The Paris Agreement, reached in December 2015, aims to limit the global temperature increase to 1.5 - 2 degrees Celsius. Australia ratified the Paris Agreement in November 2016, committing to reduce emissions by 26-28% below 2005 levels by 2030. In the context of this Agreement, over 90 countries have confirmed the use of market mechanisms to achieve their NDCs. Although under previous governments Australia explicitly engaged in international carbon markets, the current policy of the Coalition Government does not allow for such arrangements.

A particular area of interest in the Paris Agreement is Article 6, which focuses on how market mechanisms will evolve and the role of carbon markets in supporting global emissions reduction efforts. Article 6 of the Paris Agreement supports the evolution of global carbon markets by a) building on a growing network of existing partnerships and linkages (bilateral and multilateral arrangements); and b) creating overarching international market architecture (guided by the UNFCCC).

International Carbon Markets - Benefits for Australia

Australia is well positioned to engage in existing and future carbon markets and engaging in international markets could benefit Australia and Australian business in several ways, including:

- Purchasing international units that could help to achieve national emission reduction commitments at lower cost, as cheaper abatement opportunities may exist overseas (recognising that reducing one tonne of emissions in one jurisdiction has the same environmental value as reducing one tonne of emissions elsewhere). It has been estimated by the World Bank that international cooperation through carbon markets can reduce the global costs of NDC implementation by 30% by 2030 and by 50% by 2050.
- International markets offer an effective ‘hedge’ against the risk that current national and/or sub-national policies do not deliver the emissions reductions needed to meet Australia’s international commitments.
- Opening up new markets and new business lines for Australian businesses, as the transfer of international units could occur in both directions and corresponds to a transfer of finance and investments.
- Creating an export market for ACCUs credited under the ERF by ensuring offsets from the land sector are recognised in future international carbon markets, thus promoting Australia’s robust land sector abatement methodologies and supporting Australia’s rural agricultural communities.

Policy Options, Considerations & Recommendations

1. The Government should confirm the use and eligibility requirements of international units for compliance under the Safeguard Mechanism, to maximise opportunities to achieve Australia’s targets at lowest cost.
2. 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.
3. 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 opportunities for the export of Australian Carbon Credit Units into other markets.
4. 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.

More details can be found in CMI’s 2017 Submission to the Australian Government’s Review of Climate Policies.