two years the volume of demand from **voluntary corporate buyers** of credits has significantly increased, allowing the ERF to step out of the market and see it move towards a more efficient private market. The ERF runs an auction process twice a year whereby sellers can sell their credits on a forward basis using a Carbon Abatement Contract (CAC). Recently, the ERF has changed all CACs to optional delivery, further allowing voluntary corporate buyers to step in in their place. We estimate circa **\$AUD 400 million of ACCUs have been traded** this fiscal year to date.

ACCU PRICE HISTORY

ACCU prices increased significantly in value over the course of 2021. They started the year at \$15 and subsequently **peaked at \$58** after the COP26 summit. Post the announcement of a review into the operation of the ACCU market, the price fell to \$24. Following the recent election in Australia there was an improvement in the spot ACCU price to \$38, linked to speculation on enhanced decarbonisation policy, particularly in relation to the Government applying more aggressive carbon emission targets. The price has subsequently settled around \$30.



METHODOLOGIES

There are various methods or types of projects for generating ACCUs under the ERF. A few primary methods are included below, in order of historical ACCU issuance:

1. HUMAN-INDUCED REGENERATION (HIR)

- HIR projects regenerate sections of an agricultural property where vegetation has been previously suppressed due to unsustainable land management practices.

2. AVOIDED DEFORESTATION

- Avoided deforestation projects aim to preserve native forests that would otherwise have been cleared.

3. LANDFILL GAS (LFG)

- LFG projects install new or upgrade landfill gas collection systems.

4. SAVANNAH BURNING

- Savannah burning projects aim to reduce the frequency and intensity of wildfires by conducting planned burns in the Northern parts of Australia.

5. SOIL CARBON

- Soil carbon projects aim to remove carbon from the atmosphere and store it in soil through updated farm management practices.

6. ALTERNATIVE WASTE TREATMENT

- Alternative waste treatment projects divert solid waste from landfills and convert it to a substitute fuel.

7. INDUSTRIAL ELECTRICITY OF FUEL EFFICIENCY (IEFE)

- IEFE projects avoid emissions through the changes in industrial processes, such as modifying, removing or replacing energy intensive equipment.



THE SAFEGUARD MECHANISM

The Safeguard Mechanism is the Australian national compliance market. The Mechanism operates by setting a baseline level for select facilities and requires the facility to keep greenhouse gas emissions within that baseline number. If the baseline number is exceeded, the corporate is required to purchase ACCUs to offset the facility's emissions. If the baseline number is not reached, the corporate receives ACCUs to sell or use to offset emissions outside of the facility. The corporates affected by the mechanism consist of those with facilities (power stations, foundries and mines) that emit more than 100,000 tonnes of CO2 equivalent per annum. The mechanism is currently applied to 215 facilities across Australia.

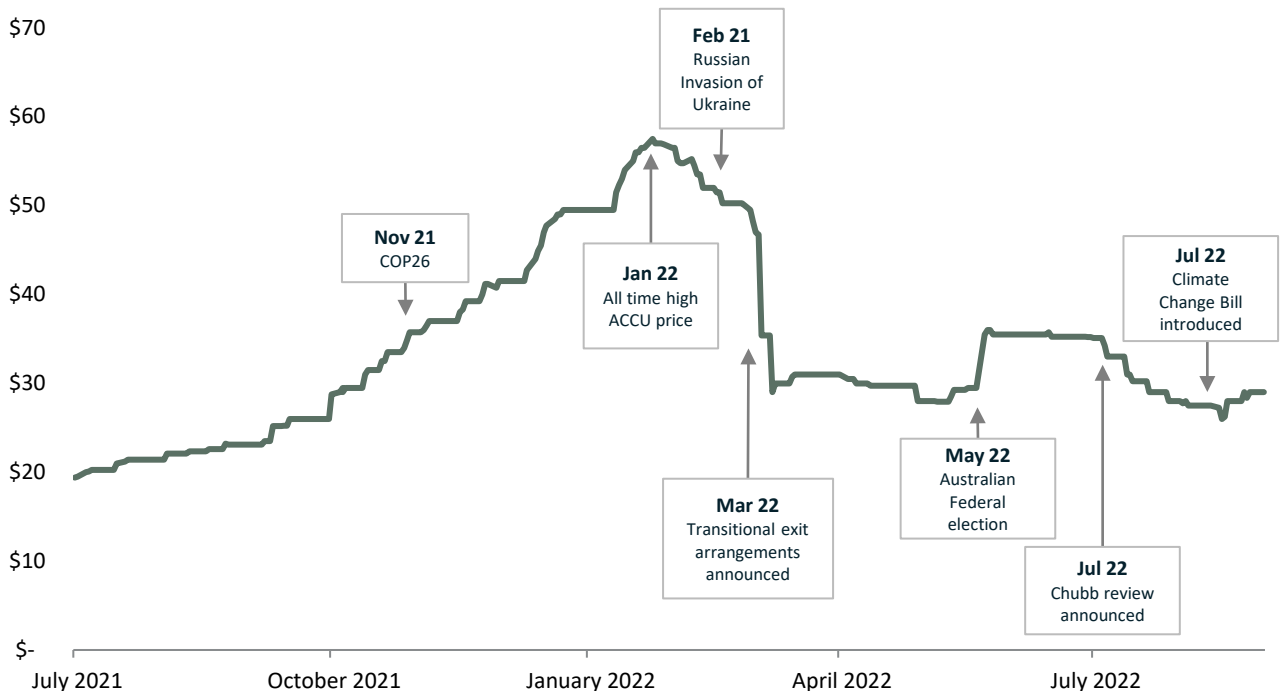
To be implemented on 1 July 2023, it is expected that Labor will revise the Safeguard Mechanism baseline settings, reducing the baseline overtime, and reaching zero by 2050. Several other changes may be applied to the Safeguard Mechanism as part of the Labor Governments review, including the possible introduction of a new type of avoidance credit, called a Safeguard Mechanism Credit (SMC).

THE CHUBB REVIEW

Energy and Climate Change Minister Chris Bowen announced an independent review into the Australian Carbon Market in July 2022. The review is being led by Professor Ian Chubb, a neuroscientist by training who was Chief Scientist of Australia between 2011 and 2015 and served on the board of the government's Climate Change Authority think tank.

The review follows broad criticism of Australia's Carbon Market earlier this year, with the former Chair of the Emission Reduction Assurance committee (ERAC) and the Australia Institute raising concerns about the validity of abatement generated by certain methodologies and the governance role played by the CER. The review will be completed by the end of 2022.

ACCU PRICE 2021-2022



Source: HVB, CER

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