

2017 Australian
Climate Policy Review
submission

May 2017

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Executive Summary.

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. We believe that market based approaches are the most efficient policy mechanism to address the challenge of climate change.

The Australian Government has released a discussion paper as part of a national Review of domestic climate policy. The outcomes of the Review will be vital to how Australia's existing climate policies can evolve to meet current and future emissions reduction commitments made under the Paris Agreement.

It is critical that the Review examines how existing policies can be implemented to ensure the effectiveness, stability and predictability of the domestic policy framework over the long term, and outline the pathway for the economic transition to a zero-carbon economy.

The international targets, set by Australia as part of our commitment under the Paris Agreement, of a 26-28 per cent reduction on 2005 levels by 2030 will require below business as usual emissions reductions. The Government must make clear through the Review how the policies proposed in Australia's Nationally Determined Contribution (NDC) will specifically contribute to achieving our 2030 emission reduction target.

It is important to take into account in this Review that these emission reduction commitments under the Paris Agreement are a floor as the targets will be reviewed and strengthened in line with a formal Global Stocktake process that countries agreed to in Paris. Australia will need to scale up our Paris Agreement targets over time and report on how it will strengthen policy implementation efforts in the years ahead.

The Review process should lead to policy certainty which is to stimulate the necessary private sector investment in clean energy and technology, emissions avoidance and carbon abatement.

There is widespread recognition in the business community that domestic policy settings will have to tighten in the near future, and that this will inevitably include a form of emissions trading and a carbon price signal.

The CMI has undertaken extensive research and consultation to provide input into the policy Review. This Submission summarises CMI's position. The principles and factors to consider that we recommend have been developed with input from CMI's annual Australian Climate Policy Survey 2016, CMI's corporate member policy and land sector working groups, extensive consultations with CMI members and international carbon market experts and discussions held at the 2nd Asia Pacific Carbon Market Workshop and 4th Australasian Emissions Reduction Summit. A full overview of the submission development process can be found in the appendix to this document.

The Submission outlines below, the guiding principles framing our position, a summary of policy options, considerations and recommendations and a more detailed discussion on each of these key points. *The following executive summary and subsequent discussion represents a synthesis of member views and is not representative of any individual or CMI member company position.*

Guiding Principles.

In developing this Submission, CMI has been guided by a series of principles. These are:

- *Australia's national emissions reduction target should be in line with the global response to the threat of climate change to keep temperature rise this century **well below 2 degrees Celsius** above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius. The Government should confirm a long-term goal of an economy wide zero-net emissions target.*
- *The Carbon Market Institute views a **market-based approach** to emissions reduction as providing an effective, efficient framework to meet emissions reduction goals and challenges at lowest cost. The primary policy instrument to reduce emissions across the economy should involve emissions trading and putting a **price on carbon**.*
- *Australia's policy suite should be **comprehensive and enduring** to create a stable and predictable policy landscape for business; climate policies should be reviewed at predetermined intervals again in line with UNFCCC commitments and evolving market conditions*
- *Policies designed to reduce emissions from large emitters should be **aligned with the trajectory** required to meet current and future targets which are likely to be set at more ambitious levels.*
- *To meet emissions reduction targets at lowest cost to the economy, Australia should open opportunities to **link and trade with international markets**.*

Through the Review, the Government should ensure that the Emissions Reduction Fund (ERF) and Safeguard Mechanism (as the Governments stated primary mechanisms to reduce emissions) have the flexibility to evolve and engender bipartisan support. This will be central to alleviating uncertainty; obviating the need to overhaul or repeal existing policy; and ensuring an effective, stable and enduring policy environment.

As this Review is to examine existing policies, this Submission provides options, considerations and recommendations under four broad categories:

- *The target for emissions reduction to meet international obligations;*
- *The Emissions Reduction Fund;*
- *The Safeguard Mechanism and*
- *International carbon market developments and linkages.*

In this Submission, we have not proposed a position on the Renewable Energy Target and have kept our electricity sector transition discussion focused on the emissions reduction pathway that can be achieved through the Safeguard Mechanism. We do acknowledge that the effective incorporation of climate policy considerations into existing electricity market governance frameworks and processes will be addressed in the Review and informed by the Finkel Review.

It is under the above paradigms that CMI has formulated the following Submission to this 2017 Review of Australia's domestic climate change policies.

Summary of Policy Options, Considerations & Recommendations.

Paris Agreement & Australia's Nationally Determined Contribution

1. For Australia to play its role in meeting global emissions reduction under the Paris Agreement, the Government should define the **long-term emissions reduction goal** for the Australian economy beyond 2030 that leads to net zero emissions economy by 2050.
2. Australia needs to reduce absolute emissions and so the **primary policy mechanism that covers large emitters should establish an upper limit of absolute emissions** covered under the mechanism and reduce that limit over time.

Emissions Reduction Fund

3. The Government should commit a **quantum of additional funding allocation to the ERF** that is required to ensure the continuity of the domestic carbon offset industry until the time it transitions to a market driven by demand under the Safeguard Mechanism.
4. The Government should commit an **allocation of more R&D funding for ERF method development** so that Australia can optimise investment in land sector abatement.
5. The Government should explore how methods developed under the ERF can **align with international standards** and other carbon offset markets.
6. The Government should clarify the options and process to open up market opportunities for the **transfer/export of credits** created under the ERF into other markets.
7. The Government should consider how voluntary market activity and additional **sources of private sector demand for carbon units** credited under the ERF can be created.

Safeguard Mechanism

8. The Government should make clear that **the objective of the Safeguard Mechanism** is to ensure that it makes an effective and significant contribution to the emissions reductions needed for Australia to achieve its commitments under the Paris Agreement.
9. The Government should determine **the specific quantum and/or percentage contribution that the Safeguard Mechanism will make to meeting Australia's existing emissions reduction targets** and how that will vary under future enhanced UNFCCC commitments.
10. The Government should provide clarity on the conditions, criteria and process for **how emissions baselines under the Safeguard Mechanism will be adjusted** to decline in the post-2020 period.
11. The Government should determine how coverage of the electricity sector under the Safeguard Mechanism can be most effectively be treated in order to **send a carbon price signal to transition to lower emissions sources of electricity generation**.
12. The Government should **lower the threshold coverage** for entities liable under the Safeguard Mechanism to expand the volume of emission reductions achieved under this mechanism.
13. The Government should examine options for how the Safeguard Mechanism can **evolve into an effective trading system** to drive lowest-cost emission reductions across covered facilities.
14. The Government should determine more stringent **enforcement options and penalties for non-compliance** under the Safeguard Mechanism, sufficient to incentivize low-carbon investment.

International Carbon Markets

15. The Government should confirm the **use and eligibility requirements of international units** for compliance under the Safeguard Mechanism, to maximise opportunities to achieve our emission reduction targets are achieved at lowest cost.
16. The Government should research and model the **factors affecting availability, and future supply and demand for domestic and international units** as countries implement their commitments made under the Paris Agreement.
17. The Government should identify how Australia **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.
18. The Government should **examine the options under Article 6 of the Paris Agreement for how Australia could meet its 2030 emission reduction targets at lowest cost**, by engaging in discussions about the mechanics of international carbon markets. This will be important for securing high quality international abatement in the future.

Paris Agreement & Australia's Nationally Determined Contribution Targets.

19. For Australia to play its role in meeting global emissions reduction under the Paris Agreement, the Government should consider and define the long-term emissions reduction goal for the Australian economy beyond 2030 that leads to net zero emissions economy by 2050.

As part of its Nationally Determined Contribution (NDC) submitted under the Paris Agreement, the Australian Government committed to an emissions reduction target of 26 to 28 per cent below 2005 levels by 2030¹. As outlined in the NDC, Australia plans to meet this target through a combination of policies including:

- The Emissions Reduction Fund;
- The Safeguard Mechanism;
- Renewable Energy Target (23 per cent of Australia's electricity by 2020);
- National Climate Resilience and Adaptation Strategy;
- National Energy Productivity Plan (40 per cent improvement between 2015 and 2030);
- Improvements in the efficiency of light and heavy vehicles and
- Enhanced management of synthetic greenhouse gas emissions under ozone protection laws and the Montreal Protocol.

The contribution of each of the above policies to reducing Australia's emissions is illustrated in Figure 1¹ below.² This Submission focuses on the Emissions Reduction Fund, Safeguard Mechanism and international market developments. While not explicitly covered in this document, the importance of other complementary policies is recognised.

¹ Commonwealth of Australia, Department of the Prime Minister and Cabinet, Setting Australia's post-2020 target for reducing greenhouse gas emissions. Final report of the UNFCCC Taskforce.

² NOTE - all subsequent figures after Figure 1 are derived from the Carbon Market Institute's Australian Climate Policy Survey 2016, available at <http://carbonmarketinstitute.org/australian-climate-policy-survey-2016/>.

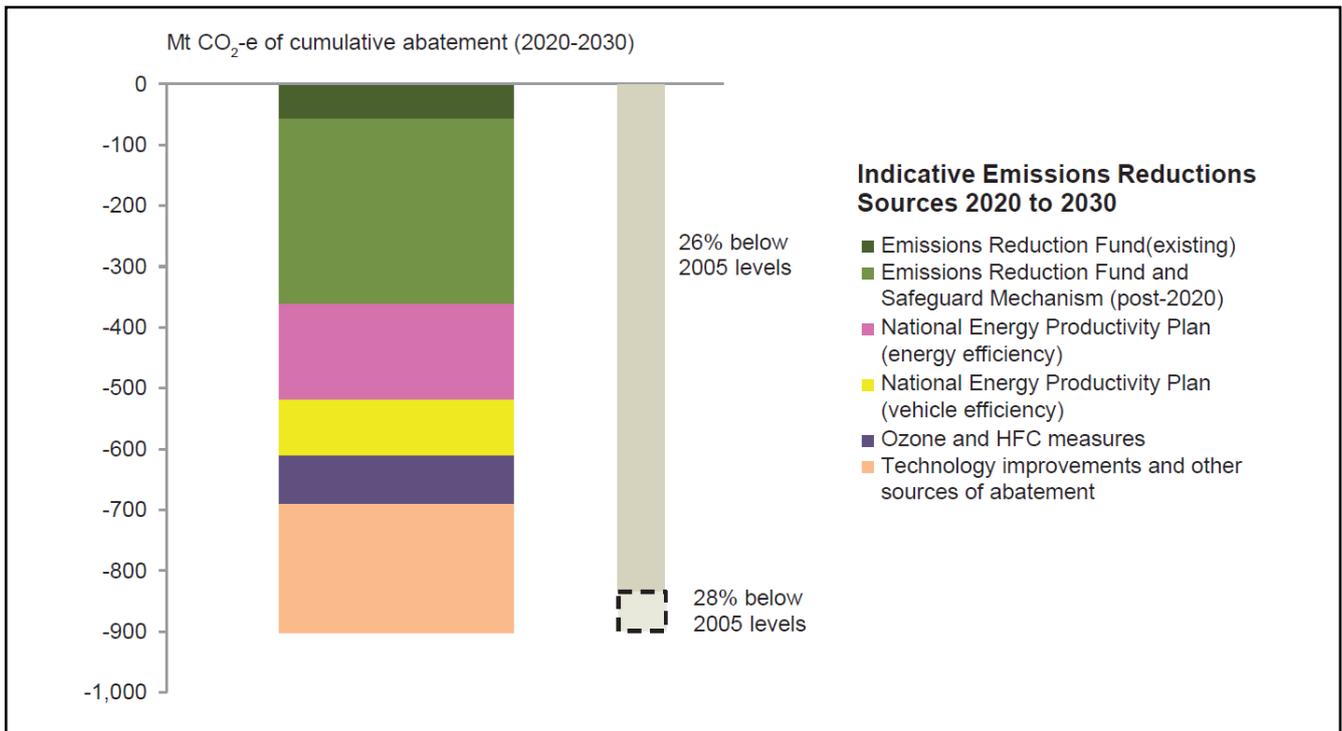


Figure 1: Emissions reduction contributions that the Australian Government’s Direct Action policies could make towards the 2030 target. Source: Commonwealth of Australia, Department of the Prime Minister and Cabinet, Setting Australia’s post-2020 target for reducing greenhouse gas emissions. Final report of the UNFCCC Taskforce.

