AUSTRALIAN BANKERS' ASSOCIATION INC.

Steven Münchenberg
Chief Executive Officer

Level 3, 56 Pitt Street
Sydney NSW 2000
Telephone: (02) 8298 0401
Facsimile: (02) 8298 0402

29 October 2010

Mr John Hawkins
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
CANBERRA ACT 2600
newtaxes@aph.gov.au

Dear Mr Hawkins,

Carbon Tax

The Australian Bankers' Association (ABA) welcomes the opportunity to provide comments to the Select Committee on the Scrutiny of New Taxes. The terms of reference for this inquiry are broad, and therefore we focus our comments on matters related to a carbon tax, or any other mechanism to put a price on carbon.

1. Introductory remarks

The ABA does not support the introduction of a carbon tax in Australia. We consider that a carbon tax would not deliver the economic, social or environmental benefits associated with a 'cap and trade' scheme.

A carbon tax will not impose a defined limit on greenhouse gas emissions (GHGs), and therefore will not allow the transition of the Australian economy to a lower emissions economy. A carbon tax would provide Government with a source of revenue, but would not necessarily be efficiently used or allocated to address the challenges of climate change for Australia's economy, society or environment. A carbon tax would penalise companies for not reducing GHGs, rather than encourage companies to develop lower-pollution ways of production, and therefore contribute to GHGs reductions.

The ABA believes that market-based approaches, and specifically a 'cap and trade' scheme, is the most cost-effective and economically efficient way of achieving reductions in GHGs. Additionally, putting a price on carbon makes other policy responses achievable.

Climate change has considerable economic, social, environmental and business risks. Continuing uncertainty is disrupting the efficiency of existing markets as well as creating difficulties with regards to financing terms and investment decisions. Australia needs leadership and early action to provide business, investment, operational and market certainty. It is important for Australia to take action now and minimise the impacts of uncertainty by implementing an Emissions Trading Scheme (ETS) in Australia.

Climate change also presents considerable opportunities. Trading, product creation and ancillary services (including risk consulting, funds management, legal and accounting) should be developed as export services regionally and globally. The design parameters of an ETS should keep in mind opportunities for technology advances and international linkages as well as innovation in the financial services industry. It is important for Australia to take action now and take advantage of the opportunity to position itself as a 'carbon hub' within the Asia-Pacific region.

The ABA recognises the challenge in introducing an ETS during a period of difficult global economic and market conditions. However, further delays in implementing an ETS in Australia will compromise the effectiveness of the scheme and market; create unnecessary uncertainty, regulatory complexities, structural inconsistencies, and administrative costs; result in market irregularities, pricing anomalies, and a sharper adjustment to meet established emissions reduction targets; threaten our ability to mitigate the effects and adapt to the impacts of climate change; and, ultimately disadvantage Australia.

The ABA believes that an ETS should form part of Australia's response to address the impacts of climate change and achieve sustainable reductions in GHGs in Australia and around the globe. It is vital for Australia to position itself to take advantage of the opportunities for innovation as well as contribute to the global solution to manage the risks and uncertainty of climate change. Taking early action, adopting a comprehensive policy response and building knowledge and capacity are the key principles in achieving a sustainable response to climate change that focuses on delivering both real economic outcomes and real environmental outcomes. (Attachment 1 contains a copy of the ABA's *Position on Climate Change* published in January 2008.)

The ABA supports:

- The introduction of a 'cap and trade' scheme based on principles that define a solid framework and design an efficient market, including economic efficiency, flexibility, tradability, credibility, simplicity, integration and competition;
- An ETS enabling Australia to meet emissions reduction targets in the most efficient and cost-effective way as well as providing transitional assistance for the most affected businesses and households; and
- The newly appointed Roundtables on Climate Change (Business and NGO) and the newly established Multi-Party Climate Change Committee focusing efforts on identifying pathways to implementing an ETS and carbon market in Australia, rather than contemplating the punitive approach of a carbon tax.

2. ABA's views on climate change policy

The ABA supports the Federal Government's three pillar climate change strategy:

- Reducing Australia's GHGs;
- Adapting to climate change that cannot be avoided; and
- Helping shape a global solution.

Climate change is a global problem that requires a global solution. We believe it is important to encourage the development of a global carbon market, initially through the introduction of an ETS and carbon market in Australia. An ETS will be fundamental to changing the behaviour of governments, businesses and the community – which is critical to shifting the high-emissions global economy to a lower emissions global economy.

