



COP23: key takeaways for Australian business

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**Carbon
Market
Institute**



COP23: What are the implications and opportunities for Australian Business?

1. Parties to the Paris Agreement agree on a process to revise ambition to limit temperature increases to 1.5 °C

A key outcome of this COP's Fijian Presidency is to set a course for increasing ambition for global emissions reduction. At COP23, nearly 200 countries agreed to use the Pacific tradition of Talanoa – a process of inclusive, participatory and transparent dialogue – to work through the details of implementing the Paris Agreement in order to revise their ambition in reducing greenhouse gas emissions before 2020. COP23 also reconfirmed the goal to adopt the Paris Rulebook at COP24 next year in Katowice, Poland and strengthened the commitment to accountability for pre-2020 emissions reductions.

The Talanoa process is also referred to as the “2018 Facilitative Dialogue” and will be used in climate-related meetings throughout 2018 and COP24. With the stamp of the Fijian Prime Minister Frank Bainimarama, the dialogue is to be constructive, facilitative and solutions oriented; and poses three questions for the world to ponder: Where are we now? Where do we want to be? How do we get there? The Special Report by the IPCC on global warming of 1.5°C requested by the COP will inform the dialogue and the private sector is encouraged to prepare analytical and policy relevant input.

The impact for Australia will be on how this global ambition plays in domestic policy. As the Talanoa Dialogues develops, the Australian government will need to outline how and when to strengthen our Paris emission reduction targets to achieve the Paris goals. The Government committed to review climate policies to ensure they remain effective in achieving Australia's 2030 target and Paris Agreement commitments. The government undertook a substantial consultation process and received over 350 submissions. has committed to finalise the review in 2017. As yet the government has not announced the results of the review.

- *CMI will feature updates of the development of the Talanoa and key global players at the [5th Australasian Emissions Reduction Summit on 1-2 May 2018](#). The Summit will also feature an update and focus on Australia's Climate and Energy Policies and discuss how they are aligned to Paris Agreement commitments.*

2. Business has a material stake in ensuring the goals of the Paris Agreement are met.

Business leaders from around the world convened at COP23 to reaffirm private sector commitment to global climate goals and set a roadmap for implementation. The strong presence and engagement of business and finance, building on from Paris two years ago, is a reconfirmation of the risks and opportunities that climate change poses to industry and the ever-growing recognition of the essential role that business plays in the global climate process. It is also evidence of a growing recognition among the business and investor community that the cost of in-action, is greater than the cost of action. Unchecked climate change will impact physical infrastructure and contribute to economic instability, while achieving climate goals and SDGs opens up new markets worth trillions of dollars.

International business leaders represented at COP23 called for governments to set clear long-term policies in line with the Paris emissions reduction trajectories. In almost every business side event, there was universal



support for carbon pricing as a powerful and efficient way to reduce emissions and evidence that market forces are acting to push the world economy away from fossil fuels. The US business contingent was especially strong and rallied around the US Climate Action centre where the “we are still in” theme resonated signalling the position of a major collaboration of State Governors, private sector businesses and investors that the US intends to play a role in the implementation of the Paris Agreement.

- *CMI led the largest business delegation to COP23 and will, in 2018 through our policy working groups, define processes for our members to partner with government in setting the policy and market frameworks that will set and achieve the increased ambition.*

3. The use of market based approaches such as emissions trading and carbon pricing must be a core part of the global policy architecture for business to effectively and sufficiently achieve mitigation challenges.

A key feature of COP23 with importance to Australia was the progress of the negotiations around the market mechanisms in Article 6. Article 6 of the Paris Agreement offers the opportunity to build global carbon markets to deliver net zero emissions at lowest cost. The negotiations concluded with agreement on a framework and that drafting of the detail around the rules can commence immediately, to be finalised and agreed by COP24.

Some key market developments at COP23 included:

1. China announcing plans to launch a single national carbon market however the national emissions trading system is pending final national council approval before launching.
2. The EU and China announced they will step up cooperation on carbon markets.
3. The announcement followed a declaration by the EU and California.
4. The future of the CDM and its transition under Article 6 continues to be unclear

The progress on Article 6 leaves open the relevant prospect for Australia to develop our own (bilateral, regional) linking arrangements subject to agreed rules and governance arrangements. Bilateral and regional secondary carbon markets Australia could be involved in should be designed in a way that they can be scalable and have liquidity and depth. It is worth noting that the Australian delegation spoke in favour of submissions by observers, such as organisations like CMI.

Understanding how market rules set under Article 6 will be essential for the Australian Government and private sector to enable future market participation in order to meet existing targets and future ambition. Clarity around market rules and a well-functioning market will help to attract private investment to drive emissions cuts in industry.

