



Key takeaways from Paris COP21

What does the Paris Agreement mean for Australian business?

It is done. For many members of CMI who have been working in the climate change and business arena for a long time, the Paris Agreement is a turning point to be celebrated.

Beginning with the largest gathering of political leaders ever seen and finishing with 196 nations signing the most ambitious deal ever struck to tackle global warming, the Paris Agreement is a diplomatic triumph.

CMI had a delegation of 18 companies represented in Paris, the largest of any Australian business association. We have increased our collective knowledge, made vital contacts and are in a position as an industry body to play a catalytic role in driving implementation of actions required to capitalise on this next period of economic growth in a low carbon world.

Below I have highlighted some key personal takeaways of what the Paris Agreement means to Australian business. I look forward to discussing these with you and to elevating the dialogue, knowledge exchange and commercial interaction at the 3rd Australian Emissions Reduction Summit on 3&4 May 2016.

1. The debate is over – the massive economic impetus to a decarbonized economy is unstoppable and business gets it.

A turning point has been reached amongst the world's major political and economic actors that we are on an inevitable path to decarbonizing our economies. The Paris Agreement states that emissions should peak "as soon as possible" with rapid reductions thereafter and includes a five-year cycle for reviewing emissions cuts with action to be continually ratcheted up. We are on a path to net zero emissions. The significant presence and statements of businesses and investors in Paris is an unequivocal signal that leading businesses "get it". This was exemplified by AGL CEO Andy Vesey at CMI's Spotlight on Australia event where he said, "There is a sense of inevitability about what has to be done". Corporate leaders speaking at many high level events demonstrated their support for carbon pricing and their desire for Governments to set long term policy frameworks to provide certainty to invest and unleash innovation. In Australia, with an election next year, it is time for the national conversation to mature. Major parties need to depoliticize this debate and detail clear, long term policy measures to decouple emissions growth from economic growth. Businesses need to identify what their own pathway is to navigating the risks and capitalizing on the economic opportunities a low carbon economy presents, and frame business strategy accordingly. The debate is over. It's time to act.

2. The global emissions trajectory is set and so Australian domestic climate policy settings will inevitably tighten.

The Paris Agreement sets the framework for the global emissions trajectory. It's down, down, down. Australia's plan to reduce emissions, our nationally determined contribution, includes the ERF as the primary mechanism to achieve the 2030 target. The heavy lifting for emissions reduction must shift quickly from the public funding of abatement through the ERF auctions to the safeguard mechanism. The threshold for coverage and safeguard mechanism baselines have been set at generous levels to start with in 2016. However, for the safeguard mechanism to make a meaningful contribution to emissions reduction, baselines



will need to decline, perhaps sharply. The 2017 review of Australian climate policy will identify the conditions and criteria as to how baselines will be adjusted and at what point they will pivot to start to give covered entities a material liability. It is important for all large emitters to model their future emissions profile, assess their potential liability and when it will kick in and now start to factor in a carbon price. To do this effectively, business will be looking for Government to provide more certainty and transparency on the safeguard mechanism framework and how it will evolve to be an effective market mechanism.

3. Market mechanisms with international trading will become a feature of the suite of policies needed to meet emission reduction goals.

The Paris Agreement highlights the role of carbon markets in international efforts to meet emissions reduction goals through a new mechanism to support sustainable development. As the Australian Government has now signalled strongly that we will likely have international units as part of our mix to meet UNFCCC obligations, harmonisation of market mechanisms will be critical. The new rules of the post 2020 global carbon market will be set over the next few years. How the rules are set and the framework adopted will be directly relevant to all Australian companies that will have a liability under a compliance market (the safeguard mechanism or another form of an ETS) and want to participate in an international carbon market. If the Australian government is proactive, the way the rules are designed could also potentially open the door for the export of domestically generated credits into other emission trading schemes. It is important that as this new market is designed, the private sector has a seat at the table. We need to be on the front foot and CMI will be engaging with the UNFCCC and other parties to ensure an Australian business voice is represented as the rules are set. Market mechanisms should be a central feature of Australia's climate policy approach but we will also need a suite of other complementary measures at the Federal and State level to meet emissions reduction goals. To optimize positions under these policies it is incumbent on business to actively engage with Government over the next 12-24 months on the design and implementation of the market mechanisms and new policies.

