



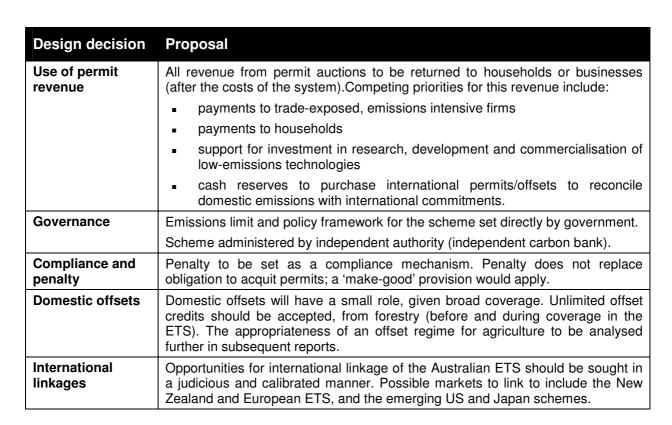
## **FACT SHEET**

## **EMISSIONS TRADING SCHEME DESIGN**

Overview of the Garnaut Climate Change Review proposed ETS design

Design decision	Proposal
Setting an emissions limit	The emissions limit for the sectors covered by the emissions trading scheme (ETS) would be derived from Australia's national emissions limit. The ETS and overall national emissions limit should be expressed as a trajectory of annual emissions targets over time, which define long-term emissions budgets.
	A number of trajectories should be specified upon establishment of the ETS. The first, up to 2012, should be based on Australia's Kyoto commitments (Australia's existing emissions limit). The others, for the post-2012 period, should reflect increasing levels of ambition. Movement between them should be based on determining the comparability of Australia's response to international effort.
	In its supplementary draft and final reports, the Review will provide advice to government on budgets, trajectories and point-in-time targets for an Australian ETS.
Changes to the emissions limit	Movement from one trajectory to another should only be on the basis of international policy developments and agreements (which should allow for new information and developments of an economic or scientific kind).
	Government should provide five years' notice of movement to another trajectory. Any gap between the domestic emisisons trajectory and international commitments during this period would be reconciled by the purchasing of international permits.
Sectors to be covered	Sectors: Stationary energy, industrial processes, fugitives and transport from scheme outset. Waste and forestry to be included as soon as practicable. The inclusion of agriculture to be subject to progress on measurement and administration.
	Gases: Six greenhouse gases as defined by the Kyoto protocol.
Point of obligation	Set at point of emissions where efficient. An upstream or downstream point of obligation would be preferred, where transaction costs are lower, accuracy of emissions measurement are higher or coverage greater.
Issuing (or releasing) permits	Permits released according to emissions reduction trajectory. Post 2012, all permits auctioned at regular intervals. (Note, some permits may be used in lieu of cash as a form of assistance, if required, to eligible firms that are in trade-exposed, emissions-intensive industries.)
Permit price controls	Not supported, except during possible transition period (2010-2012). See overleaf for more details.
Flexibility in time of the use of permits	Unlimited hoarding (net banking) allowed. Official lending of permits by the independent carbon bank to the private sector allowed within five-year periods.
Treatment of trade-exposed, emissions-intensive industries, TEEIIs	Global and sectoral agreements to achieve comparable treatment of emissions in important competitors to be pursed as a priority. If they have not been reached post-2012, assistance should be provided to account for material distortions arising from major trading competitors not adopting commensurate emissions constraints.





While there are advantages in moving directly to an unconstrained scheme, 2010-12 could be a transition period. If there were a transition period, the Kyoto Protocol would define Australia's emissions reduction trajectory and permits would be sold at a fixed price. These years would be used to pursue effective international sectoral agreements, en route to a global agreement.