

ATTN: House Standing Committee on Economics

## CLEAN ENERGY AMENDMENT BILLS 2012

COzero fully supports the global linkage of national and regional emissions trading schemes. However, given the speed at which carbon markets are developing in China, New Zealand, South Korea and the United States, linkage with Europe should be seen as the first step, not the last.

The removal of the floor price from the Australian scheme and acceptance of EUA's as eligible offsets units will promote lowest cost abatement in Australia and reduce uncertainty for liable parties. Financial markets have the forecasting capability to predict price and volume fluctuations and develop risk management products for liable entities. By removing the distortion of the floor price, the market, both in Australia and internationally will operate with a greater level of clarity.

Removing the floor price of AUD\$15 will allow Australian companies to source and purchase Kyoto units and EUA's and fulfill their liability at a lower cost, thereby maintaining their competitiveness. Across the EU ETS, the average import allowance for companies meeting their carbon obligations through the import of Kyoto units is 11%. COzero believes in the integrity of credits generated through the Kyoto flexibility mechanisms and the additional social/economic benefits that many projects bring to developing countries.

Prior to the amendment to the legislation, COzero's market experience showed that the floor price and proposed surrender charge for international units would significantly diminish the demand for these permits. Subsequently, it is our stance that the removal of the price floor and 12.5% import cap (very close to European levels) will promote demand for these units and allow for affordable abatement. The linkage and homogenization of these import limits into the future should remain an important consideration for policy makers.

COzero sees the amendments to the Clean Energy Futures Package as a positive step in the establishment of a functional emissions trading scheme. The removal of the price floor and linkage with the European scheme reduces distortive regulatory influences and further aligns the incentives of market entities with the objectives of policy makers.

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