Key takeaways from Marrakech COP22
What does the implementation phase of the Paris Agreement mean for Australian business?

by Peter Castellas, Chief Executive Officer, Carbon Market Institute

The Paris Agreement is a masterplan for the planet. Following the historic ratification of the Agreement on the 4th November 2016, nearly 200 nations who are Parties to the agreement gathered in Marrakech for the annual UNFCCC Climate Conference.

The global gathering ended with the 2016 Marrakech Action Proclamation, sending a strong signal of “a new era of implementation and action on climate change and sustainable development”. The Proclamation called for “the highest political commitment to combat climate change, as a matter of urgent priority”.

CMI had the largest delegation from an Australian business association present and the two weeks of COP22 was a unique opportunity to expand valuable global networks, strengthen key relationships (especially with Ministers Bishop and Frydenberg) and gain some deep insights – some of which I want to share with you below.

We are in a positon as an industry body, with our members operating across the private sector spectrum, to play a catalytic role in driving implementation of specific actions required to optimise Australia’s position in this next period of the transition to a zero carbon economy.

I welcome the opportunity to discuss CMI’s plans with you and to elevate the dialogue, knowledge exchange and commercial interaction at the 4th Australian Emissions Reduction Summit on 2&3 May 2017.
Ban Ki Moon summed up the mood at COP22 when he said, “what was once unthinkable has become unstoppable”. The palpable momentum to implement the ambitious goals of the Paris Agreement is irreversible. Action is being driven by national governments, states and cities; by business, finance, communities and science.

The election of Donald Trump as the next US President midway through the COP sent shockwaves through the halls of the UNFCCC compound and initially cast a very dark cloud over proceedings. However, many national positions, including Australia’s, were subsequently outlined in numerous high level fora, signalling that the commitment to a zero-net emissions world will supersede (or trump) any potential withdrawal from the Paris Agreement of the Convention itself by the USA.

Actions by state, local govt and business would gain added importance under any possible Trump withdrawal. The Sectary of the California EPA, said in one roundtable that “nothing will change in California as a result of Trump, including working with regions and states around the world”.

All major Parties to the Paris Agreement reaffirmed their strong commitment to the full implementation in the final Proclamation. For Australia that means our emission reduction commitments are locked in. We must achieve them and they will only get stronger and deeper over time.

The momentum economic impetus to a decarbonised global economy is unstoppable, and Trump-proof.

Australia sent a positive, timely signal to the delegates at COP22 by ratifying the Paris Agreement the day after the Trump election win. Foreign Minister, Julie Bishop and Environment and Energy Minister Josh Frydenberg were prominent at many events, panels and high level Ministerial meetings. They also both attended an Australian Stakeholder function organised by CMI that connected them, over drinks, to the dedicated people working at the “coal face” (so to speak) who are driving positive initiatives and looking for government leadership.

To achieve our emissions reduction commitments submitted to the UNFCCC, the near-term goal post is 2030. However a zero emissions timeline of 2050 emerged as a new target for many countries to achieve the climate endgame. Australia has locked in a target that requires an effective and comprehensive policy suite. There is no doubt about Australia’s commitment. What needs to be made clear is how the policy suite in place can do the job.

It is critical that the terms of reference of the 2017 policy review open up the formal process to fully explore how the existing policies will generate the below business as usual emissions trajectory to meet our international commitments.

Key detail on how the safeguard mechanism will evolve must be central to the outcome of the review as well as how we ensure the continuity and viability of a strong domestic carbon offset supply. For large emitters, there will be a cost on carbon emissions and will need to prepare accordingly. Domestic policy settings are going to tighten considerably and the longer it takes to ‘pivot’ the safeguard mechanism so baselines start to bite, the more uncertain companies’ liabilities will be.

Australian companies need climate competent boards and executive management that can adequately understand the material relevance to their business, manage the risks and build strategies for climate resilience. Constructive engagement with government is critical over the next year, as the more government hears from business the more they will feel comfortable to set long term policy accordingly.
Governments intend to deliver on a new global market mechanism and have set a deadline of 2018 for the new rules to be determined. Article 6 of the Paris Agreement contains key market provisions expected to be the guiding framework for international carbon market action going forward. In Marrakech it became clear that the task over the next two years is to move from the conceptual principles to the technical implementation measures.

