



Submission to the Garnaut Climate Change Review

Emissions Trading Scheme Discussion Paper

30 April 2008



WWF

1. WWF-Australia is part of the WWF International Network, the world's largest and most experienced independent conservation organization, with 80,000 supporters in Australia, five million supporters world wide and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural resources and to build a future in which humans live in harmony with nature. WWF has been an advocate for national and international action to avoid dangerous climate change for more than two decades.

INTRODUCTION

2. WWF welcomes the opportunity to comment on the Garnaut Climate Change Review's *Emission Trading Scheme Discussion Paper*.
3. WWF, jointly with the Australian Conservation Foundation and The Climate Institute, made a previous submission dated 4 December 2007 to ask the Review to model stabilization at 400ppm CO₂-e.
4. WWF made a previous submission dated 11 April 2008 in relation to climate adaptation.
5. WWF made a submission dated 30 April 2008 in relation to the *Interim Report to the Commonwealth, State and Territory Governments of Australia*.

SUBMISSIONS

6. The attached table details WWF's position on the key design features of the emission trading scheme identified in the *Emission Trading Scheme Discussion Paper*.
7. Please address any questions in relation to this submission to Paul Toni, Program Leader Development & Sustainability, 0410 086 986 ptoni@wwf.org.au or Nicole Ikenberg, Climate Change Policy Manager, 0414 417 959 nikenberg@wwf.org.au.



Design Feature	Garnaut ETS Discussion Paper	WWF Position
Coverage – gases	All six Kyoto gases.	Emissions of methane and nitrous oxide from fuel combustion (other than domestic wood heaters) have not been systematically measured in Australia. The emissions reported are derived from default values sourced from the international literature. In these circumstances there is no action a fuel combustion emitter could take to reduce CO ₂ emissions that would not also cause a proportionate decrease in methane and nitrous oxide emissions. Until methane and nitrous oxide emissions are accurately continuously monitored, it is not necessary or desirable to require reporting and acquittal of those emissions from fuel combustion sources. Otherwise supported.
Coverage – sectors	Stationary energy, industrial processes, fugitives, transport and waste from scheme outset. Agriculture and forestry to be included as soon as practicable.	Supported in respect of energy, industrial process, and transport and waste sectors. WWF submits that the Review propose that state and territory governments immediately implement measures to reduce emissions from the agricultural and forestry sectors including by ending landclearing, mandating no-till cropping and requiring forestry operations to be managed so as to avoid net emission release. Otherwise supported
Points of obligation	Set at point of emissions where practical.	Supported.



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Offsets	Domestic offsets should be accepted without limits.	Qualified support: WWF submits that the Review propose that state and territory governments immediately implement measures to reduce emissions from the agricultural and forestry sectors including by ending landclearing, mandating no-till cropping and requiring forestry operations to be managed so as to avoid net emission release.
Long-term emissions reduction goal	Longer-term emissions limit should be expressed as a trajectory, which will define a budget over a number of years.	Supported.
Short-term targets and trajectories	Four trajectories should be specified upon establishment of the ETS. The first up to 2012 will be based on Australia’s Kyoto commitments. The other three for the post-2012 period reflect increasing levels of ambition.	Qualified support: WWF submits that one of the post-2012 trajectories should provide for stabilization at 400 ppm. However if the most ambitious trajectory proposes stabilization at 450 ppm, WWF submits that it should do so on the basis that the possibility of achieving stabilization at 400 ppm in the future be “kept alive” (page 25 of the interim report). Keeping alive that possibility will require Australia to foster and promote a wide variety of low emission technologies, approaches and industries so that it has the human, material and technological resources to produce and deploy them: see paragraphs 9 to 13 of the WWF submission to the Review in relation to the <i>Interim Report to the Commonwealth, State and Territory Governments</i> dated 30 April 2008.



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Trajectories: reviews and adjustments	Movement between trajectories should be based on determining the comparability of Australia’s response to international effort.	Qualified support: Australia should retain the flexibility to display leadership (including move to a more restrictive trajectory if new scientific information becomes available or more severe climate are experienced). However an unconditional offer to move to the more ambitious trajectories if other developed countries agree to comparable reductions would be sufficient for present purposes.
Permits issuance (or release)	Permits released according to emissions reduction trajectory. All permits auctioned at regular intervals.	Supported.
Eligibility for assistance – electricity generators	The claims of this sector on equity grounds should be assessed by government alongside the equity claims of others.	<p>WWF does not support assistance for electricity generators. By 2010 when the scheme is proposed to commence generators will have been on notice for nearly 20 years that Governments would need to implement some form of carbon pricing. There have been numerous signals:</p> <ul style="list-style-type: none"> ▪ 1990 international climate change negotiations commence with Australia playing an active and prominent role; ▪ 1992 Australia signed (with bipartisan support) the UNFCCC which both committed the country to carbon constraints and foreshadowed the use of economic instruments; ▪ In 1994 the Commonwealth Government proposed a small levy on



