

**Submission**

Abatement Incentives prior to the commencement  
Of the Emission Trading Scheme

Submitted by:

David Agostini  
29 Colleran Way  
Booragoon  
Western Australia 6154

The discussion paper on the provision of incentives preceding the commencement of the Trading Scheme covers most of the fundamental issues quite well. However, there is one fairly major issue that I believe need additional thought.

Any organisation considering investment in abatement technology will use a cost / benefit basis for determining the viability of that investment. This will apply where abatement is being considered for existing assets (Early action credits) as well as for new assets being designed in the period leading up to the commencement of the Scheme, and coming on line before or soon after 2011. In considering the cost / benefit of those investments, a fundamental input will be the assumed market value of the permits. The value of the permits will determine the viability of any abatement under consideration.

Permits are indicated to be either issued freely or auctioned, with special conditions in place for instances of major asset value loss, or international trade exposure. The quantum of permits planned to be issued is not indicated, nor is the underlying principle upon which the size of the Cap will be determined. The market value of permits will be a function of the relationship between the Cap and the sum of emissions from covered sectors. The larger the gap between those two, ( assuming the Cap is lower than emissions) the higher will be the market value of the permits.

Firms with projects in the design phase in the period before the market begins functioning, and before the permit market value becomes tangible, will need to include an “assumed” value for these permits when design decisions are being made relative to GHG abatement. In the absence of data in which there is some confidence, investment decisions tend towards conservative assumptions. This in turn will lead to lost opportunities for low cost abatement in Australia’s industrial stock, as retrofitting of abatement technology will almost always be less cost effective than its inclusion in initial plant design.

It is therefore in the interest of firms making new investments, and also in the national interest, to put as much certainty as possible into permit value, as early as possible. It is recognised that total certainty is not possible in a market based system. However, consideration should be given to the provision of information at an early stage, which assists in this respect. An indication of the percentage of the national inventory of emissions from covered sectors which are intended to be covered by permits made available under the initial Cap, and as well, the intended subsequent rate of erosion of the Cap, would go some way towards providing a basis for estimating permit values. Firms investing in new plants and making design decisions during the next 3 to 4 years would then have some basis for estimating the probable permit tradable value, and for making more informed decisions on abatement technology.

The alternative would be to specify a floor price for permits. That would provide an even greater degree of certainty for investors. However, it is recognised that it could create pricing as well as market distorting complexities. If those complexities are capable of being properly managed, this could be considered a viable alternative.

The central point is that more thought needs to go into how to avoid deterring investment in abatement as a result of uncertainty in the value of permits during the early years.