THE CLIMATE CHANGE AUTHORITY'S REVIEW OF THE EMISSIONS REDUCTION FUND: A FACT SHEET

The Climate Change Authority has released its review of the Emissions Reduction Fund (ERF). It is available at www.climatechangeauthority.gov.au.

The Climate Change Authority is an independent statutory agency, which provides expert advice to the Government on policy to reduce emissions. The Authority is required by legislation to review the ERF every three years. This review focuses on the operational aspects of the ERF, in particular whether the scheme is well administered and delivering low cost and genuine emissions reductions.

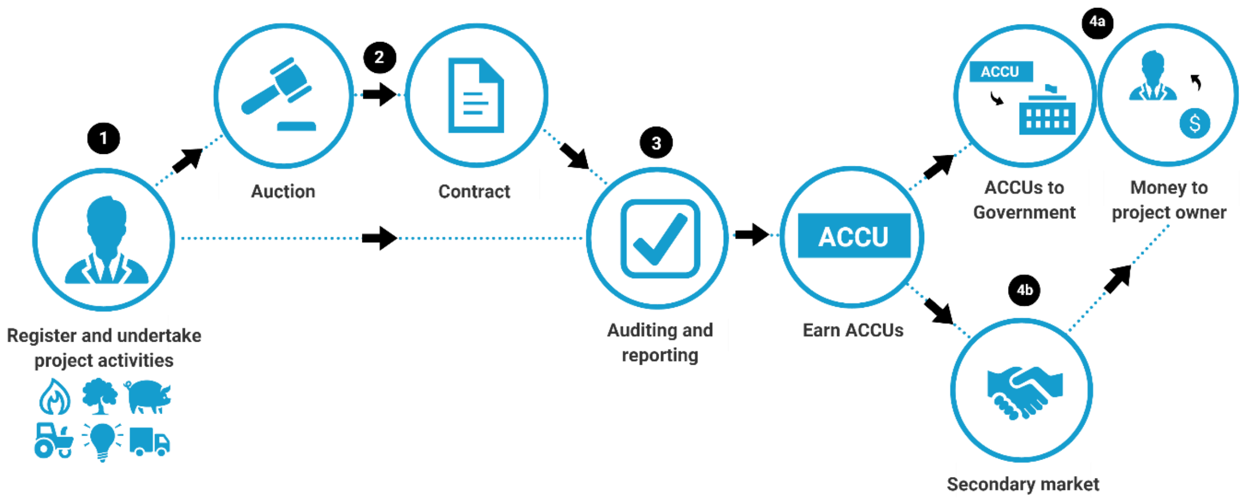
What is the Emissions Reduction Fund?

The ERF credits domestic reductions in greenhouse gas emissions to help meet Australia's international emissions reductions targets.

In essence, the ERF combines crediting of emissions reductions with Government purchase of the resulting carbon credits (known as Australian Carbon Credit Units or ACCUs). Government purchasing has been accomplished to date by contracting with scheme participants through competitive auctions (Figure 1).

The Clean Energy Regulator (CER) administers the ERF's legislation.

FIGURE 1: HOW THE ERF WORKS



1. ERF project registered with the Clean Energy Regulator (CER) and project established.
2. The scheme participant bids at a CER auction and wins a contract with the Government.
3. The scheme participant audits the project, submits reports to the CER and then receives ACCUs.
4a. ACCUs are provided to the Government. Payment is made to the project owner.
4b. ACCUs can also be sold on the secondary or voluntary carbon market.

ERF projects can store carbon in vegetation or soil, reduce emissions or save energy from manufacturing, commercial buildings, land fill waste, coal mines and transport. ERF projects must be covered by a method, which are legislative instruments prepared by the Department of the Environment and Energy. Methods specify the rules for types of projects, how emissions reductions are calculated and how they must be reported to the Regulator. ERF projects are subject to audits and the Regulator can draw on a range of legal penalties to help ensure compliance with the rules of the scheme.

