

Project Insights



Improving the quality of carbon offsets and accelerating decarbonisation globally

Brad Archer, CEO, Climate Change Authority

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As the Australian Parliament has been legislating a more ambitious emissions reduction target, countries around the world have been responding to new Paris Agreement rules for carbon markets agreed in Glasgow last year.

The new rules, representing a further shift from the Kyoto era, enable countries to trade carbon credits while ensuring only one country counts the abatement towards its emissions reduction target. The aim is to accelerate the transition to net zero while minimising the costs and, importantly, avoiding double counting of offset efforts.

The changes mean that, for the first time, if a country chooses to sell carbon abatement overseas it needs to make up the difference when counting achievement towards its own emissions reductions target.

Furthermore, older carbon credits will no longer count toward a country's target, with only offsets that come after 2020 being eligible.

All of this is happening as global corporations, driven by stakeholder Environmental, Social, Governance (ESG) considerations, are committing to net zero plans, including the voluntary use of carbon markets.

It is absolutely the case that urgent and deep emissions cuts are essential for the world to have any chance of limiting the global temperature increase to below 2 degrees Celsius. Where we have solutions we need to deploy them.

But a high integrity offsets market is required to get to net zero where emissions are unavoidable, and can help speed the transition elsewhere while we develop new technologies and bring the costs of those technologies down.

The offsets market also offers a pathway to commercialisation for new and emerging negative emissions technologies that are needed to remove carbon from the atmosphere.

It is in Australia's interest to ensure that carbon markets and offsets have high integrity. We will get to net zero faster if we provide business with a voluntary carbon market that it can trust. In other words, for every tonne of carbon offsets purchased by a company with unavoidable emissions, there must have been an actual tonne of emissions avoided or removed. This hasn't always been the case with schemes in the past.

We do currently price and trade carbon in Australia, though the market is fragmented, inefficient and complicated. The parts of the market that contribute to meeting our emissions reduction target, known as the compliance market, are isolated from the voluntary market. And the voluntary market is largely remote from the high quality, transparent emissions measurement systems that countries use.

The new Paris rules open a window to bring the voluntary and compliance markets together in ways that improve the quality of carbon offsets and accelerate decarbonisation globally.

It is now up to countries to develop their more detailed carbon trading plans. It is therefore time to consider what the Paris offset rules mean for Australia as we transition to net zero and beyond.

There is much to plan for.

There is the potential for greater international cooperation and economic transformation, particularly in developing nations. The rules encourage cooperation on mitigation efforts between countries and there is an opportunity for Australia to work with our neighbours in the Pacific to achieve low cost mitigation toward their targets.

The Climate Change Authority has undertaken work this year to review the use of international carbon offsets in Australia in the context of the Paris Agreement.

The Authority is recommending the Government publish a National Carbon Market Strategy to establish how Australia will use carbon markets to help us achieve net zero emissions by 2050. A goal of the Strategy should be securing a deep, liquid, high integrity and trusted carbon market.

The Climate Change Authority is an independent statutory agency, established to provide expert, evidence-based advice to the Government on Australia's climate change policy.