The Paris Agreement formalizes a Pledge and Review mechanism whereby NDC targets are to be reviewed every five years (commencing in 2023). With each revision, countries (Parties) will have the option to maintain their existing target or increase the level of ambition. The pledge and Review mechanism will mean Australia’s emission reduction targets are examined by the international community which may lead to pressure to commit to greater emissions reductions.

The Government through the review should implement a long-term emissions reduction target for 2050, to ensure business has the certainty required to make necessary investments in clean energy, infrastructure and technology innovation that will reduce emissions across the domestic economy. Australia should look to long term targets set by countries such as the United States, Canada and Germany who have all outlined ambitious long term targets for 2050.

Germany, through its Climate Protection Plan 2050 has indicated it will put in place measures to achieve a net zero emissions economy by the half way point of the century. Both the United States and Canada have in place targets of 80 percent reductions on 2005 levels by 2050. Australia should follow suit and specify a national emissions reduction target and outline a pathway to achieving net zero emissions by 2050.

Australia’s emissions reduction policy suite must therefore not only achieve the 2030 target, but be sufficient to achieve deeper emissions reductions likely to result over time through the pledge

and Review process. With a well-designed, effective and long term policy suite, Australia can provide a stable landscape for business decision making and navigate the low emissions transition in line with our international commitments. The 2017 Review is a key starting point for this goal.

Providing long term indications, beyond the 2030 period, of how Australia will reach net zero emissions is central to allowing business to make long term decisions and optimise their position in the transition to a low carbon economy (Figure 2).

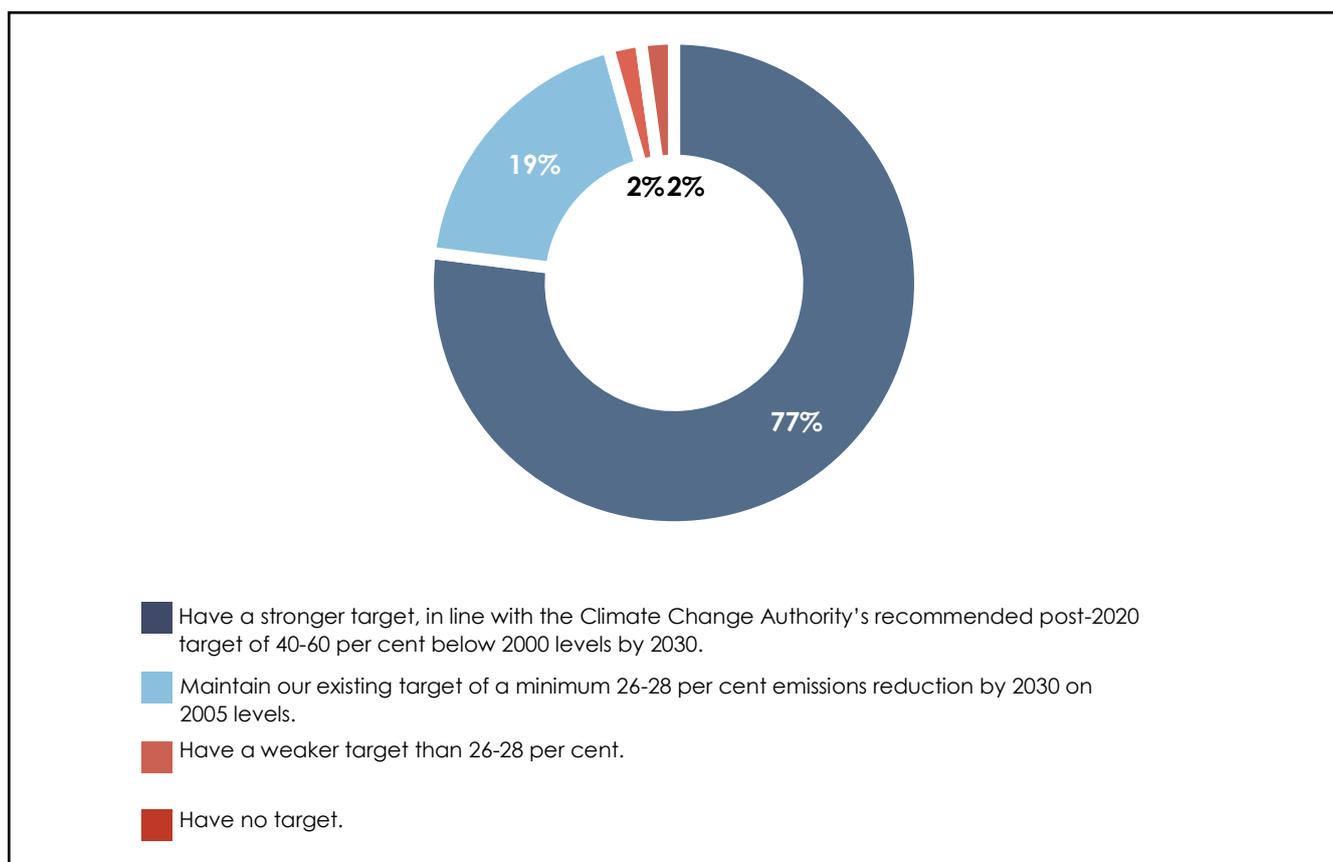


Figure 2: In your view, given the need to continually ratchet up ambition over time, Australia should:

The Australian Government could adopt a carbon budget approach to achieving its NDC targets and longer term (2050) targets, which would involve setting a cumulative emissions allowance between now and 2050, informed by climate science. This could provide an important reference point for choosing policies in the short and longer term, thereby helping to promote regulatory certainty and enable long-term planning and investment decisions.

Deciding a national budget should be a function of the global emissions budget. The Intergovernmental Panel on Climate Change's (IPCC) Fifth Assessment Report includes an estimate of the maximum cumulative emissions that can be released into the atmosphere over the coming decades to limit global warming to below 2 degrees Celsius; otherwise known as the global "carbon budget". The IPCC indicates that, keeping the amount of CO₂ in the atmosphere below 450ppm requires a net volume of carbon in the atmosphere at 2900Gt CO₂ or below, but it already holds 1900Gt CO₂. Therefore, the remaining budget to add is 1000GT CO₂.

In determining a national budget, Australia should consider what it believes is its and equitable and fair share of the global carbon budget.

2. Australia needs to reduce absolute emissions and so the primary policy mechanism that covers large emitters should establish an upper limit of absolute emissions covered under the mechanism and reduce that limit over time.

In the context of Australia's NDC, the Government needs to reduce absolute emissions in order to meet its 2030 target. It is critical that as Australia's climate policy suite evolves, the Government implements a policy mechanism that places a clear limit on absolute emissions across the economy, and that this mechanism actively drives down emissions over time.

From extensive consultation, it is clear that in a business as usual scenario, the Government's existing climate policy suite does not effectively constrain or reduce emissions in a way that will enable Australia to meet its 2030 targets. The Government's own Safeguard Mechanism is capable of limiting and reducing emissions without legislative change (through the adjustment of baselines), and should be the primary policy to do the heavy lifting to drive down absolute emissions to 2030 and beyond.

The approach of tightening the Safeguard Mechanism is discussed in sections 8 – 11 of the Submission concerning the Safeguard Mechanism. With the prospect of the Safeguard Mechanism effectively capping emissions it increases the likelihood of bipartisan support, enabling the policy to withstand multiple election cycles and provide long-term certainty to business and investors across the economy.

Emissions Reduction Fund.

3. The Government should commit a quantum of additional funding allocation to the ERF that is required to ensure the continuity of the domestic carbon offset industry until the time it transitions to a market driven by demand under the Safeguard Mechanism.

The Government's purchasing of abatement through the ERF has played a valuable role in supporting continuity of demand for domestic abatement, in the transition from the Carbon Farming Initiative. The ERF has catalysed the development of a suite of emissions reduction projects and preserved the highly-developed expertise in the Australian offset market. Of the initial \$2.55 billion ERF, over \$2.2 billion has been contracted in the first five auctions. More than \$300 million remains in the Fund, with further auctions yet to be scheduled. With no further allocations of funding confirmed, there remains uncertainty over the future of role of government purchasing of domestic abatement under the ERF.

In addition, under the Safeguard Mechanism, there will need to be an ongoing, increasing, predictable supply of offsets that can be purchased by facilities emitting above their baseline. If, as expected, Safeguard Mechanism baselines tighten over time, there will be an increased requirement for a viable supply of domestic offsets. It is important to note that the supply of domestic abatement will directly impact the cost of compliance under the Safeguard Mechanism. If there is a shortage of domestic units, the cost for compliance will be higher than if there is adequate supply and liquid secondary market. Therefore ensuring the continued development of the domestic supply of carbon credits will be a critical factor in ensuring we meet the emissions reduction targets at lower cost to the economy.

Through the Review process the Government should define the appropriate quantum of future funding allocations to be made to the ERF and, importantly, provide clarity on the timeframe for these allocations. This is especially important for investment certainty in domestic abatement projects and ensuring adequate future supply of Australian Carbon Credit Units (ACCUs). If further ERF funding is not confirmed before remaining ERF funds are all contracted, then there will be a reduction in new project development activity and a higher likelihood that registered projects will not proceed to investment and implementation.

Under the assumption that demand for domestic units under the Safeguard Mechanism will increase in a post 2020 environment (enabling a transition to private sector funding of abatement), then ERF funds for government auctions will still be required for the years 2018 – 2020. Assuming also that the most recent (fifth) auction results are indicative of future auction volumes and funding allocations (11.25 million tonnes of contracted abatement was purchased at an average price of \$11.82 per tonne at a cost of \$133 million), the remainder of the ERF will not be sufficient to maintain abatement activity to 2020.

To ensure continuity of this domestic abatement activity until private sector demand can sustain abatement activity, the Government should allocate transitional funding of the ERF for the years 2018 – 2020. If we assume 2 auctions per year and approximately \$100 million per auction, that equates to \$200 million per year. This will mean \$600 million in new ERF funding allocations over three years.