4. Competition is going to heat up. Australia could be in danger of being left behind.

At a fascinating session in the China pavilion in Paris, the Chinese chief negotiator was speaking with California Governor Jerry Brown. Their key messages, directed at each other with pointed fingers were, "We are going to be allies with you, we are going to cooperate with you but most of all we are going to compete with you!" The competition for low carbon development has injected a new vitality in the US and China relationship. This is the next great economic battle. The EU, India, Japan, Korea, all our major trading partners, signalled their desire to actively participate in scaling the global deployment of low carbon solutions. New business models are evolving rapidly. Some old business models will die. The low carbon transition is on but many parts of the Australian economy are not yet harmonized with the global movement. For business key questions to examine include: "What is the business model innovation required?" and "How do you create and enter new markets?". For government: "How do we catalyse investment in innovation and help commercialize Australian know how?" and "How can we attract inbound investment and facilitate new export markets?" The world is moving on this generational economic opportunity and if we don't get savvy about it, there is a danger we will fall behind. It's game on.

5. There is a global market for Australian services and innovations

The Paris Agreement establishes the Paris Committee on Capacity-building. 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 such as China with expertise in emissions management, reporting, monitoring, verification, offset project development, renewable energy project financing and institutional strengthening. 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.

6. The financing gap needs to be bridged and will create opportunities for innovative ways for public and private funding of the low carbon transition.

The Paris Agreement sends a very powerful signal to the world's capital markets. Climate finance is a critical element of the Paris Agreement, and funding adaptation and mitigation efforts will require trillions of dollars over the next few decades. Developing countries need the funds to effectively leapfrog the fossil fuel age. The magnitude of investment will require the involvement of the full spectrum of the finance and investment communities. The Green Climate Fund's (GCF) objective is to be a game-changer for climate finance through its innovative approach. The Paris Agreement establishes the GCF at \$100bn per year by 2020, and this is to be a floor for post-2020. Green bonds have grown exponentially and will proliferate. Banks have committed to drastically increasing debt to fund clean energy and technology, and new funds and fund products will be needed to channel investment from multilateral banks and institutional investors. Smart VCs will continue to grow the investment in cleantech innovations that have the ability to scale. At the same time, scrutiny of climate risk in investment portfolios and of listed companies is increasing. It is clear that globally, investors are reassessing fossil fuel investments and making definitive changes to their investment policies. In Australia, we can expect to see an increase in the need for governance and disclosure of climate risk and subtle shifts in asset allocation and investment mandates. With our very sophisticated capital markets, Australian financiers and investors are perfectly placed to play a key role in our region to fund the transition to a low carbon economy.

7. We are seeing leadership at sub-national level and States and cities are open for low carbon business.

The Paris COP21 demonstrated clearly that climate action at the State and municipal level is a global phenomenon. Australia had significant representation in Paris from South Australia, Victoria and Queensland as well as many city leaders. In fact at one gathering there were over 1000 world mayors in attendance. In Paris there was a strong call for climate action and many sub-national jurisdictions presented on their vision and direction. States such as California exemplify leadership and can point to the economic benefits of driving action delivering jobs and investment. The momentum in Canada at the provincial level is now being unified and harnessed under a new Federal government. The progressive Australian States that want to lead on climate change are, to quote a certain former Prime Minister, "open for business". If these sub-national players can follow through with their policy commitments we will see significant economic activity at the State level in Australia. Key will be for the States to build their own capacity and to align and partner with business to drive new markets and industry transformation.