This COP was about identifying what are the critical questions that need to be answered in deciding how to define mitigation transfers across borders; build the markets and establish how to link them; and how to ensure they achieve the greatest ambition at the lowest cost. Australia affirmed its position and interest in being involved in designing the new market mechanism; made a submission to the Article 6 discussions; and is a signatory to the NZ Declaration on Carbon Markets. The Paris Agreement however, won't set up a market by itself. The UNFCCC will lead Governments and the private sector to come together to work on market design, accounting principles and environmental integrity issues; Australia has a vested interest in having a seat at the table and business needs to provide the input and experience into the process.

The implementation of Nationally Determined Contributions will create a global demand for carbon offsets. On the supply side Australia, with a robust, well governed offset scheme - the ERF - is well placed to potentially supply carbon units to emerging international markets. The 2017 review of Australia’s domestic emissions reduction policies represents a key opportunity to define Australia’s position in international carbon markets. In a side event facilitated by CMI and IETA, it was highlighted that Australia has legislated systems in place that make our market linkage-ready and able when the time comes. While Article 6 discussions progress, market-based mechanisms to address climate change are increasingly being implemented by countries in many regions of the world and in many jurisdictions, especially North America, market linkage is already occurring. And when the Chinese ETS comes on stream next year it will be an instant game changer.

Countries such India are also now calling for market based approaches to build on the CDM to scale investment in projects that can attract finance and generate tradable credits. Australia’s energy intensive, export orientated economy is exposed to markets like China’s, where there is an explicit carbon price; where the fossil fuel energy mix is changing; and where business will be impacted through competition from such countries whose policies may not be aligned with Australia’s.

It would be prudent for Australian business exposed to international markets to be fully informed of developments as they will evolve rapidly. CMI will run the second Asia Pacific Carbon Market Workshop on 1st May 2017 and will use the roundtable to identify how we can optimise our position in international carbon markets.

The future of carbon markets is bright and Australia must optimise its position as international carbon markets evolve.
A dominant, resounding message coming from Marrakech was that carbon pricing is critical for incentivising action, stimulating investment and realising ambition. A consistent feature of almost every business event at COP22 was the growing number of corporate leaders speaking out in support of carbon pricing as a powerful and efficient way to reduce emissions and that market forces are acting to push the world economy away from fossil fuels.

In our recent national climate and business survey CMI found that 73% of respondents working for greenhouse gas emitting companies are factoring in an internal carbon price. As initiatives, such as the Task Force on Climate-related Disclosures gather momentum, it will become more important for companies to communicate how they are managing their climate change risks and setting an internal carbon price will be viewed as an important indicator. The Ontario Environment Minister, Glenn Murray, one of the most compelling speakers at the COP22, outlined that putting a price on carbon doesn’t impact jobs as in Canada the greatest job growth and rapid economic transitions are in States such as Ontario, Quebec and British Columbia where they have an ETS or a carbon tax.

As the world moves from concern to action, carbon pricing is needed to bring down emissions and drive investment into cleaner options. In 2017 in Australia, it is time to bring a mature, depoliticised discussion about carbon pricing back into our national discourse.

A central feature of the implementation of the Paris Agreement is that climate finance is critical to mitigating climate change. For mitigation, reducing emissions of greenhouse gases, especially in countries and sectors that emit large quantities, requires large-scale investments. Climate finance is also critical for adaptation as many nations vulnerable to the effects of climate change must expend significant financial resources to adapt and reduce the impacts.

A major theme to come out of Marrakech is that we need to get smarter about using public money to leverage private sector money. Australia, along with the UK, has led the development of a concrete roadmap to achieve the goal of mobilising US$100 billion per year by 2020 for climate action in developing countries. The Green Climate Fund (GCF) has begun to implement its ambitious mandate to design innovative mechanisms and mobilise funds at scale and is achieving early impressive wins in leveraging private funds.

But much more needs to be done. The GCF has both an Australian co-Chair and Executive Director and presents one avenue for Australian financiers and investors to connect with a growing pipeline of opportunities.

In Marrakech, countries outlined how policy frameworks are creating the enabling environments that are intended to redirect financial and capital markets away from high-carbon sectors and towards low carbon solutions. With our sophisticated finance and investment markets, Australian private sector organisations are perfectly placed to play a key role in our region to fund the transition to a zero emissions economy.
Marrakech featured a large-scale technical-solutions conference that placed innovative technological solutions at the heart of the COP22. Chaired by the legendary Professor Jeffrey Sachs the meeting brought together technical experts, world-leading scientists and engineers from business, academia, and civil society to chart key technology pathways for decarbonised energy systems, power generation and distribution, cities and transport systems. His simple message was business must lead. We can't wait for government and we must implement what works.

