

“Australia’s approach to carbon policy and markets- Where are we at and what does the future hold?”

WA Outback Carbon Farming Conference

Peter Castellanos
Chief Executive Officer
Carbon Market Institute



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- 1. About CMI**
- 2. What does Paris Agreement mean for Australian business?**
- 3. Federal Politics – the state of play**
- 4. Climate policy suite – ERF and Safeguard mechanism**
- 5. The evolving Carbon Market – Demand and Supply**
- 6. The economic potential of carbon based enterprises**

- The Carbon Market Institute is national **peak body for climate change** and business.
- Focus on challenges of climate change and seizing the **opportunities in the transition to a low carbon economy**.
- **CMI connects** key government policy makers and regulators, industry, financiers and investors, professional services companies and technology solution providers.
- CMI works with Government to **ensure effective implementation of policy**, such as the Emissions Reduction Fund legislation (the Carbon Farming Initiative Amendment Bill 2014).
- **4th Australasian Emissions Reduction Summit** – 2&3 May 2016, MCG, Melbourne

CMI MEMBERS – include..



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Energy in
action.



Westpac

Institutional Bank

Allens & Linklaters



NORTON ROSE FULBRIGHT



- The economic **impetus to a decarbonized economy** is unstoppable and business gets it
- The **global emissions trajectory is DOWN** and so Australian domestic climate policy settings will inevitably tighten.
- **Competition for new business opportunities** is going to heat up
- The **financing gap** needs to be bridged
- We are seeing global **leadership at sub-national level**
- There is an export **market for Australian services** and innovations
- **Market mechanisms** will become a feature of the suite of policies needed to meet emission reduction goals
- The Paris Agreement is the **Mother of all market signals**



