

Carbon Market Institute

Optimising Australia's Strategic Role in International Carbon Markets

COP31 and Beyond

EXECUTIVE SUMMARY & KEY TAKEAWAYS



Executive Summary

Optimising Australia's Strategic Role in International Carbon Markets - COP31 and Beyond

International carbon markets offer Australia opportunities well beyond using international credits towards its own emissions reduction targets. They are an important mechanism for international climate cooperation, enabling countries to mobilise finance and investment to achieve their Nationally Determined Contributions (**NDCs**), particularly where domestic resources alone are insufficient. Through cooperation under Article 6 of the Paris Agreement, Australia could help partner countries finance emissions reductions, protect and restore nature, strengthen institutional capacity and pursue resilient, inclusive development and adaptation. At the same time, international engagement could advance Australia's trade, diplomatic and investment interests, create export markets for Australian carbon market expertise and services, strengthen regional relationships, and give Australia greater influence over emerging market rules and standards.

This report examines how Australia can realise these broader strategic opportunities while preserving its future policy options. It identifies five complementary pathways for international engagement, assesses their potential benefits, risks and implementation requirements, and proposes a staged approach to developing a long-term plan and policy through an Enable, Connect, Lead strategy.

The central question is not simply whether Australia should participate in international carbon markets, but what role it should play to best advance its national interests and shared regional priorities, and how it should translate its established capabilities into practical outcomes. This requires distinguishing opportunities that can proceed regardless of Australia's eventual position on international units from those that depend on further assessment and explicit Government decisions.

Why this matters now

Article 6 of the Paris Agreement provides a framework for countries to cooperate in achieving their climate targets through the transfer of internationally transferred mitigation outcomes (**ITMOs**) and the development of internationally governed crediting mechanisms. Alongside these arrangements, compliance markets, international coalitions and carbon market integrity initiatives are creating new opportunities for investment, trade and cooperation. Countries are implementing Article 6, establishing partnerships, developing project pipelines and shaping the rules and institutions that will influence future market access.

Australia has considerable advantages on which to build. More than 15 years of experience operating the Australian Carbon Credit Unit (**ACCU**) Scheme has developed domestic expertise in methodologies, measurement, reporting and verification (**MRV**), registries, regulation, land management and nature-based solutions. Australia also has established regional relationships and capabilities across government, industry, finance and project development.

However, these capabilities have not yet been translated into a coherent policy framework for Australia's potential role in international carbon markets. The direction of travel is towards increasingly connected carbon markets, as countries develop Article 6 cooperation arrangements, establish international partnerships and explore links between carbon markets, trade and investment. While the pace, scope and rules of integration remain uncertain, international cooperation is likely to become an increasingly important feature of the global climate and economic landscape.

The opportunity cost of inaction is significant. As other countries secure bilateral partnerships, develop project pipelines, attract investment and shape emerging market rules and standards, Australia risks missing opportunities to mobilise finance for partner countries' NDCs, strengthen regional relationships, create new markets for Australian carbon expertise and services, and influence the frameworks that will govern future market access. Delayed preparation of a plan and policy could also leave Australia with fewer options if domestic supply-demand conditions tighten or international demand for high-integrity mitigation outcomes grows and risks narrowing Australia's ability to influence emerging market rules, build strategic partnerships, attract investment and develop international markets for Australian carbon credits and expertise.

Australia's strategic opportunity

Four key drivers underpin strategic engagement: **operationalising enhanced domestic ambition** (2031–2035 cumulative emissions could exceed the NDC budget by 20–34% under baseline policy); **supporting industrial competitiveness** in hard-to-abate, trade-exposed sectors and facilitating market access through low-emissions supply chains (green iron and steel, hydrogen, low-carbon fuels, carbon capture and storage, agricultural products and nature-based solutions); **strengthening trade, diplomacy and economic partnerships** by connecting carbon markets with investment, industrial development and emerging international market frameworks; and **advancing regional leadership**, particularly in the Pacific through cooperation that helps partner countries mobilise finance, achieve their NDCs and deliver climate, nature and development outcomes. Implementation should adopt a domestic-first hierarchy, with Australia has significant capability to contribute to this emerging architecture. The private sector is already positioning for Article 6-aligned markets and is awaiting a clear Government position, appropriate institutional arrangements and practical partnerships.

