



CARBON MARKET
INSTITUTE



Australian Climate Policy

SURVEY 2016

Foreword.

The 2016 Australian Climate Policy Survey is an initiative of the Carbon Market Institute (CMI), the leading industry body representing Australian business in the transition to a low carbon economy.

This report presents findings from our annual national Climate Policy Survey on the key issues of setting our policy direction under the Emissions Reduction Fund (ERF) and safeguard mechanism, exploring opportunities in international markets, carbon pricing and the planned 2017 review of the Government's climate change policy suite. Australia has recently experienced a federal election, the commencement of the safeguard mechanism and the amalgamation of the environment and energy portfolios under a new minister, all as the implications of the 2015 Paris Agreement are realised.

To achieve the emissions reduction targets Australia has set with our international peers, we will require an effective and comprehensive policy suite. With the prospect of a major policy review, the

opportunity arises for a more focused, engaging and constructive discussion on climate and energy policy. We believe it is critical to capture the views of Australian business at this time to inform government and the wider community of views among Australian industry on the economic and commercial implications of meeting Australia's emissions reduction targets under the Paris Agreement. This information can ideally help facilitate a national debate on the suite of policies Australia will require to reconcile the twin goals of economic growth and emissions reduction.

We are pleased to present these findings and welcome an ongoing dialogue with you. The findings from the survey are represented in this report with no attribution to individuals or companies.



Peter Castellas
Chief Executive Officer
Carbon Market Institute



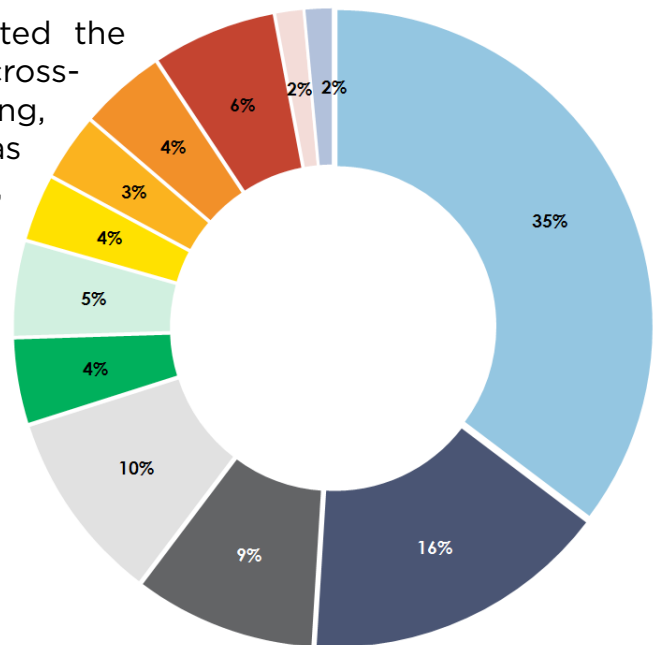
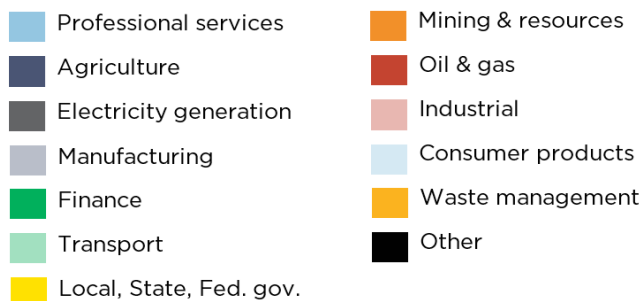
Dr Tim Richards
General Manager
Carbon Market Institute

Research Overview.

On 15 July 2016, the Carbon Market Institute (CMI) sent an electronic survey to an Australian database of selected senior executives who work for, or with, companies or organisations that have a high emissions profile, investors, carbon market experts and professional service providers. The survey was designed primarily with qualitative responses with an additional option to provide written comments. The survey closed on 5 August 2016.

A total of 208 senior-level individuals completed the Institute’s survey. Respondents represent a broad cross-section of industries including agriculture, mining, manufacturing, transport and energy generation as well as experts from carbon project developers, and financial and professional services.

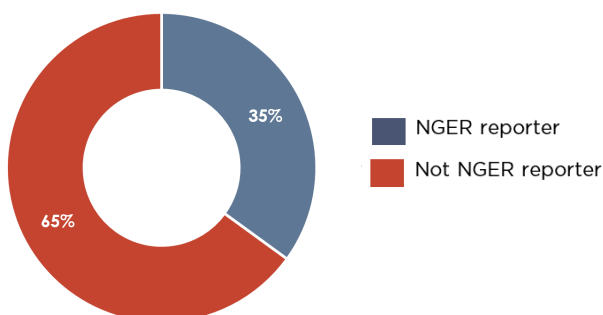
The figure to the right provides a breakdown of the sectors represented by the survey respondents.



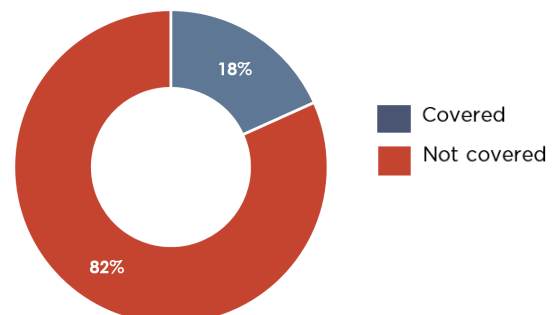
The majority of respondents represented a diversity of positions and roles across the different organisations represented. Job titles included Chairman, Executive Director, CEO, Managing Director, Deputy CEO, Chief Investment Officer, Partner, Associate Director, General Manager, Head of Sustainability & Global Sustainability Manager.

Among the respondents, 35 per cent indicated they worked for an National Greenhouse and Energy Reporting (NGER) company, with 18 per cent indicating their company is covered by the ERF safeguard mechanism.

National Greenhouse & Energy Reporter



Covered under the Safeguard Mechanism



Key Findings.