Key players

- Ministerial appointments



- Nationals



- Opposition and minor parties

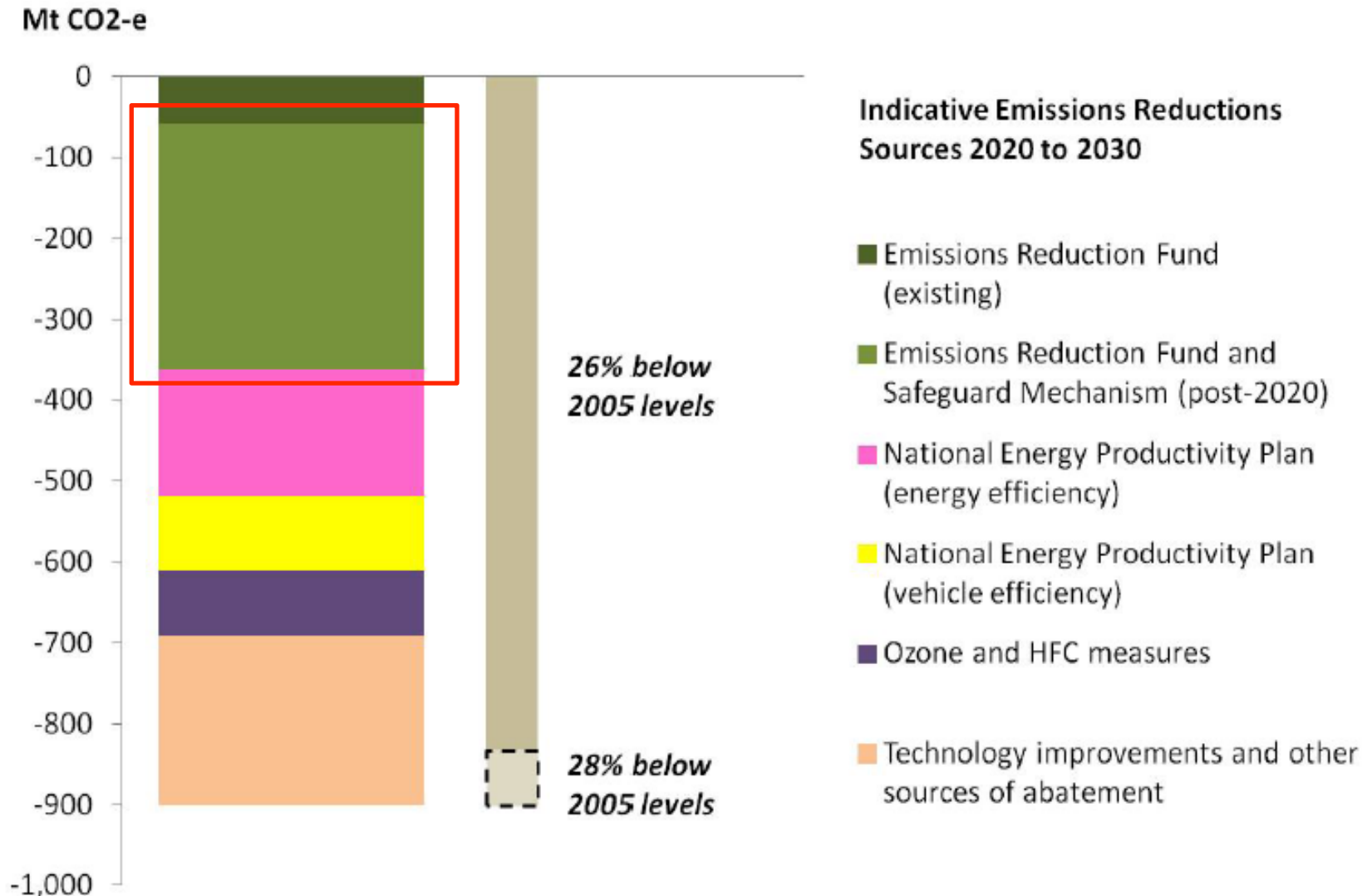


- **Emissions Reduction Fund**
 - Three elements; *crediting*, *purchasing* and *safeguarding* emissions reductions
 - \$2.55b to start with and \$800m remaining for future auctions
- **Safeguard Mechanism**
 - Places emissions baselines on heavy emitting facilities (>100,000 tCO₂-e/year)
 - *Commenced 1 July 2016*
- **Renewable Energy Target**
 - 23.5% renewable energy by 2020
- **National Energy Productivity Plan**
 - Economy-wide work plan to deliver a 40 per cent improvement in Australia's energy productivity by 2030



How Australia will meet its 2030 target

- The climate policies to meet the 26-28% emissions reduction (on 2005 levels)



- **Emissions reduction projects under the ERF must use an approved method.**
- **Methods contain rules that explain:**
 - How to carry out and manage an emissions reduction project.
 - How to estimate the resulting reductions in greenhouse gas emissions.
 - Conditions which must be met over the course of the project.



Australian Government
Department of the Environment



**Clean
Energy
Regulator**

- **Approved methods cover a range of emissions reduction projects across sectors such as:**
 - **Land sector**
 - **Vegetation management** – avoided clearing, regeneration, reforestation, savanna burning
 - **Agriculture** – beef herd cattle, piggery and dairy manure methane capture & combustion
 - **Transport** – aviation, land and sea transport
 - **Waste and wastewater** – landfill gas, alternative waste treatment
 - **Energy Efficiency** – commercial buildings, lighting, industrial energy and fuel efficiency, facilities
 - **Mining, oil & gas** – coal mine waste gas, oil & gas fugitives

