EUROPEAN COMMISSION

Australian Government

Department of Climate Change and Energy Efficiency

4th PA PMR

EU ETS and Australian CPM Linking
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The EU ETS in a nutshell

- Around 11.000 installations in 30 countries
- 45% of EU emissions at present, increasing to up to 50% with new sectors and gases from 2013 onwards
- Liquid and growing market, average daily trade volume more than doubled from 10 million allowances in 2008 to 23 million in 2011
- Annual trading volumes in 2011 reached more than 6 billion allowances (3 x annual allocation), valued at ~€80 billion

Why it matters

- For environmental reasons:
  - guaranteed environmental outcome – due to the cap
  - flagship of Europe's approach to achieve its 2020 emission target of -20%
    - 2020 targets: -20% (-30%) GHG emissions, >20% renewable energy, +20% energy efficiency

- Economically:
  - liquid market, millions of allowances traded each day on a number of exchanges and over-the-counter
  - achieving cost-effective and smooth transition to a low carbon economy
  - stable and predictable regulatory framework for businesses

- Politically:
  - experience in the EU ETS informs and influences new or emerging systems (Australia, South Korea, China etc.)
  - biggest source of demand for credits from projects in developing countries

Linking EU ETS – Australian CPM

Agreed pathway towards linking

- **Partial link:**
  - Interim step (July 2015 until no later than July 2018)
  - AU businesses can use allowances for compliance purposes (up to 50% of their liabilities under the CPM)

- **Two-way link:**
  - Businesses can use carbon units from Australia or Europe for compliance under either system. The European Commission will seek a mandate from the Council to negotiate a treaty on behalf of the European Union by mid-2015 for the full linking of the two systems.

Benefits of Linking

- Increases market liquidity, offering a more stable carbon price signal
- Reduces costs of cutting emissions:
  - enhanced business opportunities: access to a broader range of low cost emission abatement/units;
  - reduced transaction costs for businesses operating under both schemes
- Supports global cooperation on climate change.

Australia's emissions trading scheme: key design features

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	Fixed price period	*Flexible price emissions trading scheme*
	July 2012 - June 2015	July 2015 onwards
Carbon price	Fixed price in AUD: - $23 in 2012-13 - $24.15 in 2013-14 - $25.40 in 2014-15	Set by market – likely to track EU price due to linking arrangements
Domestic offsets	Up to 5% of liability can be met using eligible domestic offset credits from the Carbon Farming Initiative	Up to 100% of liabilities can be met using eligible Carbon Farming Initiative units
International linking	Not permitted	Surrender limits on international units: • 50% of liability using eligible international units. • Max 12.5% of liability from Kyoto units. Export of Australian units permitted from 2018.
Caps	No cap	First five years of caps set by Government in 2014 and extended by one year annually (5 years certainty of pollution caps at all times)
Price controls	Fixed price	Price ceiling to apply for first three years of Phase 2, set AUD$20 above the expected EU price.

