

Getting Offset

Submission re NT *Climate Change Discussion Paper*

Emissions from increased NT gas production would dwarf all other sources of NT emissions and threaten Australia's national targets. Allowing fracking and offsetting its emissions, as promised, is an expensive way to keep emissions stable and could make it harder to reduce emissions. The NT and Commonwealth should develop the policy now with public consultation, not in secret over three years as planned, and ensure offsets are secured by gas companies, not subsidised by taxpayers.

Submission

Tom Swann

November 2018

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. We barrack for ideas, not political parties or candidates. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE - 'RESEARCH THAT MATTERS'

The Institute publishes research that contributes to a more just, sustainable and peaceful society. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. Donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.tai.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, Endeavour House, 1 Franklin St

Canberra, ACT 2601

Tel: (02) 61300530

Email: mail@tai.org.au

Website: www.tai.org.au

ISSN: 1836-9014

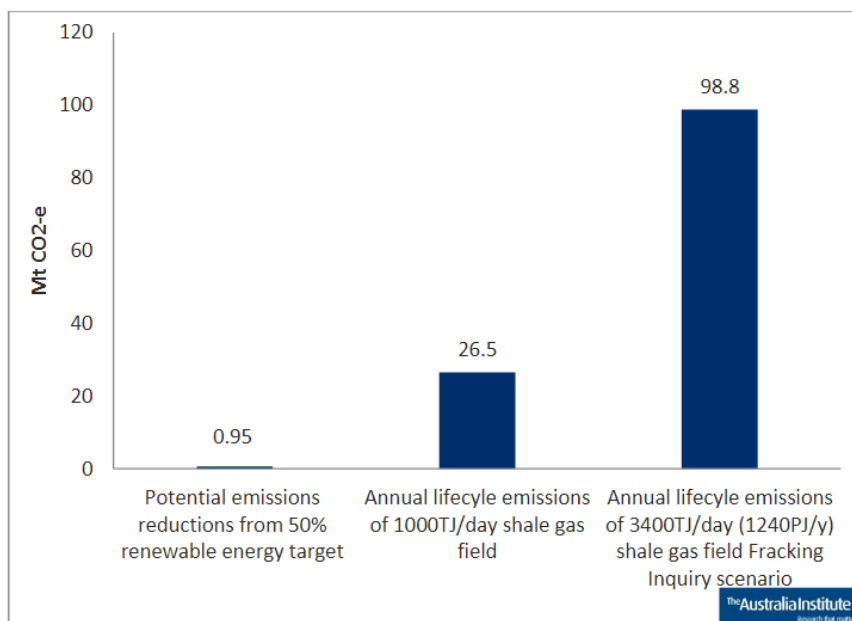
Summary

The Northern Territory (NT) Government has released a *Climate Change Discussion Paper* for consultation about what climate policies it should have. There are many worthy options in the *Discussion Paper*, but all of them are dwarfed by the emissions from gas expansion. The NT should focus on rising gas emissions.

The gas industry is already increasing NT emissions. Between 2016 and 2020 the Ichthys Project will increase NT emissions by a further 50%. The NT Government has also overturned its moratorium on fracking in the NT.

The NT Government’s Fracking Inquiry found emissions from fracking would increase Australia’s national emissions by at least 5%. Annual lifecycle emissions from this gas (including burning the gas) could be up to six times larger than the NT’s entire emissions for 2016, and one hundred times larger than the savings from the NT’s renewable energy target.

Shale gas annual emissions scenarios vs savings from NT renewables target



Source: Australian National Greenhouse Accounts (2017) *State and Territory Greenhouse Gas Inventories, 2015*; Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (2018) *Final Report*; from Ogge (2018) *Fracking and Northern Territory emissions*

Numerous eminent Australian scientists have argued the NT should retain its moratorium, which is a better option than offsets. As the *Discussion Paper* argues, offsets should be a “last resort”. That is not the approach the NT has taken.

The NT government has committed to the recommendations of its Fracking Inquiry, that fracking must only go ahead if its lifecycle emissions are fully offset. This should be the NT's main and urgent priority for climate change.

NT gas emissions are a threat to Australia's national emissions targets. Offsetting NT fracking emissions is also a threat. If NT fracking gets lower cost offsets, this leaves higher cost offsets for reducing emissions. If the offsets fail, Australia's emissions will increase. The offsets are needed just to keep emission where they were.

The NT Government has given no detail on this policy. The NT Government has said only that it has written to the Australian Government, which will "assist" with offsets, and that it will develop the policy by the end of 2021. That is three years' time, after much industry and government activity has been 'locked in'.

Attempts to find out what these talks involve have been blocked. Both governments have blocked Freedom of Information requests for correspondence about fracking offsets, which is being kept secret. This is no basis for public consultation. The NT should release these letters.