The figure of \$200 million per year is the same figure announced by the former Environment Minister Greg Hunt when in August 2015 he stated that the Government had “allocated approximately \$200 million a year for the Emissions Reduction Fund or \$2.4 billion over the 12 years from 2018 to 2030.”³

If the Safeguard Mechanism provides a strong demand for domestic offsets through baselines that were set to decline, then the funding stated by the former Environment Minister after 2020 would not be required. Demand needs to come from the Safeguard Mechanism and transfer the cost of purchasing abatement from the taxpayer to the private sector. The new funding would need to come from the consolidated budget and the allocations confirmed before all initial ERF funding has been contracted.

4. The Government should commit an allocation of more R&D funding for ERF method development so Australia can optimise investment in land sector abatement.

There is an opportunity to leverage Australia’s capacity to generate large scale emission reductions from the land sector by ensuring new and existing methods for land sector abatement are ready and viable for landholders and ERF project developers. It is important for the Government to build on existing R&D around method development, to ensure that new and existing ERF methods provide the necessary conditions to scale up land sector abatement. Opportunities for identifying specific methods should be prioritised and potentially fast tracked, allowing for large scale development of emissions reduction projects in the land sector.

Industry groups in the land sector such as The National Farmers Federation, Meat and Livestock Australia, Dairy Australia and Rangelands NRM have all indicated a strong interest in developing the emissions reductions potential of their respective sectors, and have highlighted a strong demand for participation in the ERF given the right conditions and available methods. ERF method R&D is critical for ensuring mitigation options are cost effective and accessible for Farmers in Australia and indeed the land sector as a whole.

The Government should formalise a process for further engagement with relevant industry bodies and land sector groups to alleviate some of the barriers that currently exist with respect to ERF methods, increasing participation among land sector groups and accelerating emission reduction for the sector.

The Government should determine changes to prioritising ERF method development and governance processes so that new methods are participant-led and there is transparency and stakeholder engagement ahead of any method changes.

Under the Carbon Farming Initiative, the development of abatement methods occurred with strong input from the private sector. This ground-up approach leveraged the expertise within the abatement industry to identify opportunities for emissions reduction and prioritisation of method development in an efficient and effective manner. Under the ERF, method development and prioritisation is led principally by the Department of Environment and Energy.

³ 7.30 Report <http://www.abc.net.au/7.30/content/2015/s4291521.htm>

Leveraging the private sector expertise in the development of methods is important for identifying the most efficient and effective means to generate abatement. Furthermore, industry-led method development will assist in prioritising methods most useful to industry and therefore most widely adopted.

In addition, it is essential that the method development and method Review process is transparent. Any changes to current methods should be undertaken through appropriate stakeholder engagement to ensure industry views are incorporated and timeframes are appropriate.

5. The Government should explore how methods developed under the ERF can be aligned with international standards and other carbon offset markets

International carbon markets are going to evolve under the framework of the Paris Agreement. The suite of emissions reduction project methods developed under the Carbon Farming Initiative and ERF represent carbon abatement and emissions avoidance projects that could be aligned with international standards and form part of a suite of project types that could have applicability in other jurisdictions.

Eligible mitigation actions in future international markets or bilateral/regional markets are expected to have at least the following characteristics:

- **Net Mitigation Contribution:** Which refers to the extent to which a mitigation action counts against a host country's efforts to reducing their domestic emissions, to assure that there is no double counting.
- **Sustainable development contribution:** Mitigation actions 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. This will also be important for ensuring that carbon abatement activities contribute to achieving the UN's Sustainable Development Goals.
- **Credibility and integrity:** Mitigation actions should represent real, permanent and additional reductions, and be subject to robust monitoring, reporting and verification (MRV).

The Government should build connections with the private sector as it engages in international/bilateral/regional fora so that it can be part of the rule-making process about eligible mitigation actions. Importantly, decisions about 'eligibility' are not just being discussed at the international level under the UNFCCC, but also on a bilateral/regional basis. It is important that Australian business has a 'window' into the different dialogues about eligible mitigation actions, so that it is 'link-ready' and well positioned to access and benefit from international markets in the future.

6. The Government should clarify the options and process to open up market opportunities for the transfer/export of credits created under the ERF into other markets.

It is likely that a significant portion of the ACCUs generated from ERF projects in the future will be needed to meet Australia’s domestic emissions reduction targets. However, the potential exists to invest in and implement largely land-based emissions reduction projects at a scale that represents an opportunity to generate surplus abatement. This surplus abatement could potentially be exported (in the form of ACCUs) into foreign compliance markets, creating additional demand for Australian abatement. A viable export market for ACCUs could create significant economic activity in rural and regional Australia. See further discussion in sections 15-18 on international carbon markets below.

Australia also has extensive expertise and capacity in project development and across the broader emissions reduction project development, investment and services spectrum. Many of the countries in our region are lacking such expertise as they develop their emissions reduction institutions and frameworks to meet their obligations under the Paris Agreement. In recent consultations that CMI has had with Government officials and key representatives in New Zealand, California, China and India, there is interest in Australia exporting its Emissions Reduction Fund methods and land sector abatement methodologies, thereby advancing the development of robust, comparable and potentially fungible mitigation actions internationally. This represents a potential opportunity to export Australian expertise to assist with these processes, creating economic opportunities for Australian business. The Government could carry out a research project and/or a pilot project in a key jurisdiction to test the feasibility of exporting Australian methodologies.

Through the Review the Government should engage the private sector to consider how Australia’s combination of advanced methods and world-leading expertise could be leveraged to create opportunities for Australian businesses in regional markets. The majority of Australian businesses in CMI’s recent survey supported the exploration of ACCU export markets (Figure 3).

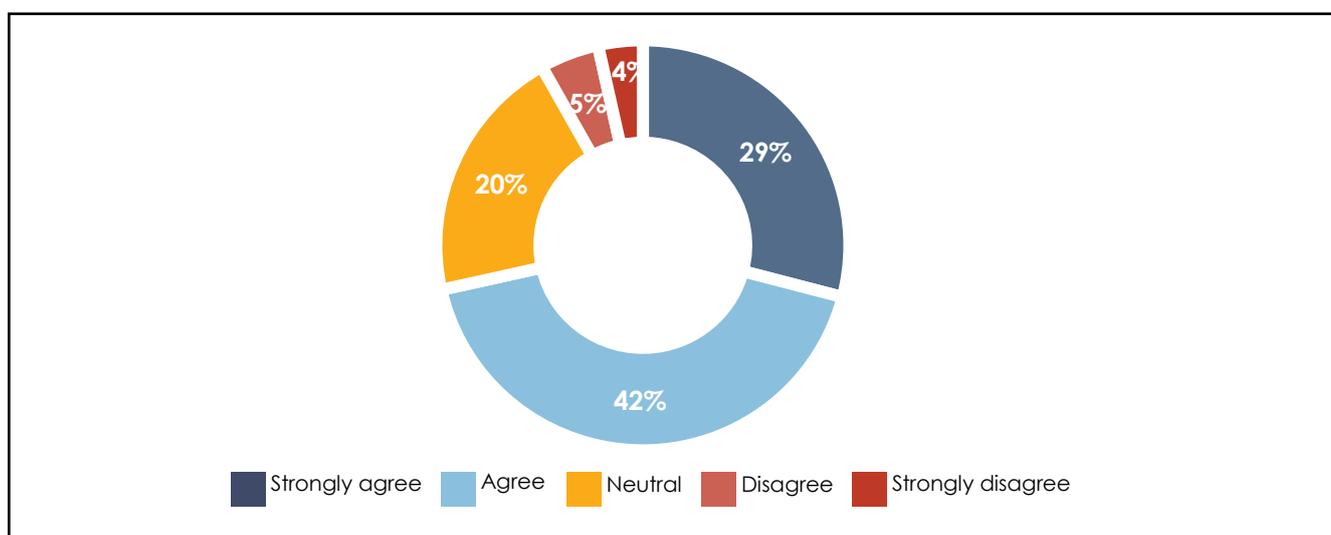


Figure 3: The Australian Government should work to open up market opportunities for the transfer/export of credits created under the ERF into other markets.

7. The Government should consider how voluntary market activity and additional sources of private sector demand for carbon units credited under the ERF can be created.

In addition to an evolving Safeguard Mechanism that increases demand for credits created under the ERF, other sources of demand can be investigated in the policy Review. The voluntary market presents a significant opportunity for further emissions reductions coming from outside the Government's primary policy mechanisms.

Through activities carried out under the Services Agreement with the Department of Environment and Energy, CMI has evidenced an increasing interest and appetite from organisations looking to better understand the voluntary carbon market, specifically the National Carbon Offset Standard (NCOS) and Carbon Neutral Program (CNP) and the Gold Standard.

Despite varying levels of understanding and engagement, organisations have shown considerable interest in accessing the benefits associated with voluntarily reducing emissions such as under the CNP, and understanding what the different options are to progress voluntary action. This was highlighted in September 2016, when CMI ran a series of national promotional workshops in Melbourne, Sydney, Brisbane, Adelaide and Perth. The workshops were attended by over 230 individuals from various organisations. In addition to this, there has been an overwhelmingly positive response to the development of other market education materials such as the Guide to Going Carbon Neutral, Carbon Neutral Case Studies of certified organisations, and the development of an online Carbon Offset Portal.

It is important that efforts are continued to further increase uptake of the voluntary purchase of carbon offsets and emissions reduction activities. The Government's NCOS currently certifies 30 organisations and 15 products and services as carbon neutral, with a number of other organisations reportedly close to becoming certified in the near future. Carbon neutrality, offsetting and the benefits of becoming carbon neutral are still relatively unknown to many, therefore it is important that there is a continuation and ongoing commitment to market education around voluntary market activity and the Government's NCOS and other voluntary standards.

A further option for stimulating private sector demand for ACCUs is through the incorporation of offsetting requirements in environmental and planning approval legislation. Requirements for emissions from major infrastructure projects have previously been explored at the state level⁴. By introducing requirements for emissions from major projects to be offset by domestic abatement, investment in local projects could be catalysed. Projects could deliver a range of additional social, economic and environmental benefits to the project region.

⁴ Environmental Assessment Guidelines. Preparation of Management Plans Under Part IV of the Environmental Protection Act 1986. Environmental Protection Authority, Government of Western Australia. August 2015.

