

Climate Change Authority Review
Meeting the Paris Agreement
submission

September 2019



1. Introduction

The Carbon Market Institute (CMI) welcomes the opportunity to make this submission into the Climate Change Authority's (CCA) review of its recommendations of the policy toolkit required for Australia to meet its emissions reduction commitments under the Paris Agreement.

The Carbon Market Institute operates at the interface of climate change policy and business in Australia. Independent and non-partisan, we're the peak industry body for climate change and business and we are dedicated to helping business seize opportunities in evolving carbon markets. Our experience and analysis is that market-based approaches are the most efficient policy mechanism to address the challenges of the climate crisis and realise the opportunities in the transition to a zero-carbon economy. However, CMI recognises that market mechanisms may need to be integrated with, or support a broader policy toolkit requiring targeted sectoral approaches.

CMI conducts research and analysis across carbon market issues. CMI also surveys industry attitudes and its [2018 Australian Climate Policy Survey](#) of senior and executive level individuals from across business found that 92% thought Australia's climate and energy policies were insufficient to meet Australia's Paris Agreement commitment and 82% agreed that Australia should set an economy-wide target of net-zero emissions by 2050. Recently, CMI's [National Climate Policy Position](#) (outlined below in section 4) was endorsed by its membership and board, following the outcome of the 2019 federal election.

This brief submission reinforces our position, additional to comments made in our consultation session of 12 August 2019. It outlines issues and developments for the CCA to consider, in four sections, namely:

1. Australia's Emission Reduction Commitments Under the Paris Agreement
2. Recent International Market Developments
3. Recommended Market-Based Approaches to Emissions Reduction
4. Conclusion

This submission affirms that CCA should build on its 2016 recommendations, including the rejection of Kyoto carryover credits and the support of stronger post-2020 Safeguard baselines. Doing so will best position Australia for the stronger and more precipitous emission reduction requirements necessary if we are truly committed to helping achieve the goals of the Paris Agreement. As the Consultation Paper illustrates, Australia's emission reduction commitments under the Paris Agreement are not just those made in our first nationally determined contribution.

It is important that Australia's nascent carbon industry, including but not limited to its carbon farming industry, should be facilitated to ensure Australia manages the risks and maximises the opportunities in the necessary economic and social transition to a net-zero emissions economy by 2050. The CCA should also continue with the carbon budget analysis that has underpinned its previous recommendations.

CMI welcomes the fact that the CCA now has been accepted by the Coalition Government as an independent authority within the advisory framework for policy development in Australia, with ongoing if relatively diminished funding over the forward estimates. The urgency of the social and economic transition required to meet the objectives of the Paris Agreement necessitates independent agencies that seek to best align the views of science, business, community and other appropriate stakeholders with that task.

The recommendations and considerations outlined in this submission are not representative of any CMI individual or member company.



2. Australia's Emission Reduction Commitments Under the Paris Agreement

It is important to recognise that, having signed and ratified the Paris Agreement, Australia's emission reduction commitments are not limited to the first of its nationally determined contributions (NDCs).

Australia has committed to the goal of "holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C" (Art. 2).

To achieve this goal, parties agreed to aim to reach global peaking of greenhouse gas emissions as soon as possible, recognising peaking will take longer for developing country parties, and to net-zero emissions in the second half of the century (Art. 4).

Starting in 2023 and then every five years, governments will take stock of the implementation of the Agreement to assess the collective progress towards achieving the purpose of the Agreement and its long-term goals.

The outcome of the global stocktake (GST) will inform the preparation of subsequent NDCs, in order to allow for increased ambition and climate action to achieve the purpose of the Paris Agreement and its long-term goals.

The Paris Agreement recognizes that the long-term goals specified in its Articles 2. and 4. will be achieved through time and, therefore, builds on a ratcheting up of aggregate and individual ambition over time. NDCs are submitted every five years to the UNFCCC secretariat.

In order to enhance the ambition over time the Paris Agreement requires that successive NDCs will represent a progression compared to the previous NDC and reflect the highest possible ambition.

All Parties are requested to submit their next round of NDCs (new NDCs or updated NDCs) by 2020 and every five years thereafter (e.g. by 2020, 2025, 2030), regardless of their respective implementation time frames.

The Consultation Paper notes these requirements, but they are crucial in assessing current policy recommendations.



3. Recent International Market Developments

Since the last CCA Paris Agreement Report there have been numerous significant developments not limited to the substantial increases in affordability of clean technology alternatives. This submission will not address that aspect, but rather improvements in the stock of scientific knowledge, deepening Pacific concerns, increased investor engagement and advances in carbon markets as well as financial and prudential regulatory frameworks.

The Intergovernmental Panel on Climate Change (IPCC) 2019 Special Report on the impacts of global warming of 1.5°C noted the substantial differences in consequences of 2°C warming and 1.5°C warming with significant extra risks and costs to health, livelihoods, food security, water supply, human security and economic growth. This Report, required by a decision of parties at COP21 in Paris 2015, triggered an exponential increase in scientific research and literacy of the importance of the 1.5°C threshold.

