



Centre for Energy and
Environmental Markets

UNSW
THE UNIVERSITY OF NEW SOUTH WALES
SYDNEY • AUSTRALIA



Session A: Offsets and New Market Mechanisms within the Larger Carbon Market – Australian offset perspectives

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TOWARDS A GLOBAL CARBON MARKET

Prospects for Emissions Trading

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Use of Offsets in Carbon Pricing Mechanism

Before Linking EU ETS Agreement

- Fixed price period: 1st July 2012-30th June 2015 use of Kyoto-eligible **CFI credits up to 5%** of verified emissions
- Flexible time period :
 - **Price floor** starting at \$15 rising at 4 % real terms p.a. (first 3 years)
 - **Unlimited use of CFI** credits
 - International units **up to 50%** of the total emissions liability for that entity for the year. Eligible international units: CERs, ERUs, RMUs

After Linking EU ETS Agreement (Aug. 2013)

- Fixed price period: same as before (Kyoto-eligible CFI credits up to 5% of verified emissions)
- Flexible time period:
 - **No price floor**, Australian price will be determined by EU ETS price/ international price
 - **Unlimited use of CFI** credits
 - Same as before agreement (50%), but only **12.5 %** of their liabilities will be able to be met by Kyoto units, rest by EUAs

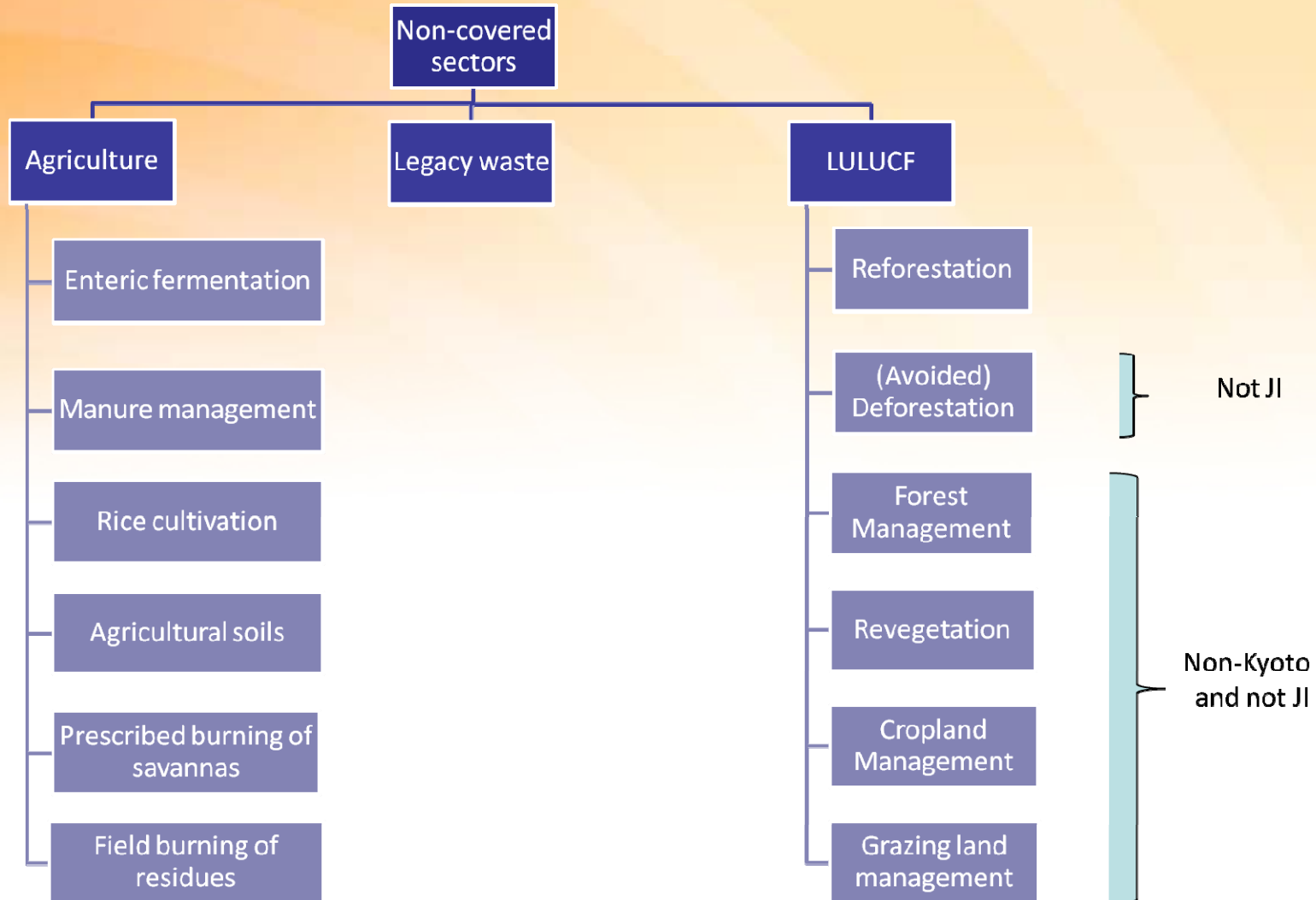


Carbon Farming Initiative (CFI) Credits

- **Kyoto Australian Carbon Credit Units (KACCUs)**
 - include those activities that are counted in Australia's commitment under the Kyoto Protocol e.g. agriculture emissions
 - emissions avoidance / sequestration project with a reporting period ending on or before 30 June 2012/ 31 December 2012
 - can be surrendered under the carbon pricing mechanism;
 - are **able** to be converted or exchanged for international emissions units
- **Non-Kyoto (eligible) ACCUs**, same as Kyoto ACCUs but they have been created with a reporting period beyond 2012;
 - are **unable** to be converted or exchanged for international emissions units
- **Non-Kyoto (voluntary) ACCUs** are those not included in Australia's accounting such as LULUCF activities of Article 3.4 KP
 - are **unable** to be converted or exchanged for international emissions units
 - are **unable** to be surrendered under the carbon pricing mechanism only for voluntary market
 - Non-Kyoto Carbon Fund – government purchases \$250 Million. over five years from 2013/2014 guidelines to be published



Potential Project types





CFI facts (31 March 2013)

Approved Methodologies: 12

- Agriculture (e.g. manure destruction of livestock) 3
- Vegetation (regrowth, reforestation, savanna burning) 4
- Landfill and alternative waste treatment: 5

