KILTER
CARBON UPDATE

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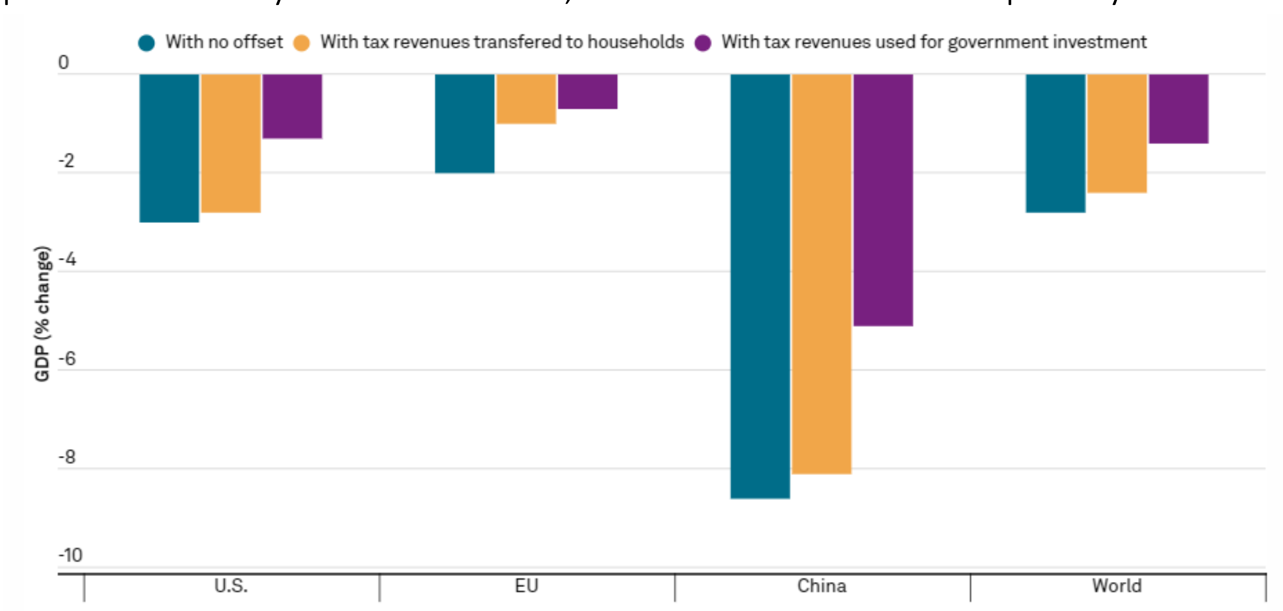
KILTER RURAL

ACCU Market Update

The ACCU spot price has fallen further to the last closing price of $27.5/t$CO_2$e, a 21% fall since the July update. This price is now below the initial floor price of $30/t reached after the March announcement by former Minister Angus Taylor to allow ERF fixed-delivery projects a pathway to sell their ACCUs on the spot market. Credits from nature-based methodologies, such as Human-Induced Regeneration (HIR) are continuing to be traded at a premium, with HIR trading at $6.25 above the spot price and Savannah burning projects trading at an $11.25 premium (however, it is important to note the lower volume being traded in these credits can result in a lag behind the overall spot price).

The Queensland Government's Land Restoration Fund (LRF) has announced the recipients of the second funding round. A total of $11.5 million has been allocated to 5 new projects, which will see the LRF purchase 120,000 ACCUs over the next 15 years. This averages out to approximately $95 of LRF funding per ACCU, however the exact price breakdown of the funding remains undisclosed and likely varies between the diverse range of projects. In 2020, round 1 allocated $90 million in funding to 16 projects, with an average funding allocation of $49 per ACCU.

Recent research from S&P Global found that the EU ETS price will likely exceed €100/tCO_2e from 2025 onward. The research also attempted to model the impacts of increasingly strong carbon pricing policies across multiple economies. The model assumed a gradual increase in the carbon price across the whole economy to $100 by 2030 in the U.S., China, EU. and globally. The results indicate that China's larger reliance on carbon-intensive energy sources would lead to a much large economic impact than in western economies. As shown in the graph below, there will be a predicted GDP loss by 2030 of 8% for China, 3% and 2% for the US and EU respectively.



