Participating in Australia’s carbon markets to meet corporate climate goals

Clean Energy Regulator & the Carbon Market Institute

To hear the webinar, phone 1800 896 323 and enter code 5377751987#
Webinar Agenda

• Global carbon market overview
• Participating in the carbon market
• Accessing Australia’s carbon market
• Questions
Seminar series

**Click here** to register for the seminars

- Melbourne, 30th March
- Adelaide, 31st March
- Brisbane, 2nd April
- Sydney, 3rd April
- Perth, 6th April
Webinar – Carbon Market Fundamentals

Participating in Australia's carbon markets to meet corporate climate goals

National Webinar | March 12, 2020

Carbon Market Institute
About CMI
About Carbon Market Institute

Our 2050 Vision
A prosperous, climate-resilient, net-zero emissions world.

Speaking for business leading the transition to a net-zero emission economy, by sharing knowledge, building capacity and catalysing opportunities across the Australian economy.

Stewards of Australia’s carbon markets and related effective policies, supporting their continued evolution while working to ensure the integrity of the market, participants and outcomes.

Championing the Paris Agreement and TCFD framework of climate and net-zero emission goals, and mechanisms for increasing ambition, international cooperation and investment.
Global Market Overview
What are Carbon Markets?

‘…if pollution is free, there will be more of it…’

- Catherine McKenna, Former Environment Minister of Canada
What are Carbon Markets?

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**Carbon Markets**

Increasingly ambitious legal, financial and regulatory policy frameworks that attribute an economic value to the sequestration of, or avoidance of carbon emissions.
What are Carbon Markets?

‘...if pollution is free, there will be more of it...’

- Catherine McKenna, Former Environment Minister of Canada

Carbon Markets
Increasingly ambitious legal, financial and regulatory policy frameworks that attribute an economic value to the sequestration of, or avoidance of carbon emissions.

- Increase demand for emissions reductions and climate action
- Leverage public policy frameworks to drive economic decarbonisation at lowest cost
- Incentivise private sector investment in emissions reductions at scale
Global Market Signals
The Paris Agreement

Limit increase in the global average temp to “well below 2ºC … pursue 1.5ºC”

National targets must be reviewed every 5 years (ratchet mechanism)

Paris Agreement “rule book” to take effect in 2020
How does Australia’s carbon market interact with international frameworks and standards?

**United Nations Framework Convention on Climate Change (UNFCCC)**
- Kyoto Protocol | Paris Agreement | Article 6
- Clean Development Mechanism (CDM) = Certified Emissions Reductions (CERs)

**Other International Carbon Market Standards**
- Gold Standard = Verified Emission Reductions (VERs)
- Verified Carbon Standard = Verified Carbon Units (VCUs)
Summary map of national or subnational carbon pricing initiatives that are implemented, scheduled or under consideration

- 58 carbon pricing initiatives implemented or scheduled for implementation.
- 46 national jurisdictions are covered by these carbon pricing initiatives.
- 31 subnational jurisdictions are covered by these carbon pricing initiatives.

Source: The World Bank
## Carbon Market Developments

### Market Pricing

<table>
<thead>
<tr>
<th>Region</th>
<th>Price</th>
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<tbody>
<tr>
<td>CDM (1)</td>
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<td>Australia (4)</td>
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<td>Beijing Pilot (2)</td>
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<td>South Korea (7)</td>
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<tr>
<td>European Union (8)</td>
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Sources: CER, Demand Manager, Carbon Pulse, EEX, ICE, KRX

Carbon Market Developments
UN Climate Negotiations

Key Takeaways for Business from COP25

- Businesses recognising the increasing inevitability of net-zero
- Long-term action plans being swiftly developed and expected
- Nature-based solutions becoming increasingly popular
- Growth of voluntary carbon market participation
UN Climate Negotiations

Carbon Market Developments

Key Takeaways for Business from COP25

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Expectations for COP26 Glasgow

- Confirmed markets rules for Article 6 of the Paris Agreement
- Updated Country Emissions Targets required in 2020 (NDCs)
- Increased Industry & Finance Leadership on economic decarbonisation
- Step-up in climate ambition from sub-national actors, business, finance and civil society
Australia’s Carbon Market
Compliance & Voluntary

Primary Demand

- Project
  - ERF
    - ACCU Supply
  - ERF Auctions
    - ACCU Demand (Government Demand)
  - ERF SGM
    - ACCU Demand (Baseline Compliance)
  - State & Territory
    - ACCU Demand (Government Demand)

Emerging Market

- Voluntary
  - ACCU, CER, VER, VCU Demand
    - (Voluntary – e.g., Climate Active, Green Power)
  - Project
  - Renewable Energy Target
    - LGC & STC Supply
  - Clean Development Mechanism
    - CER Supply
  - Gold Standard
    - VER Supply
  - Verified Carbon Standard
    - VCU Supply

State & Territory

Government Demand

ACCU Supply

Verified Carbon Standard

Gold Standard

Clean Development Mechanism

Renewable Energy Target

ACCU Demand

Project

Verified Carbon Standard

Gold Standard

Clean Development Mechanism

Renewable Energy Target

ACCU Demand
Carbon Market Developments
Australian Policy Landscape

**Federal Climate Policy**
- National emissions reduction target of 26–28% below 2005 levels by 2030
- Long-term policy review (in 2020)
- Technology Investment Roadmap (in 2020)

**Key Market Policy Mechanisms**
- Climate Solution Fund
- Emissions Reduction Fund
- Safeguard Mechanism

**Other climate-related policy mechanisms**
- Renewable Energy Target (RET)
- Clean Energy Innovation Fund
- Climate Active Program
Growing Demand for Carbon
Emerging Drivers