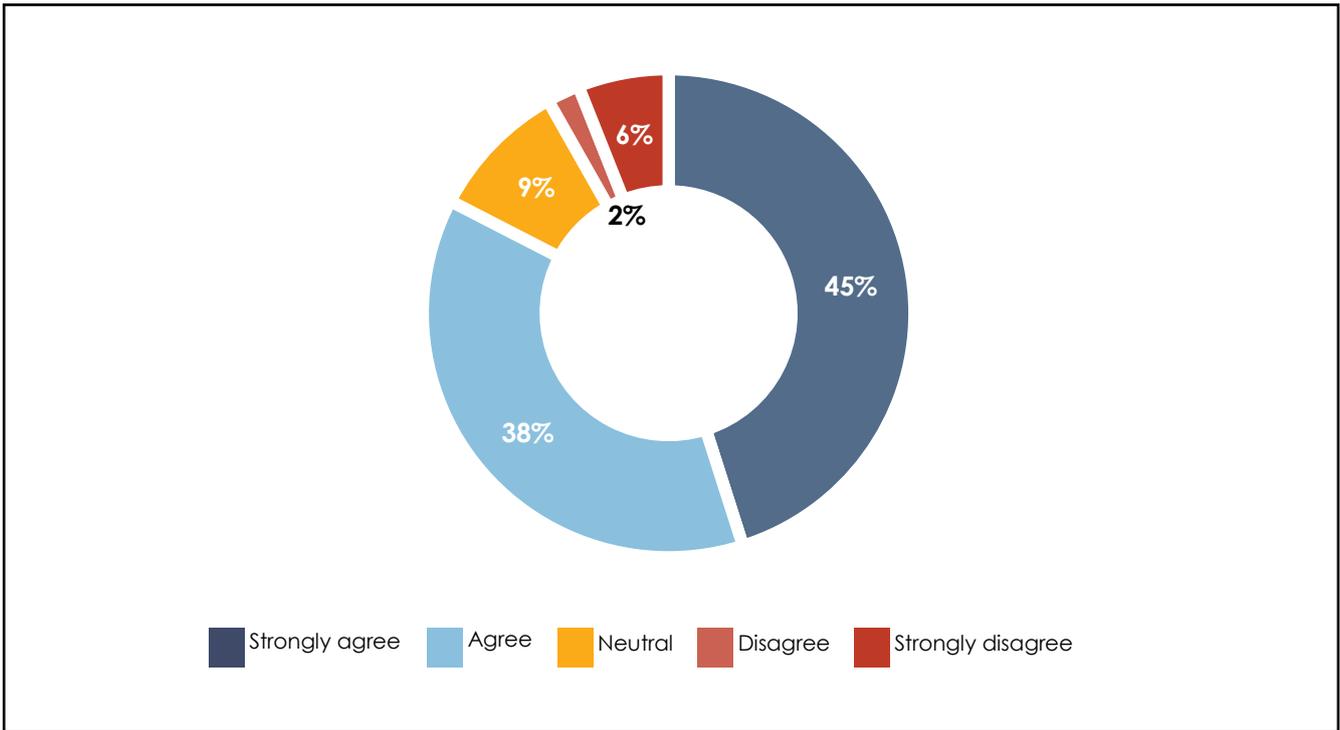


Figure 4: In addition to Government purchasing, it is important there are other sources of private sector demand for carbon units credited under the ERF.

Safeguard Mechanism.

- 8. The Government should make clear the objective of the Safeguard Mechanism which is to ensure that it makes an effective and significant contribution to the emissions reductions needed for Australia to achieve its commitments made under the Paris Agreement.**

A fundamental outcome of the policy review is for the Government to redefine the role and aims of the Safeguard Mechanism. The Safeguard Mechanism has been described in the Discussion Paper as “designed to ensure emissions reductions purchased by the Government are not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy”. However, in the Explanatory Statement accompanying the Rules of the Safeguard Mechanism it is stated that the Safeguard Mechanism would be reviewed so that “it makes an effective contribution to the emissions reduction target”.

If the Safeguard Mechanism is only limited to the extent of emissions purchased under the ERF then its total emissions reduction contribution will be limited to the volume of emissions purchased as well as a finite emissions reduction horizon, correlating to the contract crediting periods for ERF projects. Australia’s emissions reduction target requires a below business as usual trajectory. The Safeguard Mechanism definition used in the Discussion Paper also implies that the Safeguard will only be effectively used to limit emission above business as usual.

The Safeguard Mechanism objective needs to be redefined as the primary market based measure which makes an effective contribution to drive below business as usual emission reductions over covered entities to achieve our international targets.

- 9. The Government should determine the specific quantum and/or percentage contribution that the Safeguard Mechanism will make to meeting Australia’s existing emissions reduction targets and how that will vary under future enhanced UNFCCC commitments.**

The indicative contribution of the Safeguard Mechanism to the cumulative 2030 emissions reduction task outlined in the Prime Minister and Cabinet’s UNFCCC Taskforce report is illustrated as between 300-400MtCO₂-e of emission reductions to 2030 (see figure 1). This is the largest of all emission reduction sources outlined by the Government, implying the Safeguard Mechanism will play a significant role in reducing Australia’s emissions, especially in the post-2020 period.

In its current form, the Safeguard Mechanism is unlikely to make a significant contribution to reducing emissions below business as usual levels, as the baselines are not set to drive the significant emission reductions required to meet our 2030 target. The Government should therefore determine the contribution in terms of the quantum and/or percentage of emission reductions the Safeguard Mechanism is to make to Australia’s targets and adjust the baselines accordingly. It is particularly important that the contribution of the Safeguard Mechanism, relative to other policy mechanisms, is made clear in the outcomes of the Review process.

An outcome of the review should be to determine how the Safeguard could evolve into a robust and enduring mechanism and become the primary means to limit emissions growth across the Australian economy in line with emissions reduction targets set under the UNFCCC.

Aligning baselines allocated under the Safeguard Mechanism with Australia’s internationally committed emissions reduction targets will provide the basis for both an effective policy lever, provide a market signal and a more stable and predictable landscape for business.

Australia’s target under the Paris Agreement is a starting point. Our international obligations are likely to become more stringent over time with the five-yearly pledge-and-review system of the Paris Agreement. It should be noted that as the cumulative task increases in line with our Paris Agreement commitment to strengthen emission reductions over time, the total reductions under the Safeguard Mechanism will also have to increase over time.

Any market mechanism that is to be enduring needs to be flexible to accommodate changing emission reduction circumstances and increased international obligations. Aligning the trajectory of Safeguard Mechanism baselines with international targets is central to allowing our current and future commitments to be met.

Aligning baselines so they decline in relation to emissions reduction targets provides additional clarity on potential future compliance obligations for covered facilities. The majority of Australian businesses foresee more stringent limits on emissions coming into force in the near future.

Covered facilities require a clear understanding of the way future baselines will decline to inform the nature and timing of a compliance liability, and to inform operational and investment decision making. In CMI’s 2016 survey of major Australian businesses, 83 per cent of the 208 respondents were of the view baselines under the Safeguard Mechanism should decline over time in line with Australia’s emissions reduction target (Figure 5).

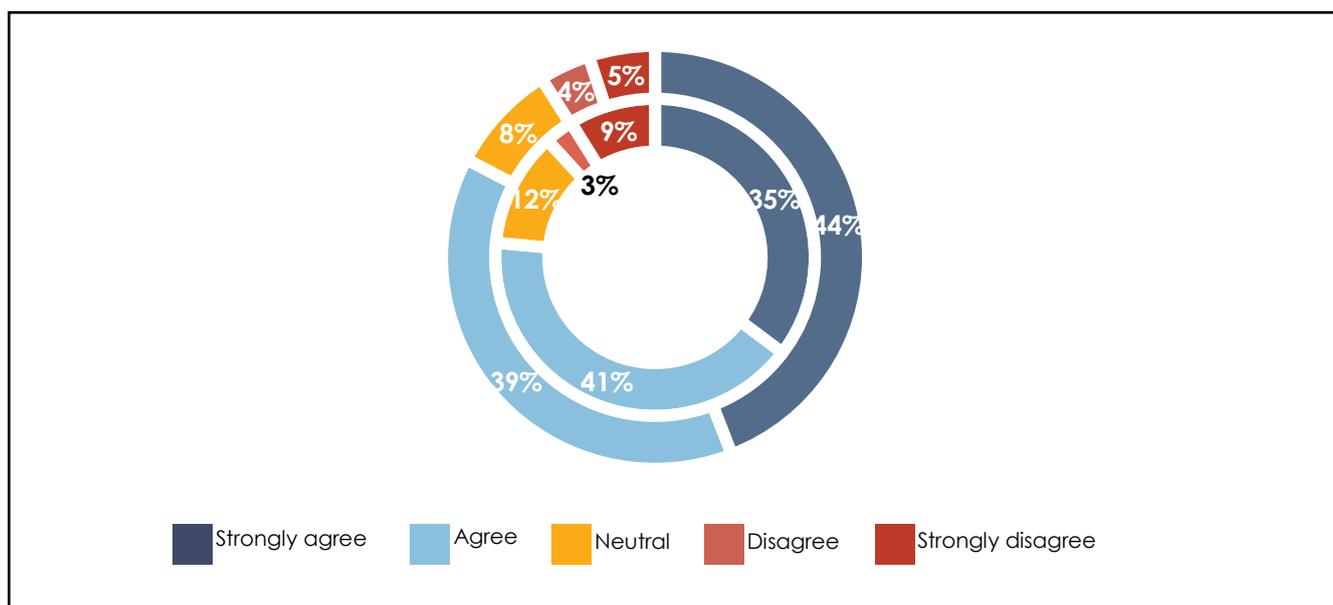


Figure 5: Baselines allocated under the Safeguard Mechanism should be set to tighten over time in line with the trajectory of Australia’s 2030 emissions reduction target. Inner series represents entities covered by the Safeguard Mechanism, outer series represents all respondents.

10. The Government should provide clarity on the conditions, criteria and process for how emissions baselines under the Safeguard Mechanism will be adjusted to decline in the post-2020 period.

The Explanatory Statement for the Safeguard Mechanism rules states that the Review will cover a range of elements including any conditions and criteria for existing facilities to adjust baselines⁵.

According to CMI's Australian Climate Policy Survey 2016, 92 per cent of 208 respondents were of the view that the conditions and criteria for how emissions baselines under the Safeguard Mechanism will be adjusted in the post-2020 period should be an essential component of the Review (Figure 6). This position is further supported by consultations CMI has undertaken with industry.

A starting date for the declining baselines should be at the latest 2020. By this time, the covered facilities will have adopted either an absolute baseline, a calculated baseline with an emissions intensity or a production adjusted baseline. We propose that from 2020 the baseline determined for each facility is the final one and that baselines are set to decline from that time onward.

It is critical that an outcome of the review is the definition of the conditions and criteria that will be applied to future baseline adjustment. This will be necessary to provide the assumptions necessary for business to undertake their own modelling and assessments of their potential liability and future emissions reduction task. The baseline adjustment process could take place at regular predetermined intervals with a lead time that allows covered facilities to plan accordingly.

These conditions and criteria could include:

- The quantum of abatement required to 2030 under agreed international obligations – the quantum of emissions abatement required will vary based on national inventory figures and the emissions reduction target set in the NDC;
- The results of national inventory of emissions – the tracking of our national emissions is central to informing the abatement task;
- The contribution in terms of the quantum and/or percentage of emissions reductions the safeguard is to make to Australia's targets;
- The 'fair' sectoral contribution of covered facilities – e.g. each sector to make a contribution to the abatement task relative to their proportion of emissions;
- Coverage of the Safeguard Mechanism – the threshold to be set at 25,000 tCO₂-e;
- The contribution of the volume of abatement purchased at ERF auctions – the contracted, delivered abatement and funds available for auction will inform the actual and potential abatement achieved through the ERF;

⁵ National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 Explanatory Statement. Issued by the authority of the Minister of the Environment.