The ABA also supports the need to implement effective policy frameworks to underpin and promote a cost-effective reduction in GHGs. We believe that introducing an ETS and carbon market will be an important part of delivering the Federal Government's climate change strategy.

3. ABA's views on an ETS ('cap and trade' scheme)

The ABA believes that an ETS should provide a transactional space that allows price discovery to occur due to the exchange of permits or units for value. Trading rules and operational arrangements for a carbon market will be required to ensure the exchange of permits or units takes place in a manner which is economically efficient.

It is the ABA's view that a national ETS should:

- Be a policy enabler to ensure that Australia meets its international legal obligations under the Kyoto Protocol.
- Be established around a clearly articulated objective to mitigate the adverse effects of climate change by limiting and reducing the release of GHGs into the atmosphere through a market-based mechanism which places a price on carbon.
- Be developed around a flexible, yet consistent framework, minimising market and policy changes over time, reducing regulatory uncertainty, managing transaction costs, minimising administrative complexities, and thereby encouraging confidence by participants.
- Be bound by uniform rules and be able to facilitate efficient and simple participation. Market efficiency must be supported by solid financial market conventions, trading and operating rules and regulatory and governance arrangements. Unnecessary regulation will adversely impact the efficiency and cost-effectiveness of emissions reductions.
- Improve investment and operational certainty while minimising artificial distortions on the economy and adverse impacts on the environment.

The ABA believes that an ETS should be part of a comprehensive and multifaceted portfolio of policy responses to address climate change and achieve sustainable reductions in GHGs, along with practical strategies that assist businesses, individuals and the community as a whole transition to a future carbon constrained economy. We consider that, along with other supportive policies, such as the Renewable Energy Target (RET) scheme, an ETS will act as an important driver for advances in clean development initiatives. It is important to provide market incentives to encourage deployment of renewable technologies and foster the development of expertise in low emissions technologies, renewable energy technologies and emissions reduction practices.

The ABA believes that an ETS should be accompanied by practical strategies, including investment in and deployment of clean technologies (low to zero emissions technologies) and carbon capture and storage; development and commercialisation of renewable energy technologies and energy efficiency initiatives; implementation of a domestic offset regime and encouragement of voluntary actions; and development of complementary measures and adaptation responses.

The ABA recognises that an ETS will impact in different ways on different businesses, individuals and communities. We believe complementary measures should take into account the distributional impacts of structural adjustment and compensation strategies. This should be done in such a way as to limit artificial impacts on the efficient operation of an ETS and carbon market and the function of establishing a price of carbon. We consider that complementary measures should target potential areas of market failure and address emissions reduction gaps that are not covered by the scheme. Additionally, compensation strategies should assist industries and businesses build capacities to transition to a lower emissions economy.

4. Role of the Australian banking and finance sector in an ETS and carbon market in Australia

The ABA believes that participation by the banking and finance sector in an ETS will be critical to the successful design and implementation of various climate change policies and the successful structural adjustment by companies and individuals. Banks and other financial institutions are well placed to develop and deliver the necessary infrastructure and products and assist businesses and households understand their exposures and take appropriate actions to shift to a lower emissions economy.

The banking and finance sector has an important role to play in a number of crucial areas, including:

- Facilitating the trade of carbon assets on the carbon market, including financing the creation and trade of carbon assets;
- Intermediating between private sector participant buyers and sellers and making secondary and forward markets;
- Advising private sector participants on commercial risks and opportunities, including carbon risk management techniques and reduction strategies;
- Investing and providing capital funding for the development of clean technologies, renewable energy technologies and energy efficiency initiatives;
- Lending to private sector participants and individuals; and
- Developing products, services and incentives to support other climate change policies and mitigation and adaptation strategies, including retail products and services.

5. Concluding remarks

The ABA believes that significant and immediate action to reduce GHGs and adjust to the effects of climate change will go to minimising the impact of climate change on Australia's economy, society and environment. We consider that market-based approaches are likely to be the most cost-effective and economically efficient way to achieve reductions in GHGs.

