Policy Issues for a Multi-State Emissions Trading Scheme

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Outline

- Why emissions trading?
- What kind of scheme do we need?
- What can the States do?
- What issues will they face?
- How can they best move forward?

Why emissions trading?

- Establishes clear emission reduction requirement (in covered sectors)
- Encourages uptake of lowest-cost options
- **Provides a carbon price signal**
- **Provides flexibility for regulated parties**
- Facilitates domestic participation in global carbon markets

What role for an ETS?

- **Parer**: A National ETS as a single national greenhouse policy to replace most existing initiatives (including MRET, generator efficiency stds, etc)
- **Int'l Best Practice:** An ETS or similar instrument is necessary, but not sufficient – complements sectoral measures, institutional reforms, clean technology promotion, etc.

Why is a price signal important?

Multiple paths to a low-emission economy

- Cleaner primary energy sources
- More efficient generation & delivery of kWh
- Enhanced carbon storage in landscapes, etc.
- More efficient buildings, machines & appliances
- Lower emission vehicles & transport modes
- More greenhouse-friendly settlement patterns
- Shift to less carbon intensive materials & production
- Shift final consumption away from carbon intensive goods
- Shift from work & consumption to family, community & leisure time

What kind of scheme?

- Baseline & Credit
  - Expanded NSW Greenhouse Benchmarks
  - Greenhouse Intensity
- Cap & Trade (with price cap?)
- Hybrid Tax and Trading (UK, Japan, NZ, EU)

Key ETS Design Issues

- Type of scheme
- Target and Timeframe
- Sectoral coverage
- Point of regulation in fuel chain, etc
- Allocation of rights/permits
- Treatment of economic rents/revenues
- Treatment of energy-intensive industry
- International integration (Kyoto, EU, USA)

Where should we be heading?

- Cap & trade scheme
- Targets and timetables reflecting int'l commitments & longer term goals
- Cover all feasible sources & sinks = 65-70% of emissions
- Integrated with int'l schemes (EU, CDM, JI)
- Auctioned permits with revenue recycling
- Permit acquittal at source or upstream
- Narrowly targeted competitiveness offsets – not wholesale industry exemptions
- Transparent administration & reporting
- Transaction costs minimised and appropriately allocated

Where do the States start from?

- Electricity retailer regulation
  - NSW Gh Gas Benchmark Scheme
  - Qld 13% Gas Scheme
- National Electricity Market
- Air pollution licensing
  - Vic energy efficiency/Gh requirements
  - Load based licensing schemes
- Environmental planning & assessment

Limitations of Benchmarks Scheme

- Designed for single state in national market – only option for NSW
- Compatibility with overseas markets
- Suitability beyond electricity sector
- Adequacy of price signal
- Allocation of rights/permits
- Treatment of demand side abatement

A multi-state cap & trade scheme?

- Wide range of coverage options available through LBL: stationary energy, industrial processes, some fugitive & even transport
- Credits for domestic land use activities?
- Rules compatible with Kyoto/Marrakesh (and EU?) – *learn to play the game*
- Limited integration possible with overseas schemes (US states?)

What the States Can't Do

- Create/allocate AAUs under Kyoto, nor guarantee credit under future national scheme
- Integrate with Kyoto markets (exports to EU?, JI, CDM)
- Implement border measures to address competitiveness problems
- Impose an economy-wide carbon charge
- Withstand a Cwth legal challenge?

What would they have to agree on?

