

CARBON MARKET BUSINESS BRIEF

AUSTRALIA

AUSTRALIA SAFEGUARD MECHANISM AT A GLANCE

Years in operation	Began 1 July 2016
Overall cap & trajectory	<p>Participants must keep their emissions within an emissions intensity baseline that is generally updated annually to reflect actual production, rather than decline over time to meet a target. There are various means of setting the baseline, with varying criteria: default; reported, from historic emissions reports (although this approach ceases on 1 July 2021*); calculated; sectoral for grid-connected power generators; and production-adjusted.</p> <p>From 1 July 2021*, there will also be a benchmark approach for new and expanded facilities and a landfill-benchmark for those sites which surpass the coverage threshold.</p> <p>*These changes were originally expected to take effect on 1 July 2020, but were delayed by one year in recognition of the disruption caused by the COVID-19 pandemic.</p>
Target(s)	<p>N/A</p> <p>Australia's national 26-28% reduction target on 2005 levels by 2030 is not linked to the Safeguard Mechanism.</p>
Emissions Reduced to date	<p>While the Safeguard Mechanism was established to ensure that all the abatement the government was purchasing via the A\$2.55 billion Emissions Reduction Fund (ERF) was not counteracted by rising emissions elsewhere in the economy, the current operation of the scheme seeks to avoid significant increases in emissions above business as usual, rather than to curb emission growth or reduce emissions.</p> <p>As of September 2020, the government had contracted to buy 200 million tCO_{2e} under the ERF.</p> <p>By the end of the 2019/20 reporting year, emissions covered by the Safeguard Mechanism had increased by 11.7 million tonnes CO_{2e} since its commencement, to 142 million – down just 1 million tCO_{2e} from 2018/19.</p> <p>Comparably, the sum of all reported emissions baselines in 2019/20 was 176 million tonnes.</p>
Sectors covered	<p>Facilities with annual emissions in excess of 100,000t CO_{2e} in the following sectors:</p> <ul style="list-style-type: none"> • Electricity generation • Oil & gas • Mining • Cement manufacturing • Steel & metals manufacturing • Transport • Waste

GHGs covered	All Scope 1 (ie, direct) emissions
# of covered entities	215, as of the 2019/20 reporting period
Allocation method	N/A
Trading rules	N/A
Use of offsets and linking	Firms can use Australian carbon credit units (ACCUs) for emissions in excess of their baseline. The government is also looking to create a crediting programme for firms which employ innovative low-carbon technology to beat their baseline, outside of the ERF.
Other features	Firms can apply for a multi-year monitoring period, under which they can exceed their baseline in one year providing the average over a two- or three-year period would be below the baseline.
Penalties for non-compliance	N/A
Use of revenues	N/A

MAJOR DEVELOPMENTS

A government reshuffle saw oversight of climate change policies shift to the Department of Industry, Science, Energy and Resources in early 2020, with the Clean Energy Regulator continuing to administer the programme.

In its response to the so-called King review into additional sources of low-cost abatement in May 2020, the government said it would look to create a mechanism to credit reductions by covered entities that outperform their baselines, in a bid to incentivise low-carbon technological innovations that are not covered by the ERF. It also committed to involving industry in the development of new project methodologies for the ERF, and has begun the initial work on a carbon capture and storage/ carbon capture, use and storage (CCUS) method.

The September 2020 First Low Emissions Technology Statement set out the government's research and development strategy and set an investment framework. In March 2021, the government announced a A\$50 million fund to support CCUS projects.

MARKET COMMENTARY

Over the first four years of the Safeguard Mechanism, covered entities had surrendered nearly 1.15 million ACCUs. Covered emissions under the scheme have continued to increase due to the design of flexible baselines which do not yet decline to meet an emissions target.

Covered emissions are 142 million tonnes in FY20, or 14% above 2005 levels (115 million tonnes). According to market analysts, RepuTex, emissions are projected to grow to 149 million tonnes in FY30, to 29% above 2005 levels. From today's levels (FY20), emissions are projected to grow 13% to 2030, underpinned by emissions growth from fugitives (LNG, coal mining), transport (road, domestic aviation, rail, shipping) and direct combustion (energy, mining, manufacturing, buildings, agriculture).

Prices at the government auctions for ERF contracts have trended up since the April 2016 sale; however, contracted volumes at recent auctions remain below initial auction levels. At the most recent sale, in September 2020, the government contracted to buy 7 million ACCUs at an average price of A\$15.74/t – this eleventh auction marking the first price drop since the third auction, in April 2016. Cumulatively, the government had committed to buy 200 million tCO₂e – of which 30% had been delivered – at an average price of A\$12.19 per unit across all 11 sales.

While early auction rounds contracted many existing landfill gas, avoided deforestation and mulga regeneration projects, modest price increases in later auctions have failed to incentivise new projects from the vast potential for abatement that exists in both forestry sequestration and industrial emission reductions.

Contracting over the last two auctions has seen the increased uptake of Optional Delivery Contracts (available from Auction 10), enabling project developers to lock in contracted revenues with the Regulator, yet divert this supply to the private market. This has begun to attract interest from developers seeking to create a floor price for projects, and then capture more favourable prices from private sector proponents via voluntary demand.

USEFUL LINKS

[Clean Energy Regulator](#)

REFERENCES

[The Safeguard Mechanism – Overview](#)

[Government response to ‘King review’](#)

[Safeguard Facility Reported Emissions](#)

[Emissions Reduction Fund auction results](#)

[First Low Emissions Technology Statement – 2020](#)

[Reputex Long-term carbon price, supply and demand outlook \(April 2021\)](#)

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