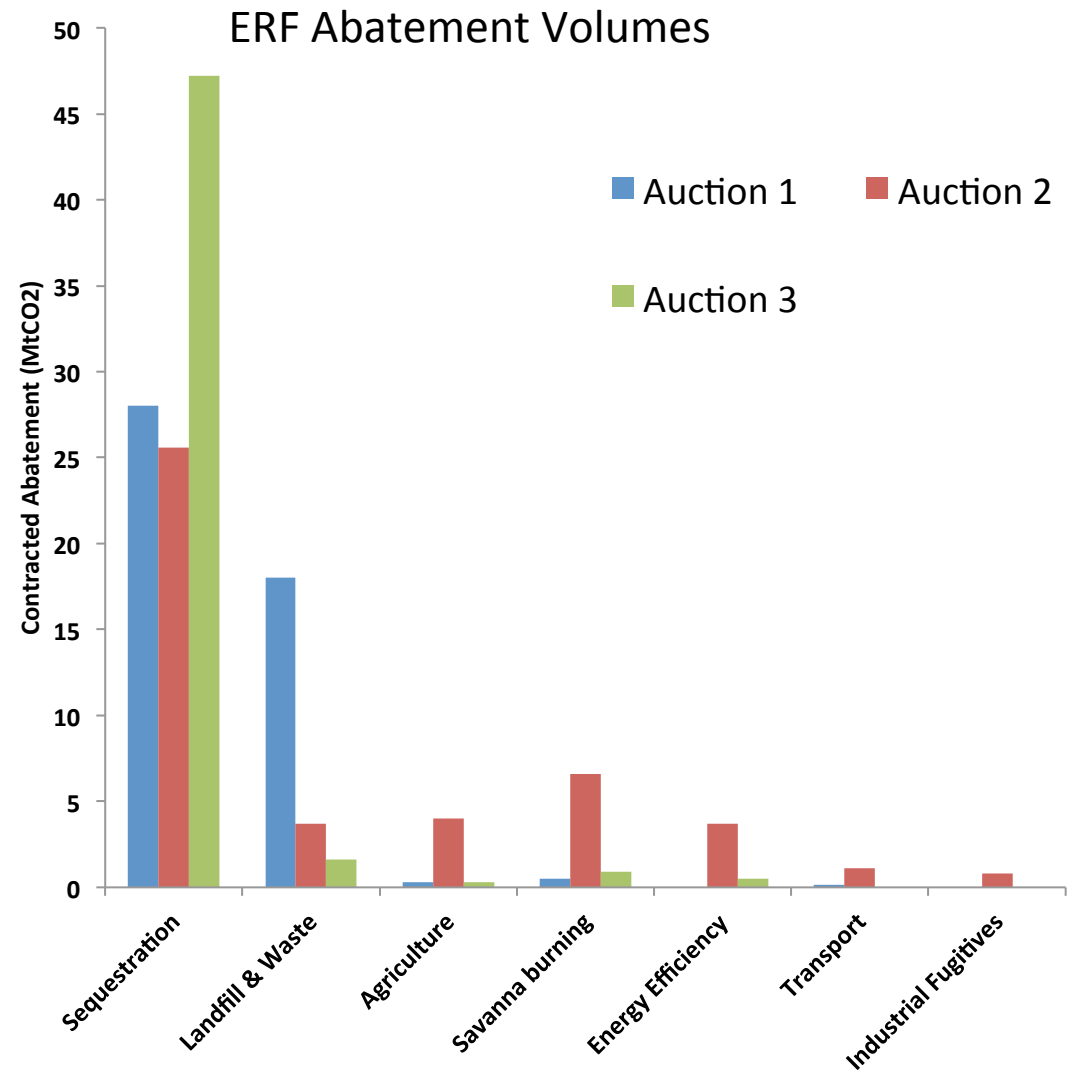
- **Methods -**
 - **Avoided clearing of native regrowth**
 - **Avoided deforestation**
 - **New farm forestry**
 - **Reforestation and afforestation (2.0)**
 - **Native forest from managed regrowth**
 - **Savanna fire management**
 - **Designated Verified Carbon Standard projects**
 - **Reforestation by environmental or mallee plantings**
- **Examples:**
 - Allowing native regrowth to regenerate
 - Protection from clearing
 - Permanent plantings
 - Early season burning (savanna)



- **Methods - agriculture**
 - **Beef cattle herd management**
 - **Piggery methane**
 - **Dairy methane**
 - **Soil carbon**
 - **Fertiliser use efficiency in irrigated cotton**
- **Examples:**
 - Capture and combustion of methane from manure
 - Beef cattle management
 - Beef cattle nitrate supplements
 - Management to increase soil carbon
 - Efficiency of nitrogen fertiliser use in irrigated cotton