Advocacy for the inclusion of the pursuit of limiting warming to 1.5°C in the Paris Agreement and for this research was led by Australia's neighbours in the Pacific for many of whom the threshold is an existential one.

The Pacific Step Up

Current global warming of around 1.0°C has already precipitated a “climate crisis” as acknowledged by the Australian, NZ and other Pacific governments in the [2019 Pacific Island Forum Communique and appended Kainaki II Declaration](#).

In 2018 the IPCC identified pathways with no or limited overshoot of 1.5°C global net carbon emissions decline by 45% from 2010 levels by 2030, reaching net zero emissions around 2050. The PIF Communique notes this pathway and agreed to prepare a *2050 Strategy for the Blue Pacific Continent*.

At the Forum Australia and other PIF countries noted:

'... with grave concern and fear for our collective future that global greenhouse gas emissions continue to rise, reaching record levels; and based on current trends, without urgent action, we will exceed 1.5°C by as early as 2030 and reach 3°C or more by the end of this century.

We are of the conviction that the shared prosperity and security of our Blue Pacific can only safely exist if the international community pursue efforts to limit global warming to 1.5°C above pre-industrial levels, as set out in the Paris Agreement. The science is non-negotiable. Urgent action by the international community to reduce greenhouse gas emissions is critical to keep us on the 1.5°C pathway...'

The Australian Government's recognition of the climate crisis and the urgent action required to keep the world on a 1.5°C pathway was perhaps overshadowed by controversies at or surrounding this historic summit. Australia's resolve and commitment to this recognition will be revealed to Australia and our Pacific neighbours over the coming eighteen months. The Government has committed to prepare a long-term strategy by 2020, as encouraged by the Paris Agreement, and this was reinforced at the PIF meeting. The Government will also be conducting a review of its Safeguard Mechanism, including use of international permits, by 2020.

The IPCC Report and the deepened Pacific commitment to 1.5°C, amidst heightened focus on Pacific engagement, are significant developments since the last CCA advice on the Paris Agreement. Both elements have exponentially increased scientific literature and broader literacy of the economic, security, environmental and social importance of the 1.5°C goal and its associated requirements of nearly halving global emissions by 2030 and achieving net-zero emissions by 2050. Australia's emission reduction requirements under the Paris Agreement should be no less than these 2030 and 2050 targets.



Finance & Investor Action

Another substantial development since the last CCA Paris Agreement Report is the rapid development of financial and prudential climate risk regulatory frameworks and associated standards. Central banks, prudential regulators, stock exchanges, insurers, actuaries, accounting standard boards and investors are increasingly incorporating climate risk disclosure and transition planning in their activities and investment decisions. Implementation of the recommendations of the 2018 Final Report of the Task Force on Climate related Disclosure (TCFD) continues to broaden and is being mandated by more jurisdictions as the link between climate action and financial stability strengthens. Investors are increasingly requiring TCFD, transition planning and science-based targets from companies.

Companies are responding and many of CMI's larger members have adopted 2050 targets for net-zero emissions and are engaging in transition planning and/or are developing or implementing reduction and offset strategies. Investors are continuing to strengthen their engagement and research with an important next phase to be detailed examination of what has been described as the "Inevitable Policy Response" by the UN Principles of Responsible Investment. In July 2019, UNPRI's CEO Fiona Reynolds [noted](#):

The drivers for policy action on climate are inescapable. Advances in technology mean clean energy is often cheaper than carbon-intensive sources and more extreme weather patterns will raise the heat on national leaders from the public. The effects of climate change will begin to affect everything from food production to migration and national security. Business is calling for action to create certainty.

Faced with this, it is inconceivable that at some point governments will not be forced to take robust action and we believe that this will happen by mid-2020s. Policy responses are inevitable – it is a matter of not "if" but "when". The longer the delay, the more abrupt, forceful and disruptive that policy response will be, especially for carbon-intensive industries.

Over the next few months, we will release a body of work that we call the "Inevitable Policy Response". It is designed to be a central business planning case for investors, corporates and regulators. The modelling will assess the impact of that risk in a real-world context, in a transparent and detailed portfolio for the PRI's 2,000 investor signatories representing over US\$83 trillion in assets under management.

The Inevitable Policy Response

The Paris Agreement's requirement of a global stocktake in 2023 and a second NDC by 2025 is seen by UNPRI as a crucial trigger for this likely policy re-adjustment. Key initial modelling for research behind the PRI's [Inevitable Policy Response Project](#) will be released later this month at the New York Climate Summit but an advance [background Policy Forecast Report](#) has just been released and it is important for CCA to track this research highly relevant to this consultation.

