



21 February 2014

Emissions Reduction Fund Submissions
Department of the Environment
GPO Box 787
CANBERRA ACT 2601

By email: emissions-reduction-submissions@environment.gov.au

Dear Sir/Madam,

Emissions Reduction Fund Green Paper

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make this submission in relation to the Emissions Reduction Fund Green Paper (the “Green Paper”).

AFMA is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets. AFMA has more than 120 members reflecting the broad range of participants in financial markets, including Australian and international banks, leading brokers, securities companies, fund managers, energy traders and industry service providers.

AFMA has played a leading role in the development of spot and forward trading in Renewable Energy Certificates, NSW Greenhouse Abatement Certificates and other environmental product markets in Australia. As the national association for participants in the wholesale financial markets, we have established trading protocols and developed standard contract documentation, as well as providing data services, dealer accreditation, training and other services to facilitate the efficient operation and development of the markets. Hence, AFMA is well-placed to assist the Government with the development of environmental market products.

As stated in our submission to the Emissions Reduction Fund Terms of Reference, AFMA agrees with the proposition that markets offer the best mechanism to reduce emissions. The development of secondary trading as an adjunct to the Emissions Reduction Fund may assist the Government to achieve its primary objective of reducing emissions in a cost effective manner. In addition, secondary markets act as a conduit for the efficient distribution and management of financial risks among the various participants in the marketplace.

Further to our initial submission, and in response to the Green Paper, there are two areas in which we see the potential for a secondary market in abatement credits to assist in reducing emissions at least cost emissions reductions and providing beneficial risk management tools for affected entities.

Purchasing Emission Reductions – make good provisions

In the Green Paper, you have asked for views on how best to provide confidence that projected emissions reductions will be delivered.

It is noted in the Green Paper that several businesses have already supported the use of “make-good” provisions in the form of contractual penalties for non-delivery of emissions reductions. These penalties could be satisfied by allowing businesses who are successful bidders to purchase some form of product (such as Australian Carbon Credit Units (ACCUs) or international carbon units) to make-good on their contracts if necessary. This may help the development of a secondary market in carbon units which would then serve as a risk management tool for businesses bidding into the Emissions Reduction Fund. The ability to procure units from other sources in the event of unexpected performance difficulties would provide a safety mechanism to project proponents, lowering the inherent risks and consequently fostering participation. AFMA supports this concept.

Safeguarding Emissions Reductions – exceeding baselines

In the Green Paper, whilst we understand that the Emissions Reduction Fund is designed to allow businesses to continue ordinary operations without penalty, you have asked for views on compliance options in the event that baselines are exceeded.

As noted in our submission to the ERF Terms of Reference, the development of a tradeable market in ACCUs or other tradeable product could be useful for businesses who may need to satisfy potential obligations where they exceed business as usual emissions baselines. If baseline excess obligations can be alleviated by purchasing units (such as ACCUs or international units) in a secondary market, this may help businesses with their investment planning and management of risks in relation to the baselines set. Such arrangements would ensure that Australian businesses who were unable to meet their obligations would pay a penalty commensurate with the impact on Australia’s Kyoto obligations. AFMA continues to hold this view.

Conclusion

As noted above, and in our previous submission, the development of a secondary market in a product (such as ACCUs or international units) would be useful in two key areas in which you have asked for feedback on in the ERF Green Paper: make good provisions and exceeding baselines.

A secondary market would not only provide the ability for businesses to efficiently manage risks associated with the ERF, but it may also assist the Government to achieve its primary objective of reducing emissions in a cost effective manner. For these reasons, AFMA is supportive of elements of the ERF that encourage secondary markets.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. Chadwick". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mike Chadwick
Director - Markets