



# Review of Australia's Climate Change Policies: IETA Submission on the Discussion Paper

May 2017

## **About IETA**

*IETA is a Switzerland-registered not-for-profit entity dedicated to the objectives of the United Nations Framework Convention on Climate Change and ultimately climate protection. It was created in June 1999 to establish a functional international framework for trading in greenhouse gas emission reductions. Today, IETA is the leading voice of the business community on the subject of carbon markets. IETA continually promotes the establishment of effective market-based trading systems for greenhouse gas emissions by businesses that are demonstrably fair, open, efficient, accountable and consistent across national boundaries; and advocates for maintaining societal equity and environmental integrity while establishing these systems.*

*Since its creation, IETA has remained committed to its vision of a global greenhouse gas market. IETA's 130+ member companies include some of the world's leading corporations in oil, electricity, cement, aluminium, chemical, and other industrial sectors; as well as leading firms in the data verification and certification, brokering and trading, legal, finance, and consulting industries.*

IETA warmly welcomes the publication of the discussion paper and the call for written submission in the context of the review of Australia's climate change policies. IETA's views on some of the topics covered in the discussion papers can be found below.

## **1. Key Messages**

This submission covers three main areas:

1. The Paris Agreement targets and the importance of policy stability;
2. Considerations on the use of international units;
3. Considerations on the Paris Agreement and international units.

While these topics are discussed at length in Chapters 2, 3 and 4, we would like to offer here a summary of the key takeaway messages:

- Confidence, transparency and predictability are essential for the efficient functioning of any climate policy and to deliver a clear, long-term signal that allows business to design



- effective and ambitious decarbonisation plans. IETA believes that regulatory interventions and policy changes should be put forward in a predictable, transparent and adequate manner in order to minimise the regulatory risk faced by compliance entities. This allows business to take correct investment decisions.
- The use of international units is an option available to policymakers to maintain an ambitious long-term emissions reduction target while lowering abatement costs at the same time. Nevertheless, there is significant uncertainty around the implementation of Article 6 of the Paris Agreement, which will have an impact on the nature, availability and role of international units post-2020.
  - It is therefore of uttermost importance that rules, principles and technical details to operationalise Article 6's market provisions are developed in a way that maximises their potential and that this process is carried out in a timely manner to guarantee as much predictability as possible. Australia should play a pivotal role in this discussion.
  - At the domestic level, a robust understanding of the development of new markets and the state of existing markets needs to underpin the development of future policies.
  - IETA has released "[A vision for the market provisions of the Paris Agreement](#)", a paper detailing how the market provisions of the Paris Agreement could be implemented to create an effective international framework for trading in emissions units, along with several other reflections on Article 6 of the Paris Agreement and carbon markets in general. Being the leading voice of the global business community on the subject of carbon markets, we actively engage with governments worldwide, offering a business perspective and contributing to policy-making in the climate change space. We therefore remain fully available for any further contribution and/or engagement opportunities, if the Department of Energy and Environment deems it necessary.

## 2. The Paris Agreement targets and the importance of policy stability

Taking a long-term outlook, Australia has committed to reduce greenhouse gas emissions by 26 to 28% below 2005 levels by 2030, as part of its [Intended Nationally Determined Contribution](#) (INDC) under the Paris Agreement. We believe it is important to clarify a detailed pathway outlining how the INDC target will be achieved and whether market-based policy tools will be used.

The pathway should clearly indicate:

- How the current climate change policies will be extended post-2020 and what the expected contribution from existing policies is,
- Which (if any) additional policies will be implemented and what their contribution towards meeting the overall target will be.



Confidence, transparency and predictability are essential for the efficient functioning of any climate policy and to deliver a clear, long-term signal that allows business to design effective and ambitious decarbonisation plans. Therefore, it is important to provide rules that are long-term and predictable in order to minimise the regulatory risk faced by covered entities.

Moreover, it is also important to set clear and predictable longer-term targets indicating the desired emissions reduction trajectory beyond 2030. This enhances predictability for business on the emission reduction pathway and the level of ambition foreseen in the long-run.

The Paris Agreement includes a mechanism to perform a global stocktake of GHG emissions, with a view to reviewing the level of ambition globally every five years. It therefore becomes important to spell out what the process would be for such periodic reviews in the context of Australia's climate change policies, in order to have clarity on how and when policy changes would occur.