Our research this year has uncovered a number of interesting insights into how business views the existing federal policy suite and the need to connect with international markets as they develop. The survey found that:

Targets

77% of respondents said Australia should have stronger emissions reduction targets, in line with the Climate Change Authority's recommended 40-60 per cent reduction below 2000 levels by 2030.

Emissions Reduction Fund (ERF)

52% of respondents have participated in some capacity (e.g. project developer, advisor, auditor, investor, etc).

45% of respondents agree/strongly agree that the ERF should be maintained.

83% of respondents indicated it is important there are other sources of private sector demand for domestic abatement under the ERF other than government purchasing.

Safeguard Mechanism

83% of respondents agreed or strongly agreed that baselines under the safeguard mechanism should be set to tighten over time, in line with Australia's 2030 emissions reduction target.

92% view that the conditions and criteria for how emissions baselines under the safeguard mechanism will be adjusted in the post 2020 period is an essential component of the review.

79% of all respondents were of the view that the safeguard mechanism should transition into a baseline and credit scheme.

78% of respondents agreed or strongly agreed that consideration should be given to expanding the threshold of coverage for entities under the mechanism.

Carbon Pricing

73% of respondents working for greenhouse gas emitting companies are factoring in an internal carbon price, including 70 per cent of the 44 NGER reporting companies surveyed.

57% of companies who factor in a carbon price are setting it between \$10 and \$20, with 25% of companies setting an internal carbon price in excess of \$20.

62% of all respondents agreed or strongly agreed that an explicit price on carbon is necessary to provide an economic signal for a low carbon transition.

2017 Climate Change Policy Review

79% of respondents believe the policy review should commence sooner, in 2016.

International Carbon Markets

85% of respondents indicated Australia should be part of international carbon market developments under the Paris Agreement.

79% of respondents were of the view that it will be important for Australian businesses to be able to trade carbon across borders as international markets evolve.

73% of respondents agreed or strongly agreed that international units should be eligible under the safeguard mechanism, with 66 per cent agreeing that there should be strict limits on the use of international units.

84% of respondents agree or strongly agree the 2017 policy review needs to consider a range of 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 domestic units; and options to link carbon markets under the Paris Agreement.

Emissions Reduction Fund.

The Emissions Reduction Fund (ERF) has been in operation since 13 December 2014. To date, the Clean Energy Regulator has run three auctions through which \$1.7 billion has been contracted to deliver 143 million tonnes of abatement. Abatement will be delivered from a broad range of project types and from a range of sectors¹.

ERF participation among survey respondents was relatively high, with 52 per cent indicating their organisation had participated in some capacity (e.g. project developer, advisor, auditor, investor, etc., **FIGURE 1**).

In terms of sectoral participation, respondents from waste management and agriculture have participated most in the fund. A high percentage of professional service provider respondents also indicated their participation in the ERF.

Government purchasing of abatement through the ERF is the primary source of maintaining the domestic carbon offset industry. The ongoing role of the ERF and subsequent additional funding allocations are seen as an important component of the policy suite for the 45 per cent of respondents who agreed/strongly agreed that it should be maintained as a component of the policy suite (**FIGURE 2**).

The overwhelming majority (83 per cent) indicated it is important there are other sources of private sector demand for domestic abatement other than government purchasing (**FIGURE 3**). This has particular relevance to the safeguard mechanism as discussed in the following section.

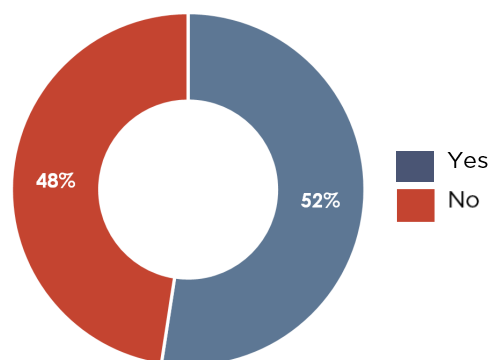


FIGURE 1: My company has participated in the ERF in some capacity.

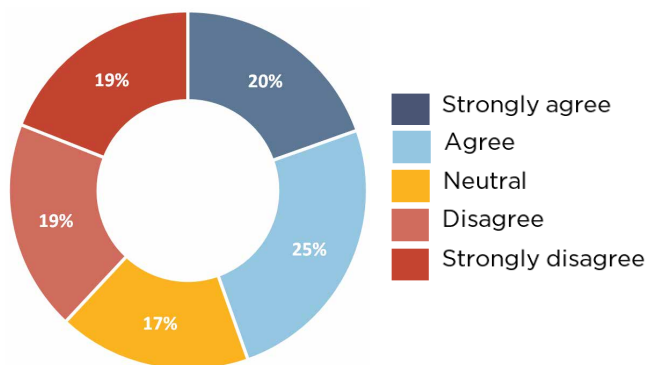


FIGURE 2: The ERF should be maintained as an ongoing component of Australia's policy suite and progressively topped up with more Government funding to add to the \$2.55 billion.

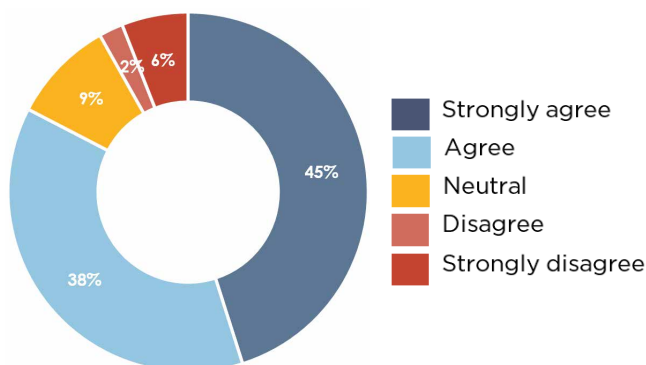


FIGURE 3: In addition to Government purchasing, it is important there are other sources of private sector demand for carbon units credited under the ERF.

¹ Cumulative Auction Results April 2016, Australian Government Clean Energy Regulator

83% indicated it is important there are other sources of private sector demand for domestic abatement under the ERF.