8. Connections and relationships will help create a competitive advantage for Australia.

There were over 200 Australians represented in Paris and the development of new interpersonal relationships will be a lasting legacy of the two weeks. The Australian government ministers and the official



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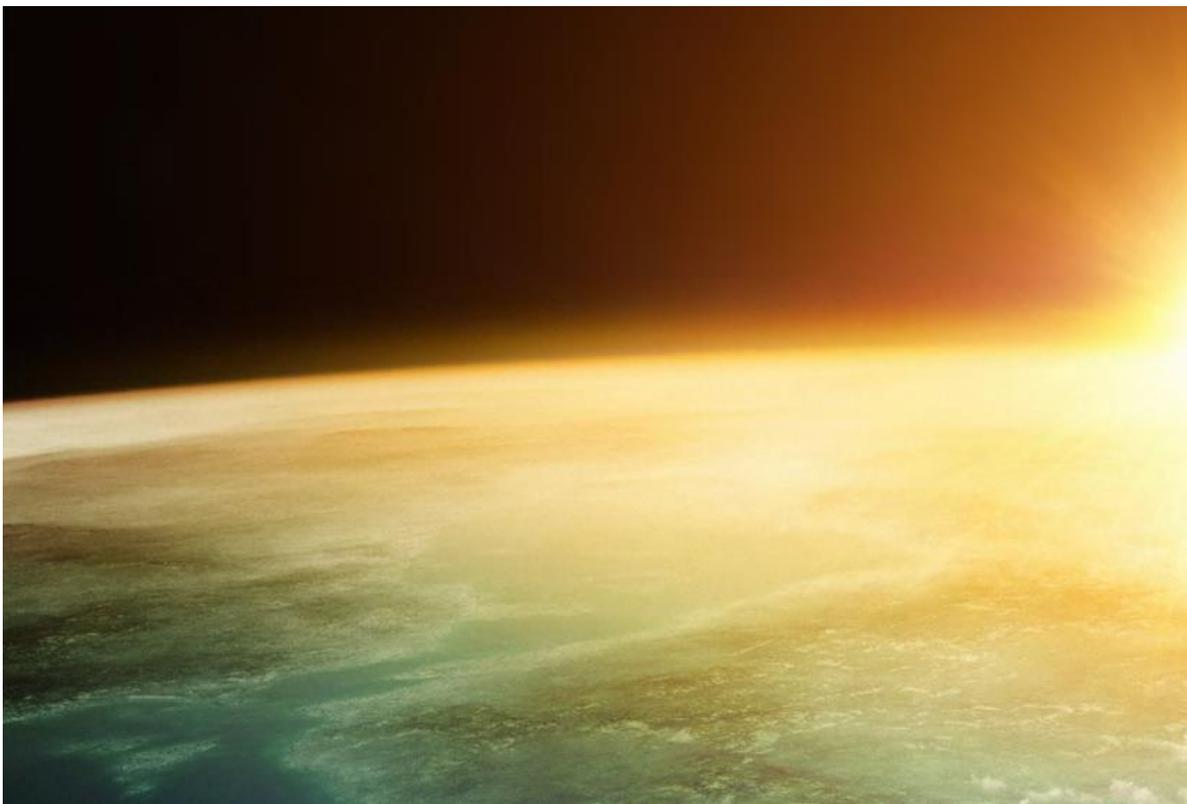
delegation engaged frequently and openly with stakeholders, industry delegates shared insights, journalists built new informed contacts and in typical Australian style, there were many extra-curricular social and networking functions where strong bonds were formed. In Australia there are 2 degrees of separation (or should I say 1.5 degrees??) between any key stakeholders from policy, business, technology, finance, civil society and media. As an industry body we see that it is critical we play a role in connecting people so that new alliances, partnerships and collaborations can be formed. Together we can mutually support the actions required to set us on a path to decarbonisation. The sharing of ideas, technology and solutions can be turned into commercial interaction to help Australia benefit from the economic growth opportunities that will ensue in the post-Paris world. Personal relationships and trust built up between key economic actors in this unfolding drama will need to be nurtured. We are all in this together. The future begins now.

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14 December 2015

Save the date – 3rd Australian Emissions Reduction Summit 3&4th May 2016



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