



SOUTHERN METROPOLITAN
REGIONAL COUNCIL

7th November 2005

Emissions Trading Working Group Secretariat
The Cabinet Office
GPO Box 5341
Sydney NSW 2001

Background Paper for Stakeholder Consultation

The Southern Metropolitan Regional Council (SMRC) would like to submit comments regarding the design propositions put forward by the emissions trading working group. An overview of the SMRC and its interest in greenhouse gas abatement is followed by comments on the design propositions. Whilst the proposition of key interest to us is No 8 we have also chosen to comment on other propositions.

About the SMRC

The SMRC is a formally constituted Regional Council and comprises the following local governments:

- City of Fremantle
- City of Melville
- City of Canning
- Town of Kwinana
- Town of East Fremantle
- City of Cockburn
- City of Rockingham

The SMRC has implemented a Waste Management Strategy with the development of a major solid waste processing facility known as the Regional Resource Recovery Centre (RRRC). The RRRC processes the domestic waste and recycling streams for its Member Councils in order to reduce their reliance on landfills as the primary means of waste disposal.

The SMRC and Greenhouse Abatement

The SMRC has undertaken a Greenhouse Friendly Abatement Project validation and verification process under the auspices of the Australian Greenhouse Office's Greenhouse Friendly Program for its Waste Composting Facility (WCF).

Proposition 1

That a cap and trade approach be used as the basis for scheme design.

A cap and trade scheme model consistent with the EUETS should be adopted. Given that Australia lags in its commitment to both Kyoto and the establishment of a national trading scheme it seems fruitless at this stage to embark on a scheme that significantly varies from what could be considered a global benchmark in emissions trading system design.

Firm linkage with existing international schemes is essential as it offers trading opportunities within a broader and more liquid market. Any international trading needs to be conducted through a national registry system with standardised trading agreements that provide security for both vendor and purchaser.

Proposition 2

That the scheme is national and sector based.

A national approach is essential in order to avoid migration of offsets or sectors to more favourable trading jurisdictions. It is also important from a credibility perspective particularly when linkage with other established national trading schemes is desired.

Proposition 3

That 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.

Scheme caps should be set within the first Kyoto period to afford Australia the opportunity to engage Kyoto compliant countries with discussions regarding the second period and align its targets accordingly. However, there is a strong likelihood that emissions reduction targets will need to be set higher for the second Kyoto period to offset adverse environmental outcomes from rising global carbon emissions.

The abatement potential of non-covered sectors should be realised wherever possible.

Proposition 4

That the scheme initially cover the stationary energy sector.

The scheme should be as wide as possible and encompass large downstream energy users such as the cement, brick, steel, aluminium, pulp and paper sectors as well as upstream producers of energy inputs such as coal and gas. This would spread the onus of developing innovative abatement measures. The stationary energy sector or other sectors should not be limited for inclusion solely by the MW output of any particular facility but by net annual CO₂ equivalent emissions.

Proposition 5

That the scheme cover all six greenhouse gases under the Kyoto Protocol.

This proposition is supported.

Proposition 6

That permit allocation be made on the basis of a mix of administratively allocated and auctioned permits, with both long and short term (annual) permits.

No comment.

Proposition 7

That a penalty should be set to encourage compliance and establish a price ceiling for a permit market.

Both a penalty and “make good” provision should be set in line with the EUETS to induce compliance.

Proposition 8

That offsets be allowed.

Given the voluntary and early mover status of the SMRC’s emission reduction initiative we would like to make the following points:

- The legal status of abatement generated from outside of the proposed covered sectors, within a future state based emissions trading market, requires legislative clarity given the current uncertainty regarding the legal nature of abatement generated outside of any legislated system.
- Abatement projects currently certified by the Australian Greenhouse Office (AGO) should be legally recognised under any future Inter Jurisdictional Emissions Trading Scheme.
- That offsets already achieved and recognised by the AGO and not yet retired be a tradeable commodity within any proposed scheme.
- The future application of additionality principles, given the SMRC and others have already demonstrated a voluntary and substantiated abatement contribution to Australia’s net carbon emissions profile, requires clarity within any proposed system. This is in order not to penalise early movers over those that only take abatement measures when mandated to.
- System design needs to accommodate offsets from outside the confines of the stationary energy sector otherwise the SMRC and others could be unfairly and

economically disadvantaged even though they are contributing positively to Australia's net carbon emissions profile.

- Industrial, commercial and residential energy efficiency offsets should be included provided an effective National Registry exists that effectively retires offsets and avoids double counting.
- A transparent and centrally administered verification process for offsets is critical in order to foster national and international credibility in the scheme.

Should clarification of any of the points submitted be required we would be pleased to provide additional information.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Tim Youé', is positioned to the left of a vertical line.

Tim Youé

Business Development Manager

P: (08) 9256 9555

M: 0400 855 896

E: timy@smrc.com.au

W: www.smrc.com.au