AUSTRALIA

Submission to the SBSTA | May 2013

Views on the Elaboration of a Framework for Various Approaches

I. Overview

This submission contains Australia's views on the matters referred to in paragraphs 44-47 of decision 1/CP.18 that relate to the work program to elaborate a framework for various approaches for using markets to enhance the cost-effectiveness of, and to promote mitigation actions (the Framework). Australia also draws attention to its previous submission on the framework for various approaches in August 2012[1].

Market based approaches (MBAs) are an important tool in the international response to climate change. Australia welcomes the continued growth in carbon market activity across the world that, in 2013, sees 35 national and 13 sub-national jurisdictions implementing emissions trading schemes, representing a population of over 660 million people. As this carbon market activity continues and Parties establish direct and indirect links between their MBAs, the potential of the global carbon market to encourage greater mitigation ambition by reducing abatement costs, incentivise foreign investment and technology transfer, and promote sustainable development will grow.

The approach to the Framework outlined in this submission will help realise the global carbon market's full potential to deliver such benefits to all countries, directly and indirectly, by supporting the development, implementation and integration of MBAs capable of delivering real, permanent, additional and verified mitigation outcomes.

In summary:

- The Framework should:
  - enable Parties to demonstrate how their market-based approaches (MBAs) assure environmental integrity;
  - promote improvements in MBA environmental integrity by building Parties' capacity, including through the development of good practice guidance over time; and
  - promote the robust functioning of the global carbon market through guidance and supporting infrastructure (centralised or decentralised) to track and record the transfer of MBA mitigation outcomes.
- The Framework should only be relevant to MBAs that produce mitigation outcomes intended for international transfer ("international units") to help meet international mitigation commitments.

[1] FCCC/AWGLCA/2012/MISC.4/Add.4

- Parties have strong domestic and international drivers to:
  - safeguard the environmental integrity of their own MBAs; and
  - use only international units with environmental integrity to help meet their mitigation commitments.
- Information is core to providing assurance of a particular MBA's environmental integrity, and to providing scope to develop good practice guidance, to give effect to the standards in decision 2/CP.17, paragraph 79.
- Experience in the establishment and maintenance of domestic and international registries and transaction logs provides valuable input into the development of technical specifications and guidance to avoid double counting at all stages of the life of an international unit.
- The Framework's design should not duplicate institutions, procedures and guidance under development or implementation, especially with regard to reporting, information sharing and review and accounting.

The following sections provide Australia's input on the elements of the work program as listed in paragraph 46 of decision 1/CP.18.

II. The purposes of the framework

The purposes of the Framework should be to facilitate the development and implementation of, and coordinate the interaction among, existing and emerging MBAs in a transparent manner that provides assurance of environmental integrity and promotes the robust functioning of the global carbon market. As such, the Framework should help Parties make their own assessments of whether a particular MBA delivers international units with environmental integrity by enabling Parties to demonstrate how their MBAs meet the standards in decision 2/CP.17, paragraph 79. Such arrangements should promote environmental integrity in MBA design and operation by enabling Parties to share expertise and experience, as well as their expectations on the environmental integrity of MBAs as potential international unit purchasers.

The Framework should also serve the important role of helping to coordinate MBAs and promote a robust global carbon market by providing guidance and supporting infrastructure (centralised or decentralised) to record and track international units.

III. The scope of approaches to be included under the framework

Australia supports the broad agreement that emerged in 2012 that the Framework should apply only to MBAs that result in the international transfer of units representing mitigation outcomes ("international units"). MBAs that do not result in international transfers do not fall within the Framework's scope as the emission reductions and removals from such MBAs are reflected in national inventories.

While this submission focuses on MBAs, Australia is open to considering a how non-market based approaches could productively fall within the Framework's scope.

IV. A set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, paragraph 79.

Information is integral to providing assurance that international units from a particular MBA have environmental integrity. This is particularly the case given current carbon market activity across the world indicates future MBAs will be primarily designed and operated by Parties individually and jointly, tailored to maximise the mitigation potential of their domestic circumstances.

Core information includes the key design and operation features of MBAs that generate international units, taking into account different MBA types. Features such as participation requirements, measurement, reporting and verification, and unit issuance and registries, will be common to both crediting and trading MBAs.

Other features are likely to be MBA-specific. For example, a trading MBA's key features include coverage of emissions sources, emissions caps, trading periods, unit allocation/auction process, banking and borrowing and use of imported international units. In contrast, a crediting MBA's key features include eligibility of activities, crediting period, crediting baselines/thresholds and validation of emission reduction/removal.