45% of respondents agree or strongly agree that the ERF should be maintained.

Safeguard Mechanism.

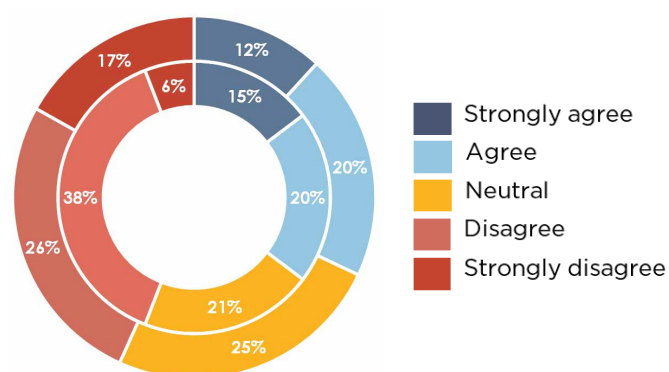
The ERF safeguard mechanism allocates emissions baselines to facilities emitting over 100,000 tonnes of CO₂e per year. Baselines are set at the historical highpoint in terms of absolute emissions between 2009/10 and 2013/14². The safeguard mechanism's objective is to ensure emissions reductions purchased through the ERF are not displaced by significant rises above business as usual levels elsewhere in the economy³.

In its current design, the safeguard mechanism has a number of flexibilities to allow baselines to increase in order to accommodate increased economic growth. 44 per cent of respondents covered under the safeguard mechanism, were of the view that the mechanism should not be the primary policy measure to reduce emissions in its current design (FIGURE 4).

The way the safeguard mechanism evolves will be important to provide certainty and stability for business and to contribute to achieving Australia's international emissions reduction targets. When asked whether the safeguard mechanism should transition to a baseline and credit trading scheme, the clear majority of the 208 respondents (79 per cent) agreed, especially the 85 per cent of those from entities with covered facilities (Figure 5).

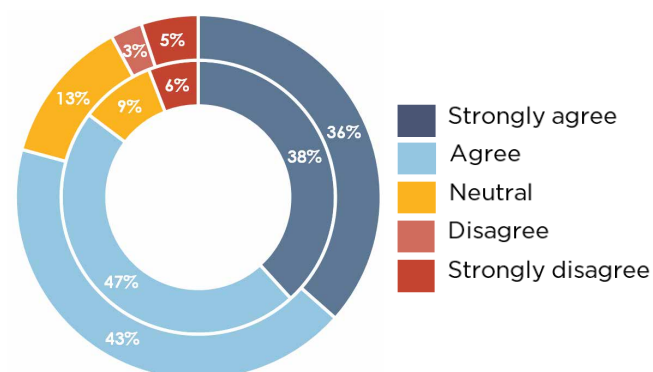
A range of factors will need to be considered in evolving the safeguard mechanism into an effective and long term policy mechanism and potential baseline and credit scheme. These factors primarily surround the setting and adjustment of baselines and the coverage of the mechanism, along with the role of international markets (see section in International Carbon Markets).

Regarding the setting and adjustment of baselines, the overwhelming majority of



Inner series represents SGM entities, outer series represents all respondents.

FIGURE 4: In its current design, the safeguard mechanism should be the primary policy measure to achieve the emissions reduction required to meet Australia's international 2030 target.



Inner series represents SGM entities, outer series represents all respondents.

FIGURE 5: The safeguard mechanism should transition into a baseline and credit trading scheme.

^{2,3} Safeguard Mechanism Overview, Australian Government Department of Energy & Environment

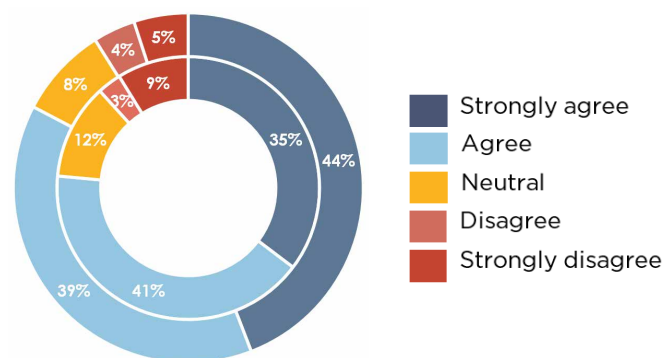
respondents (83 per cent overall and 76 per cent of safeguard mechanism-covered entities) agreed or strongly agreed that baselines under the safeguard mechanism should be set to tighten over time in line with the trajectory of Australia's 2030 emissions reduction target (**Figure 6**). At the same time as baselines under the safeguard mechanism need to tighten, it is important also to consider flexibilities in adjusting baselines under the safeguard mechanism.

In line with this aspect, 54 per cent of respondents considered it important that flexibility is required in setting baselines to ensure businesses are not penalised for significant expansions or increases in production. Sixty-seven per cent of safeguard entities were also of this view (**Figure 7**).

Broader coverage of the safeguard mechanism was also viewed as important by survey respondents, including those from entities with facilities covered under the safeguard mechanism.

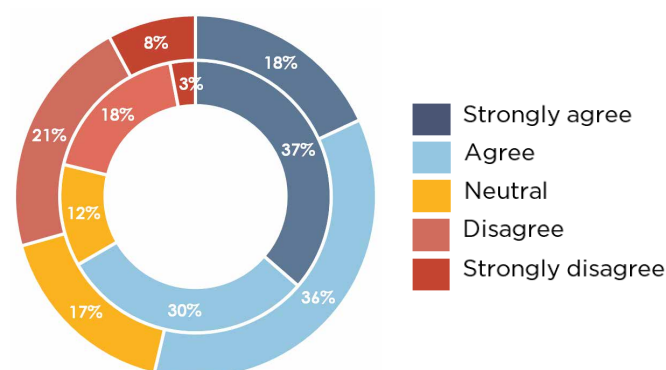
The results captured in this section on the safeguard mechanism have important bearing on the development of the terms of reference for the planned review of the Government's policy suite in 2017. Results also indicate there is considerable support from Australian business for the safeguard mechanism to transition to a more effective policy mechanism in order to achieve our emissions reduction targets .