The ABA believes that a carbon tax would not provide an effective mechanism which would act in Australia's broader national interests. Imposing a carbon tax would not be as economically efficient as it could unnecessarily hinder economic growth and would not provide an incentive for industries to innovate and find cleaner ways of conducting their businesses. Introducing a carbon tax would be fraught with administrative difficulties and, inevitably, create operational difficulties due to the uncertainty associated with setting tax levels and redistributing revenues. Whereas, a well functioning ETS and carbon market will enable a price of carbon to compel behavioural change and interact seamlessly with signals, such as targets and trajectories. An ETS will impact on how decisions are made throughout Australia's economy, and therefore efforts towards abatement of GHGs.

The ABA believes that governments, businesses and the community must take action to mitigate, abate, prepare and adapt to the consequences of climate and weather-related changes due to global warming. It is in the long-term interests of the Australian economy, society and environment to take action so that Australia can make a smooth transition to a lower carbon economy as well as address the vulnerabilities and take advantage of the opportunities presented by climate change.

The ABA believes that the banking and finance sector must be involved in the design of the ETS to ensure maximum market liquidity, viability and efficiency. The successful design and implementation of the ETS will enable low cost transactions, price discoverability, emergence of secondary, forward and derivative markets, investor confidence and low cost abatement.

The ABA supports:

- A market-based solution as likely to be the most effective and economically efficient way for Australia to undertake the structural adjustment required to shift to a lower emissions economy and meet our international legal obligations under the Kyoto Protocol. Effective policy frameworks should underpin and promote a cost-effective reduction in GHGs.

- A 'cap and trade' scheme based on principles that define a solid framework and design an efficient market. A carbon market should enable the exchange of carbon permits or emissions units to take place in a manner which is economically efficient. Price controls and interventions obstruct the efficient operation of the market and are a disincentive for the development of markets, and therefore should be avoided.

- An ETS as part of a comprehensive policy response to addressing climate change and achieving sustainable reductions in GHGs. Practical strategies and transitional assistance for the most affected businesses and households should be an integral part of the scheme. The policy, legislative and regulatory settings for the scheme and the market must be considered in concert and as a package.

The ABA looks forward to continuing a constructive dialogue with the Federal Government, Multi-Party Climate Change Committee and other interested stakeholders on matters associated with the introduction of an ETS and carbon market in Australia and mechanisms for establishing a real price on carbon.

If you have any queries regarding the issues raised in this submission, please contact me or Diane Tate, Policy Director, on (02) 8298 0410: dtate@bankers.asn.au.

Yours sincerely

Steven Münchenberg

Attachment 1

AUSTRALIAN BANKERS' ASSOCIATION INC.

Position on Climate Change

The Australian Bankers' Association (ABA) recognises that climate change is a global problem that requires a sustainable global solution. Australia's economy and environment are particularly vulnerable to the impacts of climate change. Governments, businesses and the community all have a role in driving changes in behaviour and responding to the challenges posed by climate change.

Introduction

The Australian Bankers' Association (ABA) accepts the broad scientific and economic consensus that global warming resulting from greenhouse gas (GHG) emissions from human activities is contributing to changes in our climate. Failure to reduce GHG emissions and stabilise the world's climate will have widespread implications for Australia – not just for our environment, but for our economy, national security and public policy.

Climate change and the observable effects of global warming are widely recognised by the scientific community with expected impacts including: increases in global average air and ocean temperatures, widespread melting of snow and ice and rising global average sea levels[1]. Climate change is also predicted to have a devastating impact on the global economy, and more broadly society, with hundreds of millions of people suffering coastal flooding, hunger, water shortages, displacement and exposure to diseases[2].

The science and economics of climate change are converging. Governments, businesses and the community need to manage and adjust to the changes that are inevitable and mitigate the effects that are not yet a reality, with changes in behaviour, a reduction in GHG emissions and a stablisation of climate.

---

[1] The Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report highlights that it is very likely or likely that over the last century climate change has, among other things, resulted in areas affected by drought increasing, precipitation levels decreasing, and heat waves, tropical cyclones, other extreme weather related events and weather instability increasing. http://www.ipcc.ch/

[2] The Stern Review on the Economics of Climate Change warns that climate change is a serious global threat which demands an urgent global response. Using economic modelling the overall costs and risks of climate change could be equivalent to losing 5% of global GDP each year, now and forever, whereas, the costs of taking action now to reduce GHG emissions can be limited to around 1% of global GDP each year. http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm This was supported by economic modelling undertaken by the Australian Business Roundtable on Climate Change in 2006. www.businessroundtable.com

<u>The Problem – it's global</u>

The ABA recognises that climate change is a global problem that requires a sustainable global solution. Australia's economy and environment are particularly vulnerable to the impacts of climate change. Governments, businesses and the community (individuals) all have a role in driving changes in behaviour and responding to the challenges posed by climate change.