Such information should be capable of answering questions along the following lines to demonstrate an MBA's environmental integrity.

- What is the approach to setting historical and projected baselines, against which additionality or MBA ambition can be assessed?
- What are the arrangements for the measurement, reporting and verification of emissions data against which international units are issued, to confirm that each international unit equals one tonne of emissions?
- What are the arrangements for treatment of additionality, permanence and prevention of carbon leakage?
- What governance arrangements are in place for the MBA's effective operation, including monitoring and enforcement arrangements, and for the transfer of international units?
- What are the arrangements for avoiding double issuance, trading and claiming of the same emission reduction/removal international unit by more than one entity, including arrangements relating to the Party's national inventory?
- What international units are accepted into the MBA?
- What arrangements are in place to promote public understanding and external due diligence assessments of the MBA's design and operation (eg websites providing access to related legislation and details of methodologies)?

Examples of the type of information that a Party could provide in response to such questions to demonstrate their MBA's environmental integrity are provided at Attachment A.

Under the Framework, each Party responsible for an MBA that generates international units should submit reports against agreed information parameters covering the above issues and questions. All Parties should have the opportunity to review the reports, and participate in discussion of submitted information in open sessions of the UNFCCC. Independent experts could also conduct technical

reviews of the reports to promote completeness of reporting requirements, and inform Parties' examination and dialogue on the information submitted.

Through these procedures, Parties will gain a clear understanding of the environmental integrity of each MBA; informing their individual decisions on which international units they will use towards their mitigation commitments. The procedures will also create a vehicle for continuous improvement in the environmental integrity of MBAs. Such procedures could promote greater harmonisation in certain areas of MBA design and operation based on a convergence of views on good practice in different domestic circumstances. Over time, such convergence of views may warrant documentation as good practice guidance, to inform Parties intending to sell or use international units towards mitigation commitments, and Parties seeking to assess the means by which other Parties have progressed towards their mitigation commitments.

Going beyond good practice guidance to attempt to define environmental integrity standards or criteria more detailed than the standards in decision 2/CP.17, paragraph 79 poses significant risks. Attempting to develop more detailed standards for any area of MBA design and operation risks unintentionally constraining Parties' ability to maximise their MBA's mitigation potential in line with their domestic circumstances. It also risks constraining and discouraging Parties from exploring innovative approaches to improving their MBA's environmental integrity. The merit of developing detailed standards for a given area would also need to be weighed against the difficulties inherent in reaching consensus in the Conference of Parties on issues of detail.

Experience under the Kyoto Protocol (KP) does not support the argument that multilateral procedures to approve particular MBAs ensure environmental integrity. Notwithstanding that Kyoto units are the collective creation of KP Parties, individual Parties have independently placed restrictions on the types of Kyoto units they will accept towards their mitigation commitments. This is because Parties have strong incentives to demonstrate and protect their MBA's environmental integrity and use only international units with environmental integrity to meet their commitments.

To use Australia as an example, establishing and strictly enforcing arrangements to provide assurance of its ETS's environmental integrity has been essential to securing domestic public confidence in the MBA's credibility. This is because the ETS imposes visible costs across the entire economy, on both individuals and business. The Government must be able to demonstrate to the Australian public that the price paid represents real abatement. Likewise, if an international unit is to be accepted into its ETS, the Government must confirm the unit's environmental integrity to avoid compromising domestic public confidence in Australia's ETS.

From an international perspective, Parties are incentivised to use international units with environmental integrity towards their mitigation commitments to avoid undermining international confidence in the credibility of their progress towards that commitment, and by extension, the environmental integrity of any domestically-generated units that they may wish to sell overseas.

The above drivers also heavily influence private sector participation and investment in MBAs, creating a financial incentive for Parties to demonstrate their MBA's environmental integrity.

V. Technical specifications to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes

While Parties do not yet have a comprehensive understanding of the various MBAs planned or in operation, Parties do have experience in the recording and tracking of mitigation outcomes.

Avoiding double counting is essential to maintain the environmental and financial integrity of international units. Domestic jurisdictions can introduce strong regulatory safeguards to detect and discourage attempts to benefit from double counting. This includes civil and criminal penalties for fraudulent activities and inadequate or wilfully misrepresented emissions reporting, as well as broader regulation of relevant financial services. In addition, the Framework can provide guidance and support centralised or decentralised infrastructure to avoid double counting at all stages of the life of an international unit: from creation, to transfer and ultimate surrender against a mitigation commitment.

