

Australian carbon credit prices weaken amid pushback against emissions scheme reform

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- **Government lacks majority in Senate to pass bill on scheme**
- **Opposition rejects reform, Greens seek tougher rules**
- **ACCU prices weaken to one-month low after rally in Jan**

Australian carbon credit prices weakened to a one-month low Feb. 14 as the government's plan to reform the country's emissions compliance scheme faces pushback from both the principal opposition and the Greens, market sources said.

The price of the generic Australian Carbon Credit Unit, or ACCU, weakened to A\$34.25/mtCO₂e (\$23.84/mtCO₂e) Feb. 14, according to market sources.

This was lower than A\$34.50/mtCO₂e Jan. 10, when the labor party-led federal government [published](#) its draft consultation to revamp the country's emission compliance scheme, called Safeguard Mechanism.

The scheme covers nearly 215 large industrial facilities accounting for 28% of the country's emissions and aims to reduce net emissions covered from a projected 143 million mtCO₂e in the financial year 2022-23 (July-June) to no more than 100 million mtCO₂e by 2030.

The draft proposed the introduction of stricter emission limits that will shrink by 4.9% annually until 2030, with the lower emitters rewarded with a new type of carbon credits -- Safeguard Mechanism Credits, or SMCs -- that can be sold to those exceeding annual limits.

Companies can also continue to buy ACCUs from the spot market to offset emissions that exceed their limits.

Political pushback

The government's plan has faced pushback from both the opposition coalition -- consisting of the liberal and the national parties -- as well as the Greens.

The coalition has said that its members will vote against the bill, with the Opposition Leader Peter Dutton calling the scheme inflationary and saying it will raise the cost of living.

Since the Labor party lacks a majority in the Senate, Australia's upper house of parliament, it will need the support of all of the Greens and two other members to pass the bill.

However, the Greens and independent members have also raised questions about several aspects of the current draft, specifically the potential for the opening of new coal and gas mines.

"The Greens are in balance of power on the Safeguard Mechanism and we will be pushing the government to stop opening up new coal and gas," Greens leader Adam Bandt said Feb. 13. The Greens and independent senators have also raised questions on the provision to use an unlimited proportion of ACCUs to offset emissions.

Climate Analytics, a German-based non-profit, published a report Feb. 10 saying that the unfettered use of offsets under the Safeguard Mechanism will lead to an increase in emissions from the fossil fuel industry and put the country's net zero target by 2050 at risk.

However, the industry and the government have contended that the industry will need some flexibility to reduce emissions by the most cost-effective means.

"Australian industry now knows action is inevitable, but they have largely failed to prepare or plan for this, given the energy and climate policy chaos of the last decade. So the affected players are saying they need offsets at least initially because they realistically have ignored the science and failed till now to prepare," said Tim Buckley, director at Climate Energy Finance, a Sydney-based think tank.

The biggest improvement for a possible breakthrough could be around the need to introduce a differentiation between the use of offsets and real reduction or avoidance of emissions from scheme participants, Buckley told S&P Global Commodity Insights.

Policy uncertainty

Carbon market participants said the uncertainty was contributing to the fall in the prices of the credits.

"We think that there has been some contribution from policy uncertainty, however, we ultimately expect support for the legislative package," said Kyle Hamilton, associate director, markets at Reputex, a carbon market research provider.

However, market participants expect the changes to the scheme to be eventually implemented.

“The policy framework is able to be adapted to work even without legislative support, whereby ACCUs would be wholly used instead of SMCs. However, this may reduce the incentive for industry to reduce on-site emissions,” Hamilton told S&P Global.

A failure to pass the bill will also represent a loss for the government and the Greens and a win for the opposition, Buckley said.

“So I trust the political acumen of Adam Bandt to play very hard for a win-win-win, even if the concessions the Greens win are not fully disclosed or all directly tied to the Safeguard Mechanism,” he added.

The fall in ACCU price comes after a price rally earlier in January, with [record volumes](#) traded on expectations of strong demand from Safeguard Mechanism participants.

“Prices are nearing pre-SM position paper announcement values, and as such, I would expect to see some support,” Hamilton said.