Offsetting emission on this scale will be a challenge and costly. The cost of offsets will be in the hundreds of millions of dollars per year, potentially rising to billions per year.

The gas industry should pay for these offsets. They are required to make fracking "acceptable" under NT policy. Governments paying for these offsets will make taxpayers subsidise the gas industry for no climate benefit.

The NT Government should not develop this policy in secret with the Commonwealth. Recent history raises concerns around Commonwealth pressure on fracking in the NT, including with a one-off payment rushed through in days just as the moratorium was lifted. This payment would not cover one year's emissions from fracking.

The NT Government does not appear to think it will get much benefit from fracking. Immediately after overturning the moratorium, reported in the NT News as doing the Commonwealth a 'favour', the NT Government demanded extra funding from the Commonwealth. But FOI documents show the Commonwealth has already rejected an NT request for 'matched' royalty payments from fracking. The NT should not assume the Commonwealth will fund their offsets policy.

There is a risk of great political and corporate pressure to break the promise. The NT Government should conduct public consultation now, prior to significant government and industry activity, making it clear that the gas industry will pay.

Gas emissions are the main threat

The *NT Climate Change: Discussion Paper* discusses a wide range of important matters relating to reducing emissions in the NT.¹

But these other issues are dwarfed by the threat of emissions from gas.

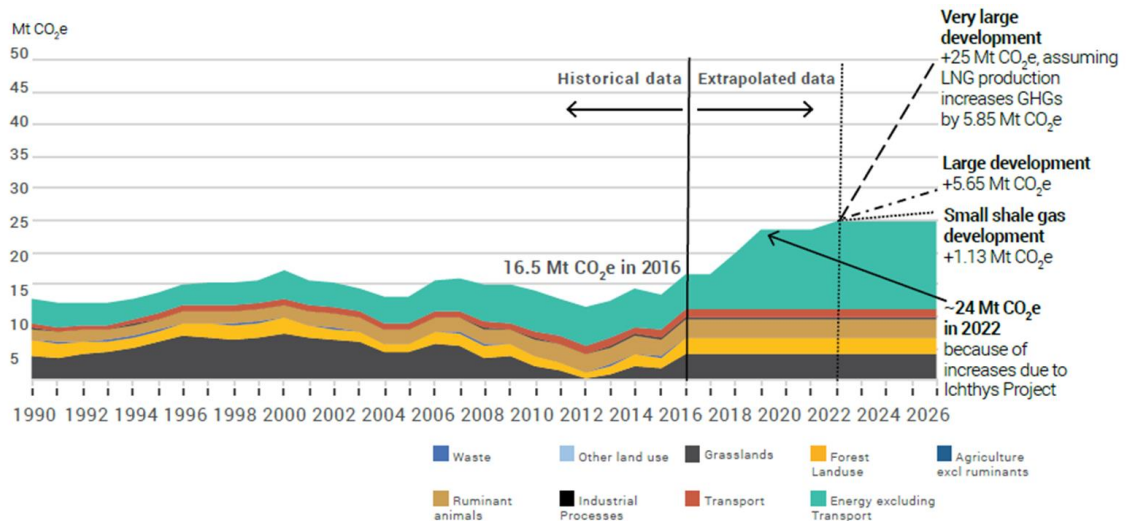
Given this, it is alarming that the Discussion Paper gives such little attention to gas. In the 35-page document, the 'gas industry' is mentioned only five times, 'onshore gas' three times, 'offshore gas' once and 'LNG' four times.

Emissions from the gas industry should be the *main* priority for the NT in developing its climate change policy.

EXPANSION OF THE GAS INDUSTRY

The expansion of the gas industry is already the single greatest source of increased NT emissions in recent and future years. The *Discussion Paper* shows from 2016 to 2020 NT emissions will grow by around 50% as the result of the Ichthys LNG Project. Other gas projects could see overall emissions double again by 2030.

Figure 1: Gas is driving NT emissions increases



Source: NT Government (2018) *Climate Change: Discussion Paper*, page 12

¹ NT Government (2018) *Climate Change Discussion Paper*
<https://haveyoursay.nt.gov.au/39757/documents/88860>

Increasing emissions from NT's increasing gas production is part of a national trend. The Commonwealth Government data makes clear the increased emissions over the year to March 2018 were "largely driven" by increased LNG exports, through increased fugitive emissions and stationary energy use.²

NT TARGETS SHOULD NOT GIVE GAS A FREE RIDE

The *Discussion Paper* asks what kind of emissions target the NT should set for itself.

The NT should have a long-term target of net zero emissions across the economy by 2050 at the latest in line with the Paris Agreement. It should also have shorter term targets expressed for absolute reductions consistent with the long-term goal.

This is in line with the science and international best practice – for example, California, Victoria or the Australian Capital Territory.