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		<p>greenhouse emissions which was withdrawn to give industry time for adjustment and to trial voluntary approaches;</p> <ul style="list-style-type: none"> ▪ And so on. <p>Generators that have developed or acquired carbon-intensive assets since 1990 have done so in the knowledge that governments would need to implement some form of carbon pricing within the lifetime of those assets. The original investment in generation assets built or acquired before 1990 will be fully amortised by the time that the scheme is in place. Provision of financial assistance to electricity generators would reward poor judgment or deliberate acceptance of risk without any countervailing public benefit, and would significantly reduce the funds available to satisfy the public purposes identified under “use of permit revenue” on page 59 of the report.</p>
Basis of assistance to TEEIs	Some industries rely significantly on emissions-intensive production processes, and are substantially unable to pass costs of emissions through to customers because price of commodity or good is determined on international markets. Transitional	<p>Qualified support: As noted in the discussion paper, the challenge is to find a means to provide adequate protection to TEEIs without excessively compromising the environmental outcome of the scheme as these industries account for a significant share of Australia's total emissions.</p> <p>WWF submits that assistance to TEEIs should be provided in cash with the quantum of financial assistance to be determined by the Independent Carbon Bank applying the formula and following the process identified on pages 39-40 of the report (which would have the</p>



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	<p>financial assistance (possibly in the form of free permits) should be provided to account for distortions arising from major trading competitors not adopting emissions limits (or pricing).</p>	<p>additional advantage of rewarding firms with high energy efficiency). There are two major reasons for this. First, there is a strong likelihood that the quantum of assistance will be the subject of legal challenge. If assistance is provided by the issue of free permits price discovery of auctioned permits will be impeded until the legal proceedings are resolved. Providing assistance in cash should quarantine the permit system from this source of uncertainty. Second, providing assistance in the form of cash will enhance transparency.</p> <p>WWF further submits that assistance be capped to avoid excessive assistance when world primary metal and energy commodity prices are high and that it take account of existing (or proposed) subsidies to firms¹ so that an adequate carbon price signal is maintained.</p>
<p>Auctioning</p>	<p>Auctioning would be made on a fixed schedule, for example, weekly, monthly, quarterly. It is desirable that permits be sold into the market as soon as possible, to promote price discovery.</p>	<p>Supported. WWF supports full auctioning of permits for the reasons identified on pages 33 and 34 of the report.</p>

¹ See for example Institute of Sustainable Futures Report for Greenpeace Australia Pacific, Energy and Transport Subsidies in Australia 2007 Update, <http://www.greenpeace.org/raw/content/australia/resources/reports/climate-change/energy-and-transport-subsidies.pdf>, accessed 16 April 2008.



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Permit revenue	<p>Governments will need to assess competing priorities for this revenue, which may include:</p> <ul style="list-style-type: none">▪ Payments to TEEIs (to correct for market failures);▪ Payments to households;▪ Structural adjustment to support declining communities;▪ Payments to firms to correct market failures in relation to new technologies;▪ Support for public infrastructure; and▪ Cash reserves to purchase international permits/offsets to reconcile domestic	Supported. Note above comments in respect of Eligibility for assistance – electricity generators.



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	emissions with international commitments.	
Penalty	Penalty to be set as a compliance mechanism. Penalty does not replace obligation to acquit permits; a ‘make-good’ provision would apply. Alternatively, the use of revenue from a financial penalty could be used to purchase abatement.	Supported.
Penalty revenue	If a financial penalty is applied, without a make-good provision, penalty revenue must be used to purchase abatement.	Supported in the event that a “make-good” provision (which would be much more economically efficient) is not included.
Banking	Unlimited banking supported.	Supported.



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Borrowing	Official lending of permits by the independent authority to the private sector allowed, but may be subject to limits, in terms of quantity and time, determined by the independent authority.	<p>Qualified support: WWF supports this design feature if the post-2012 trajectory is consistent with stabilization of emissions at 400 ppm. If the most ambitious post-2012 trajectory is consistent with stabilization of emissions at 500 ppm or higher, then WWF does not support this design feature (as it would be consistent with a still less ambitious trajectory).</p> <p>WWF believes that the “broad banking and borrowing policy” (page 42) should be determined by the Independent Carbon Bank rather than the Government. The Bank will be in a much better position to form a dispassionate opinion on the extent of borrowing consistent with returning to the trajectory in the near-term.</p>
International links	Opportunities for international linkage of the Australian ETS should be sought in a judicious and calibrated manner.	Supported.
Governance	Policy framework set directly by government. Scheme administered by independent authority.	Supported except in the case of “broad banking and borrowing policy”: see WWF position in relation to design feature “Borrowing” above.



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Other greenhouse measures	Interaction with abatement schemes (e.g. MRET) to be considered in full reports. Some complementary GHG abatement measures will be necessary, particularly to address market failures (e.g. could include investment in low emissions technology R&D, public transport and energy efficiency).	WWF submits that the mitigation outcome be stabilization at 400 ppm or that the possibility of doing so be kept alive. Keeping alive that possibility will require Australia to foster and promote a wide variety of low emission technologies, approaches and industries so that it has the human, material and technological resources to produce and deploy them: see paragraphs 9 to 13 of the WWF submission to the Review in relation to the <i>Interim Report to the Commonwealth, State and Territory Governments</i> dated 30 April 2008. See also paragraphs 14 to 22 in relation energy efficiency measures and short term stabilization of emissions.