Against the backdrop of falling technology cost in renewable power and transport, supported by enabling policies in the clean economy, the Report forecasts global policies including:

- Performance standards including Internal Combustion Engine (ICE) vehicle sales bans, Coal-fired electricity generation bans, and Energy efficiency standards;
- Global action on carbon prices and emerging border carbon adjustments that accelerate the transition across regions;
- Steady demonstration and commercialisation of new technologies, but at a realistic pace given stage of development; and
- Incorporation of a Just Transition to ensure social and political feasibility of limited nuclear expansion due to cost differences and political concerns.



In the land use and greenhouse gas removal sector the Report forecasts:

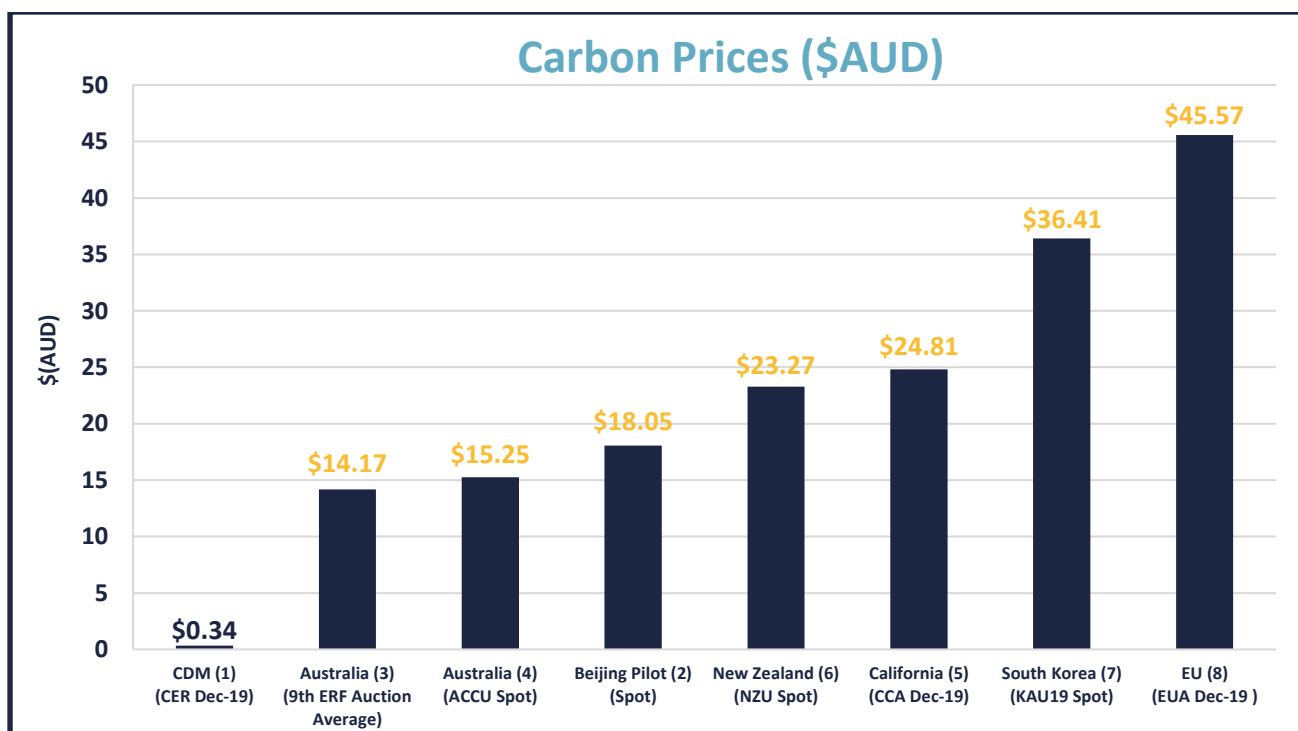
- Strong policy action against deforestation (monitoring and penalties), supported by consumer pressure;
- Incentives for reforestation and afforestation via domestic action and carbon markets;
- Policy action, particularly investments in agricultural infrastructure such as irrigation and water management, in developing markets to increase agricultural yields;
- Just Transition concerns, such as food price rises and small producer rights, constrain competition between agriculture, bioenergy and forestry, and shape land-use change; and
- Limited greenhouse gas removal (GGR) technologies, which includes Negative Emissions Technologies such as Bioenergy CCS (BECCS), not yet demonstrated at scale.

Australia has significant economic and emissions reduction opportunities in this sector, in particular in relation to the last dot point. CMI’s 2017 Carbon Farming Industry Roadmap highlighted that the industry could be investing up to \$24 billion by 2030 leading to the employment of over 20 000 people. However, this will require a stronger policy toolkit. Australia also has significant potential for geological and industrial carbon capture and storage that can assist strengthen UNPRI’s policy and emission forecasts.

The UNPRI Report’s acknowledgement of potential carbon border tariff adjustments is particularly potent for Australia’s consideration given its relative significant emissions intensive economy and exports. The resurgence of the utilisation or threat of tariffs and border adjustments as well as investor and consumer activism are important factors for consideration by Australian policy makers. Speeding the transition to a net-zero emissions economy will assist in managing these risks.

International Carbon Market Developments

Finally, it is important to note that international carbon markets have continued to grow with recent carbon prices ranging to over \$45 per tonne (prices as at 12 August 2019).