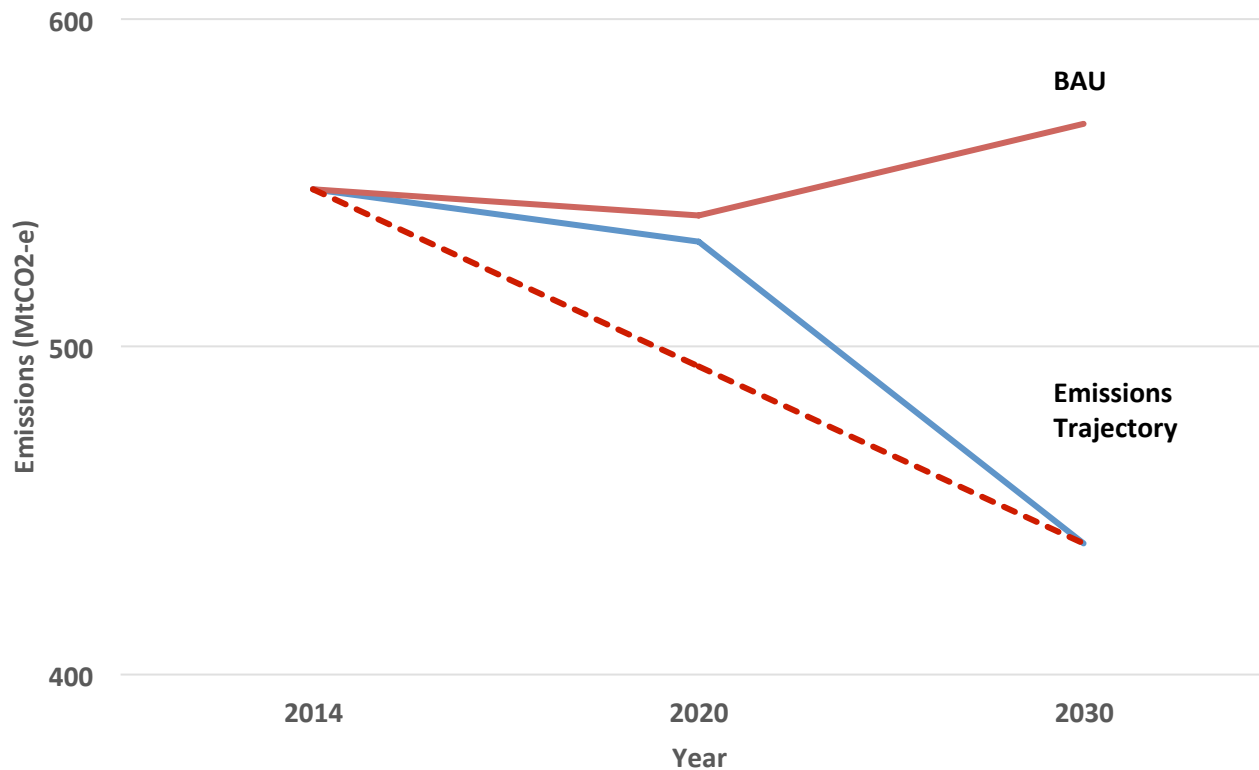


- **Three ERF auctions have been held to date:**
 - More than \$1.7 billion awarded to 309 contracts
 - More than 142 million tonnes of abatement
 - Avg. price A1-\$13.95; A2-\$12.25 & A3-\$10.23
 - Avg. \$12.10 per tonne of abatement
 - 348 projects



Safeguard Mechanism

- 100,000 tCO₂ threshold
- Covered *facilities* must keep emissions below historical highpoint (FY09-14)
- Approx. 140 facilities
- Separate sectoral baseline for power generation



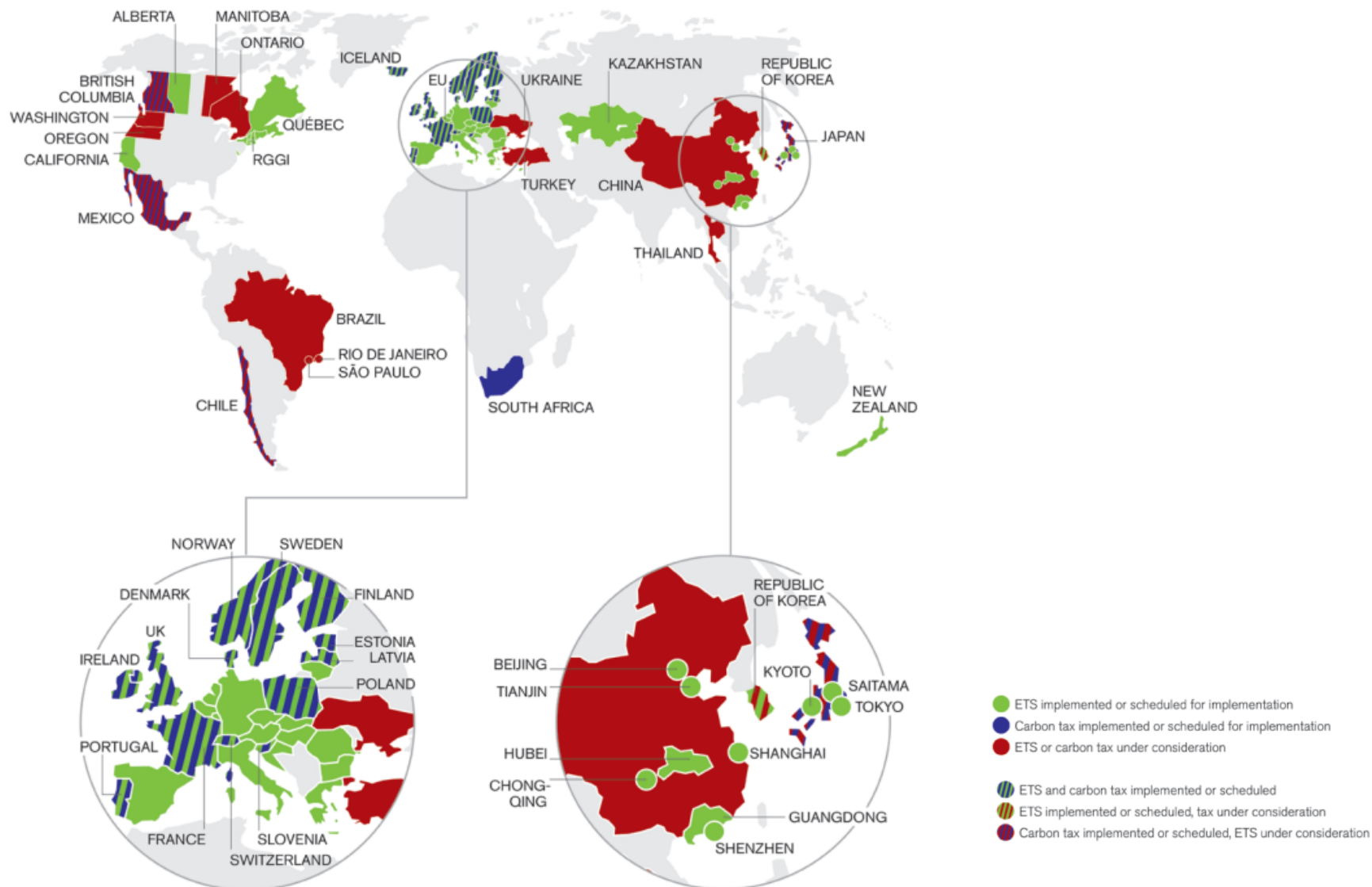
- **Minister Josh Frydenberg – new Environment & Energy Minister**
 - Key positions on his portfolio
- Important to align of energy and climate
- Australia is transitioning to a low emissions future
- Greater alignment on at the state and federal level
- Moving to a stable policy landscape is a core focus
- Political leadership is about taking complex issues and explaining them
- There is potential for positive negotiations and bipartisanship on climate policy