The physical impacts and the regulatory responses to climate change will present both risks and opportunities for the banking and finance sector. The physical impacts of climate change for Australia over the next century and beyond will manifest in a number of areas including: impacts on natural ecosystems, water resources, forestry and agriculture, public health, settlements and infrastructure and extreme weather related events[3].

Physical impacts will affect the assets that banks invest in and lend against. Banks will need to understand the impact of potential business interruptions in some industries which are their customers, implement credit risk management techniques for both carbon emitters and carbon credit creators and price investment and lending risk. The banking and finance sector will also play an important role in decisions about agribusiness and other industries most exposed to the physical impacts of climate change.

Regulatory responses to climate change and a price of carbon, and the subsequent shift in financial projections, the uncertainty of risk modelling, the shift in lending volumes and revenues, the possible impacts on asset quality, the changes to the capital and financial markets and profitability of banks will all have direct and indirect costs and risks for banks, their customers and the broader economy.

New carbon market dynamics and impacts will also create technology innovation, new streams of revenue and operational efficiency opportunities for banks and their customers. Banks will have a significant role in facilitating the transition of companies and individuals to a future carbon constrained economy by mitigating economic risk and stimulating a lower carbon economy by providing new products and services and developing and participating in Australia's emissions trading scheme (ETS) and a global carbon market. The banking and finance sector will also play a vital role in facilitating and promoting low carbon technologies, clean development initiatives and financing the required adaptation measures due to unavoidable climate change.

<u>The Solution – it's a shared commitment</u>

The ABA recognises that planning for the future properly means that Australia must anticipate weather variability, different climate patterns and changed economic structures and understand how to respond to the impacts of climate change. Government, businesses and the community (individuals) must all contribute to responses that address the challenges and impacts of climate change.

The Australian Government will have a significant role in establishing a clear legal and policy framework underpinned by credible regulatory and governance arrangements for Australia's response to climate change. An effective policy response must include a suite of policy responses, incorporating global cooperation, emissions trading, adaptation measures and a renewable energy and clean technology strategy, as well as a number of complementary initiatives to support behavioural change in the wider community.

[3] Preston, B and Jones, R (2006). *Climate Change Impacts on Australia and the Benefits of Early Action to Reduce Global Greenhouse Gas Emissions.* A consultancy report for the Australian Business Roundtable on Climate Change. CSIRO. February 2006. http://www.csiro.au/resources/pfbg.html

Businesses will have a significant role in managing their climate and carbon risks and taking advantage of opportunities to support the transition to a lower carbon economy through new technologies, markets and business enterprises. As well as addressing their own emissions, banks will assist companies and individuals manage the uncertainty of climate change and understand how carbon may be an asset or a liability. Banks will also need to prepare themselves for the various risks and opportunities of climate change and impacts on the financial and non-financial performance of their business operations as well as those of their customers.

All members of the community will have a significant role in responding to carbon price signals in the market, education initiatives of the Government and products available to assist them reduce their own carbon footprint. The community will be critical in shifting behaviour from short-term to long-term strategic decision-making about the economic, social and environmental performance of Australia.

The banking and finance sector supports the case for early action as a more cost effective response to the challenges posed by climate change. Early action must take place via a comprehensive and multifaceted policy response which balances economic and environmental outcomes.

Global cooperation will be needed – but Australia must advance its own response to the challenges of climate change through a shared commitment. It is vital that Australia position itself to take advantage of the opportunities for innovation as well as contribute to the global solution to manage the uncertainty of climate change.

Our Principles on Climate Change

Climate change has the potential to have a significant impact on global economic stability, financial market growth, international competitiveness, the availability of resources, industrial performance, the price of energy, the value of companies and individuals' prosperity and safety. These widespread financial and social ramifications will have a major impact on global banking, finance and insurance.

However, while climate change is inevitable, the extent of the impact of climate change in Australia will depend not just on the rate and extent of global warming and the response to changes by the climate system and the environment, but on the capacity of Australians to respond and minimise its impact through mitigation and adaptation as well as the resilience of our economy and society. We believe that Australians can mitigate the effects and adapt to the impacts of climate change despite the uncertainty inherent with the impacts of climate change.

