

International Carbon Market Engagement & Implications for Australian Business

Key Takeaways

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Key takeaways from international carbon market engagement

The evolving global carbon market has real implications for Australian business.

*writes Bianca Sylvester, **General Manager** at the Carbon Market Institute*

Over the last few months I have been travelling to a number of international destinations, such as China and India to connect with key government and private sector stakeholders to understand what are some of the climate policy and market developments and what do they mean for Australian business.

Last week I also attended the inaugural Innovate4Climate (I4C) conference in Barcelona, which took place directly after two weeks of UNFCCC negotiations in Bonn where negotiators discussed operationalizing the Paris Agreement.

Over 1000 people attended I4C, including key industries, corporations, investors, government representatives, policy experts, multilateral finance institutions and non-government organizations, signalling that global interest and

engagement remains high as ever. There were however very few Australians in attendance.

At the Carbon Market Institute we think it is an important part of our role to represent our members and participate in international knowledge events and open and closed-door workshops and roundtable discussions.

This is also an important time for us to establish new alliances, partnerships and collaborations which will be important as CMI continues to play a role in translating the impact of international developments on Australia and Australian business.

In the following document I have captured some of my key takeaways.

2 | Carbon Pricing continues to gain global momentum, and it is important that policy in Australia evolves in parallel.

The World Bank and Ecofys released a Report at I4C that indicated that, in 2017 alone, an additional 5 jurisdictions have already implemented a carbon price. This takes the total to 40 national and 25 subnational jurisdictions that are currently putting a price on carbon.

Of this total, many States, particularly in North America, are demonstrating leadership and are pointing to the economic benefits of carbon pricing for delivering jobs and investment. It is important that climate change policies in Australia evolve in parallel with global carbon market developments.

This will ensure that Australian business is well positioned to benefit from the global low-carbon transition and that Australia is 'link-ready' should it wish to trade emissions reductions internationally in the future.

In addition, even if at the national level there is little progress on linking markets, the Australian States can follow through with their policy commitments, to open up opportunities for alignment and partnership with business in other sub-national jurisdictions to drive new markets and commercial connections.

3 | There is an assumption that Australia will implement a national emissions trading scheme and international business is ready to invest in Australia when there is clarity about form and timing.

CMI presented in a well-attended side event in Barcelona on the 'Australian Paradigm'.

In the Q&A, participants recognized that Australia already has the carbon pricing policy and regulatory experience and capacity, and therefore the prevailing view from interested international observers, that it is inevitable that it will re-implement an ETS especially since there is such common support for market based policy measures globally.

In bilateral meetings, market participants and investors indicated that they are positioning to engage in Australia when there is more

regulatory certainty, attracted by its well-educated, technically literate workforce, finance-sector and proximity to Asia.

These companies included those that already have operations (non-carbon) in Australia and also those that do not already have operations in Australia (mainly technology companies and service providers).

Therefore, there is a near-term opportunity for the National Climate Policy Review to provide the necessary regulatory certainty, and stimulate new investment and jobs in Australia in the process.

4 | The rules for international carbon markets under the Paris Agreement remain uncertain, however, some organizations are already preparing to pilot transactions.

The Paris Agreement establishes a framework for the development of new international market mechanisms and offers countries choices in how they choose to source and transfer international units.

While the rules for trade are still being explored, the process of developing linked markets and transacting has already started through bilateral and regional fora, particularly in the Indo-Pacific region.

There were closed-door meetings about this and open discussions about progress relating to a North-East Asian Carbon Market Club, comprising China, Korea and Japan. As the new international carbon market architecture

develops, it is critical to understand options for how Australia could access international markets to achieve its emissions reduction targets cost efficiently.

It is also critical that the private sector has a seat at the table. We need to be on the front foot and CMI will continue to engage with DFAT, the UNFCCC, World Bank, regional trading partners and other Parties to ensure an Australian business voice is represented.

It is important that business actively engages with Government, particularly over the next 12 months, as new rules are considered and transactions are piloted.

5 | Climate action in China marks a significant milestone for the development of carbon markets globally and will create risks and opportunities for Australian business.

In a side-event on the National Chinese ETS, it was clear that the scheme will mark a significant milestone for the development of carbon markets globally, and that it could be a catalyst for other governments to take similar steps.

It is expected that the ETS will cover 5 billion t/CO₂e and this could have direct financial impacts for heavy emitting, trade-exposed industries in Australia that are slow to move, relative to international competitors.

In reviewing and implementing the domestic climate policy suite in Australia, the ambitious climate action among our major trading partners, like China, needs to be factored in how trade-exposed industries are treated.

Climate action in China could also create significant opportunities for technology transfer, investment and innovation. The national ETS is likely to lead to new business models and create new opportunities and markets to capture, and early movers in Australia can benefit from product differentiation in key export markets that have carbon prices.

CMI will continue to leverage its relationships with representatives from the Chinese Government, business and expert groups to better understand the form, scope and impact of the Chinese ETS. We will be providing regular updates to members and key government decision makers on this massive new carbon market throughout the year.

6 | The Global Aviation Market-Based-Mechanism (MBM) will have a strong bearing on the future price and availability of international units.

At the Innovate4Climate event, CMI moderated a side event about 'The Role of Carbon Markets in Achieving Aviation's Carbon Neutral Growth Strategy'.

The aviation Market Based Mechanism (MBM), to be implemented from 2021, could be the second largest source of demand for international units after the Paris Agreement and it could encourage other sectoral MBMs, including in the shipping sector. Presently, the international carbon price is at a historic low however, the emergence of new net-buyers, such as the aviation sector, means that the opportunity to purchase high-quality, low-cost abatement – is likely to be a short term one.

This could have direct financial implications for Australia, as the nature of its emissions profile - and its economic reliance on emissions-intensive industries - means that there are

limited low-cost abatement opportunities domestically. This translates to some significant challenges when looking to achieve substantial emissions reductions without accessing high quality abatement from international sources.

There remain unknowns as to what units will be valid under the Aviation MBM, but eligible units could include Certified Emission Reductions under the Kyoto Protocol's Clean Development Mechanism (CDM), credits from REDD+ and credits from the Gold Standard and Voluntary Carbon Standard.

CMI will continue to leverage its relationships with key representatives in the aviation sector to better understand the type of units that are likely to be eligible under the Aviation MBM and what this might mean for supply and demand of credits.

7 | There is demand for Australian services and innovations.

To implement the commitments made in Paris, many countries, particularly in the Indo-Pacific region, will need the services and significant expertise that Australia has built up over many years in legal, commercial, financial and technical know-how.

We have unique professional services skills to deliver expertise in emissions management, reporting, monitoring, verification, national offset project development, renewable

energy project financing and institutional strengthening. The demand is here now and will grow.

Federal and State Governments need to support private sector efforts through the alignment of trade, aid and diplomacy to help to build commercial bridges to new markets and create economic opportunities for Australian expertise in our region.



Business continues to maintain climate action momentum despite political uncertainties in the US.

The International Emissions Trading Association and Pricewaterhouse Coopers released its annual GHG Market Sentiment Survey at the I4C which indicated that climate change is a board-level priority for 77% of respondents and that, in the last 12 months, board-level engagement on climate change has either increased or remained unchanged for 90% of respondents.

In addition, despite political uncertainties, the private sector is playing an increasingly important role in driving systemic changes in the energy system through investment in renewables, natural gas, and efficiency improvements. It is imperative that Australian business is connected to and informed by international market developments.

If you have any questions about the above Key Takeaways or our consultations and research in the international carbon market space, 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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