Registration/issuance

In the case of project-based approaches, a centralised source of information on all registered projects could help potential participants and investors confirm that a project to reduce or remove emissions in a particular set of domestic circumstances had not been previously registered. Robust domestic registries will be required to provide confidence that more than one international unit has not been issued for the same tonne of emissions reduced or removed. Lessons learned from national and regional registries under the Kyoto Protocol should be drawn upon to develop guidance that would enable a broader range of Parties to establish and maintain domestic registries. To help track each international unit from the point of issuance, whether the unit is generated from a crediting or trading MBA, readily accessible information should also be provided on the attributes of each unit.

Trading

Domestic registries and transaction logs will be key to tracking the location and ownership of each international unit to provide assurance that the unit has maintained its unique identity through each transfer up to, and including, the point at which they are used to meet a mitigation commitment. Lessons should be drawn from domestic and international transaction logs currently in operation to determine the feasibility and utility of maintaining some form of centralised transaction log. Such an assessment should be guided by issues including the size and diversity of the developing global carbon market, Parties' capacity to establish and operate their own logs, transaction costs associated with a centralised or decentralised approach, and the likely impact on market confidence of a particular approach. Experience has shown that decentralised and centralised logs can also operate concurrently. This suggests that, regardless of whether a centralised transaction log is considered worthwhile, guidance could also be developed to assist interested Parties establish and maintain their own transaction logs.

Claiming

The Framework's guidance and infrastructure for the recording and tracking of international units will be central to the integrity of the UNFCCC's broader discussions on accounting. By helping to

provide a traceable history of each international unit, the Framework will help prevent a particular international unit being claimed by more than one Party towards its mitigation commitment.

VI. The institutional arrangements for the framework

The Framework should build on existing institutions and processes, and avoid duplication, to the extent possible to minimise administrative and financial burden on Parties, the Secretariat and existing UNFCCC institutions. Consideration should be given to the existing roles played by the Secretariat and the permanent Subsidiary Bodies with respect to data collection, information sharing and review arrangements, as well as administration of infrastructure such as the International Transaction Log of the Kyoto Protocol.

VII. Conclusion

The full potential of the global carbon market must be harnessed to achieve the global goal of holding average temperature increase below two degrees Celsius. The approach to the Framework outlined in this submission will help realise the global carbon market's full potential by accommodating the growing range of MBAs tailored to domestic circumstances. It will also accommodate broad participation in and access to MBAs. This will also help realise the global carbon market's full potential by maximising the benefits of MBAs to all countries, including:

- incentivising foreign-direct investment, capacity-building, technology transfer and sustainable development;
- facilitating low cost, effective abatement via a broader range of abatement options;
- encouraging greater mitigation ambition by reducing abatement costs; and
- helping the most vulnerable and least able to cope with climate impacts by contributing to global emissions reductions.

Australia looks forward to working with its counterparts to make substantive progress on the Framework at the upcoming SBI session in Bonn, including by obtaining a better understanding of planned and operational MBAs throughout the world.

Attachment A – Examples of information to demonstrate the environmental integrity of a market-based approach.

