

Garnaut Climate Change Review – draft report

Table 15.1: Overview of the proposed emissions trading scheme design decision proposal

Setting an Emissions limit

The overall national emissions limit should be expressed as a trajectory of annual emissions targets over time, which define long-term budgets. A number of trajectories should be specified upon establishment of the scheme. The first, up to 2012, should be based on Australia's Kyoto commitments (Australia's existing emissions limit). The others, for the post-2012 period, should reflect increasing levels of ambition. Movement between them should be based on determining the comparability of Australia's response to international effort.

In its supplementary draft and final reports, the Review will provide advice to government on budgets, trajectories and targets for an Australian emissions trading scheme.

Changes to the emissions limit

Movement from one trajectory to another should only be on the basis of international policy developments and agreements (which should allow for new information and developments of an economic or scientific kind). Government should provide five years' notice of movement to another trajectory. Any gap between the domestic emissions trajectory and international commitments during this period would be reconciled by the purchasing of international permits.

Coverage Gases: Six greenhouse gases as defined by the Kyoto Protocol.
Sectors: Stationary energy, industrial processes, fugitives and transport from scheme outset. Waste and forestry to be included as soon as practicable. The inclusion of agriculture to be subject to progress on measurement and administration.

Domestic offsets

Domestic offsets will have a small role, given broad coverage. Unlimited offset credits should be accepted from forestry before and during coverage in the scheme. The appropriateness of an offset regime for agriculture to be analyzed further in the context of coverage of these emissions and advice provided in the supplementary draft and final reports.

Point of obligation

Set at point of emissions where efficient. An upstream or downstream point of obligation preferred where transaction costs are lower, accuracy of emissions measurement higher, or coverage greater.

Issuing (or releasing) permits

Permits released according to emissions reduction trajectory. All permits auctioned at regular intervals. (Note: Some permits may be used in lieu of cash in providing assistance to eligible firms that are in trade-exposed, emissions-intensive industries.)

International links

Opportunities for international linking of the Australian scheme should be sought in a judicious and calibrated manner.

Price controls

Not supported, except during transition period to end 2012.

Intertemporality (flexibility in time of use of permits)

Unlimited hoarding allowed. Official lending of permits by the independent carbon bank to the private sector allowed within five-year periods.

Treatment of trade-exposed, emissions-intensive industries

Global and sectoral agreements to achieve comparable treatment of emissions in important competitors to be pursued as a priority. If they have not been reached post-2012, assistance should be provided to account for material distortions arising from major trading competitors not adopting commensurate emissions constraints.

Governance Emissions limit and policy framework for the scheme set directly by government.

Scheme administered by independent authority (independent carbon bank).

Compliance and penalty

Penalty to be set as a compliance mechanism. Penalty does not replace obligation to acquit permits; a make-good provision would apply.

Use of permit revenue

Auctioning of all permits would provide a substantial amount of government revenue. All revenue to be returned to households or businesses after administrative costs of system. Competing priorities for this revenue include:

- payments to trade-exposed, emissions-intensive firms
- payments to households
- support for investment in research, development and commercialisation of low-emissions technologies
- cash reserves to purchase international permits/offsets to reconcile domestic emissions with international commitments.