The NT government should *not* set a target that allows for increased gas emissions merely to allow gas production to increase.

If the NT continues to increase gas production, unabated, it will make undermine any reasonable targets the NT might set. It will also undermine the federal government's emissions targets.

² Department of Energy and Environment (2018) *Quarterly Update of Australia's National Greenhouse Gas Inventory: March 2018* <https://www.environment.gov.au/system/files/resources/63391569-7ffa-4395-b245-e53893158566/files/nggi-quarterly-update-mar-2018.pdf> page 6

NT gas is a threat to national emissions targets

Large increases in NT gas production threaten Australia's emissions targets and any ambitions for higher targets.

The Fracking Inquiry found that fracking in the Northern Territory could be responsible for an increase in Australia's emissions of more than 5%.

The Climate Change Authority has recommended emissions reductions of at least 45% below 2005 levels by 2030 as consistent with the global goals of limiting warming to below 2 degrees. Federally, Labor supports this target and the Greens want a higher target. Reaching such targets will be more difficult if the NT allows a large increase in unabated gas production.

Currently the only emissions policy that applies to gas production nationally is the 'safeguard mechanism'. This policy is not designed to reduce emissions and is ineffective at limiting emissions increases, as seen in Australia's rising emissions from LNG. NT Government policy around gas is therefore

Any Australians concerned about reducing Australia's emissions in line with science should be concerned about NT government policy on gas emissions. Similarly, the NT government should be concerned about the impact of future national emissions policy in line with the science.

Emissions from fracked gas would be equivalent to the emissions of nearly all of the brown coal power stations in Victoria.³ While Australia must progressively phase out coal power to reduce its emissions, this will be significantly undone by NT gas emissions.

Despite the importance of offsetting fracking, the NT government has done little on this.

³ Ogge (2018) *Options for the implementation of Recommendation 9.8 of NT Fracking Inquiry*, page 12, <http://www.tai.org.au/sites/default/files/P637%20NT%20offset%20paper%20%5BWEB%5D.pdf>

Emissions from NT fracked gas

The *Climate Change: Discussion Paper* now says offsets should be used “as a last resort.”⁴ The NT Government has not taken this approach to fracked gas.

Instead, the NT Government has overturned the moratorium, provided that all Australian lifecycle emissions from any new unconventional gas production in the NT are offset.

This means that the NT’s climate task is even bigger than portrayed above.

Eminent Australian scientists have urged the NT Government to re-introduce its moratorium on gas extraction, saying that offsets do not represent “an acceptable outcome”.⁵

FRACKING TO DWARF OTHER NT EMISSIONS

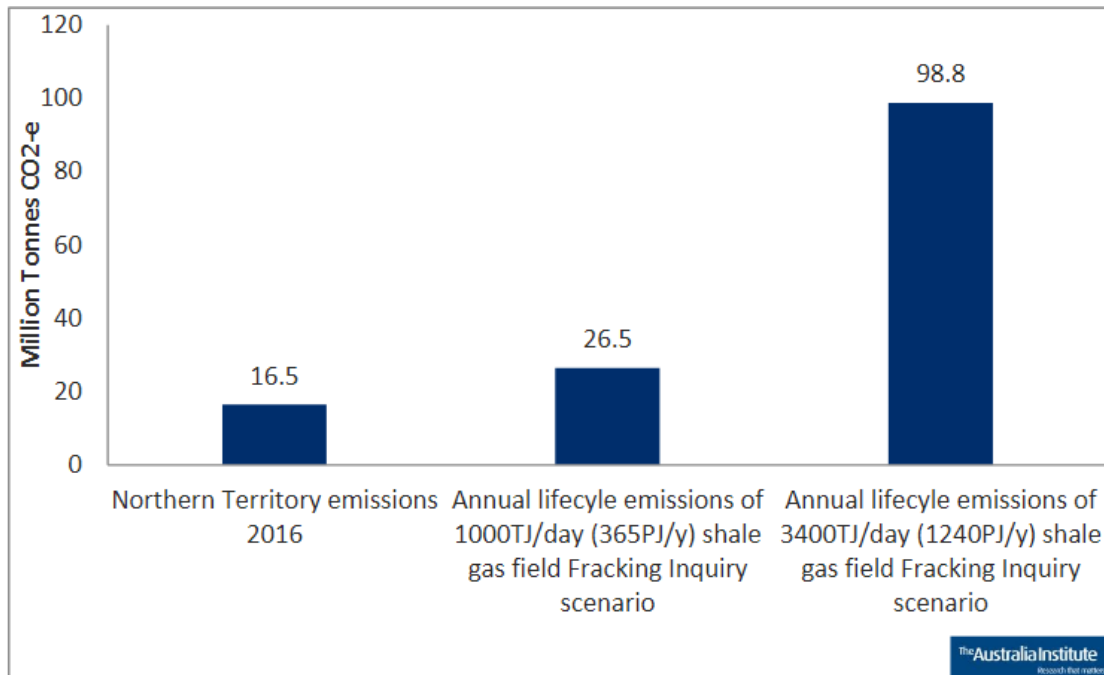
The *Final Report of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory* (‘Fracking Inquiry’) reported that unconventional gas development in the Northern Territory would result in very large amounts of greenhouse gas emissions.