- **Department to establish Terms of Reference for Cabinet**
- **Formal review process to commence early 2017**
- **Outcome/recommendations by November 2017**
- **Key issues and focus areas**
 - **ERF - Crediting and Purchasing:** future funding,
 - **Safeguard mechanism:** conditions and criteria for baseline setting and alignment with the international target
 - **International trade in carbon and use of international units:** supply and demand of domestic and international units



Carbon Pricing Schemes Worldwide



Market mechanisms in the Paris Agreement

- Provision for the use of market mechanisms under Article 6
- Aims at increasing ambition in NDCs
- Architecture for transfer of emissions reductions between countries – *Internationally Transferrable Mitigation Outcomes*
- Supports sustainable development - *Sustainable Development Mechanism*
- Governed by body within UNFCCC
- Rules to avoid double counting
- Assists in mitigation, adaptation, finance, technology transfer and capacity building



- **Emissions Reduction Fund** - \$800m plus possible top ups?
- **Heavy emitters liable under the safeguard mechanism** – demand dependent on baseline setting and caps
- **Voluntary market** – Increasing demand for going carbon neutral, CSR and co-benefits – Demand of 172, 000 t CO₂ e in 2015.
- **Secondary market** – to meet obligations under the ERF and hedge for the safeguard
- **Emissions Intensive Trade Exposed Industries** – exposed in international compliance markets
- **Other regional governments** – shortage of supply to meet Paris commitments

- **Emissions Reduction Fund** – over 26 million Australian Carbon Credits issued
- **Kyoto Mechanisms – Clean Development Mechanism**
 - **Certified Emissions Reductions:** Issued under the CDM for emissions reductions that occur in developing countries (3,273,412,560 CER's have been issued under the CDM to the end of 2016)
- **International Schemes (Credits) –**
 - - California Carbon Allowances (CCAs)
- **Voluntary Carbon Market initiatives** - Rigorous global certification standards for carbon offset projects.
 - **Gold Standard** -
 - **Verified Carbon Standard**
- **National Carbon Offset Standard** - The Australian Government's standard for certifying carbon neutral products, services and organisations.

- **What is the business case for investment in carbon farming?**
- **Australia has a well designed and well governed offset scheme**
 - The governance architecture is stable
 - We have a well functioning market and market integrity
- **We have deep competency to move projects forward**
 - Across project development, monitoring, reporting, verification, finance, legal, broking and advisory services.
- **We have seen some successes under the CFI ad ERF**
 - eg Green Collar, Climate Friendly, Corporate Carbon

- **Economic benefits and Co-benefits**
 - Employment, including local Indigenous peoples
 - Expenditure with local businesses
 - Enhancing water quality in catchments
 - Protection for livestock (shade and wind breaks)
 - Improving soils and improving biodiversity
- **Current policy settings represent a floor**
 - Domestic and international demand for credits will grow
 - The Paris Agreement will drive a global market
 - Corporates will adopt science-based targets/two-degree scenario
- **The transition to low carbon economy is underway**
 - Shift Happens

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