As of 16 November 2017, the ERF had contracted 189 million tonnes of emissions reductions at a cost of $2.23 billion. Around $300 million remained for Government purchasing of emissions reductions.

Emissions reductions from ERF projects can be used as emissions offsets. An emissions offset is a reduction in emissions made in order to compensate for (or offset) an emission made elsewhere. Emissions offsets need to represent genuine emissions reductions if they are to be used as an alternative to reducing emissions at their source (say from manufacturing or electricity generation). This means that the offsets must be 'additional' to what would have occurred in the absence of the ERF.

Also, carbon stored in vegetation or soil from ERF projects as an offset cannot be returned to the atmosphere as a result of fire or land clearing if the emissions offsets are to be robust. The ERF has a number of rules in its legislation to guard against the risk that abatement will not be additional or permanent.

The environmental integrity of the ERF is overseen by independent experts known as the Emissions Reduction Assurance Committee. The Committee checks that methods align with the scheme's offsets integrity standards, which are set in legislation. In doing so, the Emissions Reduction Assurance Committee aims to help ensure that emissions reductions credits (or ACCUs) are issued for genuine emissions reductions.

What has the review found?

In general, the Authority has found that the ERF is performing well. The ERF has created incentives for new domestically based emissions reductions at low cost that will contribute to Australia meeting its international emissions reductions targets. Effective architecture has been put in place to credit emissions reductions across the economy, enable Government purchasing and ensure compliance with the scheme.

The ERF was designed so that it could be refined over time as knowledge and experience with the scheme grew. With this in mind, the Authority has made recommendations to:

- Enhance environmental integrity and increase abatement
- Further secure permanence of carbon stored in vegetation and soil
- Strengthen investment and contract delivery
- Enhance administration and compliance
- Expand access and opportunity for new participants

A summary of key recommendations for the ERF is at Table 1. The full list of recommendations can be found in the Authority's review report available at www.climatechangeauthority.gov.au**.**

TABLE 1: SUMMARY OF KEY RECOMMENDATIONS FOR THE EMISSIONS REDUCTION FUND (ERF)

Enhance environmental integrity and increase abatement

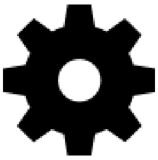
- Use of up-to-date methods, tools and estimation techniques by scheme participants to ensure emissions reductions continue to be genuine.
- Reviews by the Emissions Reduction Assurance Committee (an independent expert committee that assesses methods) to focus on some existing methods to ensure continued alignment with offsets integrity standards.
- More transparent and consistent decision making by the Emissions Reduction Assurance Committee.
- More engagement between scheme participants and local natural resource management planning bodies.

Further secure permanence of carbon stored in vegetation and soil

- Increased understanding for landholders and potential land purchasers of the permanence obligations to maintain carbon for 25 or 100 years.
- New planning for fire management and maintaining carbon stores for carbon storage projects.
- Review definitions for carbon losses relating to risks of lack of permanence with reference to amount of carbon lost per area of land.
- Reviews of the discounting arrangements to deal with the risk of lack of permanence for carbon storage projects.

Strengthen investment and contract delivery

- Improved provision of information to drive a deep and liquid secondary market and delivery of Australian Carbon Credit Units (ACCUs).
- Increased likelihood of delivery against contracts through additional measures to require delivery of a minimum proportion of ACCUs from projects registered at auction and review market damage incentives in contracts.



Enhance administration and compliance

- Expanded oversight of carbon service providers and enhanced compliance provisions.
- Improvements to Clean Energy Regulator responses to complex queries from clients.
- Stronger basis for Clean Energy Regulator decision making

Expand access and opportunity for new participants

- Improved consultation with Indigenous communities and other stakeholders with an interest in the land for ERF projects.
- Additional funding for research and development into new opportunities for reducing emissions in the land sector.
- Increased transparency on priorities for new method development and enhanced opportunities for stakeholders to propose new methods.