The Emissions Reduction Fund (ERF) is the centrepiece of the Government’s Direct Action Plan climate change suite of policies, providing incentives for emissions reduction activities in the form of a $2.55 billion fund which purchases domestic abatement from across the Australian economy. The ERF is enacted through the Carbon Credits (Carbon Farming Initiative) Act 2011, the Carbon Credits (Carbon Farming Initiative) Regulations 2011 and the Carbon Credits (Carbon Farming Initiative) Rule 2015. It incentivises emission-reductions projects through a reverse auction process, and through the generation of Australian Carbon Credit Units (ACCUs) for abatement delivered.

One ACCU is earned for each tonne of carbon dioxide equivalent (tCO2-e) stored or avoided by a project and they can be sold to generate income, either to the government through a carbon abatement contract, or in the secondary market. Being a voluntary scheme, participation in the ERF by high-emitting companies has been consistently low.

Emission reductions project funding is designated to a wide range of abatement projects through a reverse auction process, and through the generation of ACCUs for abatement delivered.

Reverse Auction Process
The ERF is set to run from July 1st, 2014 until 2020 and has an initial allocation of A$2.55 billion (US$2.33 billion). The first auction took place in April 2016, where the government purchased 47.3 million tonnes of CO2 at A$13.95/tonne for a total value of A$660 million. To date, seven auctions have been held. The Regulator has spent $2.3 billion across these first seven auctions, which has resulted in 461 contracted projects representing 192 million tonnes of abatement at a weighted average price of A$11.97 per tonne of abatement.

Eligible Emission Reduction Projects
Various activities are eligible under the ERF, including improving energy efficiency, fuel switching, methane capture from landfill and storage of carbon in forests and soils. Of the 34 methods available under the ERF, 19 relate to emissions reduction activities on the land (agriculture, savanna burning and vegetation projects). Eligible activities must meet an approved methodology and be registered with the Clean Energy Regulator – the federal statutory authority charged with oversight and regulation of Australia’s clean energy industry.

Policy Options, Considerations & Recommendations

1. The Government should commit a quantum of additional funding allocation to the ERF that is required to ensure the continuity of the domestic carbon offset industry until the time it transitions to a market driven by demand under the Safeguard Mechanism.

2. The Government should commit an allocation of more R&D funding for ERF method development so that Australia can optimise investment in land sector abatement.

3. The Government should explore how methods developed under the ERF can align with international standards and other carbon offset markets.

4. The Government should clarify the options and process to open up market opportunities for the transfer/export of credits created under the ERF into other markets.

5. The Government should consider how voluntary market activity and additional sources of private sector demand for carbon units credited under the ERF can be created.

More details can be found in CMI’s 2017 Submission to the Australian Government’s Review of Climate Policies.