This transition could occur through the tightening of baselines in line with our 2030 target (**Figure 6**) and the evolution of the mechanism to a baseline and credit trading scheme (**Figure 5**).



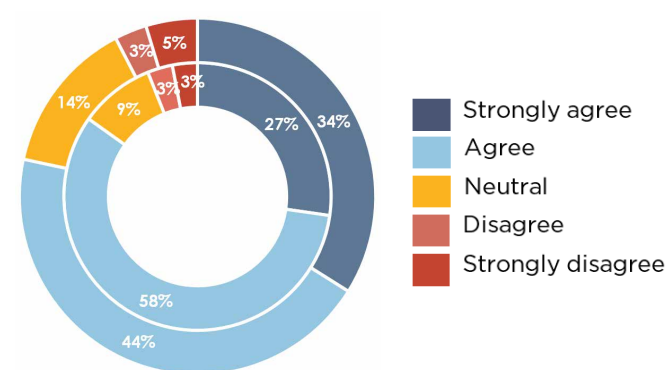
Inner series represents SGM entities, outer series represents all respondents.

FIGURE 6: 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 SGM entities, outer series represents all respondents.

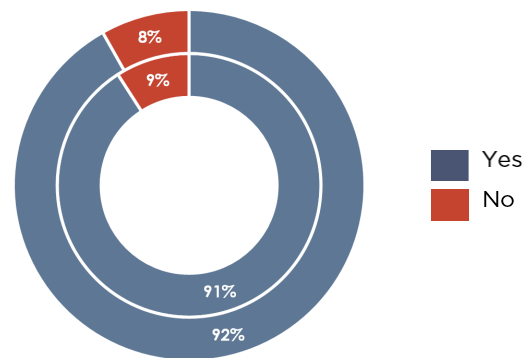
FIGURE 7: Flexibility is required in setting baselines to ensure businesses are not penalised for significant expansions or increases in production.



Inner series represents SGM entities, outer series represents all respondents.

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).

With the potential evolution of the safeguard mechanism to play a more significant role in Australia's emission reduction commitment, the overwhelming majority of respondents (92 per cent) are of the view that the conditions and criteria for how emissions baselines under the safeguard mechanism will be adjusted in the post 2020 period is an essential component of the 2017 Policy Review (**Figure 9**).



Inner series represents SGM entities, outer series represents all respondents.

FIGURE 9: 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.

At present, the threshold for coverage under the safeguard mechanism is set at 100,000 tonnes of CO₂e per year (between 2009/10 and 2013/14).

The majority of respondents (78 per cent) were also of the view that the threshold for coverage under the safeguard mechanism should be lowered to include companies emitting less than 100,000 tonnes.

This view was even more prominent among respondents from companies covered by the safeguard mechanism, with 85 per cent agreeing or strongly agreeing the threshold should be lowered (**Figure 8**).

“The way the safeguard mechanism evolves will be important to provide certainty and stability for business and to contribute to achieving Australia’s international emissions reduction targets.”

83% of respondents overall agreed or strongly agreed that baselines under the safeguard mechanism should be set to tighten over time in line with Australia's 2030 emissions reduction target.



79% of respondents see it as important for Australian business to be able to trade carbon across borders as international markets evolve.

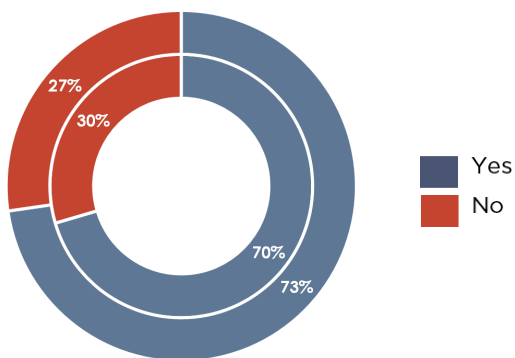
Carbon Pricing.

Carbon pricing is used internally by many companies to account for potential future costs associated with emissions producing activities. Companies are applying an internal carbon price in anticipation that a market mechanism will evolve in the future that puts an explicit price on carbon.

Of the respondents surveyed who work for companies that produce greenhouse gas emitting activities, 73 per cent are factoring in an internal carbon price. Seventy per cent of the 44 NGER companies who responded to this question indicated they are factoring a carbon price in investment and/or operational decisions (**FIGURE 10**).

The use of internal carbon pricing has also increased from 63 per cent (2015 survey) to 73 per cent (2016 survey) (**FIGURE 11**). The majority of companies who factor in a carbon price are setting it between \$10 and \$20 (57 per cent of respondents).

25% of respondents are setting an internal carbon price of in excess of \$20. (**FIGURE 12**).



Inner series represents NGER reporting entities, outer series represents all respondents.

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?

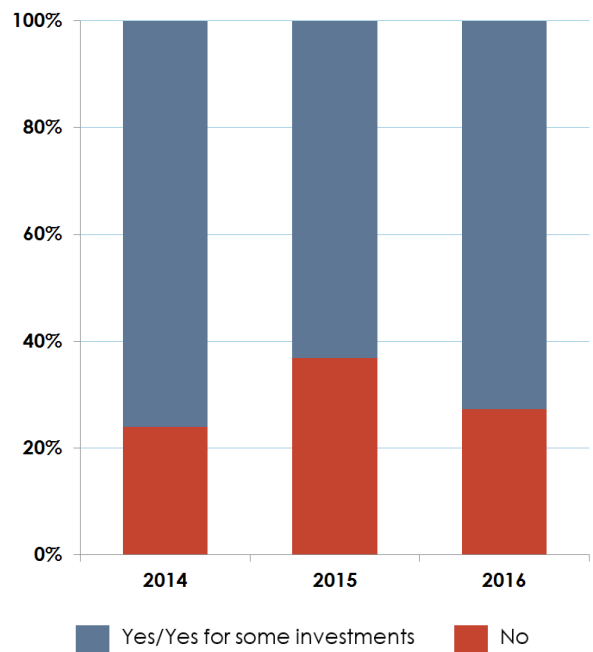
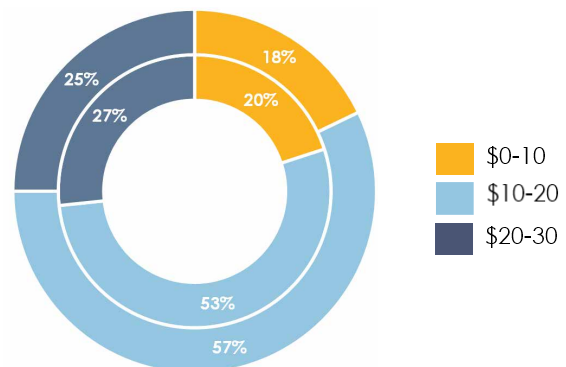


