

RECENT DEVELOPMENTS: March 2008

Designing an Emissions Trading Scheme for Australia

On 6 February 2008, the Minister for Climate Change and Water, the Hon Penny Wong, announced the new Government's policy on climate change. She confirmed that an emissions trading scheme will be at the heart of the Government's efforts to reduce emissions.

According to the Minister:

"The introduction of emissions trading will constitute the most significant economic and structural reform undertaken in Australia since the trade liberalisation of the 1980s. It will create a major new financial market aimed at achieving an environmental obligation. It will spur progress in production techniques, capital investment, research and development. And it will result in challenges for some industries while creating significant opportunities for existing and new industries."

Design Principles

A Climate Change Review is still being conducted by Professor Ross Garnaut. It will present its final recommendations to the government in September 2008. It will also issue a paper on design principles during March 2008.

In the meantime, the Minister has outlined the main principles that will be followed in designing the Australian scheme:

1. Cap and Trade

First, it will be a 'cap and trade' scheme. That is, it will set an overall environmental cap by issuing a set number of permits for emissions, allowing entities to trade permits, and thereby putting a price on carbon.

2. The Quantitative Limits

The caps – that is, the quantitative limits on emissions that define the scheme's effectiveness – will be set so as to place Australia on a low emission path "in a way that best manages the economic impacts of transition, while assuring our ongoing economic prosperity."

We are intrigued as to how this can be achieved without disproportionate burdens being imposed on particular industries and firms.

3. Maximal Coverage of Gases and Sectors

The scheme will have maximal coverage of greenhouse gases and sectors, to the extent that this is practical.

Over 70% of Australia's emissions can be covered by the scheme. The Government intends to consult with the agriculture and forestry sectors on their inclusion in the scheme.

4. International Linkages

The scheme will need to facilitate international linkages. The design parameters must, according to the Minister, balance the desirability of international linking to form a global carbon market with the need to meet local objectives.

5. Impact on Trade and Investment

The scheme will also need to address the competitive challenges facing emission-intensive, trade-exposed industries in Australia. These industries should qualify for free permits. As the Minister has said, the introduction of a carbon price ahead of effective international action can lead to perverse incentives for such industries to relocate offshore.

Time Frame

By the end of 2008, the Government will provide a firm indication of its planned medium-term emissions trajectory and will publish an exposure draft of the emissions trading legislation. Legislation will be enacted in 2009 with a view to commencement of the scheme in 2010.

OUR COMMENT

The introduction of an emissions trading scheme in Australia will be a painful experience for many. However, until we know what the actual caps will be and how permits will be allocated (especially who will qualify for compensatory treatment), the likely impact and effectiveness of the scheme must remain a matter of conjecture and intrigue.

We agree with the Minister that there is no point in imposing a carbon price domestically which results in emissions and production relocating offshore.

We would go even further and say that Australia should aim to *increase* domestic investment in emissions-intensive metals and minerals processing industries, to take advantage of our comparative resource efficiencies and, at the same time, reduce the level of global emissions. After all, this is a global environmental challenge not simply a domestic one.

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