It is timely for Australia to establish a plan as the facts speak to an urgency:

- **Australia is not yet Article 6-ready.** It must articulate its policy direction and establish a coherent plan that enables Australia to participate selectively and strategically. It must also build the legal, governance, authorisation, accounting and institutional foundations for credible participation and implementation, alongside whole-of-government capability.
- **The domestic market is tightening.** Modelling sources reviewed show annual compliance demand overtaking ACCU issuance somewhere between 2026–27 and the mid-2030s, with accumulated holdings drawn down and prices forecast to rise materially. Loss of liquidity could result in market instability and perverse outcomes due to continued compliance demand generated by the Safeguard Mechanism.
- **The international window is narrowing.** Competition for ITMO supply is expected to tighten in the early 2030s, and the rules, coalitions and integrity standards are being set now. Early movers will be better positioned to help shape the market, secure partnerships and potentially attract higher prices.

Key takeaways and considerations at a glance

A large ambition gap is driving cooperation.

Full implementation of current NDCs would put the world on track for 2.3–2.5°C of warming. Article 6 mechanisms are a way for countries to deliver faster, cheaper reductions: 89% of the 64 new NDCs analysed signalled an intention or openness to use at least one Article 6 cooperation approach, while the World Bank estimates trading could cut NDC implementation costs by as much as $250 billion by 2030.

Australia has the capability but lacks policy direction.

The ACCU Scheme has operated for over 15 years, and Australia offers deep experience in registry design, methodologies, MRV, audit and Indigenous participation. Much of the technical capability exists, but this report identifies a gap in the policy direction and political will needed to translate that capability into a coherent international markets plan. The immediate gap is a structured assessment and business case to support government decision making. Delaying foundational work could constrain Australia's future choices and diminish its ability to shape emerging markets.

Australia's absence from major international coalitions is a missed opportunity.

The report identifies Australia's absence from major international coalitions is a missed opportunity. The report identifies Australia's non-participation in the major carbon market coalitions it examines as a gap in its international engagement. Participation could strengthen Australia's influence over market integrity and governance, demonstrate leadership and build relationships with countries seeking to expand high-integrity carbon markets, leveraging its long experience and investments in the sector.

The case for Australia's participation extends beyond NDC ambition.

Australia's position on international markets is deliberately cautious. The 2035 NDC states there is currently no plan to use Article 6 towards that target, while preserving the option to do so later and to authorise ITMOs for other countries. However, international participation offers potential benefits beyond increasing Australia's own ambition which are not being adequately considered in the policy debate, including managing future compliance costs and carbon credit supply risks, protecting strategic options, strengthening trade competitiveness, developing export markets for Australian carbon expertise, supporting regional partnerships and influencing international market rules.

Regional partnerships offer strategic and whole economy development benefits.

Article 6 cooperation can provide a framework for investment, technical assistance, institutional capacity-building and progress towards partner countries' climate and development objectives, particularly in the Pacific and Southeast Asia. It can also help mobilise private investment in nature-based climate solutions and clean energy, advancing the national interests of both Australia and host countries as well as delivering important co-benefits for local communities, including improved livelihoods, coastal resilience, adaptation and biodiversity protection. For Australia, this creates opportunities to deepen regional relationships, support partner-led priorities and develop credible future carbon market options while contributing to broader development, trade and diplomatic objectives.

International carbon markets create economic, trade and risk-management opportunities - not just emissions-accounting options.

Participation could help Australia prepare for future international supply constraints, manage exposure to high domestic abatement costs through carefully designed and limited mechanisms, support low-emissions industries and explore links between carbon credentials and exports. It could also create international demand for Australian methodologies, MRV systems and carbon-market expertise. These benefits are distinct from, and do not depend entirely on, an increase in Australia's NDC ambition.

Rivals and partners are moving to shape the market, but Article 6 needs buyer countries to succeed.

China, the EU and Brazil are shaping compliance-market governance while countries including Japan, Singapore, Switzerland and South Korea securing international supply through bilateral arrangements. Early movers will be better positioned to benefit. Without willing buyers providing finance and demand, Article 6 risks failing to deliver on its promise leaving developing countries and Small Island Developing States that invest in market readiness and mitigation opportunities without the expected transactions and financial flows. Australia's participation could help make these markets work in practice, support regional partners and uphold the reciprocal bargain at the heart of Article 6.

International carbon markets can advance Australia's regional interests, channel climate finance and build climate security.

By creating pathways for investment in emissions reductions, carbon markets can direct finance towards developing countries, supporting their climate commitments, building institutional capacity and generating wider sustainable development benefits. For Australia, this offers a practical way to mobilise climate finance to governments and communities, strengthen regional partnerships and help Pacific neighbours build resilience to climate impacts. Carbon market finance should complement, not substitute for, dedicated adaptation finance, with host-country priorities and benefits embedded in arrangements.

