

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

Information Sheet No. 9

Environmental Contribution

How would emissions trading reduce emissions?

One of the key objectives of an emissions trading scheme is to reduce emissions (also known as “abatement”). The environmental integrity of the scheme is therefore central to the scheme design.

An emissions trading scheme imposes a limit, or “cap”, on emissions across a particular group (or sector) of emitters.

Each of the parties liable under the scheme then must ensure that they have enough permits (or offset credits) to match their actual emissions at the end of each year.

If a participant does not have enough permits (or offset credits), then they are penalised through a fine for their excess emissions.

The value of permits means emitters have an incentive to reduce emissions even further, resulting in them having to acquire fewer permits, or enabling them to sell excess permits in the trading market.

Emissions trading therefore provides a very real incentive for participants to reduce their own emissions. It also provides financial incentives for abatement from other parts of the economy through the value of offset credits.

Both of these incentives are expected to result in significant reductions in emissions.

What are the proposed caps for the NETS?

The duration, trajectory and level of the caps for the National Emissions Trading Scheme (NETS) define the magnitude of the abatement task. This significantly affects most other scheme design choices.

There are four key considerations in setting the scheme cap. The Discussion Paper seeks stakeholder views on each of them.

First, is whether the scheme cap should be consistent with setting Australia on a path towards long term targets, i.e., reducing greenhouse gas emissions by around 60% compared with 2000 levels by the middle of the century.

Second, in determining the trajectory of emission reductions, the cap should allow for the Australian economy to transition as smoothly as possible to a carbon-constrained future.

Third, the cap should be able to respond flexibly to the evolving scientific understanding of climate change and to reflect future international obligations.

Fourth, cap-setting should consider the realities of the energy market such as the evolution of low emission technologies, and their potential commercialisation and deployment.

At this stage **no decisions have been made regarding caps.**

Further stakeholder input and modelling are required before any decisions on caps can be made.

Accordingly, **indicative caps** have been prepared to facilitate the initial modelling (see the figure below).

Under modelling scenarios 1 and 1a, electricity generation emissions are capped at 176 Mt in 2030, which is approximately the level of those emissions in 2000.

Under modelling scenario 2, electricity generation emissions are capped at 150 Mt in 2030, which is approximately the level of those emissions in 1997.

Are NETS offset projects going to be additional?

Any offsets regime under the NETS would need to ensure that the environmental integrity of the scheme itself was maintained.

This means ensuring that offsets meet strong additionality, permanence and measurement criteria and that baseline and monitoring methodologies are robust.

It is proposed that the rules for offset credits under the NETS be as consistent as possible with

those being developed for the Kyoto Protocol's Joint Implementation (JI) mechanism.

Consistency with JI would ensure the credibility of offsets, while also leveraging years of international experience and learning.

What would the NETS do for environmentally friendly technologies?

The possible NETS outlined in the Discussion Paper would place a "carbon price" on certain parts of the Australian economy.

This would improve the viability of technologies and processes (both new and existing) which have relatively lower emissions profiles.

One of the great strengths of an emissions trading scheme is that it is technology-neutral. It allows the market to seek out the lowest-cost ways of achieving emissions reductions.

Given the long duration of the possible NETS (at least 20 years), the introduction of the scheme is expected to have a significant positive impact on both the development and deployment of low-emissions technologies.

