

FACT SHEET

EMISSIONS TRADING SCHEME DESIGN

Overview of the Garnaut Climate Change Review proposed ETS design

Design decision	Proposal
Setting an emissions limit	<p>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.</p> <p>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.</p> <p>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.</p>
Changes to the emissions limit	<p>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).</p> <p>Government should provide five years' notice of movement to another trajectory. Any gap between the domestic emissions trajectory and international commitments during this period would be reconciled by the purchasing of international permits.</p>
Sectors to be covered	<p><i>Sectors:</i> 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.</p> <p><i>Gases:</i> Six greenhouse gases as defined by the Kyoto protocol.</p>
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, TEEIs	Global and sectoral agreements to achieve comparable treatment of emissions in important competitors to be pursued 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.

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Use of permit revenue	All revenue from permit auctions to be returned to households or businesses (after the costs of the system). Competing priorities for this revenue include: <ul style="list-style-type: none"> ▪ payments to trade-exposed, emissions intensive firms ▪ payments to households ▪ support for investment in research, development and commercialisation of low-emissions technologies ▪ cash reserves to purchase international permits/offsets to reconcile domestic emissions with international commitments.
Governance	Emissions limit and policy framework for the scheme set directly by government. Scheme administered by independent authority (independent carbon bank).
Compliance and penalty	Penalty to be set as a compliance mechanism. Penalty does not replace obligation to acquit permits; a 'make-good' provision would apply.
Domestic offsets	Domestic offsets will have a small role, given broad coverage. Unlimited offset credits should be accepted, from forestry (before and during coverage in the ETS). The appropriateness of an offset regime for agriculture to be analysed further in subsequent reports.
International linkages	Opportunities for international linkage of the Australian ETS should be sought in a judicious and calibrated manner. Possible markets to link to include the New Zealand and European ETS, and the emerging US and Japan schemes.

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.