The cost of inaction deserves the same scrutiny as the risks of participation.

International engagement carries risks, including double counting, weakened domestic abatement incentives and adverse effects on carbon-market price signals if arrangements are poorly designed. But opportunity costs of delay include lost influence over market rules, missed partnerships and investment, reduced opportunities for Australian expertise, and fewer options if future supply or compliance conditions change. Australia can begin building the governance, partnerships and technical foundations for participation without committing to unrestricted international credit use or changing its NDC.

Supply, demand and price outlooks

Analysis in the report finds that the domestic market is likely to face increasing demand pressure through the Safeguard Mechanism, tighter supply and upward price pressure. Internationally, demand for ITMOs is expected to grow as countries implement Article 6 and aviation compliance requirements.

The report outlines how Australia's domestic carbon market is moving towards a tighter supply-demand balance, driven by growing compliance demand under the Safeguard Mechanism, declining baselines and potentially lower SMC generation. While accumulated ACCU and SMC holdings provide a buffer against immediate constraints, existing projections indicate that annual demand could exceed new issuance from the late 2020s, progressively drawing down holdings and placing upward pressure on prices through the 2030s. Meanwhile, international carbon markets are developing rapidly, with growing demand for ITMOs from countries seeking to meet their Paris Agreement commitments and aviation operators complying with CORSIA. Although the scale and timing of demand remain uncertain, the limited number of completed Article 6 transactions, lengthy market development processes and early procurement by buyer countries point to increasing competition for high-integrity credits and potential price increases, particularly approaching 2030.

For Australia, these developments present both opportunities and strategic risks. International carbon markets could provide a complementary risk-management mechanism if domestic abatement becomes increasingly costly or constrained, while creating opportunities to attract investment, supply high-integrity mitigation outcomes and strengthen international partnerships. **The analysis highlights the importance of building the evidence base, market readiness and supply/demand modelling whilst preparing early to give Australia greater flexibility and competitive advantage, provided domestic abatement incentives are protected.**

Opportunities for Engagement in International Cooperation Through Markets

The report assesses options for Australia's international carbon market engagement through five complementary pathways that can be pursued in parallel where feasible or sequenced as Australia's readiness and policy objectives develop. Pathway options explored are bilateral framework agreements, mutual recognition and market linkage, restricted import use of international units in domestic compliance, exports of Australian carbon credits, and leadership in market integrity and innovation. It evaluates each option's relative advantages, limitations, implementation complexity, likely timeframe, policy implications and political palatability.

While the five options are complementary, they are not equally ready for implementation, nor do they require the same policy decisions. **Leadership, technical cooperation and capacity building, innovation can progress immediately as a foundational, near-term no-regrets priority pathway that Australia can pursue irrespective of its eventual decision on international carbon market units**. Bilateral agreements and export pathways require foundational Article 6 arrangements. Mutual recognition and international-unit use in domestic compliance settings require additional assessment of market design, regulatory equivalence and impacts on domestic abatement.

The table outlines the pathway options ordered in implementation sequence according to readiness using a staged approach: **build the foundations first, establish priority partnerships and carefully assess market-access options, then scale arrangements where experience demonstrates clear benefits.** Early and clear Government signalling is essential because uncertainty about future international-unit access could affect investment decisions and domestic credit supply even before any formal policy change occurs.

Option	What it involves	Complexity	Timing
 **5. Leadership in market integrity and innovation**	Export MRV, methods and advisory expertise; join integrity initiatives and coalitions; contribute to climate finance and development priorities; capacity building	Low	Immediate
 **3. Restricted import of high-integrity international units**	Government-controlled ITMOs inside the Safeguard Mechanism Cost Containment Measure (**CCM**)	Low to moderate	Near to medium term
 **1. Bilateral framework agreements**	Article 6.2 agreements with key priority partners (e.g. Pacific, Southeast Asian) for creation and transfer of ITMOs	Moderate	Near term
 **4. Export of ACCUs or A6.4ERs**	Authorised exports of A6.4ERs into Article 6 and CORSIA markets; stapling credits to commodity exports (with domestic safeguards)	Moderate to high	Medium term
 **2. Mutual recognition and ETS linkage**	Cross-recognition of units; compliance market linkage if a domestic emissions trading scheme (**ETS**) is expanded	High	Medium term (recognition); long term (linkage)

