

**Submission to the Garnaut Climate Change Review**

18 April 2008

Garnaut Review Secretariat  
Level 2, 1 Treasury Place  
EAST MELBOURNE VICTORIA 3002

Dear Secretariat

The National Australia Bank welcomes this opportunity to provide comment on the Garnaut Climate Change Review Emissions Trading Scheme ("ETS") Discussion Paper. This submission sets out in broad terms the views of the National Australia Bank, specifically relating to the role and design features of an ETS.

Climate change is one of the most significant environmental, social and economic challenges facing governments, business and communities today. National Australia Bank believes the financial sector has an important role to play in addressing the issue of climate change.

For a successful ETS, financial sector participation will be required to facilitate functions such as capital funding solutions for the development of renewable energy and other mitigation/adaptation strategies that are likely to be required across the Australian economy.

The National Australia Bank is confident that Australia has the institutional framework to support the emergence and successful development of an ETS, and we agree that the design of the ETS will be imperative to its success. The design of the ETS must ensure that substantive emissions abatement is delivered, whilst maintaining Australia's competitive economy.

An Australian ETS should be developed with the intention of linking to other emissions trading schemes outside Australia in the future. These linkages will enable least cost abatement to be undertaken, and signal Australia's commitment to reducing global greenhouse gas emissions. However, it is acknowledged that these linkages may take time to develop, and will need to be carefully managed to ensure they do not damage the integrity of the Australian ETS, and overall global emission reduction requirements.

Permit issuance within the ETS is an integral element of scheme design, and the National Australia Bank welcomes further debate regarding this issue. The National Australia Bank supports a mix of free and auctioned permits in the early stages of an ETS. This should ensure that there is not a significant financial shock to covered sectors, and provides time for liable parties to adjust to the scheme. Free permits would be an appropriate compensation tool for

those sectors/businesses most adversely affected by the scheme in the early years, particularly for the period when Australia's major trading partners have not introduced similar carbon pricing frameworks.

Scheme coverage is also an important design element, and the National Australia Bank continues to support the broadest coverage possible. We agree that it may not be practical to include the agriculture and forestry sectors at scheme inception and that these sectors should be included in a timely manner. It is important that a clear pathway for the inclusion of any excluded sectors be known at the commencement of the ETS to minimise future artificial price impacts and supply and demand shocks.

The National Australia Bank is supportive of an ETS scheme designed to facilitate an active forward market. An active forward market will assist scheme participants in managing their emission price and delivery during the term of the scheme. A successful forward market would include strong liquidity, a transparent compliance framework that all participants understand and operate within, effective registry and information systems and equitable permit allocation. We look forward to receiving further information about the recommended Independent Carbon Bank and how its role will assist in building the active forward market, and contribute to the overall success of the ETS.

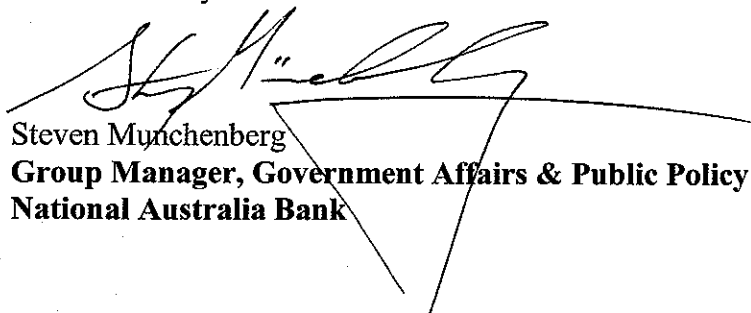
A strong and efficient forward market is likely to be compatible with a degree of banking permitted within the scheme, as this would promote abatement early in the scheme, and further enable participants to manage their future emission liabilities. The proposed inclusion of permit borrowing in an ETS should be approached with caution, as it could result in least cost abatement (in the early years of the scheme) not being undertaken, with participants instead waiting for breakthrough technologies and/or scheme changes in the future to meet their commitments.

The National Australia Bank acknowledges the expected increase in electricity prices following the implementation of an ETS. This will affect all National Australia Bank customers and National Australia Bank will continue to work with our customers to assist them in managing these risks and adapting to these changes in the regulatory environment.

The National Australia Bank looks forward to further consultation on ETS design via the draft Report of the Garnaut Climate Change Review and the Department of Climate Change Green Paper.

The National Australia Bank hopes the Secretariat will consider these comments and suggested scheme attributes as they finalise the Garnaut Climate Change Review.

Yours sincerely



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