AUSTRALIAN CONSERVATION FOUNDATION

19 MAY 2020

ACF Submission:
Climate Change Authority Review of the Emissions Reduction Fund

Note: The Emissions Reduction Fund (ERF), despite being renamed the Climate Solutions Fund, will be referenced in this submission as the Emissions Reduction Fund or ERF to avoid confusion.

Introduction

The Australian Conservation Foundation (ACF) welcomes the opportunity to provide a submission to the Climate Change Authority's review of the Emissions Reduction Fund (ERF).

The ERF has an important role to play as part of a strong, coherent policy suite that sets Australia on a pathway to net zero greenhouse pollution well before 2050.

The ERF should not, however, try to be the single solution for all of Australia's emissions reduction needs. Given the very nature of the ERF, which uses public money to purchase abatement, the ERF will never be able to purchase all the climate pollution reduction that Australia requires and is better suited to some sectors than others. The ERF should focus on what it can do best and most effectively.

Despite existing policy, including the ERF, Australia's greenhouse emissions remain on an upward trajectory. The policy context in which the ERF operates should be considered as part of the ERF review as should Australia's commitments under the Paris Agreement.

While emissions have started to decline in the energy sector due to increased renewable energy in the electricity system, the Renewable Energy Target has been met and there is no replacement policy on a national level to maintain current levels of growth in renewable energy. Some of the announced federal policies, which could assist renewable energy investment such as the Underwriting New Generation Investment scheme and the Grid Reliability Fund, remain either unclear and poorly defined, are distracted by support for fossil fuel projects or lack legislative authority.

The Safeguard Mechanism, which was initially intended to interact more directly with the ERF, and to ensure that emissions reductions purchased through the ERF are not undermined by increases in other parts of the economy, is not operating effectively.

The Safeguard Mechanism should complement the ERF and support the market for Australian Carbon Credit Units (ACCUs) by making covered facilities buy carbon credits or pay penalties for polluting above their baselines. Instead, as will be outlined further in this submission, the Safeguard Mechanism has allowed covered facilities a range of opportunities to avoid both. The 'Direct Action Plan,' which set up

the interaction between the two policies has broken down. In reviewing the ERF, it is therefore also worth examining the Safeguard Mechanism.

Policy principles

Australia's emissions reduction policies should provide confidence that targeted emissions reductions actually occur. They should be well-designed, stable and operate at least cost to the domestic economy while maximising benefits. Australia's emissions reduction policies should align with the Paris Agreement goals of limiting global warming to 2.0 degrees and strongly pursuing a limit of 1.5 degrees. This should include a policy pathway that achieves net zero climate pollution well before 2050.

Maintain rigour and integrity of Offsets Integrity Standards

ACF supports efforts to ensure that the ERF is as effective as possible but strongly cautions against compromising the rigour of the Offsets Integrity Standards or trying to make the ERF work for abatement that can be achieved more efficiently or effectively through other means.

ACF is aware that there have been concerns including through the Emissions Reductions Assurance Committee (ERAC) with the uptake of certain ERF Methods that are available but have not had low or zero uptake. This includes the Facilities Method, which was recently reviewed partially due to these concerns.

ACF has previously expressed concerns about potential changes to the Facilities Method, including the risks of making adjustments to the Offsets Integrity Standards These concerns are fully explained in ACF's submission to the review, which is available here.

ERF is not a one-size fits all policy

As noted above, because the ERF uses public money to purchase abatement, the ERF is not the right policy for all abatement. The ERF will never be able to purchase all the climate pollution reduction that Australia requires, it is better suited to some sectors than others, and it must be combined with complementary policies to achieve an emissions reduction pathway consistent with Australia's commitments under the Paris Agreement.

Without additional policy to drive down pollution, big industrial polluters will overwhelm the carbon abatement purchased through the ERF. For example, The Australia Institute (TAI) analysis of LNG projects in WA revealed that "it will take just 12 years for current LNG facilities to cancel out the entire abatement expected to be delivered over the lifetime of the $4.5 billion Emissions Reduction Fund." TAI further concluded that "100% of this funding is effectively being provided by taxpayers to offset the operations of Woodside, Chevron, Shell and BHP's five WA LNG facilities over the next twelve years."

