

# Climate Change Group

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On Friday, 4 July 2008, government-appointed climate change expert Professor Ross Garnaut released his widely anticipated draft report on climate change. The Draft Report of the Garnaut Climate Change Review (Garnaut Report) examines the impacts, challenges and opportunities of climate change and makes recommendations on how to best tackle this issue, including the substantial economic investment in research and development which will be required.

With the Federal Government's Green Paper on climate change due for release next week, Professor Garnaut's key recommendations in relation to the design and scope of a national emissions trading scheme (ETS) will provide a working framework for the eventual ETS which will be adopted.

A summary of the Garnaut Report's key recommendations follows below.

## What does the Garnaut Report recommend?

- A "cap-and-trade" ETS where the government would issue a specific number of tradeable permits.
- Each permit would allow the holder to emit a specified volume of greenhouse gas into the atmosphere once.
- The sum of all permits on issue would equal the total of Australia's greenhouse gas emissions limit under Kyoto.
- No cap on permit price and unlimited hoarding of permits.
- The lending of permits by an independent regulatory

authority would be initially permissible to allow emitters some flexibility in meeting current obligations.

## When would the ETS commence?

- Professor Garnaut favours the direct implementation of the unconstrained ETS in 2010. However, a transitional period from 2010-2012, during which permits might be sold by the government at a low fixed price, may be a viable alternative option.

## What industries would be impacted?

- Professor Garnaut recommends that the ETS be as broadly based as possible. In particular, all six greenhouse gases covered under the Kyoto Protocol should be included and all industry sectors should be included unless the cost of emissions measurement and verification is prohibitive.
- The following industry sectors should be included from the outset:
  - stationary energy including electricity production and fuel combustion in manufacturing industries, metals

- production, plastics production and construction;
- transport (including domestic and civil aviation and sea transport);
- industrial processes; and
- fugitive emissions from fuel production from (for example), coal mining and oil and gas fields.
- The following industry sectors should be included as soon as practicable:
  - waste and forestry; and
  - agriculture (although further analysis is required to assess the impact of including agriculture on the overall efficiency of the ETS).

#### What about industry assistance?

- Professor Garnaut acknowledges that, in the period before international agreement, trade exposed emissions-intensive industries will need help to avoid the relocation of emissions-intensive activity to other countries.
- There must be immediate efforts to establish a comparable carbon pricing arrangement in countries that compete with Australia in global markets for emissions-intensive products.
- Any assistance provided to trade exposed emissions-intensive industries should aim to ensure that production by these industries does not fall below the level that would eventuate had international agreements been in place (this level is different to the level of production that may eventuate in the absence of international agreements).
- Only those industries which are significantly trade exposed should be provided with assistance. These may include aluminium smelting, cattle and sheep products, cement production and iron, as well as early stage steel manufacturing.

#### Should offset credits play a part in emissions trading?

- The Garnaut report recommends that the use of domestic offsets credits be unlimited as they would provide an incentive for the forestry, waste and agriculture sectors to reduce emissions before they are covered under the ETS.
- Professor Garnaut suggests that limits be placed on international offsets, such as permits gained from Clean Development Mechanism projects under the Kyoto Protocol, as part of what should be a global objective to move towards national emissions targets.

#### Would Australian emitters be able to trade emissions permits overseas?

- Professor Garnaut suggests that the vision for the Australian ETS should be of a market that is fully integrated into global carbon markets.

- Opportunities for international linking of the Australian ETS should be sought, but careful evaluation of an overseas market must be conducted by the government to ensure that the overseas trading scheme is compatible to Australia's ETS.

#### How would emissions permits be obtained?

- Professor Garnaut recommends that permits should be issued by auction (taking place at regular intervals) as a free permit allocation would be highly complex and require value-based judgment.

#### How would the ETS fit with other climate change policies?

- Professor Garnaut considers that other emissions reduction policies can have no useful role in reducing emissions once the ETS is in place. The only other policies which should be in place are those which allow the ETS to achieve its emissions reduction goal at a lower cost than would occur if the ETS was operating alone.

#### How should the government spend permit revenue?

- Professor Garnaut recommends that:
  - 50% of permit sales revenue should be returned to low-income households;
  - 30% should be returned to trade exposed businesses; and
  - 20% should be put towards support of research and development of low-emissions technologies.

#### How should the government support research and development?

- Professor Garnaut suggests that \$2.8 billion must be spent on research and development of low-emissions technologies per annum. The funds should be directed to areas of national interest and comparative research advantage (such as agricultural research). Apart from revenue from the sale of permits, industry levies may also need be required to raise adequate funds.

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