



Australian Government
Productivity Commission

**What Role for Policies to
Supplement an Emissions
Trading Scheme?**

**Productivity Commission
Submission**

**Submission to the Garnaut
Climate Change Review**

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Publications Inquiries:

Media and Publications
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne VIC 8003

Tel: (03) 9653 2244
Fax: (03) 9653 2303
Email: maps@pc.gov.au

General Inquiries:

Tel: (03) 9653 2100 or (02) 6240 3200

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Foreword

The Australian Government, with the support of the Council of Australian Governments, has committed to the implementation of an Emissions Trading Scheme (ETS) as an efficient, nationally consistent mechanism for achieving targeted reductions in greenhouse gas emissions. With such a system now in prospect, a key issue for policy is what supplementary measures may be warranted. In particular, there is a question as to whether policy measures to reduce emissions that were devised in the absence of a market price for carbon would still serve a useful purpose.

In response to a request from the Garnaut Climate Change Review, this submission addresses that issue. It examines different categories of policy and whether they would complement an ETS to enable Australia to achieve greenhouse emission reductions in the most cost-effective way. In some cases, notably the Mandatory Renewable Energy Target, the answer seems conclusively negative, whereas other policy measures clearly have a positive role to play, provided they are well designed.

The submission also considers the scope to lower the national cost of reducing emissions by widening the sectoral coverage of policy action, either within the ETS or by other means. As in other respects, Australia's policy approach needs to be calibrated to the likely nature of an international agreement, to avoid incurring undue costs domestically for a negligible effect on global emissions.

In preparing its submission, the Commission has drawn on research undertaken for its earlier submission to the Task Group on Emissions Trading (2007) as well as additional analysis and modelling. The work was conducted within the Environmental and Resource Economics Branch headed by Alan Johnston, under the guidance of Commissioner Neil Byron.

Gary Banks AO
Chairman

May 2008

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Abbreviations

Abbreviations

IAC	Industries Assistance Commission
IC	Industry Commission
PC	Productivity Commission
CCS	Carbon capture and storage
CDM	Clean Development Mechanism
CO ₂	carbon dioxide
CO ₂ -e	carbon dioxide equivalent
ETS	emissions trading scheme
FullCAM	Full Carbon Accounting Model
GHG	greenhouse gas
GWh	gigawatt hour
MWh	megawatt hour
ICAO	International Civil Aviation Organisation
IEA	International Energy Agency
IMO	International Maritime Organisation
IPCC	Intergovernmental Panel on Climate Change
kWh	kilowatt hour
kVA	kilovolt ampere
LETDF	Low Emissions Technology Demonstration Fund
LULUCF	land use, land use change and forestry
MRET	Mandatory Renewable Energy Target
NCAS	National Carbon Accounting System

NETT	National Emissions Trading Task Force
PJ	petajoule
REC	Renewable Energy Certificate
UNFCCC	United Nations Framework Convention on Climate Change