IETA believes that regulatory interventions and policy changes should be put forward in a predictable and transparent manner in order to minimise the regulatory risk faced by compliance entities. This allows business to take correct investment decisions.

### **3. Considerations on the use of international units**

*Some of the concepts outlined below have been previously included in IETA's submission to the Climate Change Authority's (CCA) Special Review of Australia's policies and future targets for reducing greenhouse gas emissions in August 2016 (available [here](#)) and were also featured in the IETA-CMI joint report on "Optimising Australia's Position in International Carbon Markets" (available [here](#)), released in October 2016.*

#### **3.1 The case for international units**

Australia's INDC target requires a significant, economy-wide abatement effort. For many industrialised economies, such as Australia, that already have efficient industrial and energy sectors, the ambitious emissions reductions commitment required to meet the Paris Agreement's long-term goal could result in significant costs for society, as domestic abatement options are likely to be costly. This is especially true for countries that are fully industrialised and have high carbon abatement costs and for countries whose emissions originate in sectors with limited abatement opportunities.

At the same time, greenhouse gas emissions impact the climate at a global level and the climate is agnostic to the geographic source or sink of greenhouse gas emissions. The ability to surrender emissions units generated in another jurisdiction, by allowing emissions reduction to take place where it is cheapest can lower compliance costs to business, and hence the overall



cost on the Australian economy, as well as allow achieving Australia's overall reduction goals in the most cost-efficient way.

Moreover, as a transfer of emissions reduction units corresponds to a transfer of finance and investments, the use of international units has the potential of opening up new markets and new business lines for Australian businesses. For example, Australian farmers could sell ACCUs to liable entities in other systems. The trade and surrender of international units can be seen as a first form of linking climate efforts between two or more countries, as it can broaden the scope of domestic climate action by allowing the flow of units between different systems.

As such, the use of international units is an option available to policymakers to maintain an ambitious long-term emissions reduction target while lowering abatement costs at the same time. Assuming there is sufficient supply at attractive prices, accessing international emission units could allow Australia to meet its target in a cost-effective way.

### **3.2 Benefits of international units**

The use of international units brings a number of benefits, further elaborated below:

#### **Cost-effectiveness**

- The ability to surrender an emissions unit from another jurisdiction can help lower compliance costs. Widening the pool of abatement options beyond Australia's borders can lower the overall costs of abatement and help meeting the environmental objective at the lowest cost. By allowing flows of emissions units in and out of the system, according to where mitigation is cheapest, the long-term emission reduction targets for both Australia and international partners will be able to be met by all sectors cost-effectively.
- As emissions reduction targets grow more stringent over time, Australian businesses will need access to international markets to reduce emissions cost-effectively. Assuming there is sufficient supply at attractive prices, access to international market mechanisms outside Australia has the potential to reduce overall costs to industry and governments alike. This would also help create a level-playing field by aligning the costs for Australian business with those of international competitors.
- Flexibility in the system allows participants to make strategic choices about their route to compliance as well as ensuring their abatement options for global greenhouse gases are more efficiently and cost-effectively abated using modern techniques and technologies.



## **International Cooperation and Global Partnerships**

- International efforts and cooperation in climate change mitigation are needed to meet the Paris Agreement's long-term 2°C goal. Focusing emission reductions only domestically will not be sufficient to achieve the necessary emission reductions needed globally.
- Australia would set a precedent and a good example for other countries and regions to work towards viable international markets that would create demand for international units from other jurisdictions. Providing access to international units will incentivise advanced, emerging, and developing economies alike to meet climate mitigation goals using market mechanisms, improving the cost-effectiveness and quality of their systems. Governments hosting projects for which units will be issued will see the benefits of market-based measures to reduce emissions.
- The use of Clean Development Mechanism expanded international cooperation with many developing countries and prompted the growth of expertise within their business communities. It also created export opportunities for technology transfer. These lessons learnt should be looked at when considering the use of international units post-2020.
- Emissions units are important not only in environmental terms, but also in providing improved prospects for linking of policy mechanisms in the future. They provide a safety valve for each system and each system can implement the filters it feels are necessary for its domestic climate policy, according to predefined criteria.

