



KILTER CARBON UPDATE

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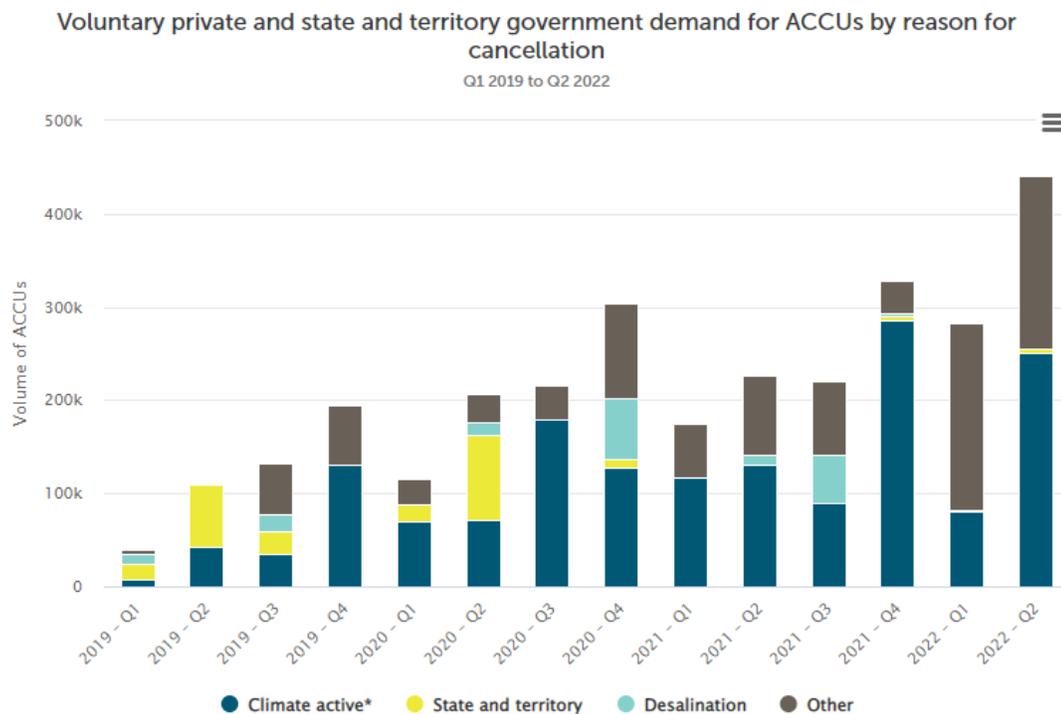
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ACCU Market Update

The ACCU spot price has remained relatively steady with the last closing price of \$30.3/tCO₂e, a 9% increase since the August update. The spot price has continued to fluctuate around the \$30/tCO₂e mark since March. ACCUs sourced from Human-Induced Regeneration (HIR) projects have fallen in premium, with HIR credits trading at only \$3 above the spot price, compared to \$6.25 last month.

The Clean Energy Regulator released their Quarterly Carbon Market Report for Q2. Most notably, a record-breaking 5.5 million ACCUs were traded in Q2, a 400% increase compared to the previous year. Demand has been attributed to investors, traders and speculators betting the country's biggest emitters will need credits to offset their emissions under Labor's stronger emissions reduction policies. There has also been an increase in forward ACCU contract volumes with over 1 million ACCUs contracted for forward delivery during Q2, mostly being forward contracted for 1 year. Voluntary cancellations have increased in record numbers, with more than 440 thousand ACCUs cancelled by 84 entities. More than half of these entities were new entrants to the market, with 49 of the 84 entities cancelling ACCUs for the first time during Q2.

The cancellation of ACCUs specifically for carbon neutral claims under Climate Active increased by 34% (331,500 ACCUs) in the first half of 2022. This has been identified as a long-term uptrend because of the increasing uptake of in Climate Active certification. The graph below highlights that, whilst cancellations can vary by quarter, Climate Active is driving the increased demand of voluntary cancellations.



The New Australian Emissions Target

The Labor Government's Climate Bill has passed the Senate, enshrining the new 43% emissions reduction target by 2030 into law. Senate crossbencher David Pocock promised to vote in favour of the bill to secure its passage in the Senate. Pocock said he will use his vote to leverage reforms to stop "questionable, or flat out junk credits", questioning the integrity of a 43% target should credits such as these remain in the market. The government agreed to several amendments from Senator Pocock aimed at improving transparency and accountability. The new target brings Australia's emissions goals in line with countries such as Canada and Japan, however a 43% target still lags behind goals set by the US, UK and EU.