Federal Politics and the ERF

The newly-elected Labor Government's push to launch an independent review into the ERF seems to have had a minimal effect on the price in the voluntary carbon market. The market has fallen to pre-election levels, with the new government unable to turn the market back from the price floor created by the previous government, along with continuing criticism from figures such as Prof. Andrew Macintosh. Newly-released information regarding the previous changes to ERF fixed-delivery contracts reveals that the government was warned the decision would kill any new investment in carbon farming projects and lead to a flooded market until 2026. The FOI indicated that the previous government was aware of the "sovereign risk" concerns regarding the changes and effectively sidelined the Clean Energy Regulator in the decision. Since the election, Climate Change Minister Chris Bowen has overseen the resignation of three members of the Emissions Reduction Assurance Committee, including the Chair and former mining executive David Byers.

Criticism of the ERF has continued, with Ian Chubb, the chair of the independent review, assessing the academics who have criticised the ERF as credible, "serious" people. Chubb has highlighted the credibility of voices on both sides of the debate, and emphasised the need to carefully weigh the evidence rather than leap to any conclusions. Meanwhile, newly-elected Independent Senator David Pocock has confirmed his support of Labor Government's Climate Change Bill provided the government removes the Plantation Forestry Method from the ERF methodologies. Senator Pocock claims the methodology "puts questionable carbon credits into the system" and unjustly supports the plantation forestry industry. Recent research has also criticised the Savannah Burning Method, with air quality measurements in Darwin finding a correlation between increased uptake of the methodology and worsening air quality in the city and surrounds.

The Climate Change Authority, a government agency responsible for providing independent advice on climate change policy, has just released a review of international offsets in the domestic market. The review suggests it is in Australia's interests to open up the domestic market to international offsets, that Australia could "play a leading role in the development of a robust, liquid, high integrity, trusted and effective global carbon market". The review also takes aim at a "fragmented, inefficient and complicated" national market which isolates different parts of the market from each other such as the safeguard mechanism. See the 18 recommendations for the review here, including a recommendation to phase out the use of pre-2021 offsets in Climate Active Certification by 2025.

Struggles with Carbon Capture & Storage

Carbon Capture & Storage (CCS) investments have again had attention drawn to their failure to meet pre-determined carbon capture targets. Chevron's Gorgon CCS project, which was intended to be the largest CCS project in the world, was recently required to disclose its failure to meet its targets. The organisation has refused to quantify how far behind on targets they are, but recently was recorded to have purchased 5.23 million tonnes of offsets to make up for the difference in their 2021 targets, and of those offsets only 200,000 were ACCUs. The CCS target for Chevron set by the WA Government was to capture at least 80% of the CO_2 from the gas produced at the site.

Internationally, recent research from Nature was conducted on the credibility of the carbon capture reports produced by CCS projects. The research analysed offset reports from 20 CCS projects, and found that actually estimates of total offset volumes were on average 20-30% the amount estimated in the projects' authoritative reports.

US Congress has recently passed The Inflation Reduction Act, a climate and tax bill, which is the largest single federal climate investment in US history. The bill intends to significantly increase corporate investment in numerous climate mitigation solutions, with CCS expected to increase 13-fold by 2030, constituting one-fifth of all the predicted emissions cuts from the bill. Challenges to increasing CCS capacity in the US have being raised, such as the estimated 100,000 kilometres of additional pipelines needed to be built to transport CO_2 across the country. With existing pipeline proposals already facing opposition such as in Iowa.

Links of Interest

Some additional links and wider reading.

Emissions analysis of the current climate crisis in Europe, with research and monitoring estimating drastic increases in emissions due to wildfires.

An opinion piece on the failure of net-zero as a goal and dangers of relying too heavily on offsets over real emissions reductions.

A video on the large-scale investments of big tech companies into emerging climate change mitigation technologies.

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