Fracking would increase Australia’s total emissions by more than 5% and potentially produce as much as 18% of Australia’s emissions (Figure 2).

⁴ NT Government (2018) *Climate Change Discussion Paper*
<https://haveyoursay.nt.gov.au/39757/documents/88860> page 34

⁵ The Australia Institute (February 2018) *An Open Letter to the Scientific Inquiry into Hydraulic Fracturing in the NT and the Northern Territory Government*,
<http://www.tai.org.au/sites/default/files/NT%20Fracking%20open%20letter%20Feb%202018.pdf>

Figure 2: NT 2016 total emissions and shale gas annual emissions scenarios



Source: Australian National Greenhouse Accounts (2017) *State and Territory Greenhouse Gas Inventories*, 2015; Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (2018) *Final Report*; from Ogge (2018) *Fracking and Northern Territory emissions*

The Fracking Inquiry looked at two emissions scenarios, with gas production of 365 PJ/year and 1240 PJ/year.

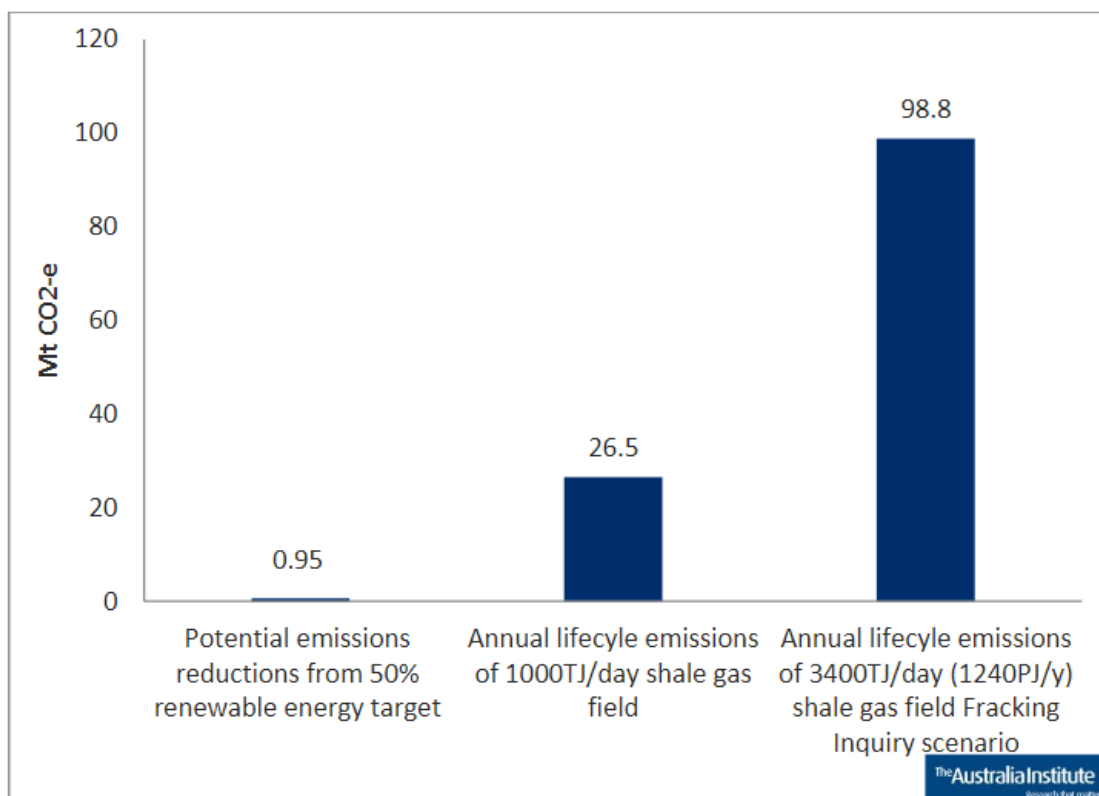
The 365 PJ/year scenario was assumed to be combusted entirely in Australia and found to increase Australia’s greenhouse gas emissions by 26.5 Mt CO2e per year. This was 5% of Australia’s emissions at the time, much larger than the NT’s current emissions, and bigger even than emissions after the ramp up of the Ichthys project.

The higher 1240 PJ/year production scenario was found to result in 98.8 Mt CO2e per year. This is equivalent to 18% of Australia’s 2016 annual emissions.