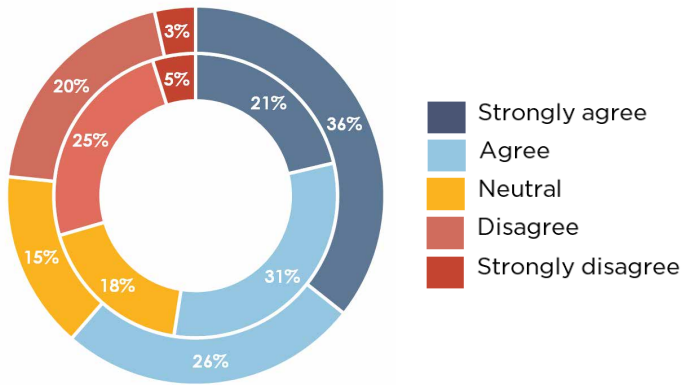
FIGURE 11: Use of carbon pricing, year-on-year change.



Inner series represents NGER reporting entities, outer series represents all respondents.

FIGURE 12: If you are factoring in a carbon price, what level of carbon price is your company setting?

Sixty-two per cent of all respondents and agreed or strongly agreed that an explicit price on carbon is necessary to provide an economic signal to stimulate investment in abatement, renewable energy and low carbon solutions (**FIGURE 13**).



Inner series represents NGER reporting entities, outer series represents all respondents.

FIGURE 13: An explicit carbon price is necessary to provide an economic signal to stimulate investment in carbon abatement, renewable energy and low carbon solutions.

73% of respondents working for greenhouse gas emitting companies are factoring in an internal carbon price.

“without the incentive to reduce emissions, production will continue to focus on lowest cost regardless of emissions. A carbon price will accelerate Australia’s transition to a low carbon future”

- survey respondent

International Carbon Markets.

Internationally, carbon markets are set to evolve under the Paris Agreement, with 90 countries expressing interest in the use of market-based-mechanisms to achieve their internationally committed emissions reduction targets⁴. Many of Australia's key trading partners have or are looking to establish emissions trading schemes including, China, South Korea, Europe, Canada, New Zealand, Japan and parts of the USA.

With carbon markets increasingly being utilised by our international partners, 85 per cent of respondents indicated Australia should be part of these developments under the Paris Agreement (**FIGURE 14**). Along this same line, the majority of participants (79 per cent) were of the view that it will be important for Australian businesses to be able to trade carbon across borders as international markets evolve (**FIGURE 15**).

Access to international markets could have important benefits for Australia. Allowing international units to be used under the safeguard mechanism can potentially reduce compliance costs for covered companies. Seventy-three per cent of survey respondents agreed or strongly agreed that international units should be eligible under the safeguard mechanism, along with domestic units. Importantly, this percentage was higher (82 per cent) among companies currently covered under the mechanism (**FIGURE 16**).

At the same time as there is support for the use of international units under the safeguard mechanism, it is important that this is balanced with domestic supply to ensure continuity of demand for domestic abatement. This view was supported by 66 per cent of respondents who were of the view there should be strict limits on international units under the safeguard mechanism (**FIGURE 17**).

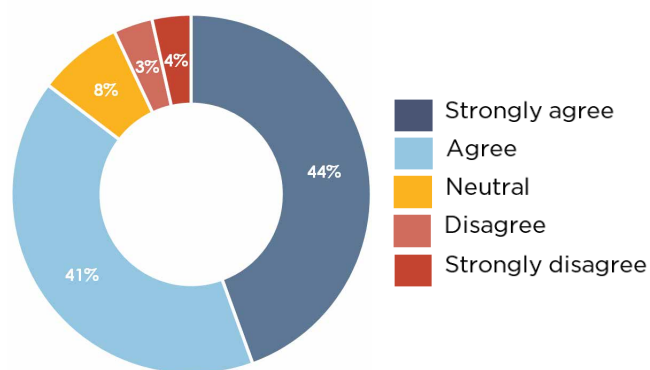


FIGURE 14: Australia should be part of internationally linked markets as they evolve under the Paris Agreement.

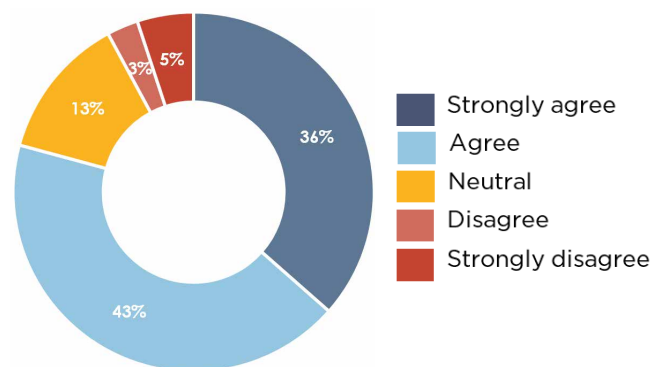
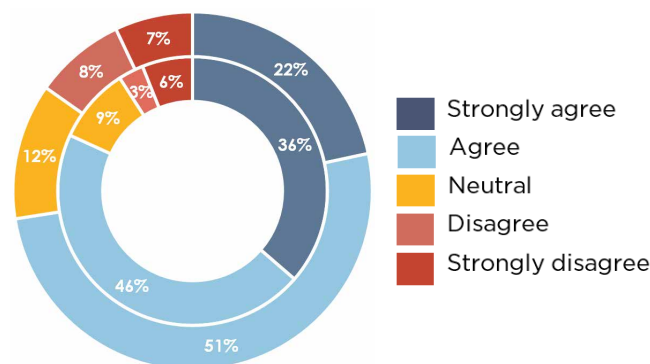


FIGURE 15: As international markets evolve it will be important for Australian businesses to be able to trade carbon across borders.