- The use of international units and the proportion of international and domestic units eligible for compliance use;
- The expected emissions reductions achieved through complementary policies – e.g. the policies such as the Renewable Energy Target, the National Energy Productivity Plan and Vehicle emissions standards;
- Projection of future growth rates of the economy;
- Application of current and future technologies.

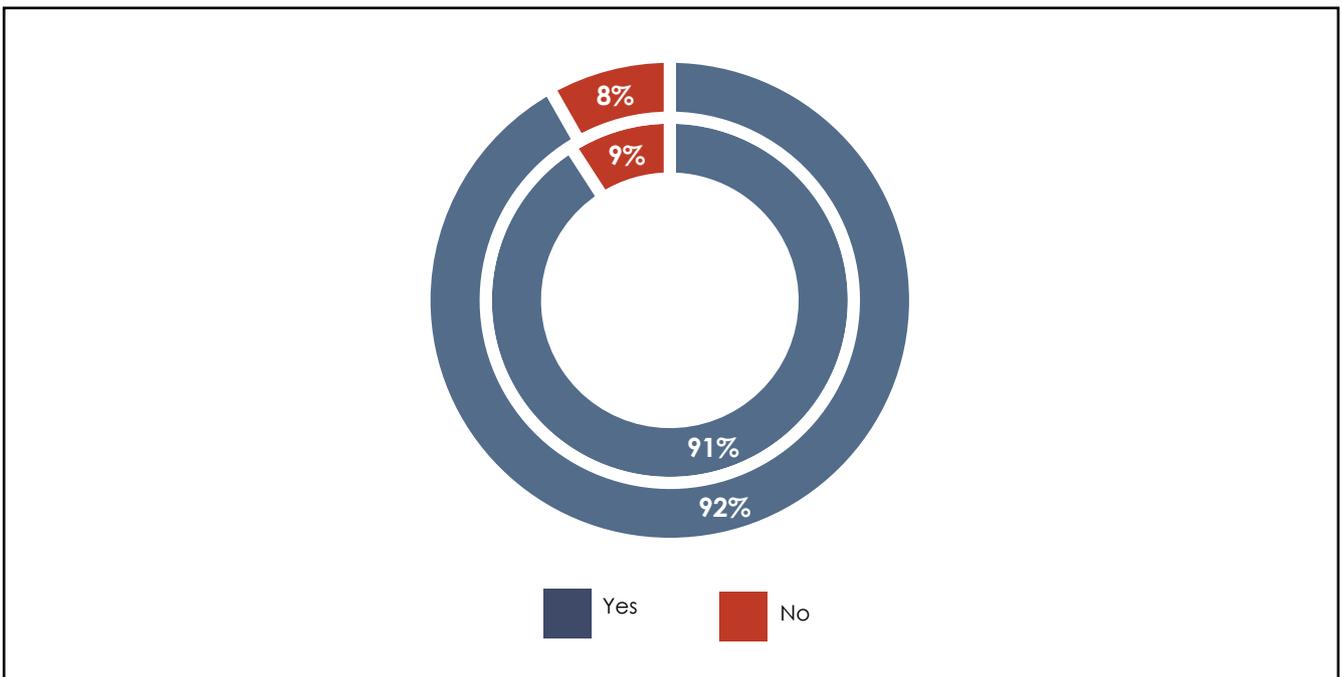


Figure 6: The conditions and criteria for how emissions baselines under the Safeguard Mechanism will be adjusted in the post 2020 period should be an essential component of the Review. Inner series represents entities covered by the Safeguard Mechanism, outer series represents all respondents.

11. The Government should determine how coverage of the electricity sector under the Safeguard Mechanism can be most effectively be treated in order to send a carbon price signal to transition to lower emissions sources of electricity generation.

Emissions reduction policy and the low-carbon transition of the Australian economy will impact different sectors and industries in different ways. It is important the Review consider options for the treatment of some sectors that are likely to be more substantially impacted as the policy suite evolves. This is particularly the case for the electricity generation sector. (Figure 7).

A clear price signal is required to decarbonise the electricity generation sector while providing a clear signal to investors and removing potential volatility in the transition.

In December 2016, the Government ruled out the prospect of introducing an emissions intensity scheme for the electricity sector. This limits the options of what we can propose in this submission. However, as the focus of this submission is to articulate how the current policy suite

can evolve, then the Safeguard Mechanism has the regulatory architecture in place to be adapted to drive emissions down in the electricity sector using the same market mechanism that applies to the other heavy emitting sectors.

A single electricity sectoral baseline applies to grid-connected electricity generators which means that individual generators will not have an obligation to keep their emissions below their own individual baselines unless the sector exceeds its sectoral baseline. The Discussion paper acknowledges that the sectoral baseline is set such that, the sector-wide baseline (based on current projections) is not expected to occur in the period to 2030. This suggests that if the sector that produces the largest emissions is not required or expected to make any emissions reductions under the Safeguard Mechanism then the sector baseline is set too high.

A solution would be to either ratchet the sector baseline down over time or remove the sector wide baseline altogether in 2020 and each generation facility would be subject to their own individual baselines. These individual baselines will decline in relation to other baselines from 2020. So, in effect, the electricity generation facilities will be subject to the same baseline adjustment and emissions management options as facilities in other sectors.

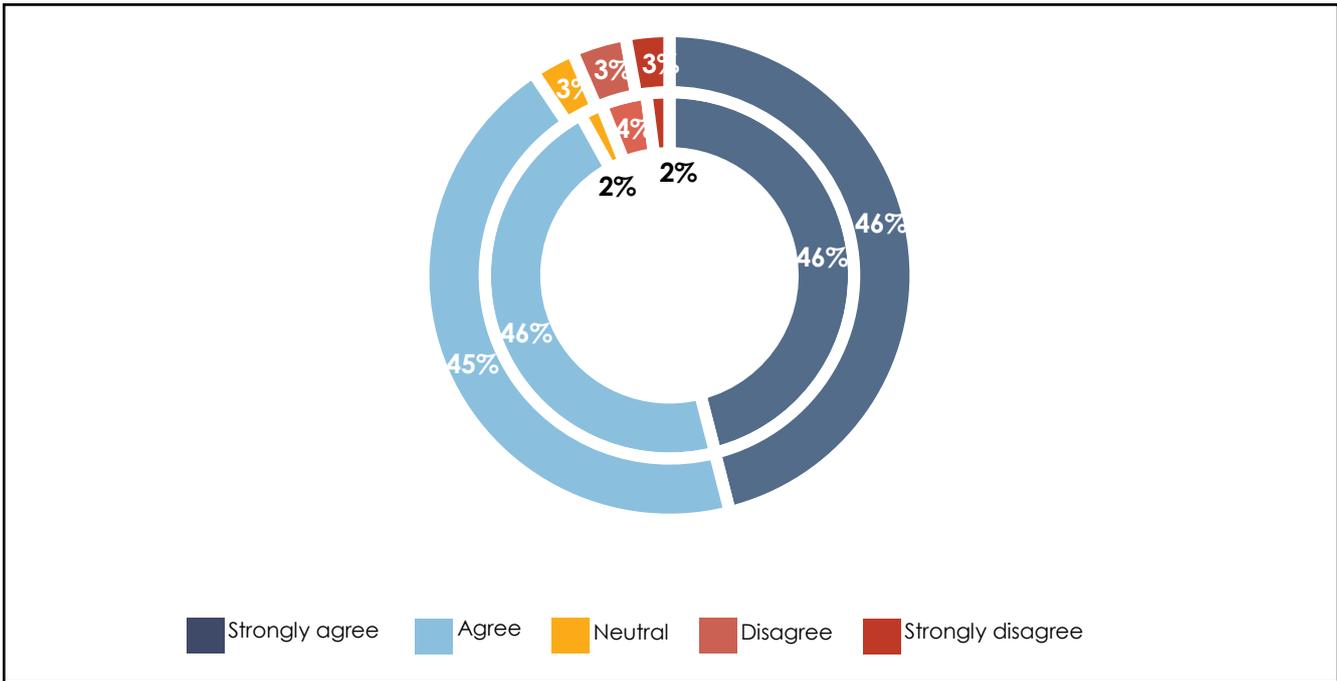


Figure 7: The successful decarbonisation of the Australian economy will involve taking into account the specific sectoral needs of transforming the electricity system. Inner series represents NGER reporting entities, outer series represents all respondents.

12. The Government should lower the threshold coverage for entities liable under the Safeguard Mechanism to expand the volume of emission reductions achieved under this mechanism.

The Clean Energy Regulator has allocated baselines under the Safeguard Mechanism to approximately 360 high-emitting facilities⁶ representing around 50 per cent of Australia's national emissions (CY15⁷). There is still a significant portion (approximately half) of Australia's emissions that are not covered. Without a greater portion of entities covered under the Safeguard Mechanism, the emissions reduction task will rely more heavily on a relatively small number of companies.

The Government should lower the threshold of coverage under the Safeguard Mechanism (Figure 8). Coverage should be based on modelling of the emissions abatement profile and trajectory of emission reductions required to meet our Paris Agreement commitments. Identifying the contribution the Safeguard Mechanism is to make to the abatement task and calibrating the coverage of the Safeguard Mechanism against this task is crucial for informing how the threshold is set.

Considering this, the Government should lower the Safeguard Mechanism threshold to 25,000 tCO₂-e, which will increase both the coverage of the mechanism and its emission reductions capacity in line with 2030 targets, whilst simultaneously aligning the mechanism with facility reporting requirements under the National Greenhouse & Energy Reporting (NGERS) framework and including those facilities that were covered under the Carbon Pricing Mechanism.⁸

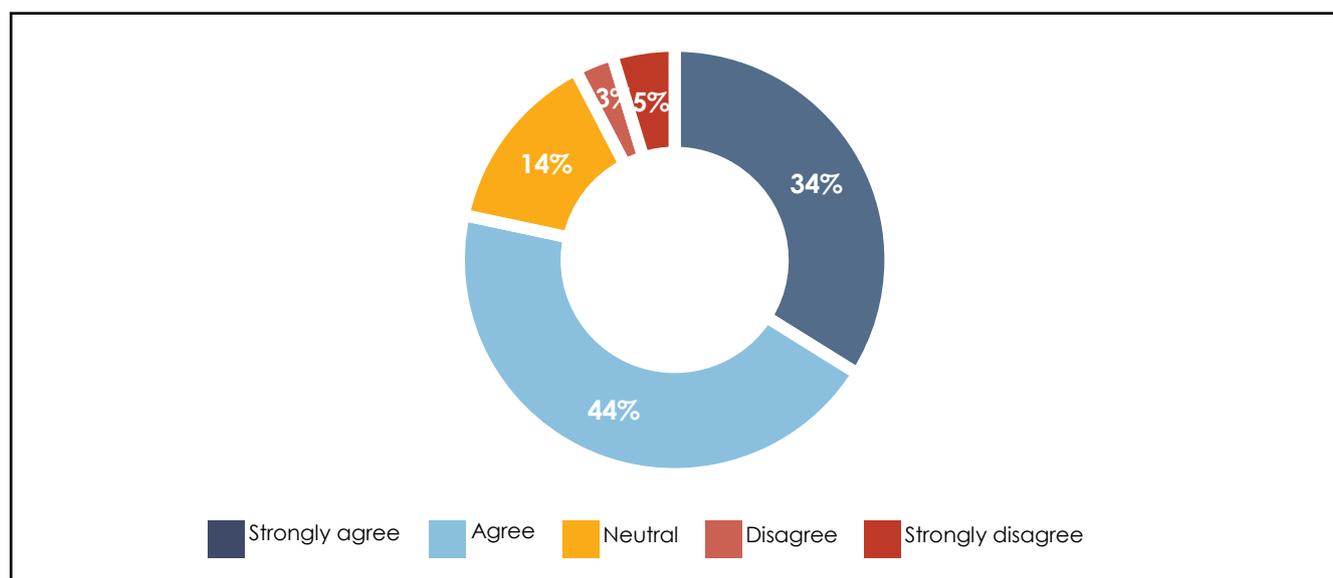


Figure 8: The Government should consider expanding the threshold of coverage for entities under the Safeguard Mechanism (i.e. to include lower emitting companies or facilities).