Facility and industry projects in general are problematic. For these, disincentives (i.e. a real safeguard) should be applied. The ERF should only incentivise activities that deliver long-term benefit (i.e. not

further entrenching dependency on fossil fuels by building gas pipelines or keeping coal-fired power stations open).

For example, Rio Tinto made a commercial decision to close their energy-hungry alumina refinery at Gove (NT) which entailed a fuel switch from heavy-oil to diesel to power their remaining operations at the site. Public statements by the company suggest that the fuel switch was substantially implemented by 2014, however the 'Gove Alternate Power Generation Project' became a registered ERF project in 2015 (ERF101428). The ACCUs generated at the site are being sold back to the Regulator to meet Rio Tinto's obligations under the safeguard mechanism.

Similarly, Gold Fields Australia made a commercial decision to switch from diesel to natural gas at their Granny Smith facility (WA), saving $1 million a year. The 'Granny Smith Gas Power Station' was registered as an ERF project (EOP101217) in 2015. Gold Fields Australia used their ACCUs from their Granny Smith facility to offset a safeguard baselines exceedance at their St Ives facility.

The Department's 'double counting' policy allows facilities to sell their ACCUs to the Regulator to reduce their net emissions under the safeguard baseline. Big emitters are required by law to remain under baselines emissions, public money does not need to be used to pay them for it.

Further, while it may reduce net emissions in the short term, the Industrial Electricity and Fuel Efficiency methodology still functions to incentivise the use of fossil fuels. We are concerned that industry and facility methodologies encourage industry to invest in infrastructure, like gas pipelines, that maintain the sector's fossil fuel dependency.

This is particularly concerning in the context of the recently released King Review, which is determined to create further opportunity for projects like this to occur and for uptake by industry to increase.

The fact that some low-uptake methods are failing is because of the inherent incompatibility of the projects with the Offsets Integrity Standards, and again a clear indication that the ERF is not best placed to incentivise activities such as emissions reduction from big industrial polluters. A case in point is the refurbishment proposed at Vales Point coal-fired power station, which sought access to the ERF. A project like this does not and should not qualify for assistance through the ERF.

More land-based projects should be incentivised, especially ones that deliver co-benefits (biodiversity + climate)

Support under the ERF should be expanded for dual benefit abatement that delivers climate benefits while protecting and improving biodiversity.

There is a significant and growing need for increased investment in biodiversity, along with land care, forest restoration, re-afforestation and native vegetation – i.e., dual benefit abatement that offers a range of critical ecosystem services while also providing a climate benefit.

This includes topping up biodiversity spending and building biodiversity requirements into all support schemes for the land sector, forest restoration and blue carbon.

ACF has also recommended that the Federal Government establish a $4.5 billion National Environmental fund, independently administered, to support the long-term protection and recovery of wildlife and ecosystems across Australia. This fund would support the delivery of outcomes at multiple scales, including:

- Deliver landscape scale ecosystem investments in natural infrastructure, including improving water catchments, coastal buffer zones and investing in urban canopy programs to improve health and biodiversity outcomes.
- Assist with bushfire recovery activities - including revegetation and built asset reconstruction across Australia's national reserve system.
- Provide incentive payments to land managers, including Indigenous communities and farmers, to deliver conservation outcomes on their properties.
- Support the direct implementation of recovery and threat abatement plans
- The fund would also be used to leverage private investments in conservation, including through supporting markets that reward sustainable, ethical and responsible production.

Establishment of a national fund to strategically protect and restore biodiverse natural landscapes and to assist the rapid drawdown of climate pollution from our atmosphere is an important complement to the ERF. More information on this proposed fund is provided in *Recover, Rebuild, Renew* - ACF's national agenda for post COVID-19 economic recovery, available here.

Permanence arrangements are inadequate and must consider the impacts of climate change on ERF projects

As climate change impacts accelerate, the permanence arrangements of the ERF require further scrutiny.

The ERF has a risk of reversal buffer that is intended to insure against residual risks that cannot be managed by other permanence arrangements. This includes the temporary loss of carbon stores due to natural disturbances or long-term losses that occur if a participant fails to re-establish carbon stores.