Inner series represents SGM entities, outer series represents all respondents.

FIGURE 16: 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.

⁴ Carbon Pricing: The Paris Agreement's Key Ingredient Report April 2016, *International Emissions Trading Association*

The majority of respondents not only supported the use of international markets through import of international units under Australia's domestic policy, but also through the export of domestic units.

Australia's abatement industry under the ERF has the potential to supply significant volumes of abatement to international markets. To this end, 71 per cent of respondents consider it important for the Australian Government to work to open up opportunities for the transfer or export in domestic credits generated under the ERF (**FIGURE 18**).

Survey respondents saw a clear and important role for Australia to engage in international carbon markets to support the development of bilateral trade relationships to share emissions reductions (70 per cent strongly agree/agree) and the alignment of trade, aid and diplomatic efforts to support emissions reductions in our region (76 per cent strongly agree/agree). (**Figure 19**).

In terms of broader international market considerations, the 2017 Policy Review needs to consider a range of 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 domestic units and options to link carbon markets under the Paris Agreement according to 84 per cent of respondents (**Figure 20**).

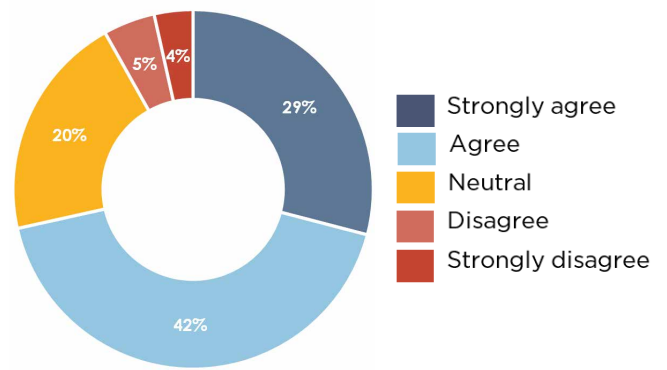


FIGURE 18: The Australian Government should work to open up market opportunities for the transfer/export of credits created under the ERF into other markets.

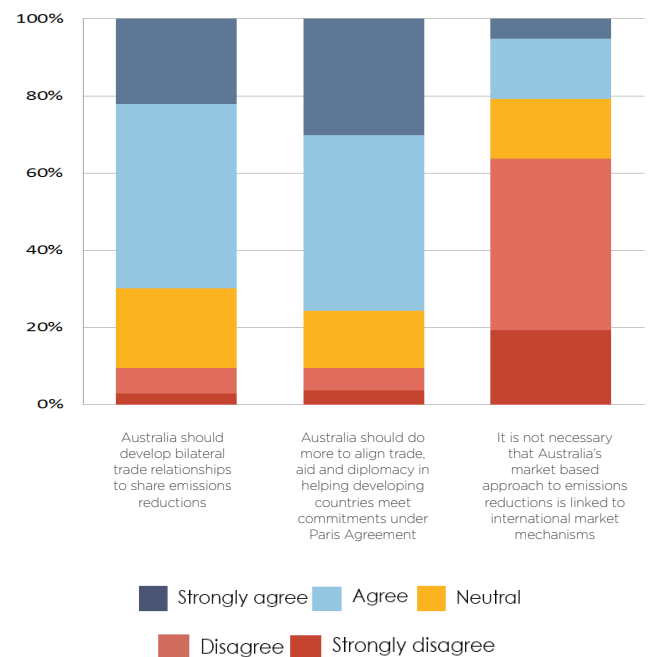


FIGURE 19: Article 6 of the Paris Agreement allows for the development of a new market mechanism that will determine the rules and frame international trade in carbon. Please indicate your view against the following statements.

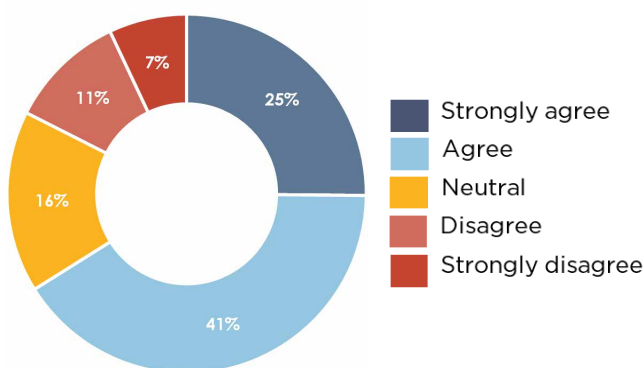


FIGURE 17: There should be strict limits on the use of international units in Australian schemes in order to protect the domestic abatement market.

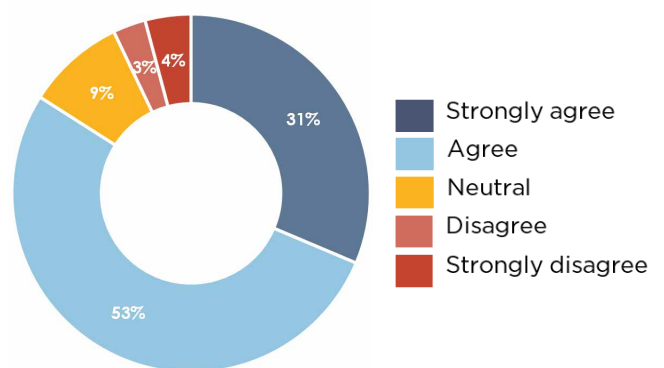


FIGURE 20: The review should encompass issues related to international trade in carbon including: the use and eligibility of international units, the factors affecting future supply and demand for domestic and international units, the potential export of Australia.