The ABA and our member banks believe that the following principles should guide Australia's response to the challenges of climate change:

- Leadership – taking early action;
- Policy – applying flexible market mechanisms and policy support; and
- Practice – building knowledge and capacity.

The ABA's *Position on Climate Change* sets out our views on the critical role of the banking and finance sector in assisting all Australians manage their exposure to climate change. However, the banking and finance sector can only act as quickly as other sectors – it will take Governments, other businesses and industries and the community to drive changes in behaviour, collaborate and coordinate sustainable responses to climate change.

Leadership – taking early action

The ABA supports Australia taking early action in the global response to the challenges of climate change. Early action to reduce GHG emissions will increase the effectiveness of our response and reduce the costs of actions over the long term.

Australia needs leadership and early action to provide business, investment and operational certainty. Climate change has considerable economic, social, environmental and business risks that require significant and immediate action to reduce GHG emissions, minimise adverse impacts and adjust to the effects of climate change. Urgent responses will go to minimising the impact of climate change on Australia's economy and society.

Governments, businesses and the community must take early action to mitigate, abate, prepare and adapt to the consequences of climate and weather related changes due to global warming.

Governments will need to provide consistent leadership and long-term guidance to companies and individuals, so that the market and the community understand the actions they must take to contribute to Australia's response to climate change. Adopting clear transition and long-term national emissions targets will be required to facilitate a sustainable reduction in GHG emissions as well as provide greater investment certainty for long-term assets and support the appropriate pricing and management of carbon risk into the future.

Banks will need to understand that climate change considerations should be integrated into all decision making processes, as the effects of climate change will impact all business units and all customers. Products and services offered by the banking and finance sector will be critical in shifting Australia from a high-emissions economy to a lower emissions economy – including strategies for large corporations through to products for individual consumers.

The community will need to understand their exposure to unavoidable climate change and the actions they can take to reduce the effects of climate change on their lives and livelihoods.

Policy – applying flexible market mechanisms and policy support

The ABA supports Australia pursuing a market-based solution as part of a comprehensive and multifaceted policy response to control and reduce GHG emissions, facilitate innovation and investment and adapt to changed market conditions.

The banking and finance sector needs a clear, cohesive, consistent, long-term and balanced policy framework. Sustainable reductions in GHG emissions should be promoted through the design and introduction of an ETS for Australia. The ETS should be equitable, efficient, effective, transparent and flexible so that it may integrate with international schemes.

The ETS should be a 'cap and trade' scheme that includes a broad range of industrial sectors and GHG emissions and enables price signals to reflect the market forces of supply and demand. An efficient and liquid market should involve the trading of carbon assets based around the creation and existence of secure property rights and supported by standardised documentation. Allocation of permits should include a proportion of free allocation and auction in the beginning years of the scheme. Regulation of the scheme should be via an independent regulator that monitors the governance of the market and the effectiveness of the scheme in meeting its economic and environmental objectives[4].

[4] The ABA supports the broad policy principles and key elements of an ETS for Australia as outlined in the *Report of the Task Group on Emissions Trading.*

Around this market-based solution, complementary and practical strategies should also be identified to develop and deploy low emissions technologies, encourage renewable and efficient energy initiatives, promote water infrastructure and sustainable forestry projects and other mitigation and adaptation responses to assist companies and individuals transition to a future carbon constrained economy.

Transition from a high-emission global economy to a lower emission global economy will require a comprehensive and multifaceted policy response that provides business, investment and operational certainty, while minimising artificial distortions on the economy and adverse impacts on the environment.

<u>Practice – building knowledge and capacity</u>

The ABA supports Australian companies and individuals having access to the knowledge and skills required to build capacity and capability to respond to the challenges of climate change.

Countries with financial, technological and educational capacity will be better placed to adapt to the vulnerabilities of climate conditions and variability. The banking and finance sector will play a critical role in assisting all Australians manage their exposure to climate change. Consequently, banks will have to adapt their policies and processes to meet the changing demands of the market and their customers and to maintain and preserve their own viability in the changing market conditions.

Governments and businesses must assist individuals to understand climate change risks and opportunities and the actions available to them to contribute to Australia's response. Information will assist Australians better understand how the banking and finance sector will facilitate and contribute to the transition to a future carbon constrained economy.