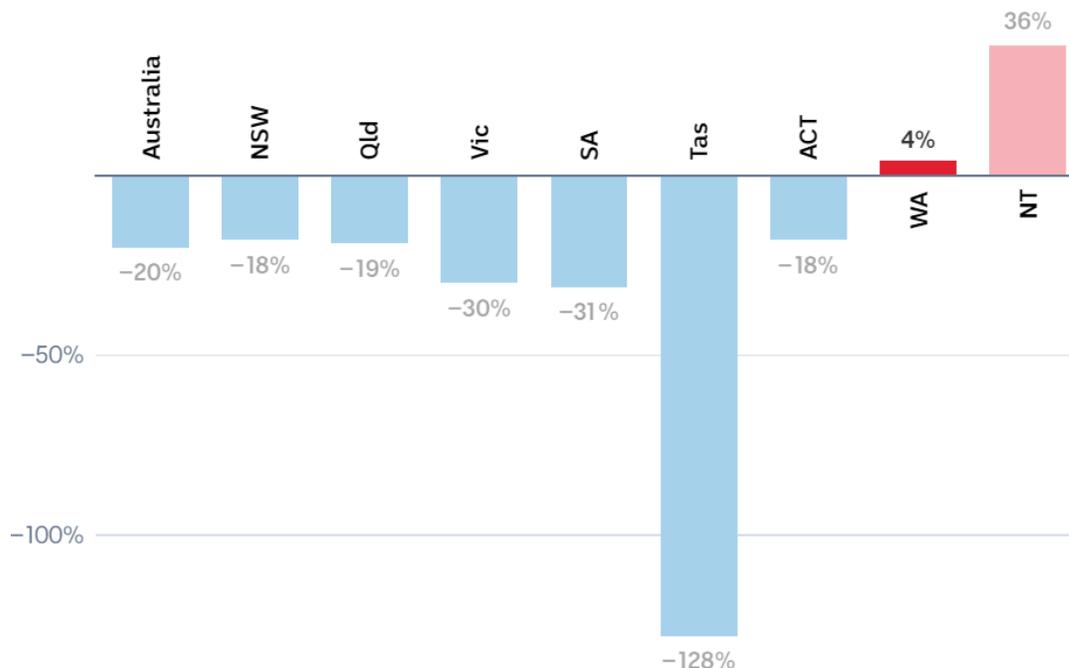
Off the back of the new targets, the Government is focusing on the reform of the Safeguard Mechanism, one of the key policy mechanisms to help emissions reduction goals. Climate and Energy Minister Bowen released a draft consultation paper on proposed changes to the Safeguard Mechanism, which proposes annual emissions reductions for Australia's biggest polluters by up to 6% a year. The scheme currently covers 215 polluters who emit over 100,000tCO₂e annually. Under the proposed changes, the baseline emissions cap for each polluter will begin to be reduced by 3.5-6% annually, depending on the effectiveness of other policy changes. The consultation paper is also proposing the issuance of carbon credits called Safeguard Mechanism Credits (SMCs) to Safeguard facilities when their emissions fall below their baseline. The Government is now seeking consultation on issues relating to the use of SMCs, such as whether SMCs can be banked and borrowed, whether Safeguard facilities could generate ACCUs from an existing registered ERF project and if they would be allowed to participate in ERF projects that reduce emissions from electricity use.

Submissions are now open for those seeking input into the independent review of the integrity of ACCUs. A consultation paper has been released, with guiding questions setting the direction of the review, including a focus on the future applicability of the market and how the scheme can be improved so that it provides appropriate abatement into the future. One submission to the review has been from an industry group which represents nearly 90% of the credits generated from the Landfill Gas method. These industry players are calling for fewer carbon credits to be handed out to companies like theirs, claiming that otherwise the integrity of the carbon market will be threatened. The integrity of these credits is linked to additionality problems from landfills already reducing methane emissions without the incentive provided by carbon credits, as they're either required to do so under state pollution laws, or will gain additional revenue from the associated electricity generation.

How States are Reducing Emissions

New South Wales (NSW) is on track to become the first state to start treating carbon dioxide and other greenhouse gases as pollutants under environmental law. The NSW Environment Protection Authority (EPA) has released its draft Climate Change Policy and Action Plan which is currently open for consultation. Under the draft policy, the EPA will establish enforceable emissions reduction limits for polluters that could be phased into EPA-regulated industries such as mining and agriculture. The draft policy proposes a staged approach and is designed to support industry and allow reasonable time for businesses to plan for and meet new targets or requirements in line with the state's emissions reduction goal of 50% by 2030. One sector of priority for EPA chief executive Tony Chappel is fugitive emissions released in the early stages of mining, which so far "haven't had a clear framework".

The passing of new national emissions targets has put the spotlight on Western Australia (WA), which will have the most work to do should the target be equally distributed amongst the states. WA Greens MP Brad Pettitt has highlighted that WA would have to reduce emissions by 48% on 2005 levels by 2030, which is significant especially when compared to other states. As the graph below highlights, many states are already reducing emissions compared to 2005 levels, however WA's emissions have slightly increased.



Links of Interest

Some additional links and wider reading.

Listen to an [ABC podcast on the sequestration potential of 'Blue Carbon' in wetlands, salt marshes and sea meadows](#)

On the ABC's [Insiders program](#), Anthony Albanese [spoke in support of newly-crowned King Charles continuing his advocacy on climate change](#).

[An opinion piece](#) on increasing global investment in nuclear power as the primary solution for rapidly phasing-out coal-fired power plants.

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