Methodology in proposal stage: 11

Methodologies not endorsed: 6

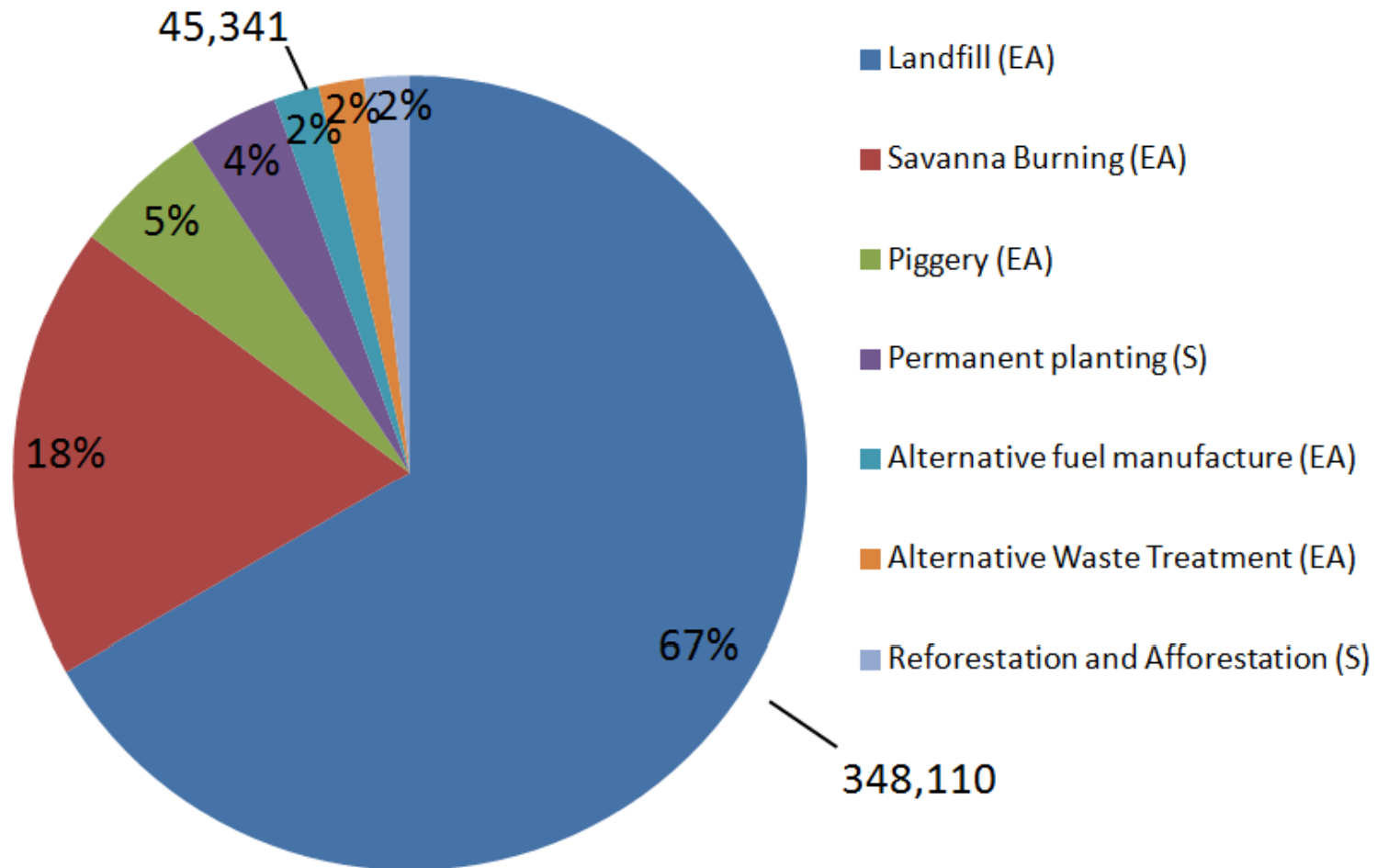
Number of registered Projects: 56

Issued ACCUs (3rd Quarter Financial Year 2012/2013):

- Total: 393,451
- Kyoto ACCCU: 348,110
- Non-Kyoto ACCUs (eligible): 45,341



CFI Projects types (March 2013)





Main Integrity Principles

CFI current requirements

- **Additionality (placement on positive list):**
 - Abatement must go beyond legal requirements
 - Common practice assessment.
- **Leakage:**
 - Measurement methods must account for leakage and variability and use conservative assumptions.
- **Permanence (100 years):**
 - Maintain carbon from sequestration or hand back credits
 - Risk buffer of 5%

Potential improvement

- **Additionality:**
 - Allow for project-specific assessments
- **Leakage:**
 - Not addressed in current methodologies, but under discussion
- **Permanence:**
 - Allow for project-specific risk-buffer, since risk can vary substantially between projects and types.



Conclusions and outlook

- CFI has so far driven projects in landfill and few in agriculture sector
- Good start with integrity principles – but some room for improvement
- Many developed methodologies have not been used today and use will depend on future demand
- Role of CERs has been reduced to accommodate EU ETS linking (limit of 12.5%)
- Expectation today: Demand of EUAs will increase and Australian carbon price will approach EUA price. Current low EUA prices provide little incentive to invest in CFI and uncertainty on CFI future after 2018 (depend on linking agreement)
- Low prices may increase risk of predominance of “low quality” CFI projects
- Extend of Kyoto abatement deadline will impact on ACCU differentiation
- CFI may play more prominent role in Liberal Party climate policy

Thank you for your attention

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