Regulating Markets for Carbon Reductions

- Seminar, Monash University, 9 September 2011
- Chris Arup, Department of Business Law and Taxation
- Contact christopher.arup@monash.edu
Research inquiries

• At the intersection of financial and climate change
• Research maps voluntary and compliance-based trading, development of new markets
• Research identifies law and regulation
• Law facilitates transactions - protects parties and safeguards system integrity - legitimates trading and markets?
Carbon units

• The carbon permit will be the domestic unit for compliance
• Carbon permits will be personal property and be transferable. The creation of equitable interests in carbon permits will be permitted, as well as taking security over them.
• There will also be Australian carbon credit units and international units (see below)
• Securing a Clean Energy Future, Australian Government
Carbon Farming Initiative

• Australian carbon credit units (ACUUs)
• Credits for reductions from soil carbon capture or forestation
• Kyoto compliant – or any other type of ACCU prescribed in regulations
International linking

• International offset units may be purchased to meet liabilities (from July 2015)

• Eligible international units include Kyoto compliant CDM CERs, JI ERUs and RMUs – and any other international units that the Government may allow by regulation
Focus on offsets markets

- What are offsets?
- For immediate delivery
- Project development and forward contracts
- Derivatives
- Participants and associations
- Intermediaries
OTC Transactions

- **Supply, financing and risk management**
  - Macquarie couples its depth of experience as a top tier, global commodities trading and finance house with its environmental markets expertise to offer:
  - **Access to supply**: origination and secondary market supply
  - strong pipeline of international emission reduction projects available for direct investment and carbon credit purchase
  - Macquarie has a full-service trading desk dealing in secondary carbon credits including CERs and ERUs, as well as domestic emission allowances and renewable energy certificates
  - **Financing**: a full range of debt and equity financing, including
    - inventory financing for new and existing environmental market compliance units
    - derivative financing for emissions abatement and renewable energy projects
  - **Environmental risk management**: structured products and risk management solutions are tailored to meet each client’s specific requirements
    - we provide fixed price certainty through forwards and swaps
    - we offer price protection via options and collars
Exchanges

• **What is Emissions Trading?**
  Emissions Trading is a market-based mechanism for reducing or offsetting carbon emissions. The Australian Government has proposed an Emissions Trading Scheme (ETS) starting on 1 July 2012. Although initially a fixed price, the Carbon Units will move to a flexible price structure in 2015. ASX is well placed to provide forward price discovery through the listing of futures contracts over Carbon Units, in the instance that the Scheme proceeds.

• **Why trade emissions or carbon?**
  ASX Carbon Unit Futures and Options will, if listed, provide a robust mechanism for companies that have an interest in or exposure to the carbon price and proposed ETS to manage their forward price and counterparty credit exposures.
Transactions regulation

- Identifies parties - who can trade
- Identifies objects of trade and nature of interests, see carbon units (above)
- Structures performance and allocates risks and responsibilities, for example what happens on non-delivery - verification of offsets
- Nominates remedies and dispute resolution procedures
Systems regulation

• Regulates conduct, safeguards integrity
• Assimilate trading within existing regimes or construct new sui generis regimes
• For example, consumer protection, financial regulation, environmental regulation
Consumer protection

• ACCC - Misleading and deceptive conduct:
  • Carbon claims and the Australian Consumer Law 2
  • 1. The Australian Consumer Law 3
  • What does the law say? 3
  • 2. Carbon offset claims 5
  • Additionality 6
  • Timing and forward credited offsets 6
  • Double counted offsets 7
  • Permanence and risk management 7
  • Low-quality offsets 7
  • Co-benefits 8
  • 3. Carbon neutral and low carbon claims 9
  • What is covered by a claim of carbon neutral? 9
  • Scopes 10
  • Footprint calculators 11
  • Future statements 11
  • Low carbon claims 12
  • 4. Things to remember when making carbon claims 13
Financial regulation

• Carbon permits will be regulated as financial products - ASIC
• Disclosure and transparency requirements eg. organised exchanges rather than OTCs, registeries
• Proprietary trading and position limits, cf. commodity options and agriculture swaps
• What sorts of derivatives?
• Deloittes Australia has warned that carbon credit fraud is "the white collar crime of the future“: Julie Bishop, 20 July 2011.
Verification of reductions

• Performance
• Permanence
• Additionality
• Leakage
• Costs
UNEPA REDDy SET GROW

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‘Monks Fight to Get Carbon Forests on the Carbon Market’
Friends of the Earth International. September 8 2010

Shell bankrolls REDD
Indigenous Peoples and environmentalists denounce

Oil giant Shell, infamous for the genocide of the Ogoni People and environmental destruction in Nigeria’s Niger Delta is now bankrolling REDD, a false solution to climate change that puts forests in the carbon market and has been denounced as potentially the “largest land grab of all time.”

REDD (Reducing Emissions from Deforestation and Degradation) allows polluters like Shell, Rio Tinto and Chevron-Texaco to buy their way out of reducing their greenhouse emissions at source by supposedly conserving forests. However, according to the Indigenous Environmental Network, REDD is rife with “perverse incentives” to convert natural forests into monoculture tree plantations and to actually increase deforestation.

Shell, Gasprom and the Clinton Foundation are funding the landmark REDD Rimba Raya project on 100,000 ha (250,000 acres) in the province of Central Kalimantan in Indonesia. According to Reuters, the Rimba Raya project marks "a milestone" in the development of a global market in forest carbon credits.

Shell’s REDD carbon offset project could be quite a money maker. Reuters calculates that “At about $10 a credit, that means about $750 million over 30 years.”
International units

• Any restrictions placed on the acceptance of units will be to ensure the stability and ongoing credibility of the carbon pricing mechanism, the environmental integrity and effectiveness of the mechanism, and consistency with Australia’s international objectives and obligations.

• The Government will only consider (other) bilateral links with schemes that are of a suitable standard based on a range of criteria including: an international acceptable or where applicable mutually acceptable level of mitigation commitment, and adequate and comparable monitoring, reporting, verification, compliance and enforcement mechanisms, and compatibility in design and market rules.

• Securing a Clean Energy Future, Australian Government.
Hybridised governance

- Australian National Carbon Offsets Standard (Low Carbon Australia)
- Carbon Farming Initiative Domestic Offsets Integrity Committee
- UN Kyoto Protocol CDM
- Gold Standard (NGOs)
- Voluntary Carbon Standard (IETA and WEF)
- Verified Carbon Standard
- Forestry Stewardship Council
Third party accreditation