However in this scenario, 875PJ is assumed to be exported resulting in 58.9 Mt CO2e from combustion in customer countries and 38.9 Mt CO2e from lifecycle emissions within Australia, being equivalent 6.6% of Australia’s 2016 emissions.

To put these vast emissions in context, emissions from fracking would 100 times bigger than the emissions savings under the NT Government’s *Roadmap to Renewables: 50% by 2030* policy (Figure 3).

Figure 3: Emissions impact of NT 50% renewable energy target and shale gas



Source: Australian National Greenhouse Accounts (2017) *State and Territory Greenhouse Gas Inventories, 2015*; Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (2018) *Final Report*; from Ogge (2018) *Fracking and Northern Territory emissions*

While building more renewable energy in the NT is a worthy goal, this work may be undone 100 times over by unabated emissions from fracking.

SCIENTISTS URGE NT TO KEEP MORATORIUM

The vast scale of emissions from fracked gas in the NT led 34 of Australia’s leading scientists to urge the NT Government *not* to overturn the moratorium on fracking:

Our view is based on the scientifically robust carbon budget framework. On this basis, most existing fossil fuel reserves must remain unburned. Any new fossil fuel development is incompatible with the goal of the 2015 Paris climate agreement that aims to limit the rise in global temperature to well below 2.0°C above pre-industrial levels and to make every effort to limit the rise to 1.5°C.

As scientists and experts concerned about the wellbeing of the people of the Northern Territory, Australia and the rest of the world, we strongly urge that

that onshore shale gas and shale oil development does not go ahead in the Northern Territory under any circumstances.⁶

When the NT Government announced it would overturn the moratorium on the condition all emissions are offset, many of the same scientists wrote again:

... our view remains that development of onshore shale gas and shale oil fields in the Northern Territory should not go ahead under any circumstances ... we do not accept that “offsetting” the domestic emissions of unconventional gas development would represent “an acceptable outcome”⁷

In a world tackling climate change, most fossil fuel carbon must stay in the ground. The NT’s unconventional gas reserves are amongst the biggest untapped pools of carbon in the world. The moratorium should be reinstated.

However, given the NT has committed to offsetting NT fracking emissions, developing this policy should be a top and urgent priority.

NT GOVERNMENT TO OFFSET FRACKING EMISSIONS

The Fracking Inquiry recommended that unconventional gas extraction should only be permitted if all of its 135 recommendations are accepted and implemented.

The Fracking Inquiry found that emissions of the scale involved in fracking would be “unacceptable”. In Recommendation 9.8, the Inquiry urged:

That the NT and Australian governments seek to ensure that there is no net increase in the life cycle GHG emissions emitted in Australia from any onshore shale gas produced in the NT.⁸

For fracking to meet the “acceptability criteria” and go ahead, the Fracking Inquiry said

the increase in life cycle GHG emissions in Australia from any onshore shale gas produced in the NT ... must be fully offset.⁹

⁶ The Australia Institute (February 2018) *An Open Letter to the Scientific Inquiry into Hydraulic Fracturing in the NT and the Northern Territory Government*,

<http://www.tai.org.au/sites/default/files/NT%20Fracking%20open%20letter%20Feb%202018.pdf>

⁷ The Australia Institute (April 2018) *Joint Response to the Greenhouse Gas Emissions chapter of the Final Report of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory* ,

<http://www.tai.org.au/content/top-scientists-call-nt-keep-gas-ground>

⁸ Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (2018) *Final Report* p 239

All recommendations were accepted by the NT Government when it lifted the gas moratorium in April.

Having agreed to implement all Inquiry recommendations, the NT Government has accepted responsibility for emissions from exported NT gas, including fully offsetting them.

If an appropriate offsets policy cannot be developed, fracking must not occur.

⁹ Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (2018) *Final report*, table 9.4, page 231

What is the plan for offsets?

The *Discussion Paper* says offsets should be as “a last resort” only. But if offsets are going to be used for fracking, then the policy must be robust, transparent and developed well in advance of further government and industry activity.

So far, the NT Government has provided no information about what this policy will look like. It is known only that the NT has asked the Commonwealth for help, but it is not known what role the Commonwealth will have and what the NT has asked for.

The NT has blocked Freedom of Information requests about its offset discussions, including a letter from the Chief Minister to Prime Minister Turnbull.

The NT Government says it will develop its offsets policy in three years’ time. This is after substantial gas expenditure and activity. The policy should come first.

OFFSET DISCUSSIONS

There is no sign the NT has done any substantial work on fracking offsets, and the *Discussion Paper* gives no detail.

The *Discussion Paper* says only the NT government is “discussing” fracking offsets with other jurisdictions and that the Australian Government will “assist”.¹⁰

The *Discussion Paper* also says the NT is developing an offsets policy for activities within the NT. These appear to be separate developments, although some fracking offsets could be in the NT.