### **3.3 Types of units to consider and eligibility requirements**

International emissions units eligible for compliance in Australia should include internationally-recognised emissions reduction unit types. To date, international unit types typically include Certified Emission Reduction (CER) units generated by Clean Development Mechanism (CDM), Reducing Emissions from Deforestation and Degradation (REDD+) units and others.

Moreover, Australia's climate policy framework should also contain provisions for the inclusion, in the post-2020 period, of international units categories established under the framework of the Paris Agreement. Articles 5 and 6 of the Paris Agreement pave the way for the expansion of a REDD+ framework and for the development of a new market-based crediting mechanism.

Particular attention should be focused on REDD+ units, as addressing deforestation is essential to avoid climate change. We view REDD+ as a key new mechanism as it has the potential to provide crucial financing to emissions reductions activities at an impactful scale. REDD+ units can help combating deforestation, and Article 5 of the Paris Agreement paves the way for the establishment of a REDD+ framework at the UN level.



When exploring the use of international units in Australia, several unit types should be considered, both existing and under development, as they allow having diversified sources of abatement opportunities and because frameworks that are currently being developed are likely to represent an important source of international units in the near future. Furthermore, we recommend the use of units that meet the criteria and principles outlined below.

The use of international units should satisfy the following principles:

- **Environmental integrity:** International units should represent real, permanent and additional reductions, and be subject to robust monitoring, reporting and verification (MRV). It is therefore essential to ensure common and consistent MRV processes. One tonne of reductions located outside Australia should equal one tonne of reductions within Australia. Clear quality criteria need to be agreed at the UN level from the outset, to allow individual and sectoral projects to develop once they meet minimum criteria set by the UNFCCC.
- **Regulatory stability:** The extent to which international units should be allowed (volume and type) should be defined as clearly as possible. This offers compliance entities visibility on what to expect in terms of policy developments, and it helps to avoid a sudden inflow or outflow of units when rules get modified. Moreover, property rights on the emissions units must be ensured to compliance entities, to prevent regulatory uncertainty and economic losses.
- **Compliance with the UNFCCC framework:** International units should comply with the evolving framework established by Article 6 of the Paris Agreement.

Moreover, criteria for the type of international units could include the following:

- **Net mitigation contribution:** The extent to which a project counts against a host country's efforts to reducing their domestic emissions should be clearly established, to assure that there is no double counting. Net mitigation could be set by project type and/or by country type.
- **Clear additionality:** Units should meet a clear additionality standard set by determining an appropriate sectoral benchmark for the country or region. Projects with clean technologies that abate significant levels of GHG emissions should flourish as a result.
- **Sustainable development:** Units should, in addition to contributing to a net mitigation of greenhouse gas emissions, support sustainable development, as outlined by the Paris Agreement's Article 6.
- **Project neutrality:** Project size should not be a criterion for the eligibility of units, in order not to favour small projects over large projects and vice versa.
- **Credibility:** UN-issued units could be recognised, to ensure that qualitative criteria are guaranteed.



## 4. Considerations on the Paris Agreement and international units

With the Paris Agreement coming into force the world will shift to a new regime for climate action, which will also have an impact on the nature, availability and role of international units. Many factors, including the nature of the Paris Agreement, the market provisions outlined in Article 6, the upcoming negotiating process and the Nationally Determined Contributions (NDCs), will play a role.

Moreover, it is worth underlining that, in parallel to the UNFCCC process, we are also likely to see “carbon market coalitions” or “carbon market clubs” form. Some of these examples are represented by the G7 Carbon Markets Platform and by the Ministerial Declaration on Carbon Markets lead by New Zealand. Eventually, these decentralised clubs could find linkages through common recognition of offsets or direct connections of registries, potentially offering fungible international units.

At the domestic level, a robust understanding of the development of new markets and the state of existing markets needs to underpin the development of future policies. We therefore believe it is important to take the considerations outlined below into account when considering the potential role of international units.

### 4.1 The Paris Agreement and Article 6

As outlined above, Australia’s climate framework should also contain provisions for the inclusion, in the post-2020 period, of international units established under the Paris Agreement. This is because international climate action will transition from the current Kyoto architecture, i.e. provisions, tools and mechanisms established by the provisions of the Kyoto protocol, which will be in place until 2020, to the Paris architecture, which will be in place post-2020 and will replace the provisions, tools and mechanisms of the Kyoto Protocol.