CMI’s July Quarter International Markets Update is attached at Appendix A. This paper also notes the opportunities for potentially greater cooperation between New Zealand and Australian carbon markets and collaboration on methodology development.



4. Recommended Market-Based Approaches to Emissions Reduction

CMI continues to support the policy position it advanced earlier this year ahead of the federal election. This position across international, domestic and market-based policies is outlined below:

1. To play its role in meeting global emissions reduction under the Paris Agreement, Australia should **define a long-term goal that leads to net-zero emissions by 2050**.
2. To reduce absolute emissions across the economy, Australia should **explicitly confirm that it will not use Kyoto carryover units towards its target**, as this does not represent absolute emissions reductions post-2020, and goes against the spirit of the Paris Agreement.
3. Any **future public funding of Australia's domestic offset industry will be insufficient unless it is used as to help transition the industry to a market driven by private-sector demand** (as under an evolved Safeguard Mechanism).
4. Australia should work to **scale up Australia's domestic offset scheme to create real abatement across the landscape, and generate jobs, revenues, and additional benefits for regional and rural communities** as outlined in CMI's 2017 [Australian Carbon Farming Industry Roadmap](#).
5. Through investment in R&D, **Australia should introduce new ERF methodologies to increase the supply of offsets available** to meet future demand domestically and internationally.
6. Australia should **transition the Safeguard Mechanism to more effectively drive emissions reductions across the economy** (as per CMI's recent [Transitioning the Safeguard Mechanism to a Baseline & Credit ETS discussion paper](#)).
7. Australia should **confirm the use and eligibility requirements of international units for compliance under an evolved Safeguard Mechanism**, to maximise opportunities to achieve emission reduction targets at lowest cost.
8. Australia should **research and model the factors affecting future availability, supply and demand for domestic and international units** as countries implement their commitments made under the Paris Agreement.
9. Australia should **identify how it could be part of internationally linked carbon markets as they evolve under the Paris Agreement** and should **engage in the international discussions to clarify the conditions, process and pathway to open up opportunities for the export of Australian Carbon Credit Units** into other markets.

Kyoto Carryover

In the aftermath of the recent Pacific Island Forum leaders meeting, CMI CEO John Connor wrote to members noting it is worth having a closer look at one focus of controversy and the issue noted in point 2 above, the so-called Kyoto Carryover. He noted this is more than a diplomatic deadweight for Australia's Pacific Step-up:

By effectively halving Australia's 2020 to 2030 expected climate efforts, use of the carryover reduces demand for carbon credits and is a handbrake on the development of Australia's potentially multi-billion-dollar carbon farming industry – and the benefits that our industry already brings to regional Australia.

It is positive that the Government is supporting this evolving industry through the Emissions Reduction Fund. However, as explained below, shelving the carryover would increase extra demand that would likely boost business investment in modernisation and our carbon market. The carryover also locks in a lurch for Australia's next emissions reduction commitment under the Paris Agreement, one that will likely need to be made by the next Commonwealth Government.

The carryover is a quirk of the Kyoto Protocol, the predecessor to the Paris Agreement which commences next year. The Protocol was the first emissions reduction agreement under the United Nations Framework



Convention on Climate Change. It applied the latter's recognition that the developed countries, that at that time had put most of the heat trapping emissions into the atmosphere, should lead. Australia and other developed countries agreed to target commitments for two periods. Australia promised an 8% increase in emissions between 1990 and 2012, and then a 5% cut compared with 2000 levels by 2020. Native vegetation management improvements, technology development and various carbon and clean energy policies have us ahead of those commitments by about 370 million tonnes.

The Paris Agreement was historic in that all countries, not just developed ones, made nationally determined contributions (NDCs). It has a persistent ratchet mechanism where every five years a global stocktake will be undertaken, followed by fresh NDCs, more ambitious than their last. What irks developing countries about carrying over Kyoto commitments is that the Paris Agreement was meant to be a fresh start. New Zealand, Britain, Germany and others have chosen to celebrate their surpluses but start afresh from 2020. Even more irksome is that the carryover is a card that can't be played by the developing countries as they had no commitments under Kyoto.

Others worry that Australia's use of the carryover may encourage others like Russia and Ukraine to play the same card with their billions of tonnes of notional surplus. Rather than just against the spirit of the Paris Agreement, this could fatally wound its objectives of keeping average global warming to well below 2 degrees Celsius above pre-industrial times and, most favoured by Pacific nations, to pursue efforts to limit warming to 1.5 degrees Celsius. Global average warming is already at or above one degree above pre-industrial times. The scale of the carryover is brought home by analysis that shows that it amounts to almost eight years' worth of emissions from our Pacific neighbours, including New Zealand. This amounts to over 6 000 times the emission reductions purchased by the Government at the latest Emission Reduction Fund auction.