- *CMI will continue an ongoing, important role with our members to inform DFAT and the UNFCCC process on the private sector view on how we can optimise Australia’s involvement in international carbon markets as they evolve. We are planning a working group meeting on Article 6 with DFAT early in 2018. [See CMI’s Article 6 submission here](#)*



4. The private finance sector has the interest, capacity and funds to invest in mitigation and adaptation.

There seemed to be an increase in finance and investor presence at COP23 than previous COPs and it is clear that addressing finance flows and funding gaps that exist is needed to achieve the aims of the Paris Agreement. The Paris Agreement has sent the global market signal and investors reiterated their calls for open and competitive markets, clear policy signals and ways to reduce the risk/increase return profile and to scale up their investments in climate action. In numerous side events private sector representatives also highlighted themes related to climate risk in portfolios, insurance, and the importance of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Institutions such as the Green Climate Fund and the World Bank outlined examples of new models of public/private finance and the need for innovation in how new technologies, products and services can be financed to respond to the need for adaptation and resilience, as well as mitigation.

Connecting public and private finance sources to investable projects will be an important component of the immediate actions that be undertaken to address climate change, particularly in regions such as the South Pacific. Global investors have signalled their willingness to invest in the transition to a low carbon economy. Australia has significant capital markets and sophisticated investors and financiers and could be more involved in the opportunity in the low carbon transition. CMI will be organising a Climate Finance and Clean Energy Investor Forum (30 April 2018) is a prelude to the 5th Australasian Emissions Reduction Summit (1-2 May 2018).

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5. Sub national jurisdictions have proven that climate change policies can create jobs and increase economic growth

A dominant force at COP23 was the presence of the mayors and governors of cities and regions, with perhaps the highest profile being the enigmatic Governor Jerry Brown from California. Many of them represent the Under2 Coalition, which is an international pact among 205 cities, states and countries committed to limiting the increase in global average temperature to below 2 degrees and to work together to get on a trajectory consistent with 2050 carbon neutrality. In multiple side events sub national leaders articulated the plans for collaborative action to drive innovation in urban design, deployment of renewable energy, investment in sustainable infrastructure and development of smart mobility systems.

Particularly interesting for Australia was the case being made by US States of the economic and political benefits of adopting policies such as emissions trading and carbon pricing and the plans to link expand linkage of markets across North America. The factual evidence of jobs, investment, health benefits and community support for climate change policies provided was compelling. Comparing action at the state level from jurisdictions in Trump's America is especially relevant to the Australian situation, where there is a stark difference in approach between federal and state policies.

Australian Capital Territory, Queensland, South Australia, Victoria are all members of the Under2 Coalition. There are a number of economically progressive low carbon initiatives that states can drive across jurisdictions, to meet legislated zero net emissions targets.



- *One area CMI will be working with the states is on the implementation of a [National Carbon Farming Industry Roadmap](#) to scale up the domestic carbon offset industry.*

6. Australia can export technologies, methods and capability to the Indo-Pacific region

The global low-carbon transition could create significant opportunities for investment, technology transfer and innovation and therefore open up new markets and new business lines for Australian business. This could be in the form of:

1. Institutional strengthening through the exchange of professional services and best practices. In many countries, there is a need for institutional strengthening and capacity building to effectively operationalize the country's climate mitigation objectives and programs. Australia could share its expertise in the design and operation of carbon markets and professional services in project development, legal, commercial, financial and technical aspects of monitoring reporting, verification of carbon projects, particularly in the land sector
2. Development of the export of Australian emissions reduction methods, technologies and expertise, with agreement to transfer and share the abatement that is achieved (or part of it). For example, Australia could share its world-class land sector abatement methodologies developed through both the Carbon Farming Initiative and Emission Reduction Fund. This was highlighted at COP23 with the Australian Government's announcement of the Sharing Australia's Savanna Fire Management Successes to Africa. The model for sharing methods could lead to the development of bilateral market based arrangements under Article 6.
3. Opportunities to mobilise green finance, technology transfer and innovation. Low-carbon developments in India could create significant opportunities for investment, technology transfer and innovation and therefore open up new markets and new business lines for Australian business. For example, many technologies may increase in demand including clean energy technologies such as solar PV as well as their supply chains. Priority areas could include energy sector reforms, energy efficiency, integration of renewable energy into the grids, support for reducing the cost of renewable energy technologies.

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. It is increasingly imperative that Federal and State Governments help support private sector efforts through the alignment of trade, aid and diplomacy to help to build commercial bridges to new markets.

- *CMI will be working with government and members to facilitate the opportunities to capitalise on new market opportunities in the Indo Pacific.*



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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

