

## **ALOA Submission to the Emissions Reduction Fund Green Paper**

ALOA offers the following response to the Government's invitation for submissions to the Emissions Reduction Fund ("ERF") Green Paper. This response focuses on the four issues that have been identified as being the most important to ALOA members.

### **1. Banding**

ALOA suggests funding should be divided into bands, with projects competing for funding within each band. Bands could be allocated by activity type e.g. forestry, transport, energy efficiency, waste, etc.

Banding would mean that the ERF can provide seed funding for abatement projects in all sectors. This would enable all sectors to build up knowledge and industry practice, so that by 2020 all sectors have experience working on abatement projects and are working together on reducing Australia's national emissions. Banding would also promote innovation and learning-by-doing for a range of abatement activities.

### **2. Funding CFI**

ALOA suggests that there should be no early tender rounds (with secret benchmarks) because the informality and surrounding speculation would lead to confusion.

ALOA suggests that participation by existing CFI projects would be best facilitated by treating all existing CFI projects as one group of predictable abatement and allocating funding to these existing CFI projects based on the average abatement price achieved under the ERF in that year.

Most CFI projects have the registered starting date of 1 July 2010 and a 7 year crediting period. Carbon credits generated by abatement activities in 2013/14 will likely be purchased by liable entities on the final carbon surrender date of February 2015. After that date there will be on average three remaining years for projects.

If ERF reverse auctions are banded, existing CFI projects should receive the average abatement price of their band. If ERF reverse auctions are not banded, existing CFI projects should receive the average abatement price overall for that year.

This would ensure early adopter companies which have invested in abatement projects would continue to do so without disadvantage.

### **3. Forward Contracts**

If successful in a reverse auction, a project proponent should be able to sign forward contract for the duration of the crediting period (i.e. a project with a 7 year crediting period should be offered a 7 year contract). Further, the Government should enter into contractual arrangement before projects are implemented.

Reasons for this include:

- This approach would give the project proponent a guaranteed buyer and a guaranteed price for the carbon credits they plan to generate, thus increasing certainty of income and therefore likelihood of investment.
- Notwithstanding that a contract may be issued; only proven abatement will be reimbursed.

- Ernst & Young have reported that businesses delay strategic decisions and investment when there is uncertainty over an achievable price for the emission units generated from an abatement project.

#### **4. Coverage**

ALOA suggests that the waste sector should not be covered by the safeguard mechanism.

Reasons for this include:

- The emissions from waste are 2.3% of Australia's National Inventory (Reference: Figure 1.1 of the Green Paper).
- New technologies and the CFI are helping to effectively constrain emissions in the waste sector (Reference: Page 12 of the Green Paper).
- NGER landfill gas generation models have a high uncertainty level.
- Solid waste disposed to landfill creates emissions over an extended period of time which requires estimations based on historical data collected before the introduction of NGER and predictions of future gas collection activities. This would make baselines very difficult to set.
- The splitting of the landfill market into safeguard mechanism covered landfills and uncovered landfills would result in unfair competition between neighbouring landfills. There is documentary evidence of customers shifting significant amounts of waste to uncovered landfills during the Carbon Tax period. This can have a negative impact on overall emissions and costs because landfill gas capture systems are more cost-effective at large landfills.
- Landfills caught by the 75% maximum capture rule for NGER may be placed in an unfair competitive position compared to neighbouring landfills capturing less than 75% of their emissions.
- As the obligation on local governments to NGER report will be removed with the repeal of the Clean Energy Act, a large number of the waste sector will automatically be removed from the safeguard mechanism's scope. This will create unfair competition between neighbouring landfills.

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