Sub-National Climate Targets

State-based Policy Mechanisms

International Shipping Developments

Queensland Land Restoration Fund

CORSIA Aviation Agreement

Carbon Neutrality, Products & Services
Climate Risk = Financial Risk = Business Risk

- Climate-related Physical, Transition & Legal Risks
- Regulatory & Prudential Drivers
- Directors Fiduciary Obligations
Participating in the Market
Participating in the Market
Pathways to Action

1. Develop a climate strategy for your organisation
2. Identify the targets and goals that align with the strategy
3. Communicate the strategy and implementation plans
4. Implement the strategy and track your performance
Voluntary corporate commitments, investments, targets and action are increasing.
Corporate Ambition
Voluntary Market Growth

Voluntary corporate commitments, investments, targets and action are increasing

- Emissions reduction targets & the “net-zero” momentum
- Climate Active carbon neutral certifications
- Renewable energy & corporate Power Purchasing Agreements (PPAs)
- Science Based Targets
- Value chain (scope 3) management and engagement
- Nature-based and industrial carbon removal
- Innovative technologies and products
Australia’s carbon marketplace

Quick links

- BECOME A CODE SIGNATORY
- CODE OF CONDUCT
- CARBON PROJECT REGISTRY
- LOOC-C CALCULATOR

marketplace.carbonmarketinstitute.org
Webinar Q&A
Accessing Australia’s carbon markets to meet climate goals

Disclaimer: The Clean Energy Regulator is not a financial adviser. The following information is for general information only.
Australia’s carbon market

Australian carbon market

- LGC demand (tCO2-e)
- ACCU demand
- Voluntary, state and territory demand

Voluntary, state and territory

- International units - voluntary
- LGC - voluntary (tCO2-e)
- ACCU - voluntary

Additional state-based markets

- Victorian Energy Efficiency Certificates (VIC)
- Energy Saving Certificates (NSW)
Australia’s carbon units and certificates

• **Australian Carbon Credit Unit (ACCU)**
  > 1 tonne of CO₂ equivalent sequestered or avoided

• **Large-scale Generation Certificate (LGC) and Small-scale Technology Certificate (STC)**
  > 1 megawatt hour of electricity generated from renewable energy, displacing electricity from fossil fuel generation
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Accessing carbon units and certificates

Reduce emissions
- ERF / CSF project
- Small-scale system
- Large-scale system

Offset emissions
- Long-term contract
- Spot market

Using units and certificates
- REC Registry
  - Hold
  - Sell
- ANREU
  - Surrender
Carbon abatement from ERF and RET, 2011 to 2020

Estimated carbon abatement (CO2-e, millions)

- LRET (LGC adjusted)
- SRES (STC adjusted)
- ERF (ACCU)

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Overview of the ACCU Market

PROJECTS

EMISSIONS REDUCTION FUND PARTICIPANTS

CONTRACT

AUCTION

CREDITING

REPORTING

CARBON CREDITS

SPOT

SECONDARY MARKET

DEMAND

ERF/CSF

SAFEGUARD

STATE & TERRITORY

VOLUNTARY

Participating in Australia's carbon markets to meet corporate climate goals – March 2020
ERF projects registered and ACCUs issued by method type

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$2.55 billion scheme funding*
- $564 million saved
- $1.74 billion committed
- Total remaining $237 million

Contracts on hand
- 433

473 projects under contract

Portfolio of abatement
- 192 million tonnes

Average price paid per tonne of abatement
- $12.02
Overview of the STC and LGC markets
Estimated installed renewable energy capacity

![Graph showing estimated installed renewable energy capacity from 2008 to 2020.](image)

- Utility-scale solar and wind
- Mid-scale solar PV (15kW - 5MW)
- Residential solar PV (0 - 15kW)
- Residential solar PV upper bound
Power Purchase Agreements

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Other retailer</td>
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<tr>
<td>Three largest retailers</td>
<td>2.3</td>
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<tr>
<td>Corporate</td>
<td>1.9</td>
</tr>
<tr>
<td>Government</td>
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</tbody>
</table>
Mid-scale solar PV by market segment, 2016 to 2020
Market dynamics – estimated certificate price convergence
Voluntary, state and territory carbon market
Accessing carbon units and certificates

Reduce emissions
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Offset emissions
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Sourcing and trading ACCUs and LGCs

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Have a question?

Economic Analysis team
Clean Energy Regulator
markets@cleanenergyregulator.gov.au

Click here for the latest Quarterly Carbon Market Report
Question 1: What are the benefits of becoming a signatory to the Carbon Market Institutes Code of Conduct, particularly for new players in the market?

**Carbon Market Institute:** Becoming a signatory demonstrates commitment to a higher standard of operation.

It shows that you’re interacting with stakeholders in a transparent way and acting with integrity. It also shows that you’re creating a risk management framework which instils confidence to potential customers that you’re fully equipped to make the right decisions in the market.

In the first instance, it is also a participation requirement in the Queensland Government’s Land Restoration Fund.

Question 2: Who are the buyers of Large-scale Generation Certificates (LGCs) and Australian Carbon Credit Units (ACCUs) and is there a substitution effect between LGCs and ACCUs?

**Clean Energy Regulator:** There is a partial substitution effect between LGCs and ACCUs.

Under Climate Active, which is the main driver of demand for units in the corporate space, LGCs can be used to offset scope 2 emissions from electricity consumption, forming a partial substitution effect from ACCUs. This has been seen from GreenPower, who surrenders LGCs on behalf of consumers.

As carbon commitments increase corporations are looking to: reduce emissions where they can; offset scope 2 emissions using LGCs; and, offset direct emissions with ACCUs.