Australia's emissions trading scheme: key design changes

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Direct changes

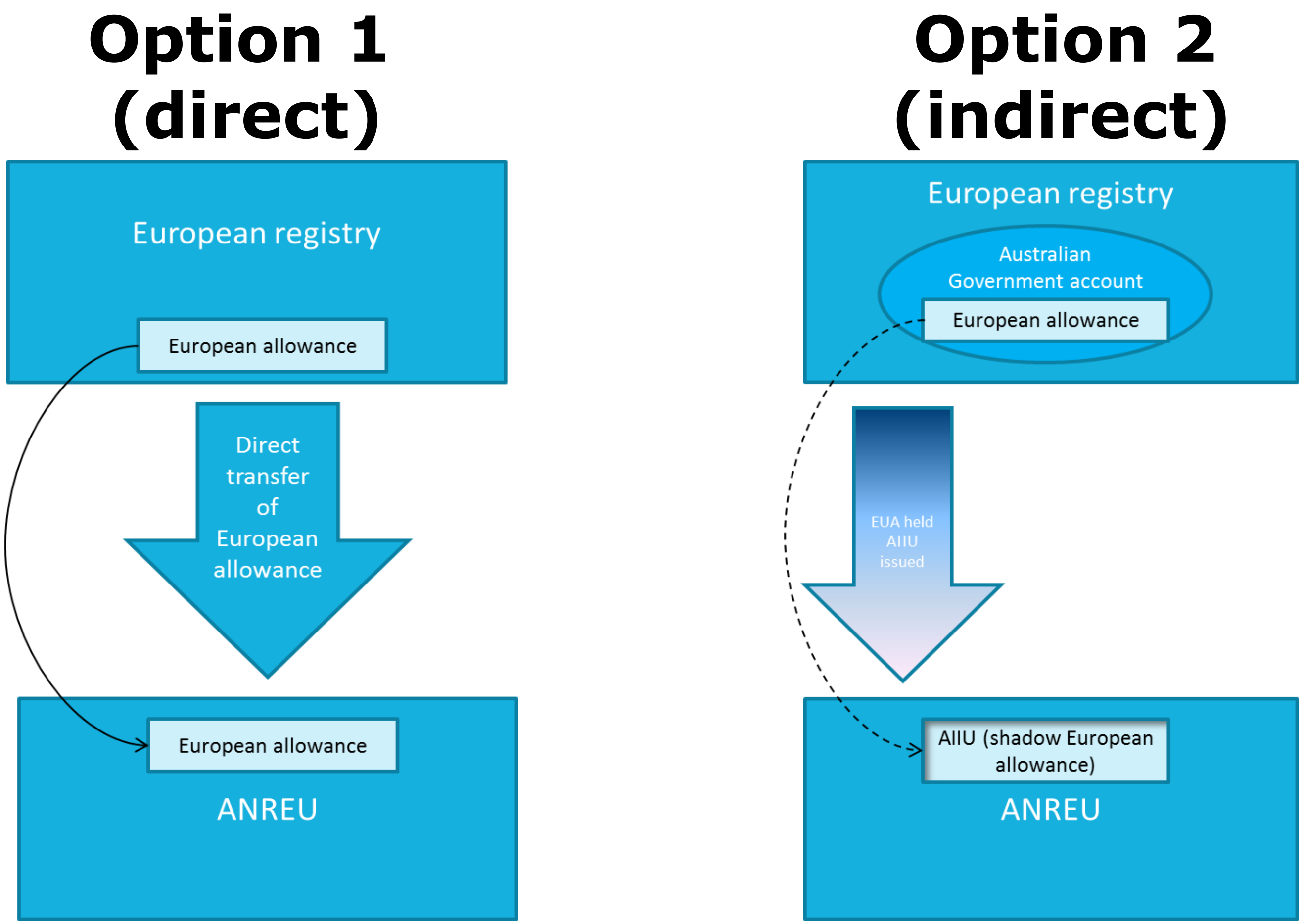
- Removal of price floor
- 12.5% limit on use of Kyoto units

Consequential changes

- Price ceiling to be set by reference to EU price
- Changes to registry laws to facilitate linking
- Equivalent carbon price (fuel, synthetic gases)

The partial link and registry options

- Registry arrangements to be agreed by mid 2013 to operationalise the partial link, with implementation thereafter.
- Broadly, there are two options for the registry arrangements:



The two-way link

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- Full two-way link no later than 1 July 2018
- Specific issues for two-way linking discussion:
  - MRV and accounting policy
  - Third-party international units
  - Role of domestic land based offsets
  - Implications (if any) for industry assistance
  - Market oversight

Australia's legislative changes

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- Amendments to Australia's emissions trading laws:
  - provide more flexibility around how to link registries
  - remove price floor provisions
  - introduce surrender limit on Kyoto units
- Passed the House of Representatives on 11 October 2012.
- Currently before the Senate.

Stakeholder reaction

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Australia

- Reaction has been broadly positive

European Union

- Stakeholders are positive about the linking

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For further information, please visit:

http://ec.europa.eu/clima/policies/ets/linking/index_en.htm

http://www.climatechange.gov.au