All sequestration projects are subject to a five per cent reduction in the number of ACCUs issued for the project, so for every 100 tonnes of carbon dioxide stored by a project, the CER issues 95 ACCUs (CER 2015f). This buffer does not help however in the event of carbon loss.

Recent bushfires provided a stark example of the kind of loss that can occur and is increasingly likely to occur due to the accelerating impacts of climate change. Vegetation projects, for example, occur in marginal lands that will increasingly be impacted by climate change through drought, fire and other extreme events.

ERF project proponents were given a 25-year permanence option when transferring from the Carbon Farming Initiative, but most projects remained with a 100 year permanence obligation, and that remains

the case with a large number of ERF land-based projects. That means the ERF is paying pro-rata for abatement of up to 100 years when those projects (i.e., trees and other growth) are unlikely to persist that long.

Provide assistance for Agricultural Methods

The ERF should continue to incentivise emissions reduction from the agricultural sector but this may require additional support. Some agricultural projects that have succeeded in accessing the ERF (e.g., vegetation methods) have involved an intermediary company facilitating access.

In cases where the agriculture sector has had difficulties accessing the ERF, uptake could be increased with appropriate assistance for Ag methods.

Stop abatement purchased through the ERF from being undermined

Stronger restrictions are needed to prevent forest loss and clearing, both of which undermine ERF abatement. In parallel with funding support for biodiverse land sector sequestration, stronger restrictions are needed to stop private landowners from cutting down their forests and clearing native vegetation. This results in loss of habitat, loss of ecosystem services, and increased climate emissions, while undermining the abatement purchased through the ERF. Efforts to maximise effectiveness of the ERF should include effective complementary policy measures that ensure abatement purchased is not undone through actions such as land clearing. A further opportunity for policy improvement and greater complementarity is offered through the Safeguard Mechanism. This is outlined later in this submission.

In terms of new methods under the ERF, ACF supports consideration of a native forest clearing avoidance method, applied to forestry operations. Such a method could provide funding to forestry operations for not cutting down native forests. Such a method would have to be carefully constructed with full consideration of relevant issues and cautions if pursued.

Abatement contracts need to deliver

ACF has concerns about how well the ERF is reducing emissions in its current form. ACF has uncovered examples in which the integrity of the actual abatement purchased under the Fund is questionable.

As mentioned previously, ACF is concerned that proponents like Rio Tinto have been able to generate and sell credits for projects that were predetermined commercial decisions. Further, to our concerns about non-additional projects, we think there are significant concerns with over-crediting and a lack of integrity in other methodologies.

For example, ACF has found instances of land clearing at properties receiving and selling credits for avoided deforestation projects. Without public information on Carbon Estimation Areas it is unclear whether this is a problem of leakage or non-compliance but either scenario raises concerns surrounding the integrity of the abatement.

Further, internal briefs from Clean Energy Regulator in 2018 suggest that access to high resolution aerial imagery in late 2017 alerted the Regulator to a "risk of over-crediting projects" under native forest regeneration methods (FOI 04-2018).

In 2019, the Department made amendments to the *Carbon Credits (Carbon Farming Initiative) Rule 2015* (the Rule) that further implied that some abatement being credited under the regeneration methods is not genuine and even raised concerns that pre-existing forest and failed regeneration attempts were receiving credits. It was implied in the proposed amendments that some of the credited abatement was an artefact of the selective use of change detection products or Carbon Estimation Area (CEA) stratifications (that artificially maximise abatement).

Given the amendments to the Rule appear to have been born out of concerns with current projects, it is concerning how generous they were to old projects. For example, the length of time over which a project may be credited before it must achieve forest cover appears to be stricter and made more explicit for new projects. Meanwhile, it remains open to old projects with existing CEAs to enjoy an extended period of time to achieve forest cover and receive credits.

The integrity of the abatement that is purchased must be guaranteed and that abatement must be additional to what would have occurred under business as usual.

The Clean Energy Regulator celebrates ERF auction results and these results are used to claim success for the policy. However, contracted abatement has not been delivered in 6% of all contracts. In terms of carbon, this is approximately 15.7 million tonnes worth of abatement that was never realised through lapsed and terminated contracts. As contracts progress, we anticipate this number will rise because the proportion of failures is greater in older contracts—approximately 17.5% of contracts made in 2017 and 15% of contracts made in 2016 have been terminated or lapsed with no abatement.