⁶ Safeguard baselines table. Clean Energy Regulator, available at <http://www.cleanenergyregulator.gov.au/NGER/National%20greenhouse%20and%20energy%20reporting%20data/Safeguard-baselines-table#Safeguard-baselines-table>.

⁷ Quarterly Update of Australia's National Greenhouse Gas Inventory: December 2015. Australia's National Greenhouse Accounts. Australian Government Department of the Environment.

⁸ Towards a Climate Policy Toolkit, Special Review on Australia's Climate Goals & Policies, Climate Change Authority, August 2016

13. The Government should examine options for how the Safeguard Mechanism can evolve into an effective trading system to drive lowest-cost emission reductions across covered facilities.

Transitioning the Safeguard Mechanism to an effective trading system will enable the mechanism to become a long term and stable instrument which underpins lowest cost emissions reduction across the economy and puts a price on carbon.

The Safeguard Mechanism is, in its existing regulatory form, a type of emissions trading. If covered facilities exceed their baselines they are required to purchase emissions, in the form of Australian Carbon Credit Units (ACCUs) from the domestic offset market. This involves trading in emissions. Under the Emissions Reduction Fund, ACCU's are currently being traded by project proponents to meet Government contracts for delivery of abatement. So, if the Safeguard Mechanism is already a legislated form of emissions trading then it can evolve in a way that is consistent with the exiting architecture and baseline setting process.

In CMI's 2016 Australian Climate Policy Survey, 79 per cent of respondents agreed or strongly agreed that the Safeguard Mechanism should transition to a baseline and credit trading system (Figure).

The Grattan Institute⁹ and the Climate Change Authority¹⁰ have both articulated options for how the Safeguard Mechanism can evolve in way that could potentially enable a bipartisan approach to the use of the Safeguard Mechanism as a primary component of the policy toolkit. In *Climate Phoenix: a sustainable Australian climate policy*, the Grattan Institute outlined how in three steps the Safeguard Mechanism can evolve and could become an enduring market based approach to emissions reduction. The first step is to tighten the baselines. The second step involves auctioning tradeable permits that allow businesses to emit above the baselines, but within the target trajectory to 2030. The third step involves expanding the Safeguard Mechanism to cover more emitters while reducing baselines to zero over time. Under this model, covered facilities will then have to hold permits for all their emissions, all of which would be auctioned. This would create a viable, liquid market for emissions trading and establish a carbon price for tradable permits.

In a baseline and credit system, covered facilities can offset their liability by reducing emissions below the baseline, creating credits through emissions reduction projects (under the ERF) or purchasing offset units from others who have been issued credits, or a combination. Consistent with the baseline and credit model, the Safeguard Mechanism should ultimately operate to both credit emission reductions and penalise excess emissions for emitting below or above allocated baselines respectively.

⁹ <https://grattan.edu.au/report/climate-phoenix-a-sustainable-australian-climate-policy/>

¹⁰ Towards a Climate Policy Toolkit: Special Review on Australia's Climate Goals and Policies, 2016

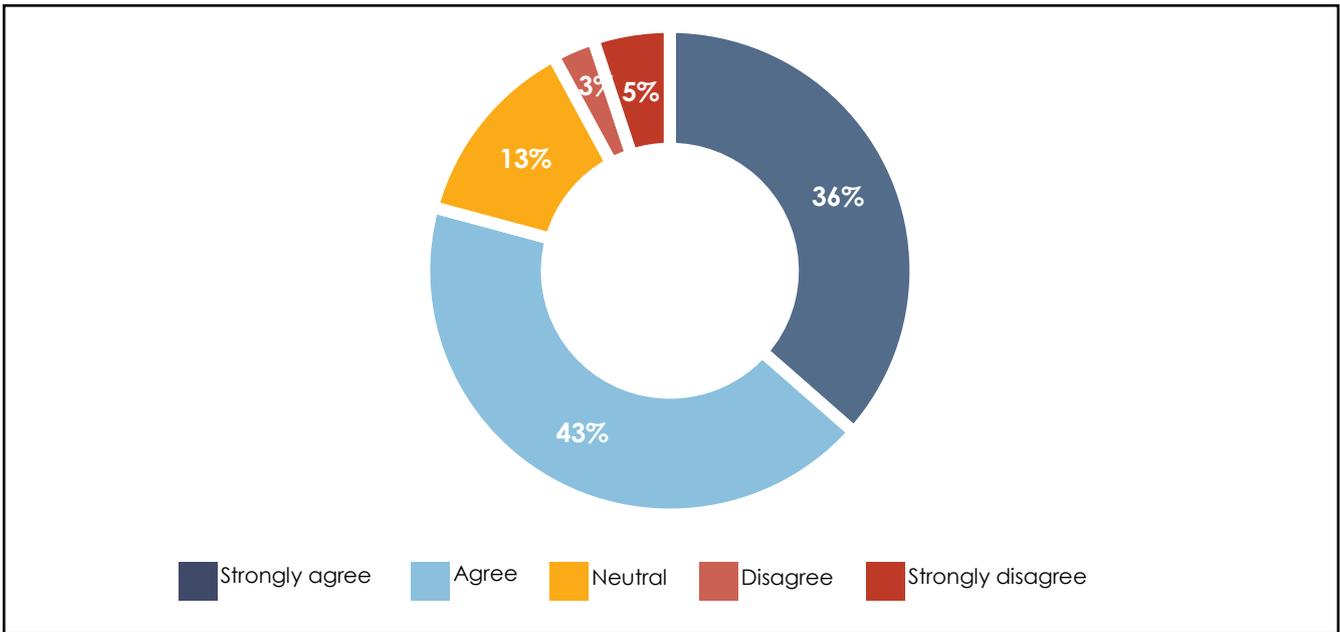


Figure 9: The Safeguard Mechanism should transition into a baseline and credit trading scheme.

The full transition of the Safeguard Mechanism into a market-based mechanism such as a baseline-and-credit trading scheme would assist in stimulating investment activity to meet emissions reduction targets, allowing them to be achieved at least cost to the economy. Crucially, caps or limits on emissions under a market-based mechanism can be adjusted to meet current and future abatement targets.

Carbon pricing is well understood and utilised across Australian business, particularly among larger emitting entities covered under the Safeguard Mechanism. 73 per cent of Australian companies surveyed by CMI are factoring a carbon price in investment decisions, including 70 per cent of NGER reporting companies (Fig 10)

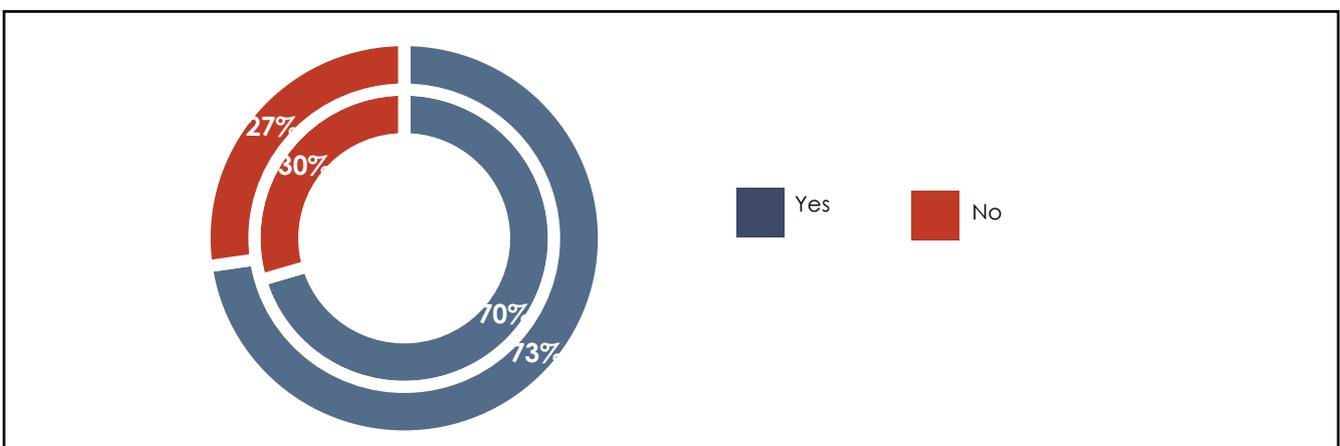


Figure 10: If you work for a company with greenhouse gas producing activities: Is your company factoring in a carbon price in investment and/or operational decisions? Inner series represents NGER reporting companies, outer series represents all respondents.

14. The Government should determine more stringent enforcement options and penalties for non-compliance under the Safeguard Mechanism, sufficient to incentivise low carbon investment.

The maximum final sanction under the Safeguard Mechanism is currently \$1.8 million (the maximum amount set at the lesser of 100 penalty points per day (currently \$18,000 per day), to a maximum of 10,000 penalty points in total)¹¹. At this level, the sanction may not be of sufficient scale to incentivise some facilities covered by the Safeguard Mechanism to invest in emissions reduction projects under the ERF to hedge against potential baseline exceedance. A more substantial final sanction would increase the consequence of exceeding baselines, potentially leading to a reduced risk appetite from covered entities and a hedging strategy through investment in ERF projects or purchasing of credits.

¹¹ National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 Explanatory Statement. Issued by the authority of the Minister of the Environment.

International Carbon Markets.

15. The Government should confirm the use and eligibility requirements of international units for compliance under the Safeguard Mechanism, to maximise opportunities to meet our emission reduction targets at lowest cost.

The nature of Australia's emissions profile and its economic reliance on emissions-intensive industries, translates to some significant challenges when looking to achieve substantial emissions reductions. In achieving Australia's emission reduction targets it will be important that entities covered by the Safeguard Mechanism have the flexibility to access low-cost, high quality abatement from international sources, if they are available. This will become increasingly important as baselines under the Safeguard Mechanism become more stringent, which will raise the need for covered entities to reduce emissions cost-effectively to maintain international competitiveness.

