

Emissions Trading

An initiative of State and Territory governments

www.cabinet.nsw.gov.au/greenhouse/emissionstrading

12 August 2005

Inter-jurisdictional Working Group

- All States and Territories
- Set up April 2004
- Chaired by NSW

Terms of reference (1)

Develop an emissions trading scheme which will, at least cost:

- Provide a framework to reduce emissions
- Assist in meeting Australia's Kyoto target
- Position us for a carbon constrained future
- Reduce emissions beyond 2012

Terms of reference (2)

Develop an emissions trading scheme which will:

- Allow for international consistency
- Focus on energy but allow expansion
- Minimise compliance and admin cost

Terms of reference (3)

In developing an agreed model the group will:

- Identify options for a scheme
- Harmonise with existing schemes
- Focus on Kyoto eligible activities

Terms of reference (4)

In developing an agreed model the group will:

- Assess economic, social + environmental impacts
- Advise on adjustment measures
- Present preferred model for consideration
- Provide options for implementation

Process to date

Deliberations informed by:

- Stage 1
 - Broad issues consultancy
- Stage 2
 - Expert workshop
- Stage 3
 - Specific design consultancy

Reports to date

- Report to First Ministers – Dec 2004
 - Update on progress
 - 10 key design propositions
 - Sought endorsement for next steps
- Joint communiqué – March 2005
 - First Ministers endorsed further investigation and analysis based on the 10 design propositions



Ten key design propositions

4. Stationary energy to start

- Significant contribution to emissions
- Some of the fastest growing sectors
- Administratively easier than some other sectors, such as transport
- Considerable reporting already underway

1. Cap and trade

- Limit ('cap') set on total emissions
- Permits allocated = cap
- Liable parties must acquit permits for all emissions, with penalties for shortfalls

1. Cap and trade (2)

- Certainty for environmental outcomes
- Simpler, more transparent with less data needs and deeper coverage than baseline and credit
- EU ETS, US SO₂
- Water trading, fisheries quota trading, Hunter salinity trading

2. National and sector based

- National targets and allocation
- Abatement effort defined by sectors not state by state
- More efficient to achieve least cost
- Consistency across states
- Easier linking to other schemes

3. Setting the scheme cap

- Overall economy wide targets
- Abatement capacity and costs by sector
- Equalise marginal cost of abatement between covered and non-covered sectors
- Short term Kyoto targets
- Long term deep cuts

5. All six greenhouse gases

- Kyoto Protocol gases
- Carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, perfluorocarbons and hydrofluorocarbons
- EU scheme only CO₂
- Maximum coverage and administrative simplicity if later expanded

6. Permit allocation mix

- Administered allocation (free or fixed price)
 - 'Grandfathering' based on historical emissions
 - 'Benchmarking' based on historical output
- Auctioning
 - Provides market price
 - Most efficient for market operation, but concerns about 'shock' to balance sheet
- Short and/or long term permits

7. Penalty for compliance

- High enough to encourage compliance
- Low enough to provide some price ceiling
- “Make good” provisions?
- Linking issues
- Environmental certainty v cost certainty

8. Offsets allowed

- Kyoto consistent, including 'additionality'
- Offsets to consider
 - Terrestrial or vegetation sequestration
 - Geological sequestration
 - Non-covered sector emissions
 - Energy efficiency (double counting issue)
- Verification and cap adjustment issues
- Transaction costs mean ET often not best option

9. Mechanisms for adjustment

- Like any adjustment process, there will be winners and losers
 - Energy intensive and trade exposed sectors
 - Low income households
- Need to assist in transition to minimise impact
- Measures could include rebates, free allocation for transition period
- Demonstrated impact

10. Early action and new entrants

- Entities that have taken early action should not be disadvantaged
 - Method of allocation
 - Provision of additional permits
- New entrants should not be disadvantaged
 - Special reserve of permits for new entrants
 - Capacity expansion v. new operations

Next steps

- Further investigation and analysis
- Development of a preferred model to provide to First Ministers for consideration
- Discussion Paper for public consultation



More about working group at:

<http://www.cabinet.nsw.gov.au/greenhouse/emissionstrading>