Linking Australia’s ETS to international carbon markets

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Linking carbon markets: rationale

• Reduces aggregate mitigation costs and increases economic efficiency

• Provides access to deep and liquid markets

• Promotes global action and supports strong global ambition

• Reduces transaction costs for entities operating under linked ETS systems
Role of overseas abatement in the ETS

Australia’s emissions in the core policy scenario

- **Abatement task in 2020**: 159
- **CFI**: 7
- **Domestic abatement**: 65
- **Internationally-sourced abatement**: 94

Net emissions without carbon pricing
Domestic emissions without carbon pricing
Net emissions with carbon pricing
Domestic emissions with carbon pricing

**Australia’s emissions in the core policy scenario**

- **Mt CO₂-e**: 750
- **Years**: 2010 to 2020

Rationale for Linking
Linking Considerations for Australia
Australian Linking in Practice
Policy considerations for linking to international markets

• Allowance/disallowance of new or existing units
  – Units do not compromise the environmental integrity of Australia’s ETS
  – Use of units is consistent with the objective of the ETS and with Australia’s international objectives/obligations
  – Review and recommendations of the Climate Change Authority
  – Stakeholder consultation / advance market notice

• Linking to other ETS
  – Internationally (or mutually) acceptable level of mitigation commitment
  – Comparable MRV, compliance and enforcement mechanisms
  – Compatibility in design and market rules
Environmental integrity considerations

• Baselines, Additionality, Leakage and Permanence
• Measurement, Reporting and Verification
• Governance and Compliance
• Registry Design and Operation
• Broader sustainability issues
• International Project Based Offsets: Kyoto Units
  – Qualitative Restrictions
    ➢ Nuclear projects
    ➢ Destruction of trifluoromethane (HFC-23)
    ➢ Destruction of nitrous oxide from adipic acid plants
    ➢ Large-scale hydro-electric projects not consistent with World Commission on Dams guidelines
    ➢ Long term and temporary CERs
  – Quantitative Restrictions
    ➢ At least 50 % of annual liabilities must be met with domestic permits
    ➢ [Proposed] A maximum of 12.5% of annual liabilities may be met with Kyoto units
Australian linking in practice (2)

Rationale for Linking

Linking Considerations for Australia

Australian Linking in Practice

• International Cap and Trade: Australia’s CPM and the EU’s Emission Trading Scheme (ETS)
  – Partial (One Way) Link (July 2015 - 2018)
    ➢ Australian liable parties will have access to EUAs for the purposes of meeting their obligations under the scheme, up to the 50% quantitative limit on international units.
  – Full (Two Way) Link (From 2018)
    ➢ The Australian Government and European Commission will work together to formalise the two-way link from 2018 through a treaty agreement
Questions?

Thank you