If Australia didn't use the carryover then we would need to strengthen our climate policies. This would likely require increased reduction responsibilities to our large emitting companies almost all of whom recognise the need to transition to very low or net-zero emissions and are looking for long term stable policy settings to support this at least cost. This could be done by aligning baselines set for industry under what is known as the Safeguard Mechanism. This pathway was recommended by the Climate Change Authority in 2016, a body that is now accepted by the Government. This would give economic incentives to business to boost their transition, modernising industrial processes and use carbon credits to help cost effectively help manage that transition.

The Carbon Market Institute's 2017 Carbon Farming Industry Roadmap highlighted that under policies such as these, carbon farming could deliver up to \$24 billion of investments and over twenty thousand jobs.

The carryover locks in an economic lurch for Australia because the next NDC commitment for efforts beyond 2030 will need to be stronger than the last. By effectively halving our 26-28 per cent 2030 reduction commitment the use of the carryover will require the next period to make up that gap and then more. Indeed this lurch will need to be much, much more, particularly if Australia and other nations don't do as Pacific countries request, and are themselves doing, and increase initial NDC efforts. Current cumulative NDC efforts are predicted to have the world on track to average global warming of three degrees or more. This warming would be catastrophic for the global community and economy, let alone fatal for the future of Pacific nations and peoples.

As climate impacts grow the economic, political and moral imperatives will intensify and will be amplified by political moments built into and around the Paris Agreement. Next month in New York the UN Secretary-General is hosting a special summit for world leaders to demonstrate their commitment to climate action. There are calls for nations to join Fiji, the Marshall Islands and others already committed



to strengthening initial NDCs at this summit or by 2020 when the agreement effectively starts. While initial commitments and targets can be strengthened at any time, the agreement has a global stocktake in 2023 and a 2025 deadline for sharing second NDCs.

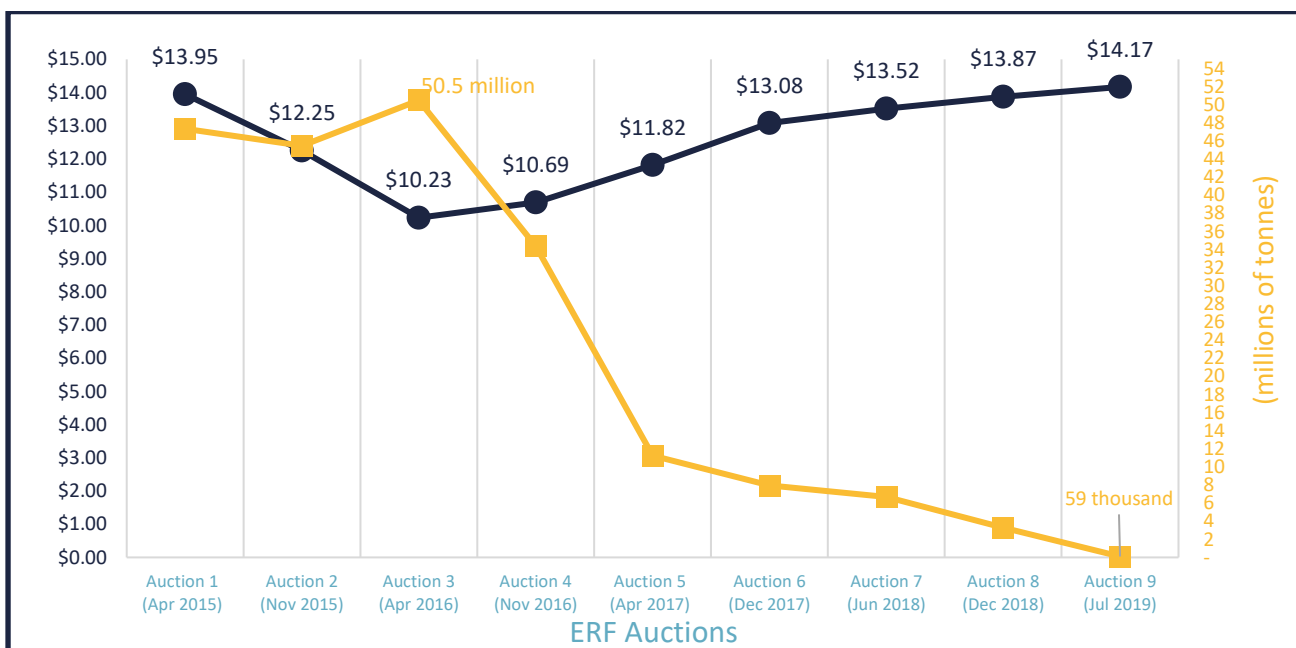
The Morrison Government can revisit its use of the Kyoto carryover and climate policies now or via its review of the Safeguard Mechanism or its development of a long-term strategy. Both are committed to be done by 2020.

Choosing stronger policies over a reliance on the Kyoto carryover has triple benefits. It can remove a deadweight on Australia's Pacific Step up. It can send clearer signals to Australian industry and boost the carbon farming industry that will bring many additional benefits to regional Australia. And it can avoid the economic and financial jolt that would follow an otherwise institutionalised lurch in our next NDC as we are forced to make good on the carryover and do much more.