The shift from the Kyoto architecture to the Paris architecture will also influence the nature and availability of international units. Under the Kyoto architecture, the international trade in carbon reduction units mainly involved:

- Certified Emission Reductions (CERs), the emission units issued by Clean Development Mechanism (CDM) projects,
- Emission Reduction Units (ERUs), the emission units issued by the Joint Implementation (JI) projects,
- Assigned Amount Units (AAUs), the emission units issued to Annex I countries as “allowed emissions” over the 2008-2012 commitment period.



Post-2020, international trade in carbon units will be shaped by the provisions, tools and mechanisms established under the Paris Agreement. Article 6 of the Paris Agreement contains the key market provisions that are expected, once implemented, to be the guiding framework for international trade in carbon units.

Article 6 has two key features:

1. It describes the use of internationally transferred mitigation outcomes (ITMOs). The concept of exchange of carbon units, either notional or real, should be an underpinning feature of any ITMO. This aligns the ITMO with a cumulative emissions model and therefore ensures avoidance of double counting, a core provision of the Paris Agreement.
2. It establishes a mechanism to contribute to the mitigation of greenhouse gas emissions, or an Emissions Mitigation Mechanism (EMM), and support sustainable development.

In IETA's view, with the full implementation of the Paris Agreement, the EMM could offer a universal carbon allowance or unit for those countries that choose to use it, facilitating trade between NDCs (i.e. ITMO), providing registry facilities and therefore offering the prospect of carbon pricing in many economies. This in turn could channel additional investment. Its core purpose could be defined so as to deliver an emissions reduction against some reference which is contained within the NDC, but also to ensure an overall reduction in global emissions while delivering sustainable development benefits.

Because an EMM can connect with the emission mitigation objectives of another party, it can act to facilitate an ITMO. EMM should become a broad framework mechanism within which many types of mitigation approaches can be executed with assured additionality and avoidance of double counting, rather than a single purpose mechanism such as the CDM under the Kyoto Protocol.

With the full implementation of the Paris Agreement such a framework could see the EMM offering both universal carbon allowance and crediting units for those countries that choose to use them, facilitating trade between NDCs (i.e. ITMO), providing registry accounting and offering the prospect of carbon pricing in many economies.

In summary, the EMM could be designed to provide flexibility for countries by offering the following;

- Quantify and deliver emission reductions (as an allowance type of unit) against an emissions reference level in a Party's NDC;
- Provide a universal emission reduction unit or emissions allowance that can be transferred from one country to another as an ITMO;
- Encourage large-scale emissions mitigation activities as cost-effectively as possible;



- Undergo and follow oversight rules on the EMM set by the COP;
- Promote sustainable development through economic transition across all sectors of the global economy.

#### **4.2 Implementing Article 6**

Article 6 of the Paris Agreement is a simple outline, limited to a few lines, of the aforementioned market provisions. Rules, principles and technical details will need to be developed to implement and operationalise those provisions. This represents the main challenge lying ahead.

The process to draft rules, principles and technical details started in November at COP22 in Marrakesh, and is carried out by those Parties that have ratified the Paris Agreement. It is of uttermost importance that rules, principles and technical details to operationalise Article 6's market provisions are developed in a way that maximises their potential and that this process is carried out in a timely manner to guarantee as much predictability as possible. Australia should play a pivotal role in this discussion.

IETA has released "[A vision for the market provisions of the Paris Agreement](#)", a paper detailing how the market provisions of the Paris Agreement could be implemented to create an effective international framework for carbon markets. These market provisions have the potential of helping countries achieving their targets in the most cost-effective way, and to unlock opportunities to go beyond the original commitments. It is therefore important for countries to actively engage in the implementation process of the Paris Agreement's Article 6 and to align their domestic climate policies with the emerging international framework.

#### **4.3 Factors affecting future supply and demand of international units**

It is worth noting that the Paris Agreement architecture will be significantly different from the architecture of the Kyoto Protocol, and this will have a significant impact on the future demand and supply of international units. The most significant difference is that the division between Annex I countries (i.e. countries with an emissions reduction commitment) and non-Annex I countries (i.e. countries without an emissions reduction commitment) that existed under the Kyoto Protocol is no longer in place under the Paris Agreement. This binary world will no longer exist because all Parties to the Paris Agreement are required to develop a Nationally Determined Contribution (NDC) outlining their emissions reduction commitment.