Reducing the costs of compliance may in turn, enable the Government to raise the ambition of its emission reduction targets as Australia is expected to do under the Paris Agreement. Moreover, as a transfer of emissions reduction units corresponds to a transfer of finance and investments, the use of international abatement has the potential of opening up new markets and new business lines for Australian businesses.

The Paris Agreement offers countries choices in how they choose to source and transfer international abatement. Article 6 of the Paris Agreement effectively sets up two tracks for international cooperation:

1. A mechanism for Sustainable Development and Mitigation Crediting (SDM). The Rules for sourcing and transferring international abatement under this Track need to be agreed upon by all Parties to the Paris Agreement. These Rules are to be described in the Paris Rulebook (to be completed by December 2018).
2. A framework for 'Voluntary Cooperative Approaches'. This track allows countries and other jurisdictions the flexibility to link bilaterally and multilaterally under their own governance arrangements, in what many now refer to as 'carbon clubs'. Any international abatement that is sourced and transferred under this Track needs the approval of the countries involved, and shall observe guidance (not governance) related to sustainable development, environmental integrity, transparency and accounting. The process of developing the rules for carbon clubs under this Track has already started, particularly among countries in the Indo-Pacific region.

Internationally sourced abatement should seek to meet the criteria and principles either defined at an international level or at a bilateral/regional/club level under either of these tracks. The Australian Government should continue to engage in international/bilateral/regional fora so that it can be part of the rule-making process, and not be a rule-taker. It is also important that Australian business has a 'window' into the dialogues about the mechanics of future global carbon markets, so that it is well positioned to benefit from these markets in the future.

Furthermore, when exploring the use of international abatement, several unit types should be considered to allow Australian business a choice of abatement options; additionally, the frameworks that are currently under development are expected to represent important sources of international units.

It will be important to achieve the right balance of international abatement and domestic abatement for ensuring continuity of demand and protection of the domestic abatement sector, while ensuring abatement costs can be managed. The Government should determine how the balance of international and domestic units can be determined and what quantitative and qualitative restrictions are important for maintaining a domestic abatement industry and the international competitiveness of Australian business. Key to establishing this will be to understand the rules of trading under both of the Paris Agreement tracks, as well future supply and demand of international units under the new rules.

This process must incorporate consideration of the most appropriate international units; and eligibility requirements and their forward price curves - particularly in the post-2020 period. By making assumptions and mapping the forward price curves of selected international units together with the ACCU price, the Government can determine the range of the weighted average cost of compliance for covered entities, which would assist in identifying optimal unit balance.

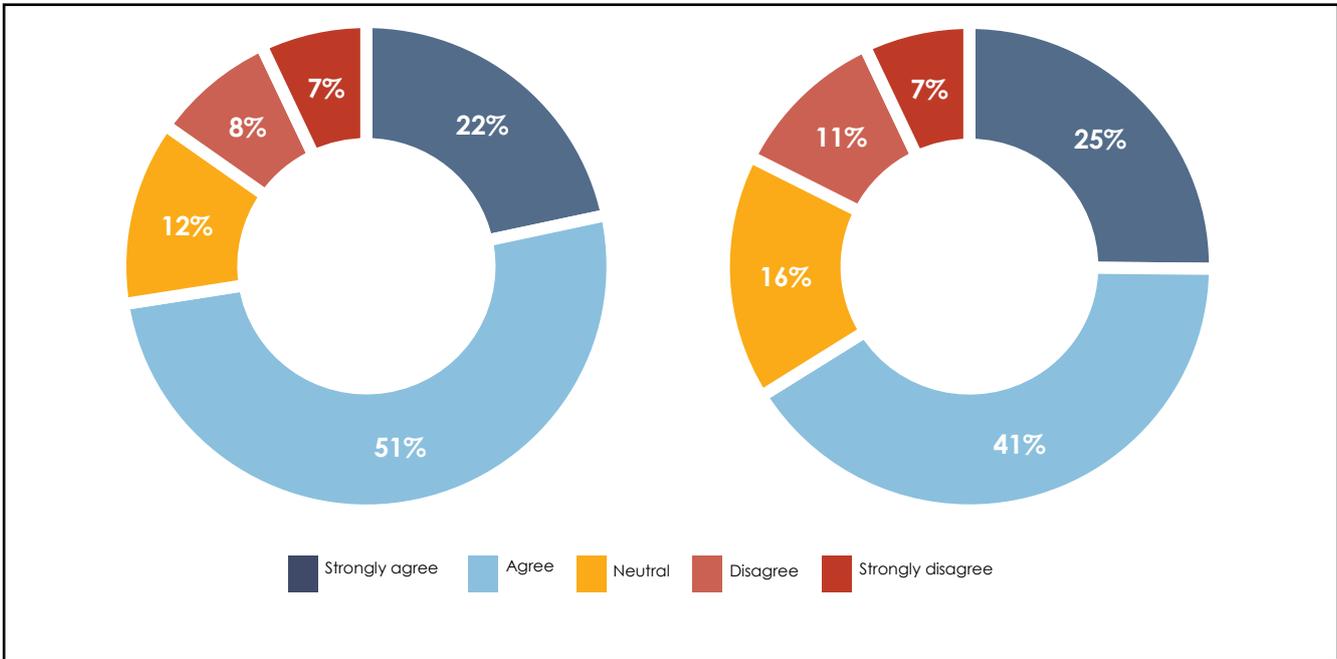


Figure 12a: The range of emissions offset units that could be used by businesses that exceed their Safeguard Mechanism baselines should include both domestic and eligible international units.

Figure 12b: There should be strict limits on the use of international units in Australian schemes in order to protect the domestic abatement market.

16. The Government should, research and model the factors affecting availability and future supply and demand for domestic and international units as countries implement their commitments made under the Paris Agreement.

The Kyoto Protocol will draw to a close in 2020, and consequently the future of the underlying Clean Development Mechanism (CDM) and associated offset credits (CERs) remains unclear. Going forward, Australia will also increasingly compete with demand for international abatement from other countries to meet their NDCs and commitments under the International Civil Aviation Organization's (ICAO) new Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Taken together, the emergence of new sources of demand and declining supply (as countries ringfence their own domestic supply of credits to meet NDC obligations), will have strong bearing on the future price and availability of international units. The supply of units will be further impacted by the Chinese ETS – which is set to come online in 2017 and cover approximately 5 billion tonnes of CO₂. Once operating, the Chinese system will be the world's largest market. Considering all of the above there is no certainty that there will be an available supply of low cost international units available in the post 2020 period.

It is important that as part of the Review, the future supply and demand of international units and the subsequent price impacts as the CDM transitions in the post-2020 period be modelled. This is an important consideration for ensuring the appropriate balance of international and domestic units for compliance under Australia's domestic emissions reduction policy. Factors that are likely to play a role in affecting future supply and demand of international units include:

- **Scalability:** The system of transfers of international abatement must be sufficiently robust to support large scale mitigation investments in a wide range of jurisdictions. The 2 different market mechanisms under the Paris Agreement have great potential to involve all countries and to target whole sectors, rather than the project-by-project approach with the market-based mechanisms under the Kyoto Protocol. This can help governments meet the ultimate objective of the Paris Agreement.
- **Confidence:** The international system must promote confidence not only for the Parties involved and their constituents, but also for the international community. To deliver that confidence, jurisdictions must continue to develop the rules/governance structures for both tracks under Article 6.
- **Savings:** Analysis by the World Bank Group shows that current NDCs could be delivered at a potential 30% lower cost if there were full access to the international market through emissions transfers¹² – which in turn implies much greater ambition at the same cost. This is both significant in terms of money saved which enables governments to take on higher targets and conduct an overall greater emissions reduction.

¹² State & Trends of Carbon Pricing 2016 Report, World Bank Group

- Demand: 90 governments state in their NDCs that access to carbon markets is essential. Demand is also expected to emerge from sectoral-based measures such as ICAO's CORSIA (described above).

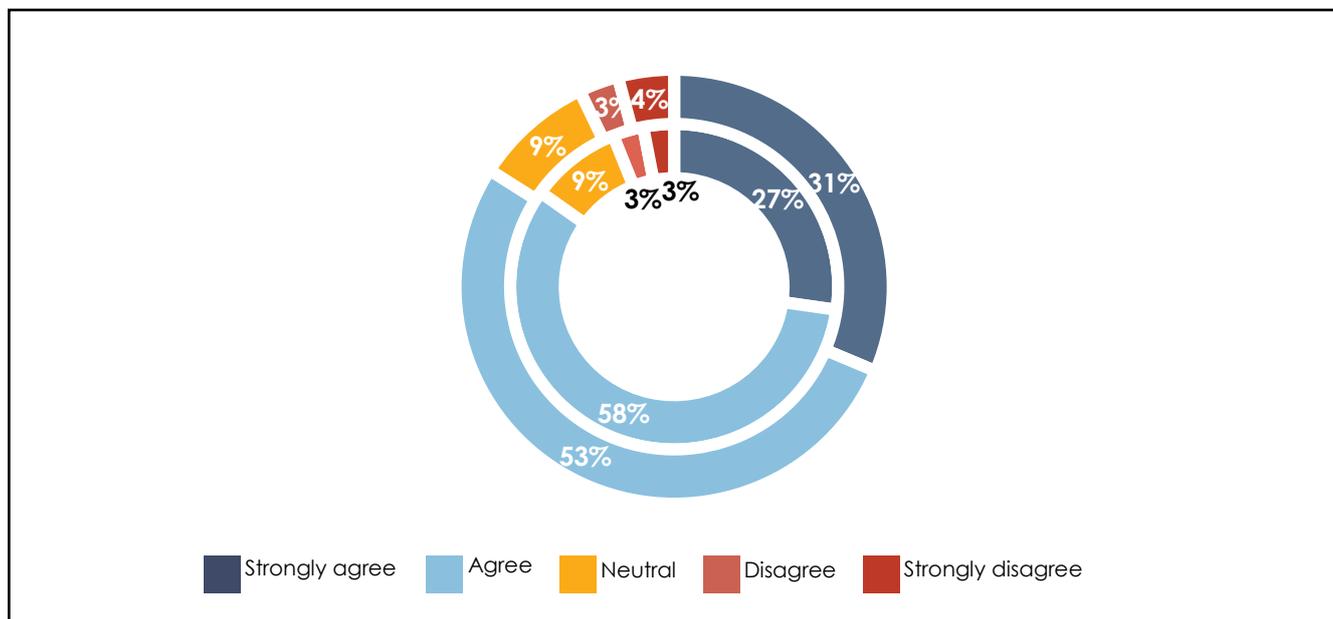


Figure 13: The review should encompass issues related to international trade in carbon including: the use and eligibility of international units, the factors affecting future supply and demand for domestic and international units, the potential export of Australian Carbon Credit Units, and options to link carbon markets under the Paris Agreement. Inner series represents entities covered by the Safeguard Mechanism, outer series represents all respondents.