85% of respondents indicated Australia should be part of international carbon market developments under the Paris Agreement.



92% believe that the conditions and criteria for how emissions baselines under the safeguard mechanism will be adjusted in the post 2020 period is an essential component of the upcoming 2017 policy review.

Domestic Climate Change Policy Review.

The Australian Government has scheduled a review of the domestic policy suite in 2017⁵. It is likely that the review will concentrate on how the existing ERF and safeguard mechanism operate and evolve.

The terms of reference need to consider factors which allow both the effectiveness of the domestic policy framework and the role of international market developments in meeting Australia's emissions reduction target to be evaluated.

While the review is scheduled for 2017, the overwhelming majority (79 per cent) of respondents were of the view it should commence sooner, ideally in 2016 (**FIGURE 21**).

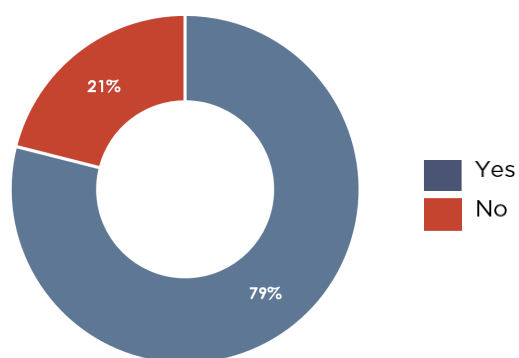


FIGURE 21: The policy review should not be delayed and should commence as soon as possible in 2016.

⁵ Australia's Intended Nationally Determined Contribution to a new Climate Change Agreement, August 2015, *Australian Government Department of Foreign Affairs & Trade*

“there is widespread recognition that policy settings will have to tighten in the near future to meet Australia’s 2030 target. Emphasis should be placed on providing clarity on the terms of reference as soon as possible”

- survey respondent

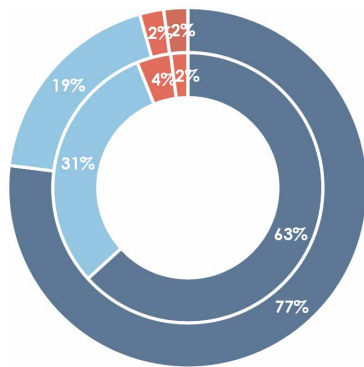
Broader Policy Considerations.

While Australia’s climate policy centres on the Government’s Direct Action Policy, there is a need to consider broader aspects of the policy landscape which have additional bearing on Australian business.

Under the Paris Agreement’s review mechanism, the emissions reduction targets (NDCs) put forward by countries (parties) will be examined every five years⁶.

Countries will have the option of maintaining their target or increasing their level of ambition.

This means the targets submitted under the Paris Agreement represent a floor, with the likelihood that they will increase over time.



- Have a stronger target, in line with the Climate Change Authority’s recommended post-2020 target of 40-60 per cent below 2000 levels by 2030
- Maintain our existing target of a minimum 26-28% emissions reduction by 2030 on 2005 levels
- Have a weaker target than 26-28%
- Have no target

Inner series represents NGER reporting entities, outer series represents all respondents.

FIGURE 22: In your view, given the need to continually ratchet up ambition over time, Australia should.

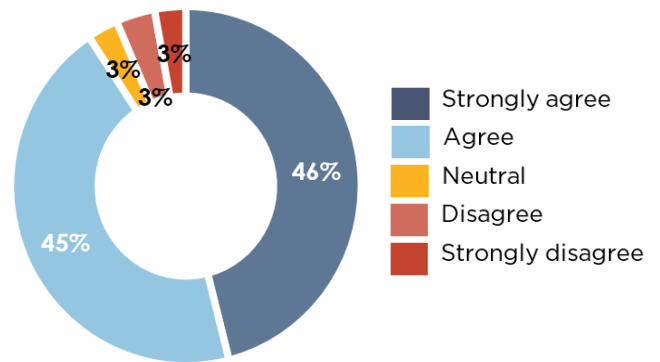


FIGURE 23: The successful decarbonisation of the Australian economy will involve taking into account the specific sectoral needs of transforming the electricity system.

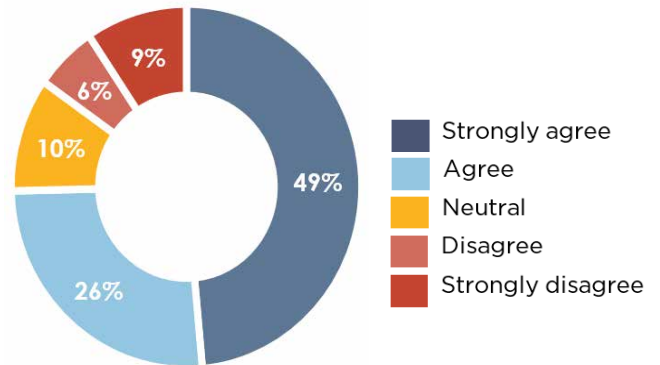


FIGURE 24: The Renewable Energy Target should be increased and extended beyond the current 2020 timeframe.

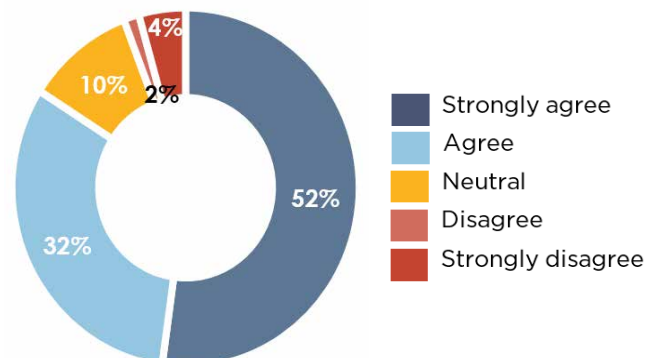


FIGURE 25: There needs to be a long term commitment by government to public funding for clean energy and low carbon research, development and commercialisation to encourage more private sector investment.