Under the Paris Agreement, over 90 countries indicated an intention to participate in an international market-based mechanism to meet their emissions reduction contribution. Many of those countries will be likely 'sellers' of emission reductions, such as countries that have cheap emission reductions opportunities available and are interested in financing such activities. Other



countries, on the other hand, will be ‘buyers’ of emission reductions, for example countries that are fully industrialized and have high carbon abatement costs.

The most obvious consequence of all countries now having an NDC is that full national accounting for international units must take place for both the recipient and the source of the units. On the recipient’s side, the introduction of units will raise the effective national cap on emissions, while the source country will be required to make an equivalent reduction (or “corresponding adjustment”) from their stated NDC, therefore tightening their contribution. This was a feature of the Joint Implementation (JI) mechanism under the Kyoto Protocol, but was not the required practice in the CDM. This will play a role in determining whether countries will be willing to engage in international transfers of their mitigation outcomes, or whether they will decide to use them for their own compliance.

A number of other factors are likely to play a role in affecting future supply and demand of international units in a post-Paris future. These factors include:

- **NDCs and ambition:** The main driver determining future supply and demand of international units will be whether or not countries plan to trade units internationally and whether, in doing so, they plan to act as buyers or sellers. Ninety governments state in their INDCs that access to markets is essential to fulfil their plan, if not go further, according to our [analysis](#) with the Environmental Defense Fund. The ITMO provision in the agreement could see carbon market coalitions or clubs form, as governments seek to raise their ambitions.
- **Scalability:** The system of transfers of international emissions reductions must be sufficiently robust to support large scale mitigation investments in a wide range of jurisdictions. The EMM and the ITMO process have great potential to involve all countries and to target whole sectors, rather than the project-by-project approach with the CDM and JI under the Kyoto Protocol. This can help governments meet the ultimate objective of the Paris Agreement of limiting the temperature increase to well below 2 degrees. The EMM can also be a catalyst for more carbon pricing systems, if flexibility remains at its core.
- **Confidence:** The system must promote confidence not only for the Parties involved and their constituents, but also for the international community. To deliver that confidence, the Article 6 accounting guidelines should focus on solid fundamentals of clarity, consistency and accuracy.



**COVER SHEET FOR SUBMISSIONS**  
**2017 review of climate change policies Discussion Paper**

**Overview**

The Discussion Paper provides an overview of the Government's current climate change policies and invites input from business and the community on how Australia can build on the success of current policies to achieve our 2030 target.

To guide input, questions are posed at the end of each section. Stakeholders are encouraged to include a one-page executive summary.

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<b>Optional: to assist with reviewing feedback please indicate if your submission addresses the following</b>					
<b>Electricity sector policies</b> (including the Renewable Energy Target)	No	<b>Emissions Reduction Fund</b>	No	<b>Safeguard Mechanism</b>	No
<b>Managing policy impacts</b>	Yes	<b>Energy efficiency and productivity</b>	No	<b>Research development and innovation</b>	No
<b>Voluntary action</b>	No	<b>International units</b>	Yes	<b>Long-term goals</b>	Yes
<b>Sectors discussed</b> (Please list)			<b>If other</b> (Please describe)		



### Confidentiality and privacy

The Department will treat all submissions as public documents, unless the author requests the submission be treated as confidential.

Public submissions will be published in full on the Department's website. The Department will publish the name of the individual or, name of the organisation (if applicable) and state or territory with your submission.

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**Do you want this submission to be treated as confidential?**      **No**

### Submission instructions

Submissions are due by 5:00pm AEST, Friday, 5 May 2017. Any submissions received after this date will be considered at the Government's discretion.

Where possible, submissions should be sent electronically, preferably in Microsoft Word or other text-based formats, to the email address listed below. Submissions may be sent to the postal address below.

All submissions must include a cover sheet.

Submissions can be forwarded to:

Email address (preferred)

[climatechangereview@environment.gov.au](mailto:climatechangereview@environment.gov.au)

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