The NT Government’s September 2018 fracking *Implementation Report* states there has been some progress, but explains only that that “the Chief Minister has written to the Prime Minister to commence discussions on offsetting greenhouse gas emissions.”¹¹

¹⁰ NT Government (2018) *Climate Change Discussion Paper*, page 28, <https://haveyoursay.nt.gov.au/39757/documents/88860>

¹¹ NT Government (2018) *Implementation Plan*, page 19, https://hydraulicfracturing.nt.gov.au/__data/assets/pdf_file/0007/545344/actions-by-recommendation.pdf

The *Implementation Report* also says the NT Government aims to develop the offsets policy in December 2021 – in three years, well after substantial gas company and government expenditure and activity.¹²

Fracking industry development should not go ahead without clarity about how offsets will operate. The policy should be developed as an urgent priority.

There should be a detailed policy proposal and consultation process around offsets before any policy is implemented.

GOVERNMENT SECRECY OVER OFFSET DOCUMENTS

The NT Government seems to think the Australian Government must help it with offsetting fracking emissions. However, it has left it completely unclear what they have asked the Australian Government to do.

The Australia Institute has attempted to find out using Freedom of Information requests to the Department of Prime Minister and Cabinet (PMC). The request sought correspondence between the NT Government and the Commonwealth about offsets and fracking.

PMC blocked access to most of the documents, because the NT Government objected to their release. This included two letters from the NT Chief Minister to the Prime Minister. One of those letters requested assistance with offsets.

While the NT Government has sought help with offsets from the Commonwealth Government, they do not want the public to know what they have asked for.

This is a poor basis for public consultation about the single most important part of NT climate policy.

The NT Government should release these letters and make clear what it has asked the Commonwealth to do.

As discussed below, it appears in these letters the NT Government asked the Commonwealth for money.

¹² NT Government (2018) *Implementation Plan*, page 19

Options for offsetting emissions

If fracking goes ahead the NT will be responsible a large offset task that will pose financial and practical problems. The NT will have to find an offset plan that is feasible, works at scale and is additional to pre-existing offsets.

It is essential to emphasise that if the offsets work, they will merely to keep emissions where they are – not to reduce Australia’s emissions.

Similarly, any policy action used to offset NT fracking cannot be used to meet Australia’s required emissions reductions and can at best stop any increase. In addition, if offsetting fracking secures lower cost abatement, then other offsets are likely to be more expensive.

The simplest way to offset fracking emissions – through contracts for Australian Carbon Credit Units – would cost between \$347 and \$509 million per year, and could go as high as \$4 billion per year in later years.

It would be unfair for NT residents to pay for the offsets, given the high levels of socio-economic disadvantage and likely low revenue from fracking. While the Commonwealth Government pressured the NT to allow fracking, Australian taxpayers should not pay just to keep Australia’s emissions at the same level.

The cost of offsetting emissions, in line with the Fracking Inquiry’s recommendation, should be borne by the gas industry.

HOW TO OFFSET FRACKING EMISSIONS

While it is unclear how the NT will offset fracking emissions, the Fracking Inquiry outlines possible strategies:

early retirement of coal -burning power plants; fitting of carbon capture and storage to gas or coal-fired power stations; higher emission standards for fossil fuel-burning vehicles; increased uptake of electric vehicles; international offsets; carbon credit offsets in agriculture and savannah burning; formal offset policies and markets; increased deployment of renewable energy; and reductions in deforestation.¹³

¹³ Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (2018) *Final report*, page 239

The Australia Institute has examined some of these options in detail.¹⁴ The key issues are feasibility, scale and additionality.

For offsets to work, they must be additional to whatever would have happened anyway. This is called additionality. Additionality is about ensuring we get what we pay for, which can be difficult to assess. Offsets policies need to be rigorous to avoid wasted funding and resources.

Purchase credits

The simplest way to offset fracking emissions would be to contract for Australian Carbon Credit Units (ACCU).

The last round of auctions for the Emissions Reduction Fund contracted ACCUs at an average of \$13.08 (per tonne of CO₂e). Using this figure, offsets in the Fracking Inquiry's middle scenario would cost from \$347 million a year, and in the high scenario it would be \$509 million a year.

These estimates are based on recent costs for ACCUs. In a scenario in line with the Paris Agreement, carbon prices would need to be higher than \$100/ t CO₂e. The cost of offsetting NT fracking could then be as much as \$4 billion a year.

ERF methodologies are intended to ensure abatement is additional, however there has been significant controversy about how effective they are.

Methane is a major source of emissions from fracking and is far more potent in the short term than the longer term. While the above figures use a 100-year Global Warming Potential for methane, using the 20-year Global Warming Potential for offsetting NT fracking emissions in the high scenario would cost \$735 million.

Other options

Other options for offsetting emissions are more challenging still.

