• **Australia-EU Linkage Story**
  - Policy evolution tied to domestic political landscape – abandonment of price floor; 50% allowance from EU market.
  - ‘Policy on the run’ with government having political pressure to soften scheme outcomes (favorable to mining, utilities and other big emitters).

• **Latest on post-AU election results**
  - New government in Australia has policy framework of ‘direct action’ - paying emitters directly to reduce emissions on a ‘least-cost’ basis.
  - Faces a political hurdle itself in overturning current legislation – current regulation likely to run for at least next 12-18 months.
  - Could keep a link to EU markets – this ‘least-cost’ view would be lobbied by big emitters.

• **Essentials for scheme linkages**
  - Integrity of schemes essential – structural imbalances (usually a saturated, oversupplied market) will only lead to downward price pressures in the other.
  - Oversupply (substantial) is a historical fate in carbon/environmental markets to date – EU Phase 1 and 2; domestic Australian environmental markets (NGACS – the oldest carbon market globally, GECs, STCs, LGCs).
Australian Carbon Price Link to Political Movements

Implicit carbon price under Gillard-Labor Government

Carbon boost from Rudd-Labor shortlived
Domestic Environmental Markets Rally Post Election

Historical oversupplied market constrains price and market outcomes.