

# 1

## INTRODUCTION

### 1.1 PURPOSE AND SCOPE

The Climate Change Authority is an independent statutory authority, established to provide expert advice on Australian climate change policy. Its work is guided by a set of principles under the *Climate Change Authority Act 2011* (Cth) which requires that climate change measures should be economically efficient, environmentally effective, support the development of an effective global response to climate change, and be consistent with Australia's foreign policy and trade objectives. These principles have guided the analysis in this report.

As a high-emitting developed country, Australia has a responsibility to bear its share of the deep reductions required in global emissions to hold global average temperatures below 2 degrees compared with pre-industrial levels.

Australia can complement its domestic efforts by purchasing genuine emissions reductions from elsewhere in the world: they will have the same effect on climate outcomes as domestic reductions. Global carbon markets make it possible to access these reductions. By expanding the available set of emissions reduction opportunities, they help to reduce costs and drive greater action.

In its report, *Reducing Australia's Greenhouse Gas Emissions—Targets and Progress Review, Final Report* (CCA 2014), the Authority recommended that the government:

- use international emissions reductions to bridge the gap between domestic reductions and its recommended target
- establish a fund to purchase international units for this purpose.

This paper examines the general case for the use of international emissions reductions in more detail. It investigates:

- the benefits and risks of using international units (Chapter 2)
- the types of units that would be suitable for Australia to use (Chapter 3)
- the availability and costs of those units (Chapter 4)
- arrangements for actually purchasing those units (Chapter 5).

The paper draws on lessons from international experience and over a decade of carbon market operation. In conducting this research, the Authority has consulted widely with market analysts, fund managers, administrators of other government purchase programs, multilateral development banks and other interested stakeholders.

## 1.2 POLICY CONTEXT

Australia has joined the second commitment period of the Kyoto Protocol, which covers the period 2013 to 2020. The Kyoto Protocol allows for trade in emissions reduction units to give countries more flexibility to meet their targets. Australia's Kyoto Protocol target is net of trade—emissions reductions purchased count toward the target; those that are sold do not (Appendix A provides more information on the Kyoto Protocol).

The government can buy international units directly through a government purchase program, or make arrangements to encourage private sector purchases.

Other countries have used both of these approaches to help achieve their emissions reduction targets. The European Union Emission Trading System (EU ETS) for example, allows liable facilities to use a limited number of international units towards meeting their compliance obligations under that system. New Zealand also provides for international units to be used against obligations under its domestic scheme. Japanese businesses purchased international units to achieve their targets in the period to 2012. Many national governments have established purchase programs to buy international units directly, including Japan, Norway, Sweden, Austria and France.

The Australian Government intends to replace the carbon pricing mechanism, which is designed to allow liable entities to purchase international units, with the Direct Action Plan. The Emissions Reduction Fund (ERF), which is to be the centrepiece of the Plan, will purchase emissions reductions from individuals and businesses. It will also 'safeguard' emissions reductions achieved by imposing compliance obligations on some large facilities that exceed their historical emissions baseline; this safeguard mechanism is still being designed.

The government is committed to reducing emissions by 5 per cent (compared with 2000) by 2020, and will review this target in 2015. International emissions reductions could have a role to play in meeting the 5 per cent target in the event that domestic efforts fall short. Submissions on the development of the ERF suggested that the government establish a 'strategic reserve' of this nature (AiGroup 2014, BCA 2014). International emissions reductions could also be used to go beyond the minimum 5 per cent target and achieve a stronger target in a cost-effective way as recommended by the Authority.

This paper is intended to provide a constructive contribution to Australia's consideration of the use of international units in helping to meet its emissions reduction targets now and into the future.