Recommendations and pathway forward

The report outlines a staged approach to strengthening Australia's role in international carbon markets with four strategic action areas of recommendations: **Explore, Enable, Connect and Lead**. The Explore category informs the direction and scale of future participation; Enable, Connect and Lead are parallel workstreams with actions that can progress at different speeds. Foundational work under the initial **Explore** phase involves building the evidence, testing the opportunities and establishes a clear business case for engagement. This should inform subsequent Government decisions on policy direction and the development of a National Carbon Markets Plan, followed by progressive implementation of agreed priorities. The approach recognises that



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Australia does not need to wait for a comprehensive domestic policy framework before taking practical steps to strengthen its international position. There are immediate, no-regrets opportunities to deliver value for Australia through international engagement, regional cooperation, trade and investment relationships, and the promotion of Australian carbon market expertise. These activities can generate near-term diplomatic, commercial and regional development benefits while building the relationships, knowledge and institutional capability that may support deeper market participation over time.

lIn the longer term, international market linkages could also provide Australia with greater flexibility and redundancy in meeting its own emissions reduction commitments. Depending on future policy settings and market conditions, they may offer additional options to manage domestic supply and demand pressures, support cost-effective abatement and mobilise investment in Australian and regional mitigation opportunities. These potential benefits warrant careful assessment, including how international participation could complement rather than displace domestic abatement.



Explore: Build the evidence base and business case

X0: Model domestic and international market outlooks: Develop robust supply, demand and price modelling to assess how international market participation could interact with Australia's evolving domestic carbon market.

X1: Undertake a scoping and use-case assessment: Assess Australia's strategic interests, potential use-case pathways, costs, risks and implementation requirements.

X2: Develop an industry-led business case: Articulate the commercial rationale and opportunities for Australian businesses, investors and carbon market participants.

X3: Map priority sectors, markets and partnerships: Identify prospective partner countries, priority sectors, investment opportunities and areas of Australian comparative advantage.

Connect: Build partnerships and market opportunities

C1:Develop priority country partnerships: Build relationships and explore Article 6 cooperation with priority Pacific, Southeast Asian and established trading partners, aligned with Australia's climate, trade and diplomatic interests., leveraging soft power and strengthening regional relationships.

C2:Develop an export and market-access strategy: Identify overseas market opportunities for eligible Australian credits and mitigation outcomes, including CORSIA and mutual recognition, with appropriate domestic safeguards (eg. volume caps).

C3:Advance carbon markets and trade cooperation: Pursue opportunities around product-level emissions information, carbon accounting, low-emissions supply chains, contractual credit-stapling and sector-specific partnerships.

Enable: Establish the foundations

E1: Develop a National Carbon Markets Plan: Following the assessment and Government policy direction, establish Australia's objectives, principles, priority markets, approach to Article 6, safeguards and implementation priorities.

E2: Establish an Article 6 implementation framework: Progress the legal, institutional, authorisation, accounting, registry and reporting arrangements required for participation, with preparatory design work commencing during the Explore phase.

E3: Build whole-of-government capability: Establish initial coordination during the Explore phase and develop enduring capability across DCCEEW, DFAT, the Clean Energy Regulator and relevant trade, investment and industry portfolios.

E4: Build an export and international eligibility framework: Assess and, subject to Government decisions, establish arrangements for eligible ACCU exports (limits or retention strategies), CORSIA participation, authorisations, domestic market safeguards.

Lead: Strengthen Australia's international influence and expertise

L1:Signal leadership: Advance a practical international carbon market agenda, participate in global coalitions and convene an Indo-Pacific Carbon Market Cooperation Dialogue.

L2:Establish regional technical assistance and capacity-building programs: Develop predictable, multi-year support for partner countries, working with multilateral development banks and Australian public- and private-sector expertise.

L3:Grow Australian carbon market services and innovation exports: Promote Australian capabilities in methodologies, MRV, project development, assurance, governance, regulation, finance and advisory services as international export opportunities.

L4:Shape international standards and market integrity: Contribute Australian technical expertise to Article 6, international crediting mechanisms, integrity initiatives and the development of robust market rules and safeguards.



Implementation Roadmap

The implementation roadmap translates the report's recommendations into a phased pathway for action, recognising that Australia's engagement in international carbon markets will require both immediate initiatives and longer-term policy development. It is structured around Near-term (2026–2028), Medium-term (2029–2031), Long-term (2031 onwards) time horizons with the four recommendation action areas – Explore, Enable, Connect and Lead – acting as complementary workstreams that can progress in parallel and at different speeds.

