# Conclusions and recommendations

| **Conclusions** | **Number** | **Page** |
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| The CFI has achieved about 10 Mt CO2-e of real emissions reductions over the last four years. Its additionality rates seem reasonably high and it takes a conservative approach to the measurement of emissions. To date, no specific concerns about permanence or leakage have been identified. | C1 | 24 |
| Participation in, and emissions reductions from, the CFI have been constrained, principally because policy uncertainty led to low price expectations and a lack of confidence in longer-term returns. Participation has also been affected by gaps in method coverage and broad exclusions, and relatively high transaction costs. | C2 | 34 |
| Participation in, and emissions reductions from, the CFI have been constrained, principally because policy uncertainty led to low price expectations and a lack of confidence in longer-term returns. Participation has also been affected by gaps in method coverage and broad exclusions, and relatively high transaction costs. | C2 | 34 |
| By providing a fixed price for up to seven years, the standard ERF contract is likely to be attractive to many project proponents—particularly those with projects that generate a relatively large proportion of emissions reductions in their early years. | C3 | 36 |
| Changes to streamline the ERF are likely to result in lower transaction costs than for the CFI, in many cases without adversely affecting emissions reductions. The ERF approach to method development and approval appears to represent an improvement from the CFI approach, but much will depend on implementation. | C4 | 41 |
| Given uncertain and potentially low prices for credits beyond the ERF contract period, standard seven-year contracts (and even 10-year contracts) might not provide sufficient incentive for some long-lived investments that deliver abatement over an extended period, thereby excluding some low-cost opportunities. | C5 | 42 |
| Expansion and streamlining of the ERF are likely to result in additionality rates declining somewhat. Provided the decline is small and compensated by lower transaction costs and greater participation, this ‘rebalancing’ would constitute an improvement. There is a risk, however, that these changes could cause additionality rates to decline sharply, particularly as the scheme is expanding into areas where it is inherently difficult to judge additionality (such as energy efficiency). | C6 | 44 |
| Domestic and international experience suggests there are inherent limitations and complexities in crediting emissions reductions. The ERF purchasing scheme will inevitably miss some low-cost abatement opportunities because it is not feasible to devise methods and baselines that would credit these opportunities without also crediting many non-additional projects. | C7 | 46 |
| Governance arrangements for the ERF will need to be responsive to unexpected problems and render new projects ineligible should they become non-additional. | C8 | 47 |
| The size of Australia’s abatement task to 2020 is unclear, and it is difficult to estimate precisely the amount of emissions reductions the ERF purchasing scheme will deliver. It is clear, however, that by itself and as currently funded, the scheme is unlikely to deliver sufficient emissions reductions to reach even Australia’s minimum 2020 target of 5 per cent below 2000 levels. A range of complementary actions will be required, now and beyond 2020. | C9 | 62 |

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| The Department of the Environment, in consultation with the Clean Energy Regulator and other stakeholders, should consider introducing enhanced additionality tests for individual projects that generate a large volume of credits under the ERF, with particular regard to the financial viability of the project in the absence of ERF support. | R1 | 45 |
| The ongoing appropriateness of the ERF for achieving emissions reductions in particular situations should be monitored and subject to independent and periodic review. | R2 | 52 |