Climate Solutions Package

It should be noted that a proactive approach that eschews the use of Kyoto carryover credits and tightens Safeguard baselines, at least in alignment with the Government's current initial NDC, can enhance our continued emission reduction contributions in making Australia's second NDC. Tightening baselines over time, or other similar methods, can free up at least part of the almost \$2 billion funding promised in the Climate Solutions Package to go towards the Emission Reduction Fund.

While a substantial part of this funding should continue to be invested in lowest cost abatement under the Emissions Reduction Fund auction arrangements, an increasing proportion could be invested in research and development that expands methodologies and practices including investments prioritising co-benefits. The requirement for fresh approaches is highlighted by the outcomes of recent Emission Reduction Fund auctions. The below graph compares average prices and volumes of abatement from auctions 1 – 9:



It is pleasing to note that both the Government and the Clean Energy Regulator have indicated a willingness to refresh approaches to the Emissions Reduction Fund and this will take place against a backdrop of the Safeguard and Long-Term Strategy Reviews due by 2020.



A Just Transition

Whilst looking at opportunities and priorities, particularly with regards to the transition of the electricity sector, CMI recognises the need to manage the transition required. Is it critical that a 'Just Transition' or regional resilience pathway is assured, and that communities and regions are assisted in strengthening, diversifying and/or transforming their economies to attract new industries, employment opportunities and share of co-benefits.

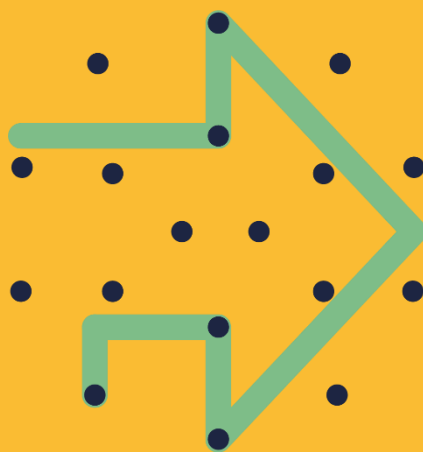
CMI recommends a significant quantum of funding be assigned to developing a just transition strategy and related projects that would identify skills needs and develop training programs to support carbon market participation as well as economic and social transition across a range of sectors. This could involve a national Just Transition Authority or regional transition authorities or frameworks.

5. Conclusion

CCA's final recommendations will come at a significant moment as Australia reviews its policy mechanisms and long-term strategies under intense international and regional, particularly Pacific, scrutiny.

CCA's 2016 recommendations represented a pragmatic and substantial platform that should not be retreated from, rather built upon. It is hoped that this CMI submission and other research can assist in furthering CCA's recommendations.

With stronger policy and greater investor engagement Australia can transition towards a prosperous, more climate resilient net-zero emissions economy by 2050. This can include a vibrant carbon industry that is exporting Australian Carbon Credit Units and emission reduction expertise to assist with global emission reduction requirements to achieve the objectives of the Paris Agreement



for more information please contact

John Connor

Chief Executive Officer



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 response to the climate crisis.

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



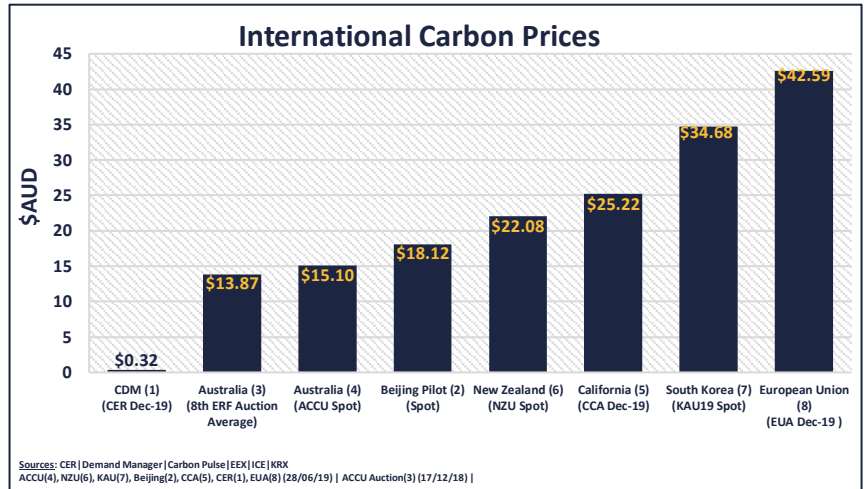
International Carbon Price Update (AUD\$)

EU ETS (8) – prices rise over the second quarter.

- Overall EUA prices increased by just over 20 per cent over the second quarter. Some analysts have attributed the rise to a mixture of weather and energy market dynamics, particularly in the month of June. In the background, the Market Stability Reserve (MSR) has also taken millions of units out of 2019 supply.

NZ ETS (6) – trades back below FPO.