The roadmap is intended to be an adaptive guide, not a commitment to pursue every pathway or predetermined model of market participation. It provides a way to capture immediate diplomatic, commercial and regional benefits while progressively building Australia's capability, partnerships and options for deeper international cooperation over time.

Near-term (2026-2028)

Focus: Build the evidence base, establish readiness and signal intent

Explore: Undertake whole-of-government scoping and use-case assessment (X1); commission domestic and international supply, demand and price modelling (X0); develop an industry-led business case (X2); map priority countries, sectors and opportunities (X3).

Enable: Establish initial whole-of-government coordination (E3); commence preparatory Article 6 legal, institutional and registry design (E2); assess ACCU export and CORSIA eligibility requirements (E4); identify legislative and regulatory requirements.

Connect: Map priority partner countries and commence exploratory bilateral discussions (C1); identify potential buyers, investors and export markets (C2); develop opportunities linking carbon markets and trade (C3).

Lead: Use COP31 and the COP Troika to signal Australia's ambitions and convene regional dialogue (L1); progress participation in international coalitions; commence regional technical cooperation and capacity building (L2); showcase Australian expertise and export opportunities (L3); contribute to integrity and standards initiatives (L4).

Medium-term (2029-2031)

Focus: Translate priorities into policy, partnerships and practical market participation

Explore: Refresh market modelling and assess emerging international opportunities and implications for Australia's 2040 NDC and domestic market (X0–X3).

Enable: Develop and publish a National Carbon Markets Strategy and Plan (E1); progress Article 6 governance, authorisation, registry, accounting and reporting arrangements (E2); establish enduring whole-of-government capability (E3); progress eligible export and CORSIA arrangements, subject to Government decisions and market conditions (E4).

Connect: Progress priority bilateral agreements and project pipelines (C1); develop eligible export and mutual recognition opportunities (C2); undertake practical pilots linking carbon markets, product emissions information and trade (C3).

Lead: Expand regional technical assistance and capacity building (L2); strengthen Australian carbon market services and innovation exports (L3); deepen Australia's contribution to international standards and integrity initiatives (L1, L4).

Long-term (2031 onwards)

Focus: Expand strategic influence, market opportunities and regional impact

Explore: Reassess Australia's priorities against its emissions trajectory, 2040 NDC, domestic market outlook and international market developments (X0–X3).

Enable: Refine policy and regulatory settings; maintain and improve Article 6 infrastructure and institutional capability; assess deeper market integration or linkage where justified by future domestic policy settings (E1–E4).

Connect: Expand successful bilateral and regional partnerships; pursue selective market access, investment and low-emissions trade opportunities; scale commercial partnerships and project development (C1–C3).

Lead: Strengthen Australia's role in international standards and market integrity; expand technical assistance and regional cooperation; grow Australian carbon market services, innovation and expertise exports (L1–L4).

Conclusion: Positioning Australia for the Next Phase of International Carbon Markets

Australia has an opportunity to shape the next phase of international carbon markets rather than simply respond to developments as they occur. Its established carbon market experience, technical expertise, regional relationships and international standing provide a strong foundation to become a more influential partner in the development of high-integrity markets. However, these advantages will not automatically translate into strategic or commercial benefits. A clearer policy direction, stronger institutional readiness and more coordinated engagement are needed.

The case for action extends well beyond the potential use of international units towards Australia's own NDC. International market engagement can help mobilise finance for partner countries' climate and development priorities, strengthen Australia's regional relationships, open new markets for Australian expertise and services, support trade and industrial competitiveness, and give Australia a greater voice in shaping international rules and standards. Over time, carefully designed market linkages may also provide additional flexibility and resilience in meeting Australia's own emissions reduction commitments, particularly as domestic supply, demand and compliance costs evolve.

Australia should therefore pursue a pragmatic, staged approach. The immediate priority is to build the evidence base and industry-supported business case, while progressing no-regrets opportunities in international leadership, regional cooperation, technical assistance and commercial engagement. This should inform Government decisions on a National Carbon Markets Plan and the progressive development of the institutional and regulatory foundations required for deeper participation. Any future use of international units must be subject to robust integrity requirements and safeguards that maintain domestic abatement as the priority.

The opportunity is to establish an Australian approach that connects climate ambition with trade, investment, regional development and international cooperation. **By acting now to build partnerships, demonstrate leadership and prepare for emerging market opportunities, Australia can preserve its future policy options, strengthen its national interests and help shape an international carbon market architecture that delivers credible climate outcomes and shared prosperity.**



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For further information, please contact
info@carbonmarketinstitute.org