

Climate Change Authority

**Re: 2020 Review of the Emissions Reduction Fund**

The Climate Change Authority (CCA) is in an important position now to respond to the review led by Mr King, and to advice on balanced and appropriate updated to Emissions Reduction Fund (ERF). It is disappointing to see unsubstantiated claims through the King review, and a lack of discussion of environmental issues. In general, the review treated environmental issues as unimportant, and focussed on creating new and novel ways to subsidise businesses with reduced oversight. There was no significance or real attention given to the importance of emissions reductions being additional.

**In response to Section 4.1 Crediting genuine, additional abatement:**

In spite of the claims of the CCA, and the King review, there is no clear evidence that a vast amount of the abatement achieved is additional or genuine. Noting that most abatement is for land use projects, the need for counterfactual baselines provides a perverse incentive for proponents to inflate their baseline emissions. Burke (2016) describes projects for avoided land clearing have been awarded certificates in situations where land clearing was unlikely to occur, and this is likely to have been prevalent in these forms of projects. The projects provide non-credible emissions reductions, and Australia is claiming reductions that have not actually occurred.

Discounting of credits should be seriously considered, to factor in the likelihood that the emissions baseline is credible (Kollmuss and Lazarus 2011) and to account for co-benefits. This would allow a weighting towards projects which are more credible vs those which are less likely to be credible. Discounting is often disregarded as it can support non-credible projects, however the ERF is already supporting non-credible projects, so it would be an improvement compared to the current system. In addition, discount factors could include some consideration of the co-benefits, so projects with health or environmental improvements would get favoured over those projects without these incentives.

Improving the credibility of land-use offsets generated in Australia would likely have long term trade benefits, as it would increase the likelihood these offsets could be exported under Paris agreement or other carbon trade agreements.

Kind Regards

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Burke, P. J., 2016. Undermined by Adverse Selection: Australia's Direct Action Abatement Subsidies, *SSRN Electronic Journal*, **35**(3): 216-229.

Kollmuss, A. and Lazarus, M., 2011. Discounting offsets: issues and options, *Carbon Management*, **2**(5): 539-549.