⁶ The Paris Agreement, December 2016, *United Nations Framework Convention on Climate Change*

The overwhelming majority of survey respondents were of the view that Australia should have more ambitious emissions reduction targets, in line with the Climate Change Authority's recommended 40-60 per cent reduction below 2000 levels by 2030 (**FIGURE 22**).

Domestic energy market reform was seen as essential to decarbonising Australia's economy, with 91 per cent of respondents agreeing that the specific sectoral needs of the electricity generation sector must be accounted for (**FIGURE 23**).

Along similar lines, 75 per cent of respondents believe the Renewable Energy Target (RET) should be increased and extended beyond the current timeframe of 2020 (**FIGURE 24**).

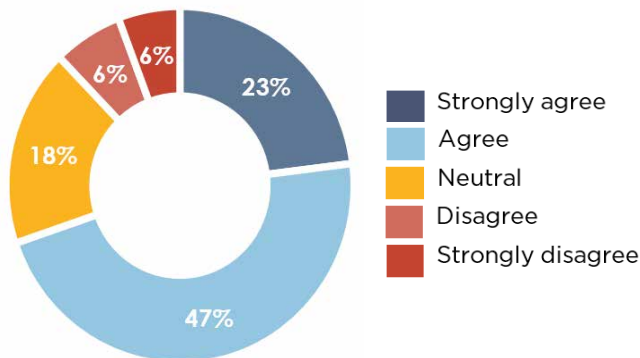


FIGURE 26: There is a need for a government-backed third party certification scheme for voluntary carbon offsets (such as the National Carbon Offset Standard).

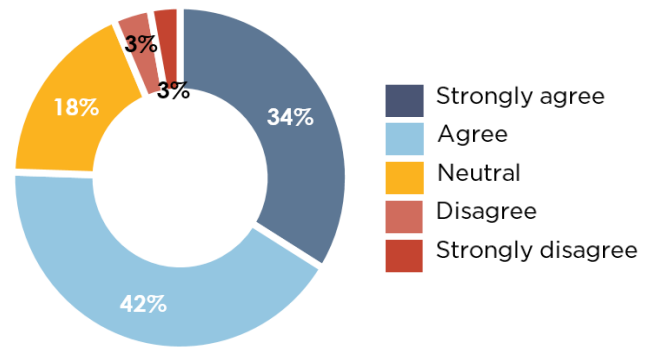


FIGURE 27: Australia should adopt a disclosure framework for climate-related financial reporting.

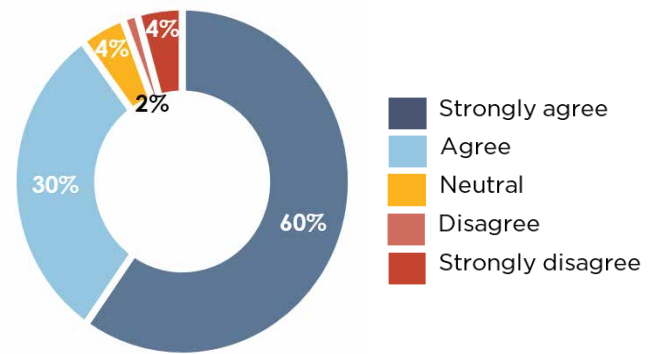


FIGURE 28: There should be stronger integration of energy market and climate change policy at the Federal Government level.

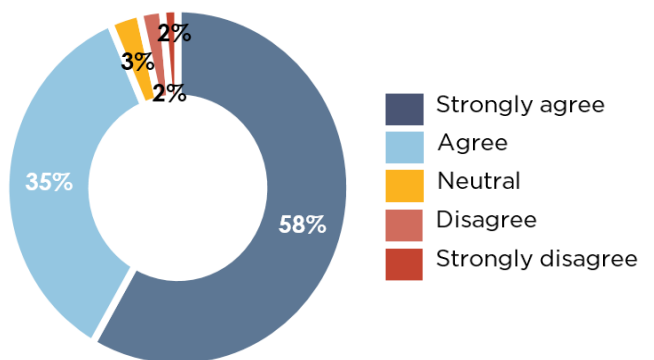


FIGURE 29: The current national climate policy framework should be built upon in a bipartisan way to ensure a long term, stable approach to climate policy in Australia.

“a market based approach to emissions reduction provides an effective, efficient framework to meet emissions reduction goals and challenges at lowest cost”

- survey respondent

Australia's domestic climate change policy landscape will need to evolve while considering a broad range of mechanisms, policies and factors.

With the new Parliament, the opportunity exists to evolve the current policy suite to achieve deeper emission cuts and provide the certainty and stability for business. With this in mind, 90% of survey respondents consider there to be a need to better integrate energy market and climate change policy at the state and federal level (FIGURE 29).



At the same time, the clear majority (93%) of respondents see that the national climate policy framework should be built upon in a bipartisan way to ensure a long term, stable approach to climate policy in Australia (FIGURE 30).



**CARBON MARKET
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About the Institute

The Carbon Market Institute is at the centre of climate policy and business. We are passionate about business understanding the challenges of climate change and seizing the opportunities in the transition to a low carbon economy.

Independent and non-partisan, we are the peak body for climate change and business. We share knowledge and facilitate commercial interaction between business, policy makers and thought leaders to drive collective impact and create pragmatic solutions.

Engaging leaders, shaping policy and driving action, we're connecting insights and catalysing opportunities at home and abroad.

The Institute's membership represents a broad range of professionals, organisations and industry. Our members include leading professional service providers, NGERs reporting entities, financiers, secondary market participants, offset providers, academia and international organisations.

CMI's Working Groups have played a key role in connecting government, bureaucrats and regulators with industry to facilitate the constructive input of member views into policy implementation. Drawing on the expertise of the CMI membership, the Working Groups have provided a vital forum for the exchange of information between market participants, policy makers and government agencies.

Each year the Carbon Market Institute runs Australia's premier business and climate change event, the Australasian Emissions Reduction Summit. The Summit provides leaders from business, policy, finance, markets and technology together a platform for knowledge exchange and commercial interaction. The 4th Australasian Emissions Reduction Summit will be held in Melbourne at the MCG on 2-3 May 2017.

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