- The price of NZUs declined from the start of the quarter, when they were trading above the ETS fixed price option (FPO) of AUD~\$24 (NZD 25). Those following the market note some of the decline is in part due to uncertainty concerning the future of the FPO, and whether it would be increased or replaced in the short-term. The NZ Government has now proposed to replace the FPO, with a different price ceiling called a cost containment reserve. The reserve would hold units for auction once a price ceiling is reached.



Global Climate Policy Updates

USA and Canada

- New York, the fourth most populous state in the USA and its third-largest economy, passed into law the *Climate Leadership and Community Protection Act 2019* in June. The legislation sets out ambitious targets for the state of 100% carbon-free electricity by 2040 and economy-wide, net-zero carbon emissions by 2050. Passage of the targets through the state legislature means New York joins other US states including California, New Jersey, Colorado, New Mexico, Oregon, Maine and Washington that have passed their own ambitious climate-related targets in the past twelve months
- On 17 June the Canadian House of Commons passed a motion to declare a national climate emergency in the country. The motion passed with 186 votes to 63 and supports the country's commitment to meeting the emissions targets outlined in the Paris Agreement. Five national parliaments have now declared a climate emergency, including Canada, the UK, France, Ireland and Portugal, which join a further 888 jurisdictions and local governments around the world that have made a similar declaration.

European Union

- The EU Parliament has elected former German Defence Minister, Ursula von der Leyen as the next President of the European Commission. The President said she would support raising the EU's 2030 emission reduction target from 50% to 55% below 1990 levels, and committed to putting forward a comprehensive plan by 2021 to increase the target based on social, economic, and environmental impact assessments. Under her presidency she also promised to lead international negotiations to increase the level of ambition of other major emitters by 2021.

Middle East and Africa

- Ghana recently became the third African nation, alongside the Democratic Republic of the Congo and Mozambique, to sign an Emissions Reduction Purchase Agreement (ERPA) under the Forest Carbon Partnership Facility's Carbon Fund. Administered by the World Bank, ERPAs unlock performance-based payments for carbon emission reductions from the forest and land use sectors in developing countries. Some experts have seen ERPAs as a possible premise for international trading under Article 6 of the Paris Agreement (rules still to be finalised).
- At the June global preparatory meeting for the Climate Action Summit in Abu Dhabi, the United Arab Emirates' Minister of Climate Change and Environment announced that the UAE's climate change-related policies will be integrated into the management of assets worth \$3 trillion as part of the country's One Planet Sovereign Wealth Fund Working Group, which helps to integrate financial risks and opportunities related to climate change into the management of large asset pools.

Policy and Market Tracker

46 National¹
Carbon Pricing Schemes

28 Sub-National¹
Carbon Pricing Schemes

185 Countries²
Ratified the Paris Agreement

\$95 Billion¹
Total Value of Carbon Pricing Mechanisms

Regional Indo-Pacific Climate Policy Update

China

- In a statement issued alongside France on the sidelines of the G20 summit in Japan in June, China committed to update its Nationally Determined Contribution (NDC) under the Paris Agreement to reflect its "highest possible ambition", and vowed to publish a long-term decarbonisation strategy by 2020. During May, the Chinese Ministry of Ecology and Environment also issued an order to provincial governments to produce a list of power plants to be included in the national ETS and open carbon accounts in the country's registry in preparation for the intended launch of the ETS scheme in 2020.

The Pacific

- United Nations Secretary-General António Guterres travelled to Pacific Island nations in May to meet with Pacific leaders and the Pacific Island Forum to discuss key issues ahead of the Climate Action Summit in September. Leaders told the Secretary-General that they were "running out of time" and asked him to share a message of urgency with the world; the Secretary-General said climate change represents "an unprecedented global catastrophe" requiring "transformative action" to reduce emissions.

Global Agreements & Meetings

Bonn Climate Change Conference – Article 6 of the Paris Agreement

- The Bonn Climate Change Conference concluded on 27 June 2019, where negotiations took place in preparation for the 25th Session of the Conference of the Parties (COP25) to the United Nations Framework Convention on Climate Change (UNFCCC) in Santiago, Chile. The key issue going into the conference was Article 6, the only unfinalised component of the Paris “rulebook” following COP24 in Katowice. The goal at Bonn was to prepare a text for delegates to sign off on at COP25, yet the technical and political complexity associated with Article 6 and differences across nations, meant progress was slow in working towards agreement on the rules of Article 6. Despite slow progress, new text for the rules around Article 6 was developed and will form the basis of negotiations in Chile. CMI will again take an Australian business delegation to the negotiations and host a public pre-COP briefing towards the end of the year to provide an update and overview of what to expect from Santiago.

Sources: World Bank, UNFCCC, Carbon Pulse, Carbon Brief.

