COzero

October 3, 2012

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Re: CLEAN ENERGY AMENDMENT BILLS 2012

Dear Sirs

COzero has been an active participant in domestic and international carbon and environmental markets since 2007. We originate, trade and market offsets and permits across both OTC and exchange traded markets and work closely with project developers, intermediaries and liable parties. The following submission reflects our deep understanding of these markets and observations built over the last six years.

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. By opening the Australian market to the European market, COzero sees a significant gain in market efficiency and a far greater ability for liable entities to accurately estimate and price their compliance.

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. In conjunction with the forecast of the financial sector on carbon prices, the application of quantitative limits on the import of international units provide liable entities to predict their carbon liabilities and costs with far greater certainty. By removing the distortion of the floor price, carbon and emissions markets, 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.

While in full support of the linkage to Europe, COzero raises one concern regarding the allocation and auctioning of permits. Given the removal of the floor price, the regulation and control of permit allocation and auctioning should become a primary concern for policy makers. From the experience of the European market it can be seen that the current low carbon price has been caused by the over allocation of permits due to an unforeseen economic recession and reduced economic activity (and emissions). As production and emissions reduced companies developed a surplus of unneeded permits causing the decline in price since 2009. This could have been avoided through more frequent reviews of industry foot-printing and permit allocation.

In the Australian context, permit allocations must be made frequently and in line with a dynamic model of economic trajectory and performance. Currently the reporting periods of 5 years in the Australian scheme (in comparison, the European scheme faces review every 3rd year) are far too long enough to adjust for short-term economic shocks and reductions in production activity. With the linkage to Europe, the review frequency of economy carbon inventory should be increased to at least meet European standards and, preferentially, exceed them.

COzero sees the amendments to the Clean Energy Futures Package as a positive step in the establishment of a functional and interlinked 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.

Nicholas Armstrong

Chief Executive Officer