Another prominent initiative at Marrakech which Australia joined was Mission Innovation which aims to reinvigorate and accelerate global clean energy innovation with the objective to make clean energy widely affordable.

Global brand names were highly visible in Marrakech, demonstrating their heavy investment in smart, innovative products and services required to dramatically reduce emissions and decouple growth and development from environmental degradation. Except for CCS, where we have world leading capabilities, Australia was under-represented in the international showcasing and business development that was taking place.

Another sector emerging as a key part of the solution is Information and Communication Technology as it will play a pivotal enabling role in the transition to clean, high-tech economies that operate at ever accelerating levels of efficiency and ever diminishing levels of pollution and natural resource degradation. We need long term, mid century plans to get us to zero net carbon. Australian government, business and in particular our entrepreneurial capabilities should now move on this generational economic opportunity, or risk missing entry into the slipstream of a new global market.

There is a growing export market for Australian professional services.

As well as technology solutions there is a global market for Australian professional services. To implement the commitments made in Paris, many of the 196 countries will need the services and significant expertise that Australia has built up over many years in legal, commercial, financial and technical know-how.

We can help developing countries, including our neighbours in Pacific Island States, and large emerging carbon markets in our region, such as Indonesia and China, with expertise in emissions management, reporting, monitoring, verification, offset project development, renewable energy project financing and institutional strengthening.

Australia has also developed deep capabilities in land emissions management including savannah burning, led largely by indigenous communities. Methods generated under the ERF, project delivery capability and carbon credits themselves are all exportable to other markets.

We have unique professional services skills to deliver to a potentially massive export market. The demand is here now and will grow. Federal and State Governments can support private sector efforts through the alignment of trade, aid and diplomacy to help to build commercial bridges to new markets.
Australian states are following the lead of international peers who are demonstrating a seachange at sub national levels in addressing climate change.

The **Under2 MoU Coalition**, led by California, has members that pledge to limit greenhouse gas emissions to 2 tons per capita or 80-95% below 1990 levels by 2050. It was announced in Marrakech that the Coalition has now grown to 165 jurisdictions in 18 months - representing more than a billion people and US$25.7 trillion in combined GDP – more than one-third of the global economy. The ACT joined the Coalition in Marrakech adding to the Australian contingent of South Australia and Queensland.

States such as California exemplify leadership and can point to the economic benefits of driving action, and delivering jobs and investment. The momentum in Canada at the provincial level is now being unified and harnessed under a new Federal government.

Across the Pacific, China’s low carbon city program has expanded to 100 cities and provinces. More than 30 of them have pledged to peak their emissions much earlier than the national target of peaking by 2030. In Australia in 2017, the alignment of states around climate action will help Australian industry channel low carbon business opportunities and market development activity.

Building on renewable energy commitments, ambitious emissions reduction targets and climate leadership aspirations, the states must now follow through and make it clear what the specific economic activity is that they can facilitate and create the policy framework to send the right market signal to secure investment.

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**The Carbon Market Institute is proud to have attended COP22 in Marrakech in November 2016. If you have any questions about the above Key Takeaways or have any further questions about the work of, or membership with the Institute, please don’t hesitate to contact us via the details below.**

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About the Institute

The Carbon Market Institute is at the centre of climate policy and business. We are passionate about business understanding the challenges of climate change and seizing the opportunities in the transition to a low carbon economy.

Independent and non-partisan, we are the peak body for climate change and business. We share knowledge and facilitate commercial interaction between business, policy makers and thought leaders to drive collective impact and create pragmatic solutions.

Engaging leaders, shaping policy and driving action, we’re connecting insights and catalysing opportunities at home and abroad.

The Institute’s membership represents a broad range of professionals, organisations and industry. Our members include leading professional service providers, NGERs reporting entities, financiers, secondary market participants, offset providers, academia and international organisations.

CMI’s Working Groups have played a key role in connecting government, bureaucrats and regulators with industry to facilitate the constructive input of member views into policy implementation. Drawing on the expertise of the CMI membership, the Working Groups have provided a vital forum for the exchange of information between market participants, policy makers and government agencies.

Each year the Carbon Market Institute runs Australia’s premier business and climate change event, the Australasian Emissions Reduction Summit. The Summit provides leaders from business, policy, finance, markets and technology together a platform for knowledge exchange and commercial interaction. The 4th Australasian Emissions Reduction Summit will be held in Melbourne at the MCG on 2-3 May 2017.

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