Questions	Responses
Measurement *Objective: Understand how each country measure emissions (either emitted or avoided/removed)*	
Describe the measurement standards your country applies, or intends to apply, to ensure each unit equals a tonne of emissions (either emitted or avoided/removed) If an internationally recognised standard is applied, outline the approach taken with regard to: who sets these standards; what sectors/gases do they apply to; why they are applied; whether there have been any difficulties in applying these standards; and any other relevant information. If an internationally recognised standard is not applied, outline the approach taken with regard to: how the measurements standard has been developed; how do they differ from internationally recognised standards; and any other relevant information.	Australia's enterprise-level emissions measurement, reporting and verification framework, legislated under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act), has been in force since 2008. The National Greenhouse and Energy Reporting (NGER) legislative framework establishes Australia's single, national framework for corporations to report on greenhouse gas emissions, energy use and energy production. Information collected through the NGER scheme provides the basis for assessing liability under Australia's Emissions Trading Scheme (ETS) and helps meet Australia's international reporting obligations (under the UNFCCC and track progress against Australia's target under the Kyoto Protocol). The framework is consistent with UNFCCC/IPCCC guidelines in relation to direct emissions (Scope 1) reporting and World Business Council on Sustainable Development (WBCSD) / World Resources Institute (WRI) Greenhouse Gas Protocol approaches on indirect emissions (Scope 2) reporting. **Measurement Standards in Australian Law** The *National Greenhouse and Energy Reporting (Measurement) Determination 2008* (the Determination) is the legal instrument through which the relevant Commonwealth Minister determines the methods for measuring GHG emissions, the production of energy; the consumption of energy; and potential GHG emissions embodied in an amount of designated fuel (such as natural gas, LNG or LPG). The structure of *the Determination* is designed to facilitate the integration of corporate and facility level data provided under the NGER Act with international data standards on greenhouse emissions estimates. Descriptions of emissions sources are based on those provided in the *IPCC Guidelines for National Greenhouse Gas Inventories*, while estimation methods are based on those used by the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education in preparing the Government's annual submission to the UNFCCC in Australia's *National Inventory Report*. The greenhouse gases covered by the NGER legislative framework for emissions reporting purposes include: • carbon dioxide (*covered under the ETS*); • methane (*covered under the ETS*); • nitrous oxide (*covered under the ETS*); • specified perfluorocarbons (*covered under the ETS*); • specified hydrofluorocarbons (*not directly covered under ETS – a carbon price is applied under existing tax arrangements*); and • sulphur hexafluoride (*not directly covered under ETS - a carbon price is applied under existing tax arrangements*). Coverage of direct emission sources in the Determination is given by the following categories: • emissions released from fuel combustion; • fugitive emissions from fuels, which deals with emissions mainly released from the extraction, production, processing and

	distribution of fossil fuels; • industrial processes emissions, which deals with emissions released from the consumption of carbonates and the use of fuels as feedstocks or as carbon reductants, and the emission of synthetic gases in particular cases; and • waste emissions, which deals with emissions mainly released from the decomposition of organic material in landfill or wastewater handling facilities. The Determination has benefited from many years of NGER reporting and working with industry to develop and continuously refine country-specific measurement methods for all of the above.
Reporting *Objective: Understand countries' reporting requirements*	
Describe the reporting requirements standards your country applies, or intends to apply, to ensure each unit equals a tonne of emissions (either emitted or avoided/removed) Outline the approach taken with regard to: whether reporting requirements are mandatory or voluntary; whether requirement is established in legislation; who has an obligation to report; how information is recorded; and any other relevant information. If requirements align with internationally recognised reporting requirements or guidelines, outline the approach taken with regard to: which requirements are applied; if and how emissions from different gases converted to a standardised equivalent; and whether there have been any difficulties in applying these. If an internationally recognised requirement is not applied, outline the approach taken with regard to: how the requirements have been developed; and how they differ to international recognised requirements or guidelines.	**Reporting Standards in Australian Law** The NGER Act and Regulations set out the legal framework for reporting obligations under Australia's ETS, with additional detail in relation to certain liable entities (such as suppliers of designated fuels) set out in the *Clean Energy Act 2011*. Reporting under the NGER system is mandatory for entities that are over an NGER threshold, whether that be for reporting under the scheme more broadly or for liability under the ETS more particularly. The default obligation for greenhouse gas (GHG) and energy reporting falls to the 'controlling corporation'. These corporations are required to report annually all GHG emissions, energy production and consumption from facilities under its operational control or that of a member of its corporate group. *Thresholds for mandatory reporting:* Corporations that meet a NGER threshold must register and then report each year. There are two types of thresholds to determine which corporations are affected and how: 1. **facility thresholds (**25kt or more of GHG CO_2-e or production of 100 TJ or more of energy, or consumption of 100 TJ or more of energy). If a controlling corporation has such a facility, all GHG and energy of that facility must be reported. 2. **corporate group thresholds (**50 kt or more of GHG CO_2-e or production of 200 TJ or more of energy, or consumption of 200 TJ or more of energy. If a controlling corporation's total for all its facilities passes either of these thresholds, all GHG and energy of all facilities (regardless of size) must be reported. *Threshold for ETS liability:* In addition to the above thresholds for NGER reporting, liability under Australia's ETS falls on direct emitters and suppliers of designated fuels (such as natural gas and LNG and LPG). Direct emitters are generally those with operational control of facilities that produce covered Scope 1 emissions of 25,000 tonnes CO_2-e or more. Most, but not all, Scope 1 emissions are 'covered emissions'. This reporting framework is consistent with UNFCCC/IPCCC guidelines in relation to direct emissions (Scope 1) reporting and World Business Council on Sustainable Development (WBCSD) / World Resources Institute (WRI) Greenhouse Gas Protocol approaches on indirect emissions (Scope 2) reporting.

