



3 October 2012

Mr Tim Bryant
The Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email economics.sen@aph.gov.au

Dear Mr Bryant,

Inquiry into the Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012 and related bills

The Institute of Chartered Accountants in Australia (the Institute) welcomes the opportunity to make a submission to the Senate Economics Legislation Committee's inquiry into the Clean Energy Amendment Bill 2012 and related bills.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 70,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

Key comments

For a long time now, the Institute has advocated that a market based mechanism represents the most economically efficient way to reduce greenhouse gas emissions.

In our view, it is imperative that Australian businesses be allowed to access the lowest cost abatement through global carbon markets over the longer-term. The removal of the fixed floor price is an appropriate policy change which will assist businesses to manage their exposure to the carbon price on the basis of market factors alone, rather than being subject to the artificial distortions that arise as a consequence of a prescribed price.

In our view, an economically efficient emissions trading market must exhibit the following characteristics:

- the market must have a sufficient level of liquidity;
- the market needs to have adequate depth;
- the market needs to be transparent;
- transaction costs must be low, and
- the market must have integrity and certainty.

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On the basis of those factors, the Institute supports the intent of the proposed legislation to link European Union (EU) Allowances or EUAs and Australian carbon units (ACUs). This change will increase liquidity and depth in the emissions market for the linked schemes, and offers broader opportunities for businesses to seek out the most cost effective abatement of emissions. We support the view that full linking of the two schemes will make compliance easier for liable entities.

Although the EU emissions trading scheme is substantially larger than Australia's carbon price mechanism, we do not believe the difference in size between the two schemes should be a first order concern.

As identified above, it is vital the emissions trading market exhibits the highest levels of integrity and certainty for businesses. On this point, there has been some room for concern recently as a result of it becoming known that the EU emissions trading scheme being exposed to various integrity issues around registry security and fraud. It is important for all participants to have confidence in the schemes and the proper functioning of the market. To assist in safeguarding the market, it will be vital that the regulators in Australia and the EU to work together in order to minimise the risk or likelihood of disruptive and confidence-damaging 'shocks' to the trading schemes.

The role of assurance will also be important in ensuring integrity of the emissions trading market in Australia and the EU. We know that confidence and credibility go hand-in-hand. We believe that the transparency of a policy such the one proposed, and a measure of its success, will be the strength of the assurance frameworks that are put in place to support those who are expected to comply with the laws.

While the current focus of the legislation is centred on the EU, it is important that it is designed for the future. The Institute believes that the proposed legislation should allow for the possibility of linking the Australian scheme to other international trading schemes over time, on the basis that the global carbon market will continue to grow into the future.

The Institute expects that further consultation will form part of the process of further developing the relevant regulations and determinations to accompany these amendments. At that point, we will consider in greater detail the various economic, regulatory and compliance implications of the proposed changes.

If you would like to discuss any aspect of this submission or require further information, please contact me on _____ or Geraldine Magarey on _____.

Yours sincerely

Yasser El-Ansary
General Manager – Leadership & Quality
The Institute of Chartered Accountants in Australia