

Carbon markets

A crucial part of a net-zero future.



The world needs to halve its carbon footprint this decade and reach net zero emissions by 2050. To achieve this, we will need to drastically reduce our global emissions and sequester the remaining emissions through nature-based solutions and innovations.

It's estimated we'll need to spend about \$5 trillion developing clean energy by 2030¹.

Low-carbon innovations such as renewables, energy-efficient buildings and electrification of transport are part of the story – but on their own they won't be enough. That's where carbon markets will play a vital role by connecting projects that sequester carbon with organisations seeking to offset their emissions.

¹ International Energy Agency, [Net Zero by 2050 – A roadmap for the global energy sector](#), May 2021

A photograph of a man with a beard carrying a young child with curly hair on his shoulders. They are in a lush green forest. A yellow diagonal line runs from the top left towards the bottom right, passing behind the text.

The two models of carbon markets.

Carbon markets were first proposed in 1997 as part of the Kyoto Protocol. Their purpose is to help incentivise organisations to reduce their emissions – and offset emissions that can't be avoided.

Regulatory carbon markets

Regulatory (or compliance) carbon markets are designed and regulated by governments. Examples of regulatory carbon markets include the European Union Emissions Trading System (ETS), and the California-Quebec, Japan, New Zealand, South Korea and Switzerland markets.

All of these markets use a cap-and-trade model, under which governments put a limit on the amount of CO₂ that an industry can emit. This amount is then split into permits equalling one tonne of CO₂. These permits are auctioned to companies each year. Generally, businesses must surrender a credit for each tonne of carbon dioxide they emit, or face a penalty. Using the carbon market, they can sell permits they don't use, or buy more if they need them.

To encourage innovation, caps are meant to get stricter each year, pushing up the price of permits. The fewer emissions a company creates, the more permits they have to sell, or the fewer they need to buy. This encourages investment in low-emission technology like renewables, and investment in technology or nature-based solutions that abate carbon emissions.

Key acronyms

ACCU: Australian Carbon Credit Unit

CER: Clean Energy Regulator

Voluntary carbon markets

Voluntary carbon markets are designed and enforced by public and private entities. Consumers or businesses that want to offset their emissions can purchase credits from project developers. Each credit equals one tonne of carbon dioxide, and is generated from projects that either:

- remove carbon dioxide from the atmosphere through activity such as forest regeneration or carbon farming; or
- prevent carbon dioxide being released, such as waste management projects that capture methane emissions to power homes and businesses.

Voluntary carbon markets have many benefits. They provide private financing to climate projects, and they also support investment in innovation that can lower the cost of emerging technologies. And they help mobilise capital to the global south (including Australia) where there is a lot of potential for economical, nature-based emissions reduction projects.

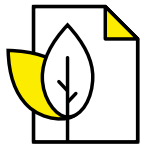
Australia's carbon market – helping companies reduce emissions.

The Australian carbon market is a blend of the regulatory and voluntary models. It was introduced in 2014, and has been administered by the Clean Energy Regulator (CER) since 2016. It's designed to help organisations reduce their carbon footprint by offsetting the impact of their emissions.

In FY 2020, the market delivered a record number of ACCUs (13.2 million) under contracts. Voluntary demand for ACCUs rose by 76% from 2019 to 2020. On the supply side, there were 1,060 active projects in the Government's project registry.



How the Australian carbon market works.



Project developers set up a project using an approved method of carbon abatement. These often not only remove carbon dioxide from the atmosphere but can deliver corresponding social benefits such as indigenous employment and improved biodiversity.



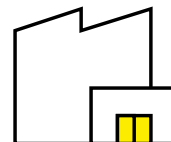
The government financially incentivises these projects through its Climate Solutions Fund (formerly the Emissions Reduction Fund, or ERF) by issuing carbon credits to certified project developers.



Each credit (an Australian Carbon Credit Unit or ACCU) equals one tonne of CO₂.



The Climate Solutions Fund buys ACCUs through reverse auctions for a fixed price on the primary market. They can also be sold as option contracts, allowing project developers to sell their ACCUs into the secondary market at the floating spot price.



Companies can choose to purchase ACCUs to offset their residual emissions. Alternatively the Government's Safeguard Mechanism, administered by the Clean Energy Regulator (CER), sets baselines for Australia's largest emitters to keep their net emissions below 100,000 tonnes of carbon dioxide. Companies exceeding this baseline can buy and surrender an equivalent amount of ACCUs to offset their emissions.

Be part of Australia's carbon market with CommBank.



How CommBank can help businesses

We can help you by:

- providing upfront financing for the stream of ACCUs, which can be funded on a fixed or floating price basis. The ACCUs can be sold to the market, to us, or used to offset your company's carbon emissions profile.
- facilitating your ACCU purchases, saving you time and effort in evaluating the vast universe of offset projects.
- surrendering ACCUs on your behalf, instantly reducing your emissions.

Whether you wish to offset emissions or finance your emission reduction project, CommBank's experience and capabilities can help you navigate this new and exciting market.



How CommBank can help project developers

There are a range of land-based, industry or transport carbon reduction projects that can create revenue opportunities. As an accredited project developer, you can finance your project through the Australian carbon market, and connect to public and private sector entities through carbon credits.

As well as trading carbon credits on the primary market for a fixed price, Australia's new ACCU option contracts mean you can sell carbon credits on the secondary market to companies at a floating price – enabling you to get a better outcome if prices rise.

We can help you:

- finance the upfront costs of setting up carbon harvesting on your land.
- manage price risk in the carbon market.
- act as an intermediary so you can gain exposure to carbon credit development and acquire ACCUs.

Our capabilities.



Deep experience in key global carbon markets

We've been involved in European Union ETS since 2014, holding an annual inventory between €3–€5 billion. We're also active in the New Zealand and Californian carbon markets.

All up, we have monetised over AU\$25 billion of carbon allowances across international emissions trading markets since 2009.



Expertise in providing risk management and funding solutions to clients

We help clients:

- hedge against changing carbon prices with derivatives.
- access working capital by unlocking the value in carbon credits that are currently on their balance sheet.



An early mover in Australia's carbon markets

In 2021 alone, CommBank partnered with carbon footprint tracker CoGo and made an equity investment in Xpansiv, a commodity trading marketplace that allows carbon offset trading.

While we've been operating in Australian environmental markets since 2009, we began our participation in Australia's voluntary carbon market in 2021.



A leading force in Australia's transition to a sustainable economy

One of our strategic priorities is to help lead Australia's transition to a sustainable economy, by:

- helping build a transparent and liquid market of ACCUs
- support initiatives that allow the energy sector to transition to a sustainable future.

How CommBank is reducing our own carbon footprint.

At CommBank, we believe it's not enough to help other companies meet their net zero targets. Our Australian operations achieved carbon neutral certification by Climate Active in February 2021, and we aim to achieve carbon neutrality for our global operations by 2022. We're focussed on reducing our carbon footprint by:

- increasing our onsite renewable branch rooftop solar power generation.
- using renewable energy equivalent to 100% of our Australian power needs.
- increasing our buildings' energy efficiency, including our Australian data centres. This has reduced our Group Scope 1 and 2 operational emissions by 40% since 2014.
- offsetting any residual emissions that we can't abate.



**Commonwealth Bank
of Australia**



Contact us today.

Talk to your relationship manager today about how we can help you benefit from carbon markets.

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