	Recording of information To date, reported information is collected and submitted online through the Online System for Comprehensive Activity Reporting (OSCAR). A new reporting platform to replace OSCAR is now available for the first fixed price reporting year of 2012–13. *GWP's and Australian ETS arrangements* The Australian Government has made the commitment that there will be close alignment between Australia's international obligations and the domestic carbon price arrangements.
Verification *Objective: Understand countries' emissions verification requirements*	
Describe the verification requirements your country applies, or intends to apply, to emission measurement and reporting *Outline the approach taken with regard to: what quality assurance or verification systems ensure the reliability of data; when quality assurance or verification occurs; how an audit is triggered; who undertakes audits; whether and how assessors are accredited; what powers auditors have; how much of your country's systems and data related to MRV are publically available; and any other relevant information.*	The integrity of Australia's ETS depends partly on robust and thorough verification of reported data. Greenhouse and energy auditing — which comprise either an assurance or verification engagement — are a key verification measure under the NGER Act. The Government developed the Greenhouse and Energy Audit Framework following extensive consultation with industry, the accounting profession, greenhouse gas verifiers and environmental audit sector. *Standards:* The development of the framework involved thorough analysis of existing international and national standards used for verification and assurance. The framework draws from existing standards, including Standard of Assurance Engagements issued by the Auditing and Assurance Standards Board (AUASB) ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, Auditing Standard AUS 904 *Engagements to Perform Agreed-Upon Procedures* and ISO 14064-3:2006 *Greenhouse Gases-specification with guidance for the validation and verification of greenhouse gas assertions* issued by the International Organization for Standardization (ISO). The NGER (Audit) Determination is not an audit standard, however provides specifications for audit engagements. Standards utilised for NGER audits include - *ISAE 3410 Assurance of Greenhouse Gas Statements*, introduced in June 2012 to assist with bringing consistency to greenhouse gas assurance across international markets. Audit team leaders must be accredited and registered by the Clean Energy Regulator and meet prescribed requirements which demonstrate core competencies and experience to carry out the prescribed audit activity. The framework does not set a new national standard, but rather sets out specific requirements for registered greenhouse and energy auditors to follow when undertaking audits under the NGER Act. *When an Audit may take place:* The NGER Act provides a number of circumstances in which the Clean Energy Regulator might initiate a greenhouse and energy audit. If the Clean Energy Regulator has reasonable grounds to suspect non-compliance, he or she will be able to initiate a compliance audit by providing a written notice to the registered corporation to be audited. In these types of engagement the audited body must appoint an audit team leader from the pool of registered greenhouse and energy auditors and arrange for the audit to be undertaken. The audited body must also arrange for a copy of the audit report to be provided to the Clean Energy Regulator. As these audits occur in cases where the Clean Energy Regulator suspects non-compliance, an audit may be undertaken as a precursor

	to the application of enforcement measures, including investigations by authorised officers, civil penalties and criminal proceedings. In addition, the Clean Energy Regulator may initiate audits for any reason (i.e. without necessarily suspecting non-compliance). For example the Clean Energy Regulator may initiate audits on a risk management basis, or to gather information on the regulated community's compliance with particular aspects of the NGER Act. Lastly, mandatory pre-submission audits must be undertaken by all large emitters (total emissions over 125,000 tonnes). This will equate to roughly 95% of all covered emissions being assured prior to reporting. *Audit Types:* There are three different types of greenhouse and energy audits as defined under the NGER Act, assurance engagements providing either reasonable or limited assurance, and verification engagements, providing no assurance. Assurance and verification engagements may examine any or all aspects of an audited body's compliance with the NGER Act and other subordinate legislation, including: • emissions, energy production and energy consumption reported in accordance with section 19 of the NGER Act; • definitions of corporate group and facilities through the application of overall and operational control; • requirements for identification and measurement of emissions sources, energy consumption and production points; and • requirements for accuracy, completeness and validity of reported greenhouse and energy information including record keeping requirements. *Assurance engagements* - provide an independent conclusion on whether the audited body has complied, in all material respects, with specified requirements of the NGER Act. *Verification engagements* – are an independent assessment of specific areas of compliance, presented in the form of factual findings.