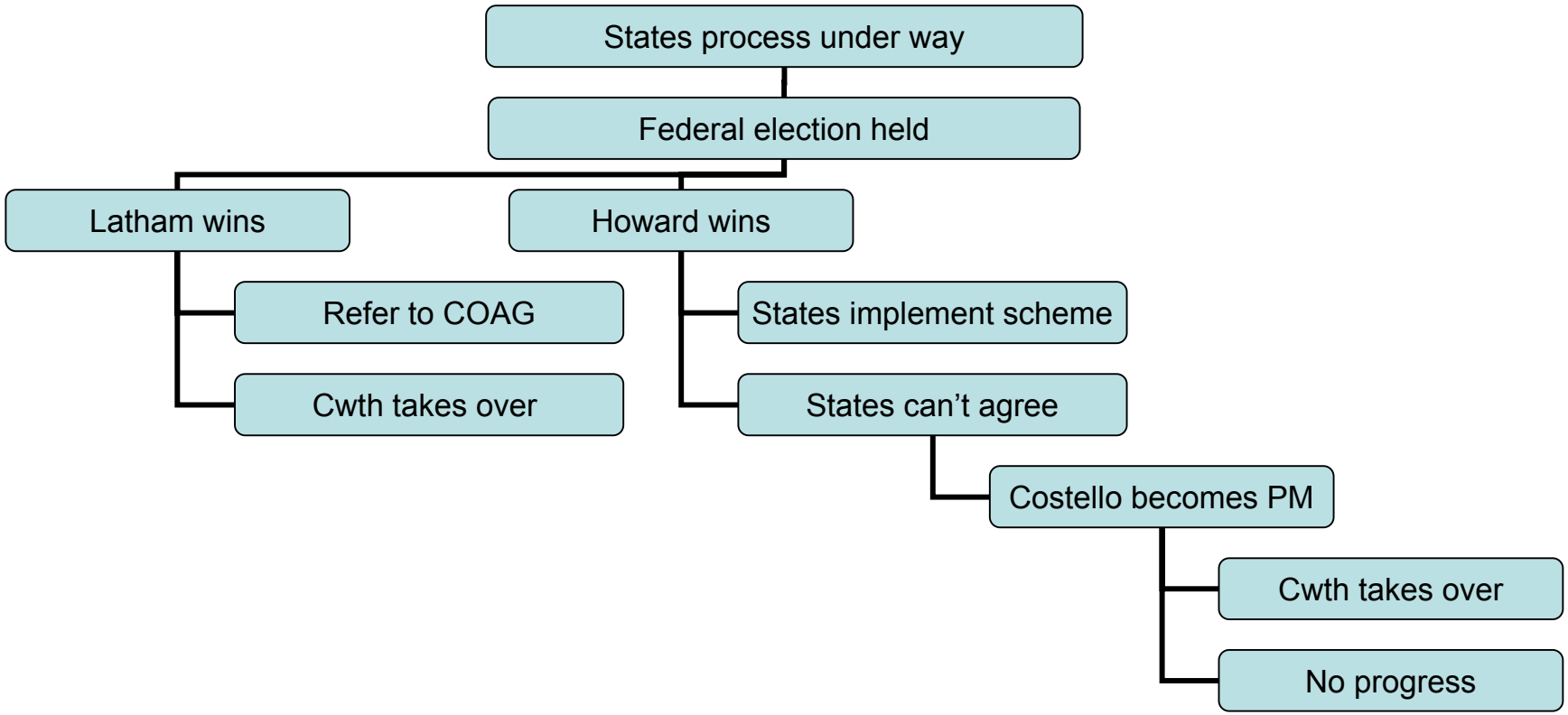
- Target(s), timetable(s), base year, etc.
- Coverage: electricity?, major industry?
- Permit allocation system

  and/or
- Auction mechanism and use of revenues
- Treatment of energy-intensive industry (and possibly new investment)
- Transition from existing schemes

Can they reach a deal?

- Varying emissions profiles
- Brown coal vs black coal vs gas vs hydro
- Govt-owned and private generators
- Implications for aluminium smelters, etc.
- Distribution of sequestration opportunities
- Varying potential for renewables & efficiency investments
- Alternative economic visions
- Different starting points/existing schemes

Does it matter if they don’t?



Possible Steps Forward

- Seek agreement on cap & trade for electricity generation, possibly with auction
- If necessary, start with NSW, Vic, SA
- Anticipate transition to economy-wide national scheme & avoid compromising ultimate design
- Involve a wider set of community interests
- Investigate options for future Cwth-State agreement on revenue recycling
- Pursue complementary policies to build capacity for deeper cuts – especially in energy efficiency and transport