17. The Government should identify how Australia 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.

The policy approach adopted in Australia should evolve in parallel with developments in other international markets. Over 90 countries have identified the possible use of carbon markets in achieving their NDCs under the Paris Agreement. The design features of Australia’s domestic policy suite should aim to achieve our NDC targets and aim to align with international developments to enable the development of linkages with other markets over time. Engaging with international markets can provide an opportunity to both allow entities covered under the Safeguard Mechanism to meet compliance at lowest cost and support the development of export markets for ACCUs.

Companies that have compliance obligations under the Safeguard Mechanism, particularly if baselines are to decline, could potentially manage their exposure cost effectively by using a range of trading and hedging strategies that involve international units.

The Government through the review should examine the pathway to open up market opportunities for the transfer and export of ACCUs into other markets. Engaging with the many countries that outlined the use of international markets in their NDCs is an effective way to

create an export market for ACCUs credited under the ERF. Export markets represent a potential additional demand for ACCUs beyond a domestic compliance policy such as the Safeguard Mechanism or Government funding of abatement.

To ensure that the option of exporting ACCUs is available, it is important that the Government promote Australia's land sector abatement methodologies as a source of high quality, robust mitigation outcomes in appropriate fora to ensure they are internationally recognized as acceptable methods for emissions reductions.

As Australia's major trading partners implement policies to achieve deep emissions reduction cuts, it will be important to consider how key trade exposed industries in Australia can remain competitive in a carbon-constrained world. In consultations with national stakeholders, CMI has learned that one possible option is to potentially 'staple' Mitigation Outcomes (ACCUs or other units) to energy intensive exports that could be used in their customers' jurisdictions. This could potentially give exporters of emissions intensive commodities an important new tool to stand out from competitors, and could finance a major expansion of carbon abatement activity in Australia. To enable this to happen the Australian Government will need to engage in bilateral arrangements with partner countries to ensure fungibility of ACCUs and market linkage.

Allowing the use of international units also assists Australia to continue to maintain its comparative advantage in emissions intensive industries while contributing to international emissions reduction efforts.

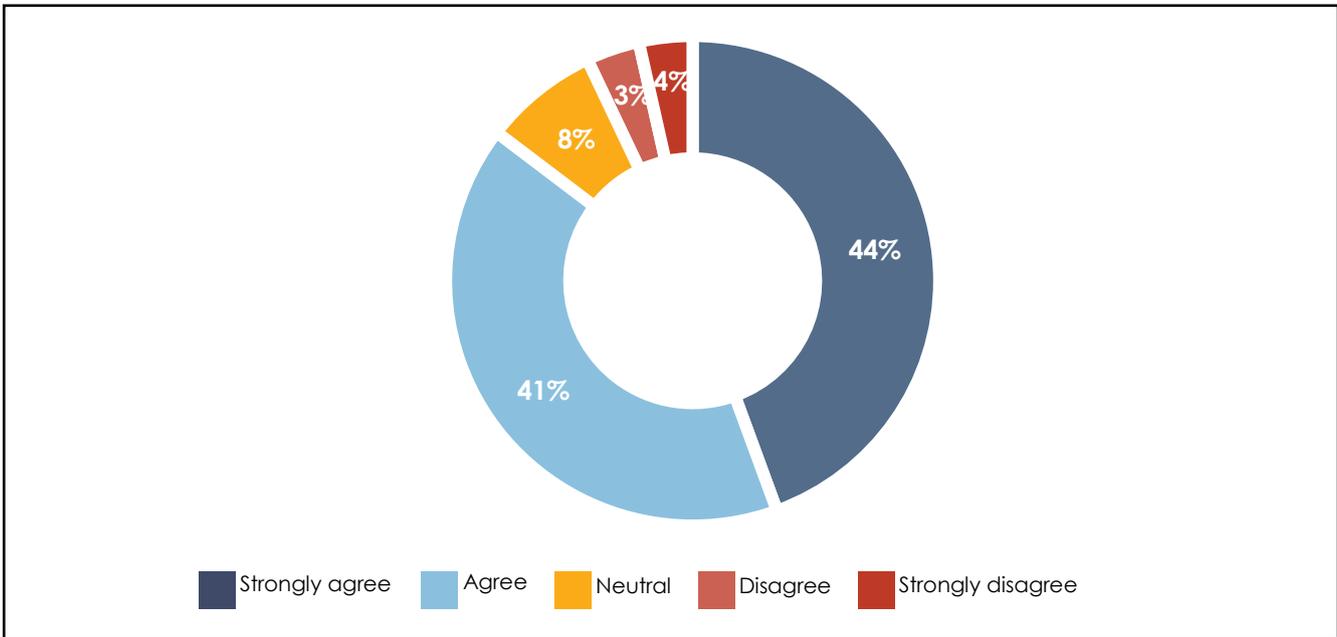


Figure 14: Australia should be part of internationally linked markets as they evolve under the Paris Agreement.

18. The Government should examine the options under Article 6 of the Paris Agreement for how Australia could meet its 2030 emission reduction targets at lowest cost, by engaging in discussions about the mechanics of international carbon markets. This will be important for securing high quality international abatement in the future.

To complement the Safeguard Mechanism, Australia should ensure it meets emissions reduction targets by engaging in international markets and carbon clubs. After extensive consultations with national and international stakeholders, it's clearly possible and advantageous for Australia to scale up engagement in discussions on the mechanics of international markets and carbon clubs, even if it chooses not to agree to link markets at the outset. Stakeholders also agreed that Australia, and Australian business, is well positioned to scale up international market engagement and carbon clubs. Potential engagement avenues are that:

- Australia's Emissions Reduction Fund methods could potentially be developed in conjunction with, and shared across jurisdictions, thereby advancing the development of robust, comparable and potentially fungible mitigation actions internationally.
- Australia could lend to other nations its recognised expertise in design and implementation of carbon markets; national compliance schemes such as the Carbon Pricing Mechanism; experience in linking and in the development of a mature well-designed offset scheme.
- Australian business could lend to business and government in other jurisdictions its recognised expertise in data collection, monitoring, reporting and verification from Australia's National Greenhouse and Energy Reporting System and the ERF.
- Australia is located in the Asia-Pacific region, where there has been a recent proliferation of regional platforms to explore future carbon clubs, and where there is interest for Australia to engage. Evidence of regional cooperation in the Asia-Pacific includes:
 - Discussions to explore a North East Asian Carbon Club. Stakeholders in China, Korea and Japan are convening in at least 2 different forums to explore prospects for a North East Asian Carbon Club:
 - China/Korea Joint ETS Committee: Korea and China held a Joint Committee on Climate Change Cooperation and Roundtable on ETS in 2016 where views on climate policy and carbon markets were exchanged.
 - New Zealand/China joint climate action plan (announced March 2017) – bilateral commitment reached to cooperate closely on carbon markets, toward possible ETS linkage in the future.
 - New Zealand/Korea climate action plan (announced April 2017) – bilateral commitment reached to cooperate closely on carbon markets, toward possible future ETS linkage.
 - Japanese Joint Crediting Mechanism -a bilateral offset crediting scheme between Japan and 16 partner countries, many of which are in the Indo-Pacific region. As of July 2016, 15 projects are registered and there were almost 100 financing programs and demonstration projects in the JCM pipeline.

Stakeholders agreed that engaging in international carbon markets and carbon clubs will be important for enabling Australia to secure high quality, low-cost international abatement. This could be secured in a number of ways including through government-to-government purchases or through public/private approaches. Some of the options include:

- A strategic reserve to procure a sufficient quantity of eligible international units to meet an emissions reduction target and to provide a reserve of credits for use by domestic entities, should they be required. Should it be established, a strategic reserve could serve as a mean to ensure that Australia meets its 2030 emissions reduction target. Australia can draw on models used by other countries and private sector institutions when designing its strategic reserve and develop a mandate that suits our specific policy requirements and emissions reduction goals. The establishment of a strategic reserve would complement the current policy suite and, as part of a suite of well-designed climate policies, would ensure that Australia can meet its current and future emissions reduction targets.

An Australian 'Bilateral Offset Crediting Mechanism', that allows for export of Australian methods, technologies and expertise into partner countries, with agreement to transfer the abatement that is achieved (or part of it). Japan has a similar model - the Japanese Joint Crediting Mechanism – and has bilateral partnerships with 16 countries under this approach.

Contact.

For further information please visit www.carbonmarketinstitute.org or contact:

Peter Castellas

Chief Executive Officer

Email: peter.castellas@carbonmarketinstitute.org

Phone: (03) 8601 1142

Bianca Sylvester

General Manager

Email: bianca.sylvester@carbonmarketinstitute.org

Phone: (03) 8601 1142

Brad Kerin

Company Secretary & Manager, Marketing & Stakeholder Engagement

Email: brad.kerin@carbonmarketinstitute.org

Phone: (03) 8601 1142

Charlie Richardson

Manager, Market Development

Email: charlie.richardson@carbonmarketinstitute.org

Phone: (03) 8601 1142

Appendix.

Submission Development Process

This Submission was developed by the Carbon Market Institute through a national survey of business, an extensive series of one-on-one consultations with both members and broader industry, working groups, meetings with government departments and policy makers and international collaborative research. Detail on each component of the development of this position statement is provided below:

- **National business survey - Australian Climate Policy Survey 2016** – CMI's annual Australian Climate Policy Survey was conducted from 15 July to 5 August 2016. A total of 208 senior-level individuals completed the 2016 Survey. Respondents represent a broad cross-section of energy intensive industry, primary industries, local government, carbon offset project developers, and financial and professional services. Thirty-five percent of respondents represented NGER reporting companies while 18 per cent were liable under the ERF Safeguard Mechanism.
- **One-on-one consultations with CMI members and industry** – CMI has undertaken a broad consultation with industry (particularly those impacted under the Safeguard Mechanism, including emissions intensive trade exposed industries), both within and outside the companies comprising the membership. Consultations have included discussion across the factors to consider listed in this paper.
- **CMI member Working Groups** – CMI convened both our Land Sector Working Group and Policy Working Group, attended by 25 and 60 companies respectively. The working groups to discuss this position statement and the factors to consider in detail.
- **Meetings with government and policy makers** – CMI has met with a broad range of policy makers, both departmental staff (Department of Environment and Energy and Department of Foreign Affairs and Trade) and members of Parliament from major and minor parties. Discussion with policy makers assisted in shaping the factors outlined in this document.
- **Consultations with international carbon market experts and international agencies** – In collaboration with the International Emissions Trading Association, CMI prepared a report highlighting the opportunities for Australia in international carbon markets. This report aided in providing background information for this Submission.
- **2nd Asia Pacific Carbon Market Workshop** - held on May 1, 2017 convened national and international experts from across the public and private sector to share information on the status and plans for carbon markets in the Asia Pacific region and internationally, and to explore opportunities to participate in the development and linkage of these markets.
- **4th Australasian Emission Reduction Summit** – held on May 2-3 2017, CMI's Summit was a unique opportunity to engage in dialogue with over 500 attendees through plenary sessions, workshops and private meetings. CMI used this platform to consolidate and validate the views outlined in the Submission.