Improve the ERF by improving the Safeguard Mechanism

The ERF is impacted by the Safeguard Mechanism and the extent to which covered facilities can avoid purchasing ACCUs or paying penalties. Due to design flaws that allow companies to avoid buying credits or reducing their emissions, ACF investigations have revealed that since the start of 2019:

- Nearly a fifth (18 per cent) of the 210 facilities covered by the Morrison Government's climate safeguards exceeded their polluting limits in 2018-19.
- Centennial Coal was allowed to dramatically increase pollution from its Myuna Colliery in NSW for two years in a row without any penalty.
- Rio Tinto used $2 million from the ERF to finance a diesel-fired power station at a mine in Arnhem Land.
- BHP was permitted to increase emissions from its mines, then calculate new, laxer pollution baselines.
- Vales Point coal-fired power station successfully registered a project under the ERF to bid for cash to upgrade equipment at the power plant.
- Anglo American was allowed to nearly double climate pollution from a major coal mine without penalty.

- South African miner Gold Fields won an ERF contract to burn gas under a project in Western Australia that would have gone ahead anyway.

Safeguard Mechanism baselines should be ratcheted down over time in line with Australia's emissions reduction commitments (including to achieve net zero climate pollution by 2050) and funding for the credited abatement should be provided through payments from facilities that exceed their baseline. The architecture is in largely place to progress such a scheme and will be further progressed through updates to emissions intensity baselines. This would remove the cost burden from the public purse, send an important signal to industry and assist in driving down emissions from Australia's biggest polluters.

A recent recommendation of the King Review - crediting below Safeguard Mechanism baselines -- is not supported by ACF. Giving carbon credits to Australia's biggest polluters for staying below legally required pollution limits is akin to giving cash to drivers for staying under the speed limit, or more accurately rewarding drivers who go 80 in a 100 zone with a free pass to later drive at 120 km/h.

Further, we do not think the integrity of the scheme is strong enough to provide this sort of incentive while ensuring that it is paying for genuine abatement. Cautions such as 'avoiding crediting of abatement that would have happened anyway and taking account of operational factors that can affect emissions' are very real concerns that have not been fully addressed in relation to current projects.

ACF recommends updating the Safeguard Mechanism to replace the current electricity sector baseline with individual baselines so that emissions intensive facilities that are captured by the Safeguard Mechanism are not able to hide behind the zero emissions electricity being provided by renewable energy. This would assist in reducing emissions from the electricity sector, which is still Australia's largest source of emissions.

ERF should not be available to gas or carbon capture and storage (CCS)

In seeking out low cost abatement, the ERF should not provide a hand-out to the gas industry, which is inherently polluting, and cannot be defined as a climate solution.

The gas industry should be regulated to reduce its pollution. It should not be provided taxpayer funds or any support through the ERF.

Similarly, the ERF should not be extended to Carbon Capture and Storage (CCS). ACF has noted industry advocacy for CCS inclusion and that the King Review recommended adding a method for CCS, which was immediately applauded by the fossil fuel industry.

ACF maintains that CCS is risky, expensive, unproven for long-term sequestration and in this case would largely be applied to fossil fuel projects that would still create climate emissions when burnt.

There is extremely limited climate policy in Australia to address climate pollution reduction. In fact, the ERF is just about the only policy. It is a dangerous and unnecessary distraction to be focusing the ERF on extending the life of the fossil fuel industry by using public funds to support CCS.

The IPCC has acknowledged the importance of removing carbon from the atmosphere to help keep global warming under catastrophic levels consistent with exceeding 1.5 degrees, but this was not an endorsement of CCS to assist the fossil fuel industry so that it can keep polluting. It was very clearly about sequestering carbon that will overshoot safe limits while actively mitigating climate pollution.

Instead, the ERF should be applied to genuine emissions reduction and help to transition Australia to net zero climate pollution as quickly as possible. This could include incentivising the closure of coal-fired power plants through contracts for closure, which would provide an effective means of reducing emissions and managing coal plant closures.

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[1] Review of interactions between the EPBC Act and the agriculture sector, Final Report. September 2018 available here.

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