Carbon Capture and Storage is not a viable option. It is not operating anywhere in Australia at commercial scale, despite large amounts of government R&D funding.¹⁵

Closing down coal power stations is a difficult option for the NT as it will need to convince other state jurisdictions to take large actions. Policy would also need to

¹⁴ Ogge (2018) *Options for the implementation of Recommendation 9.8 of NT Fracking Inquiry*, [www.tai.org.au/sites/default/files/P637 NT offset paper \[WEB\].pdf](http://www.tai.org.au/sites/default/files/P637%20NT%20offset%20paper%20[WEB].pdf)

¹⁵ Browne and Swann (2018) *Money for Nothing*, <http://www.tai.org.au/content/money-nothing>

ensure this was additional to state and company action already underway to close old coal stations and build more renewables.

To illustrate, the NT would need to secure the closure of nearly all of Victoria's coal power plants immediately. Then at the point when Victoria's coal stations would have closed anyway, the NT would need to start shutting down coal stations in NSW or Queensland. Once coal has been phased out, the NT would need to secure offsets elsewhere.

Similarly, increasing vehicle standards and electric vehicle uptake is important for abatement, but a poor option for offsetting NT fracking emissions. Vehicle emissions within the NT will not be sufficient and many relevant policy levers are federal.

Moreover, if such policies are used to offset increased emissions from fracking they cannot be used to reduce Australia's overall emissions.

Offsets a threat to reducing Australia's emissions

It is important to emphasise that offsetting NT fracking emissions will not reduce Australia's emissions. Rather it will only stop Australia's emissions from increasing.

If the offsets do not work, then Australia's emissions will increase. Offsets are frequently subject to controversy over their integrity. The policy of allowing fracking when offset is still a risk to Australia's targets.

Moreover, given that Australia must reduce its emissions, any offsets for fracking must also be additional to what we need to do to reduce emissions.

Put differently, policies used to offset NT fracking emissions cannot also be used to reduce emissions.

As a result, if the NT gets access to lower cost abatement options to offset fracking, this may increase the cost of reducing Australia's emissions.

If the lower cost options go towards reducing Australia's emissions, this may increase the cost of offsetting NT emissions.

The Commonwealth Government, being responsible for Australia's overall emissions, therefore should take a strong interest in getting this policy right.

Who should pay?

Offsetting NT fracking emissions will have substantial cost. Who should pay?

It could be paid for by the NT Government or the Commonwealth, ultimately by taxpayers, or it could be paid for by the gas industry.

NT GOVERNMENT?

The NT Government is responsible for a jurisdiction with high levels of socio-economic need. This is reflected in its high per capita share of federal GST funding. Such funding is needed to provide services to address need. It should not be diverted into funding gas production.

While the gas industry has touted fracking as a way to make the NT independent from Canberra, the reality is that fracking revenue will remain a small part of NT revenue. In Queensland, where large amounts coal seam gas has been extracted for many years, it is still providing less than 0.5% of government revenue.¹⁶

Funding offsets out of royalties would further reduce what is likely to be modest revenue, further undermining the case for the industry.

COMMONWEALTH GOVERNMENT?

The Commonwealth Government could fund the offsets through the Commonwealth Emissions Reduction Fund (ERF). Currently there is only \$250 million remaining the ERF. Even if topped up to its initial funding of \$2.55 billion, the ERF would offset NT fracking emissions for only a few years and certainly less than a decade. Substantial new ongoing annual funding would be needed.

Offsetting NT fracking emissions in this way would mean taxpayers are paying so that emissions stay where they are. This is poor policy and likely to be unpopular.

As discussed below, the Commonwealth has already refused an NT Government request to 'match' revenue from fracked gas.

¹⁶ Qld Treasury (2018) *Budget Paper 2 – Revenue* <https://budget.qld.gov.au/files/BP2-2018-19-4%20Revenue.pdf>

GAS COMPANIES

The NT Government has agreed with the Fracking Inquiry that fracking would be unacceptable if its emissions were not offset in full. This is now a condition of going ahead.

If the gas industry wishes to frack for gas in the NT, it should fund the measures needed to make that acceptable.

NT and Australian taxpayers should not subsidise NT fracking. That is what would happen if the NT or Commonwealth governments fund the offsets.

Industry funding could be administered by the NT or Australian government through a levy, or through an obligation to surrender ACCUs. Royalties should not be reduced to compensate, which would be equivalent to subsidising these emissions.

Political pressure raises concerns over policy talks in secret

The secrecy of talks between the NT and Commonwealth over offsets raises concerns.

The issue has seen significant political conflict and negotiation between the NT and the Commonwealth Governments. Some of it has been in public, but some in secrecy, with both governments blocking access to documents.

It is clear, however, that the Commonwealth wanted fracking in the NT, and the NT wanted more Commonwealth money, and both jurisdictions have publicly linked the two.