International Climate Policy and Market Commentary – Spotlight on New Zealand

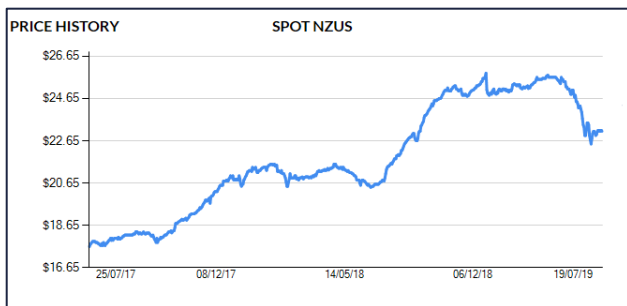
Australia and New Zealand are natural partners. Strong trans-Tasman relations exist through trade, migration and defence with a productive and co-operative bilateral relationship between the two countries. Both acknowledge climate responsibilities in their engagement with Pacific neighbours. While the evolution of climate change policy and the implementation of market-based mechanisms to meet climate-related targets have undoubtedly taken different paths, the opportunities that exist for both countries to form closer co-operation on climate should be examined.

The arrival of the Paris Agreement, and its goal of keeping global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C, will continue to drive ambition at the national level. It is inevitable, that as negotiations converge on the finalisation of Article 6 rules at COP25 and preparations begin for the submission of more ambitious Nationally Determined Contributions (NDCs), nations with market-based mechanisms will look to where the supply of carbon credits will come from to match their ambition under the Paris Agreement.

No stranger to market-based climate policy, New Zealand launched its Emissions Trading Scheme (ETS) over ten years ago in 2008, as one of the country’s principal policy responses to climate change. The NZ ETS has the broadest sectoral coverage of any ETS¹. Over two thousand entities within forestry, energy, industry and waste currently face surrender obligations under the ETS¹, representing over half of NZ’s greenhouse gas emissions. Entities with surrender obligations must deliver a quantum of New Zealand Units (NZUs) to the NZ Government equivalent to each tonne of greenhouse gas they emit annually. Depending on the entity and sector, NZUs are currently sourced through a mixture of forestry (the majority), free allocation from the NZ Government, or purchases at a fixed price option (FPO) of \$NZD 25.00 from the NZ Government.

The NZ ETS has undergone a series of reviews and amendments to improve the functioning of the scheme. Combined with other market dynamics and future price signals, such as the Paris Agreement or future carbon credit supply issues, the average market price of NZUs has continued to increase since 2014, with prices even going above the FPO of \$NZD 25.00 in the last 12 months as per the \$NZU price graph from OMF below².

There are presently a number of announced changes that the NZ Government has put forward to improve the NZ ETS. In particular, the inclusion of a



mechanism to auction NZUs, transitioning the \$NZD FPO into a cost containment reserve, and retaining the flexibility to potentially reopen the ETS to high-quality, reputable international units.

These measures are intended to help align the supply of carbon credits with NZ’s emissions reduction targets³, of which there are currently three:

1. 5% below 1990 levels by 2020.
2. 30% below 2005 levels by 2030.
3. 50% below 1990 levels by 2050.

Importantly, the third target may soon be replaced by a new 2050 target as part of the NZ Government’s Zero Carbon Bill, which is currently under consultation and aims to reduce NZ emissions to net zero by 2050³.

Achievement of the Paris Agreement goals to limit warming require stronger NDCs as well as longer term ambition as set out in national legislation such as the Zero Carbon Bill. However, the Paris Agreement and particularly Article 6, also recognises that cooperation between countries is necessary to assist in the achievement of NDCs and in raising global ambition. To that end, the NZ Government is in discussions with a number of countries bi-laterally and through various platforms including the Asia Pacific Carbon Markets Roundtable and the World Bank’s Partnership for Market Readiness regarding cooperation on carbon markets under the Paris Agreement.

Australia could and should be involved in these discussions, and there are opportunities for both countries to engage and learn from each other on carbon market policy. The Australian experience can provide learnings on a high-quality emissions inventory and MRV framework, as well as a quality domestic offset scheme associated with the issuance of Australian Carbon Credit Units (ACCUs) from robust methodologies for not only forestry and land-based projects, but agricultural, industrial, waste, transport and energy efficiency projects. The New Zealand perspective can provide insight into the development and implementation of a strong market-based approach through its ETS, the framework of choice for most carbon markets.

As ambition under the Paris Agreement increases and if the rules concerning Article 6 of the Paris Agreement are finalised at COP25 in December, facilitating cooperation and trade of carbon credits and expertise between Australia and New Zealand becomes even more important. There is potential for a situation whereby Australian ACCUs are exported to New Zealand to supplement the supply of NZUs, which in turn supports both countries meeting their Paris Agreement commitments at least cost as determined by the market. Australia is considering use and export of international credits in its review of the Safeguard mechanism due by end of 2020.

What to watch next quarter

- **Climate Action Summit** – 23 September 2019 – New York, U.S.
- **Climate Change & Business Conference 2019** – 8 October 2019 – Auckland, New Zealand.
- **IGCC 2019 Summit** – 14 October 2019 – Sydney, Australia.
- **Carbon Forward 2019** – 16 October 2019 – London, U.K.