Banks recognise that decisions taken now will have a major impact on Australia's ability to adapt to unavoidable climate change and mitigate the further effects of climate change. For example, banks will need to understand the products and services that their customers need to address the challenges and impact of climate change now and into the future.

Individual banks will pursue actions suitable for their business, their customers and their stakeholders. Some areas that banks believe may be pursued in their response to climate change include:

- Integrating climate change into their business strategy and building capacity to assess the implications of climate change, so the effects are understood and incorporated into their decision making processes.
- Developing and delivering products and services to assist their individual customers take action to manage their exposures, including offering specialist 'green' banking, insurance and managed investment products as well as carbon offset products.
- Reviewing, adapting and incorporating climate and carbon risk management techniques and reduction strategies into mainstream banking practices as well as building expertise to assist their business customers better manage their exposures, including carbon risk reduction, carbon finance, hedging and market strategies.
- Facilitating and promoting innovation and investment in low carbon technologies and clean development initiatives, through venture capital, structured loans and project finance.
- Facilitating and financing the trading of carbon permits and credits initially via the ETS and then via a global carbon market.

- Identifying investment and lending practices to facilitate the reduction in GHG emissions and stablisation of climate.
- Developing tools and practices to assist individuals and businesses manage their exposures and assess the risks and opportunities of climate change, so that the financial and social implications of climate change can inform decisions about business, investment and shareholder ownership.
- Developing tools and practices to manage their exposures and reduce their own carbon footprint, including environmental and carbon performance criteria, risk identification modelling, controlling and reporting structures and supply chain management.
- Adopting climate change disclosure and reporting practices to enhance the availability of information about material business risks due to effects of climate change that relate to the operations of the bank, such as reductions in GHG emissions, abatement actions, energy production and energy consumption.
- Promoting information sharing among the banking and finance sector and with Government, other businesses and industries and community groups as well as encouraging the standardisation of carbon risk disclosure, reporting practices and internal governance structures.
- Supporting research and development and analysis and assessment of the risk and opportunities of climate change for the banking and finance sector, its customers and the broader economy.
- Influencing sound policy development, raising awareness of how bank customers can manage their exposures and reduce their carbon footprint, and contributing to a shift from a high-emissions economy to a lower emissions economy so that the market, companies and individuals can react in an orderly manner and reduce investment uncertainty.

To assist the banking and finance sector in its responses to climate change, Governments should adopt a comprehensive and multifaceted policy response that includes the provision of research, education, prevention strategies and performance assessment relating to the banking and finance issues that arise from climate change.

Glossary[5]

Adaptation – Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.

Certified Emission Reduction (CER) – A Kyoto Protocol unit equal to 1 metric tonne of CO2 equivalent. CERs are issued for emission reductions from CDM project activities.

Clean Development Mechanism (CDM) – A mechanism under the Kyoto Protocol through which developed countries finance GHG emission reductions or removal projects in developing countries, and receive credits for doing so which they may apply towards meeting mandatory limits on their own emissions.

Carbon finance – Finance involved in projects or activities connected to the carbon market.

Carbon risk – The primary risks posed by climate change are often categorised as regulatory, physical, market and reputational risk, resulting from both the impacts of climate change and the introduction of regulatory and market frameworks to reduce emissions.

Clean energy – Forms of energy which do not result in the release of GHGs, including renewable energy. Some also include nuclear and geothermal power.

Emission Reduction Unit (ERU) – A Kyoto Protocol unit equal to 1 metric tonne of CO2 equivalent. ERUs are generated for emission reductions or emission removals from JI projects.

Joint Implementation (JI) – A mechanism under the Kyoto Protocol through which a developed country can receive ERUs when it helps to finance projects that reduce net GHG emissions in another developed country.

Greenhouse Gas (GHG) – Atmospheric gases responsible for causing global warming and climate change. The major GHGs are carbon dioxide (CO2), methane (CH4) and nitrous oxide (N20). Less prevalent --but very powerful -- greenhouse gases are hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF6).

Mitigation – Efforts to reduce GHG emissions, but not to actions to deal with the impacts of the changing climate.

[5] Definitions of key terminology taken from the UN Framework Convention on Climate Change (http://unfccc.int/essential_background/glossary/items/3666.php) and UN Environment Programme (UNEP) Finance Initiative (http://www.unepfi.org/).