

# Discussion Paper: Possible Design for a National Greenhouse Gas Emissions Trading Scheme

## Information Sheet No. 8

### Economic impacts

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#### **Reducing Australia's emissions is necessary**

All Australian Governments agree that substantial reductions in emissions are required before the middle of the century.

International constraints on greenhouse gas emissions are regarded by many stakeholders as inevitable—it is just a matter of timing.

Reducing emissions from Australia's stationary energy sector will require significant adjustments to our energy infrastructure.

Traditional coal-fired power stations currently supply the bulk of Australia's electricity. Over time, the mix of generation will need to move towards lower emissions technologies, potentially including modifications of existing plant to reduce their greenhouse intensity.

Gas, renewable energy and clean-coal all have lower emissions but they are more expensive.

#### **Emissions trading is a lower cost option**

Any policies designed to reduce greenhouse gas emissions have associated costs.

However, it is possible to reduce greenhouse emissions without major economic disruption. The inherent flexibility of emissions trading is a major reason for this.

Strong economic growth can be maintained while reducing greenhouse gas emissions.

Compared with alternatives, emissions trading can be a practical, flexible and relatively efficient means of achieving an emissions target (see [Information Sheet 1](#)).

#### **A manageable transition for the Australian economy**

The possible scheme outlined in the Discussion Paper has been designed to reduce adverse impacts on the economy, while at the same time providing real incentives to reduce emissions.

Modelling suggests that if a well designed emissions trading scheme were put in place, Australia's economy would continue to grow strongly.

GDP and consumption levels would continue to grow in line with 'business-as-usual', but with significant reductions in emissions occurring at the same time.

Key features of the possible scheme design that are aimed at ensuring a manageable transition for the Australian economy include:

- Early commencement with modest emissions caps, allowing a gradual transition;

- Emissions caps and gateways (ranges for future annual caps) specified 20 years into the future (see [Information Sheet 5](#));
- The inclusion of a penalty that caps the cost of the scheme, but also encourages compliance;
- Unrestricted banking of permits to allow liable parties to manage variations in emissions more efficiently (see [Information Sheet 6](#));
- Inclusion of *offset credits* to encourage low-cost abatement projects outside sectors covered by the cap (see [Information Sheet 7](#)); and
- The possible recognition of credits created under overseas schemes as an additional source of low cost abatement (see [Information Sheet 13](#)).

### **Managing adverse impacts**

Trade-exposed, energy-intensive industries are most vulnerable to the effects of introducing an emissions trading scheme. These can be successfully sheltered from the impacts of the scheme.

The Discussion Paper proposes that trade-exposed, energy-intensive industries be allocated free permits to offset the increase in energy prices.

This would maintain their international competitiveness but would not limit the amount of abatement that occurs.

It is also proposed that limited numbers of free permits be allocated to some generators to offset adverse impacts on asset values.

Similarly, it is possible to assist others who could be adversely affected by the scheme. Through auctioning remaining permits, emissions trading scheme creates an inbuilt source of value to pursue those goals.

See [Information Sheet 15](#) for further detail on permit allocation.

### **Further work**

The modelling work undertaken to date is informative. It is, however, only a first step towards understanding the impacts of key design choices, such as the scheme cap and coverage.

Further modelling is needed to inform decisions on a scheme design that best maintains Australia's economic prosperity and growth.

To inform this next stage of modelling, stakeholder input is sought on all aspects of the modelling approach outlined in the Discussion Paper.