This raises concerns about the NT being pressured into making decisions about fracking due to Commonwealth pressure and funding.

The Commonwealth put enormous pressure on the NT Government to allow fracking, in public statements and formal correspondence. Scott Morrison as Treasurer threatened to cut the NT's GST if the NT did not allow fracking.

The Commonwealth Government devised and then announced \$260 million in a 'GST top-up' to the NT in a matter of days at exactly the same time that the NT announced it would overturn its fracking moratorium. Surprisingly, the Government has refused to release the letter in which Treasurer Scott Morrison committed to the funding and offered it to the NT. This all raises the suggestion that the prospect of funding may have been used in the campaign to pressure the NT into fracking.¹⁷

At the same time the NT Government also used the opportunity to issue demands. The NT News reported it as follows:

The Territory has helped the Federal Government by re-moving its ban on fracking and now it's time the Commonwealth returned the favour. ...

¹⁷ Swann (2018) *Frackmail?* <http://www.tai.org.au/content/frackmail>

The day he announced his fracking moratorium was no more, Chief Minister Michael Gunner wrote to Prime Minister Malcolm Turnbull with a list of demands.¹⁸

The demands included funding for remote housing, funding to implement the recommendations of the youth justice Royal Commission, and to “match its contribution to a planned regional royalties fund.”

FOI documents show the Commonwealth rejected the request to match fracking royalties.

Figure 4: FOI document – Turnbull letter to Gunner

While it is not the Commonwealth Government’s position to match revenue arising from state or territory royalty arrangements, I am pleased that lifting the moratorium provides other opportunities to support the development of a sustainable gas industry in the Northern Territory. On 27 April 2018, the Minister for the Environment and Energy, the Hon Josh Frydenberg MP, advised the Northern Territory Government that the Commonwealth

Source: PMC (2018) FOI Documents

NT Government appears to think it has ‘done a favour’ for the Commonwealth by allowing fracking. But the Commonwealth has already indicated it won’t provide ongoing funding for fracking in the NT, and so will not fund offsets. The GST top up itself was not sufficient to cover the estimated costs of one year of fracking emissions.

The prospect of political pressure over this policy if developed in secret makes public consultation even more important.

In developing the offsets policy, the NT should make clear that the NT will not subsidise the gas companies. If the Commonwealth won’t do it – and they should not -- then the gas companies will need to pay for the offsets.

¹⁸ Sorensen (2018) *Pollies jostle over fracking - Gunner lists funding demands*
http://www.territorystories.nt.gov.au/jspui/bitstream/10070/299631/8/Northern%20Territory%20News_20180419_page04_NTNews_News_4.PDF

Conclusion

Gas extraction is already the main contributor to rising emissions in the Northern Territory, and lifting the moratorium on unconventional gas will only make this worse.

Despite the enormity of the offset task that confronts NT if fracking goes ahead, the NT Government does not plan to complete its offsets policy until 2021. It has not been transparent about what discussions on offsets are underway. It has blocked access to documents under FOI and commenced secret discussions with the Commonwealth.

Increased gas production in the NT will drive up domestic emissions. If fracking is to go ahead, the NT Government must as promised implement its offsets policy well in advance of any gas activity or expenditure. It should ensure that the policy is rigorous and additional so that it does not threaten Australia's targets. Offsets should be paid for by the gas companies, not subsidised by taxpayers, who stand to derive relatively little benefits from the gas production.

Consultation on the policy should be done in public rather than in secret conversations with the Commonwealth, which risks undue political pressure for a bad outcome.

Postscript: role of NT offsets

This submission has been critical of the use of offsets to offset fracking emissions. However the Discussion Paper also discusses developing offset policy in the NT.

Rigorous offset programs have the potential to be valuable on economic, environmental and social grounds. Such programs could offset or even reduce emissions in the NT or elsewhere in Australia. However, such programs should not be relied on to reduce the NT's emissions.

By way of illustration, at current prices under the Emissions Reduction Fund (which funds programs in the NT and elsewhere) offsetting the NT's current emissions would cost more than \$230 million a year.¹⁹ The cost would be greater in future years, if gas production increases and with increasing prices for offsets, as lower cost abatement opportunities are exhausted. Offset opportunities in the NT are likely to be sold to emitting entities outside of NT, while will limit their availability for offsetting emissions in the NT.

There is a risk that offsets policy will allow low quality offsets that do not genuinely offset emissions. Moreover, if offset programs are used to offset increased emissions, rather than reduce emissions, then they could make genuine abatement more costly or difficult.

The NT should therefore consider a limit on the use of offsets for territorial emissions, say of 10%.

¹⁹ Last round of ERF Auctions at \$13.8 per tonne CO₂e, total 2016 emissions of 16.5 MtCO₂e.