

MEDIA RELEASE

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GARNAUT RELEASES MODEL FOR SIMPLE, EFFICIENT AND CREDIBLE EMISSIONS TRADING SCHEME

Professor Ross Garnaut released his discussion paper on an Australian emissions trading scheme (ETS) in Sydney today, stating that the introduction of an ETS signalled the opportunity for profound, long-term structural change for Australia.

“An emissions trading scheme will be the centrepiece of Australia’s climate change policy. If we get the design right, it will help build a more resilient economy for the long term,” he said.

The paper argues for the need to design the scheme on the basis that it will ultimately be part of a global agreement on greenhouse gas mitigation.

“A global emissions trading scheme is clearly our end goal. I have looked at all the design issues through the lens of what would allow the most efficient and effective integration with international schemes,” said Professor Garnaut.

The paper suggests fixed and clear limits on emissions through the establishment of defined emissions ‘trajectories’, which would transparently map the pathway to emissions reduction targets/commitments. Permits would be regularly released in line with the trajectory.

“A long-term, firm trajectory for emissions reduction – which could only be tightened, not loosened, in line with emerging international commitments – would provide greater investor confidence and strengthen the credibility of the scheme,” he said.

Professor Garnaut said that ‘simplicity’ was the key to an effective ETS for Australia.

“Compromises to the simplicity of the ETS should not be made lightly as they inevitably result in increased uncertainty and transaction costs for market participants,” the discussion paper says.

The ETS discussion paper supports the auctioning of all permits, arguing that any increase in the price of goods or services, such as energy, will not be prevented through the free allocation of permits.

“Whether permits are allocated freely or auctioned to existing [electricity] generators, the price impact on households will be the same,” the discussion paper says.

“The auctioning of permits will generate very large amounts of revenue, and the Government will face many competing demands on how that is used. These will include from households affected by increased prices of goods and services, employees and communities dependent on emissions-intensive industries, and non-traded sectors whose costs are directly impacted,” said Professor Garnaut.

“The revenue should be spent on improving the productive or adaptive capacity of the economy, in ways that are consistent with reducing greenhouse gas emissions.

“Special attention must be given to consumers who will ultimately bear the cost of a carbon price, and in particular, low-income households,” he said.

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The discussion paper supports transitional assistance to trade-exposed emissions intensive industries (such as steel and aluminium manufacturers) who are unable to pass on the cost of a carbon price.

Design features put forward in the paper include:

- Creation of an 'Independent Carbon Bank' to monitor and enforce compliance with the scheme.
- Auctioning of all permits, in order to maintain the simplicity, credibility and transparency of the scheme.
- Allowing the unlimited banking or hoarding of permits, and lending of permits by the Independent Carbon Bank.
- No price controls for permits, such as price caps or floors.
- Application of a penalty with a make-good provision, for non-compliance.
- Making the coverage as broad as possible, with a recommendation to include agriculture and forestry as soon as practicable.
- Usage of permit revenue to provide assistance to households, particularly low-income households, and adjustment assistance for communities and employees of impacted sectors.
- Provision of transitional assistance to trade-exposed, emissions intensive firms.

"This reform will cost, but that cost will be manageable if we safeguard the simplicity and credibility of the market and use the proceeds to transition Australia to a low-carbon economy," said Professor Garnaut.

He encouraged Australians to "get interested" in the detail of the emissions trading scheme design, saying the reforms of the following two years would have sweeping implications for the nation.

"The design decisions made in the lead up to 2010 will affect every one of us and I encourage all Australians to take an interest in how the emissions trading scheme is drawn up. I hope that my paper will help stimulate a robust community discussion," he said.

Submissions are invited on the discussion paper by 18 April 2008, which is available at **www.garnautreview.org.au**

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