

National Emissions Trading Scheme

Communiqué

State and Territory Premiers and Chief Ministers

On 16 February 2005, the Kyoto Protocol came into international force. 141 nations will be bound by the Protocol, including 35 industrialised countries that have accepted legally binding targets for emissions reductions.

Although Australia has signed the Kyoto Protocol and indicated its intention to meet its assigned target, the Commonwealth government has stated on a number of occasions that it will not ratify the Kyoto Protocol. This means that Australia will be locked out of growing international markets for greenhouse emissions abatement.

State and Territory Governments in Australia recognise the importance of addressing climate change, and are considering a range of effective policy responses to ensure a flexible way of achieving greenhouse gas abatement in the transition to a carbon constrained future.

Emissions Trading

A key measure being investigated is a national emissions trading scheme, which could in future link Australia to international carbon markets. The European Union has recently established its own emissions trading scheme, recognising its ability to provide flexible and low cost abatement options for emissions reductions.

In the absence of national leadership on greenhouse policy, State and Territory Governments established a working group to develop a multi-jurisdictional emissions trading scheme for consideration by State and Territory Governments. The working group reported on progress to First Ministers of State and Territory Government in December 2004.

Design Propositions for further investigation

The group has developed ten key principles as a basis for further investigation and analysis:

- A cap and trade approach be used as the basis for scheme design;
- The scheme be national and sector based;
- In setting the cap, consideration be given to the overall national emissions abatement target, and how the abatement responsibility is allocated between sectors covered by the scheme and those outside the scheme;
- The scheme initially cover the stationary energy sector (including electricity, gas and coal);
- The scheme cover all six greenhouse gases under the Kyoto Protocol;
- Permit allocation be made on the basis of a mix of administratively allocated and auctioned permits, with both long and short term (annual) permits;
- A penalty should be set to encourage compliance and to establish a price ceiling for the permit market;
- Offsets be allowed;

- Mechanisms be included to address any adverse effects and structural adjustments; and
- Mechanisms be included to allow a transition for participants who have taken early abatement action and new entrants.

Ongoing work

The group will undertake further investigation and analysis and provide a report to First Ministers in the second half of 2005.

The further work of the group will include increased understanding of potential impacts of an emissions trading scheme on:

- Costs of compliance;
- The impacts on specific industries (eg. energy intensive and trade exposed) and structural adjustment issues;
- Regional impacts of the scheme, and associated labour market issues;
- Impacts on consumer energy prices and small business; and
- Macroeconomic impacts such as economic growth, employment, investment and inflation.

This work will incorporate economic modelling where necessary to guide the analysis.

It is anticipated that a public discussion paper would be released later in 2005.