DOMESTIC POLICY AND DEFINITIONAL ISSUES RAISED IN THE TERMS OF REFERENCE

The Kyoto Protocol sets binding targets for 38 developed countries plus the European Community to achieve an overall reduction of 5% of greenhouse gas emissions in the period 2008-2012 compared with 1990 levels. The Protocol represents the culmination of international negotiations stretching over a decade to achieve an effective coordinated global response to the ecological and economic threats posed by climate change. Australia's annual emission allocation for the 5-year Kyoto commitment period, scheduled to begin in 2008, is equivalent to 108 per cent of our 1990 emission levels, subject to adjustment for sinks and international transfers.

At present the detailed methodologies and mechanisms necessary to implement the objectives of the Protocol are still in development. Procedures for estimating emissions are being proposed and refined, and rules for the Kyoto flexibility mechanisms of international emissions trading, Joint Implementation and the Clean Development Mechanism, are currently subject to negotiation. Thus far, the Protocol has been ratified by 22 of the 84 countries that are signatories to the Protocol but none of those ratifying so far are Annex I Parties (developed countries). At least 55 countries, including countries responsible for at least 55 per cent of the estimated 1990 carbon dioxide emissions from industrialised countries, must ratify the Protocol before it can enter into force.

It is a matter for Australia to determine how it achieves its emissions targets within the broad framework established by the Protocol. The mix of policies and measures, the distribution of the abatement burden across the economy, and the mechanisms for individual firms to participate in the flexibility mechanisms largely will be matters of national choice. Opportunities to lower the cost to Australia of meeting its emissions target may flow from the outcomes on international rules currently under debate on mechanisms, compliance and the treatment of greenhouse sinks. This will also influence the ultimate mix of policies and measures adopted domestically.

The terms of reference for this inquiry set out a range of issues linked to Australia's potential policy response to the Kyoto Protocol. The third part of the terms of reference identifies a set of specific topics to do with emissions trading and with greenhouse sinks and these are addressed in the next part of this submission. In the fourth (final) part of the terms of reference the Joint Committee identifies aspects of implications of greenhouse response and this is addressed in the latter part of this submission.

DEVELOPING DEFINITIONS AND CRITERIA IN AUSTRALIA'S NATIONAL INTEREST

Grandfathering

The Kyoto Protocol does not explicitly address the means by which Parties might allocate emissions permits. To the extent that the Kyoto Protocol assigns a fixed emission amount to each country, and allows for emissions trading between countries, it represents a 'cap and trade' international emissions trading system.

Grandfathering is a relevant consideration in the context of a national emissions trading system.

At this stage, government has made no commitment to emissions trading as part of a response package linked to targets under the Protocol. The Government has asked the Australian Greenhouse Office to conduct a thorough examination of the feasibility and implications of emissions trading as a possible future greenhouse response option.

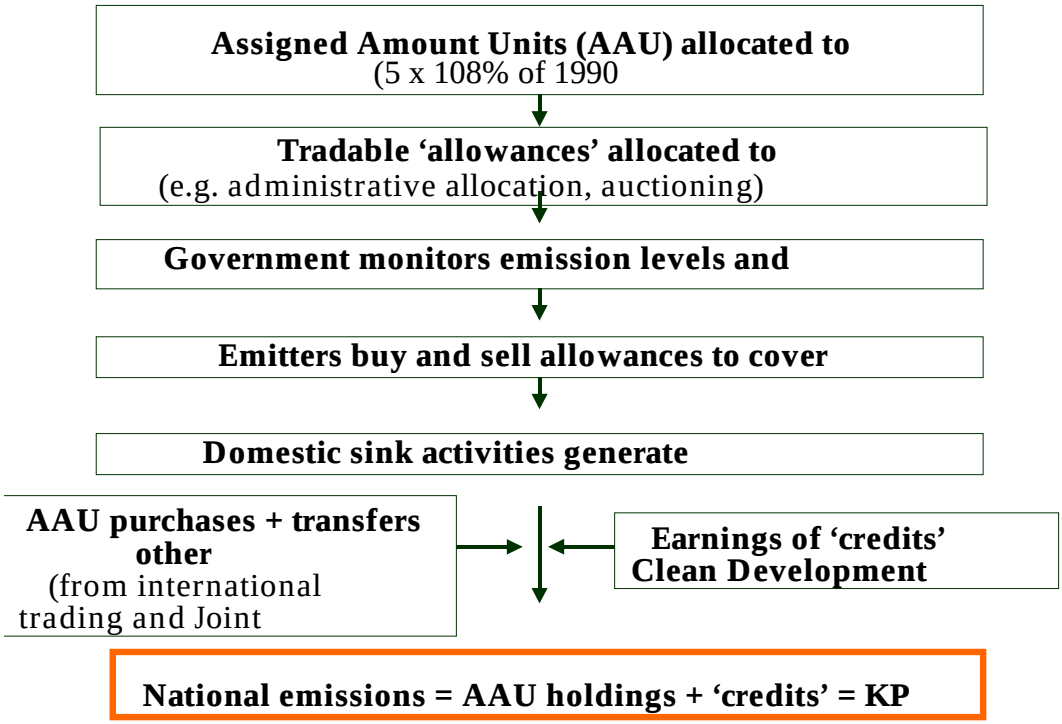
If emissions trading was put in place as a mechanism for facilitating national abatement under the Protocol, it would be necessary in the first instance to distribute emission permits. These would be the commodity that is traded. Each permit would authorise the emission of greenhouse gas equivalent to one tonne of carbon dioxide, and by holding the supply of Australian permits equal to Australia's national allocation of emissions under the Protocol (supplementable through activities such as sequestration, international permit trading and offshore abatement projects) Kyoto compliance could be achieved. A simple representation of emissions trading is provided in figure 1.

Grandfathering is an option for allocating permits under a trading system.

Other options for allocation of permits include auctioning or some combination with grandfathering.

'Grandfathering' in the Australian context has most commonly been used to imply an allocation of permits to existing emitters in proportion to their emission levels. Various emitters consider 1990 the appropriate year on which to base a pro-rata permit allocation (consistent with the Kyoto Protocol base year for calculating national emission assignments) while others favour a base year closer to the present, or start of the first commitment period. This would supply a significant proportion (but not all) of each emitters requirements.

Figure 1 Fundamentals of a national emissions trading system linked to the Kyoto Protocol



How best to allocate permits, if a national emissions trading system is adopted is a critically important policy issue. As part of its brief to investigate emissions trading options, the Australian Greenhouse Office is continuing to explore the implications of alternative allocation arrangements. Allocation can be a powerful mechanism for easing the adjustment burden falling on sensitive groups, industries and regions as new technologies and methods are adopted that will help reduce the reliance of the Australian economy on greenhouse-intensive production practices.

Trading credits

The international rules governing the flexibility mechanisms (International Emissions Trading, Joint Implementation and the Clean Development Mechanism) in the Kyoto Protocol have yet to be finalised. On the Kyoto flexibility mechanisms overall, Australia's position is that they should be open, uncapped, market-based, transparent, comprehensive, equitable and minimise cost. Implicit in this position is the ability to freely trade all assigned amount units and their equivalent (ie carbon credits) and for the three Kyoto mechanisms to be utilised interchangeably . Decisions are scheduled to be made on these issues at the Sixth Conference of the Parties to the United Nations Framework Convention on Climate Change in November 2000.

As a domestic response, emissions trading is seen as a promising way of meeting potential emissions targets under Kyoto Protocol. Permit (and 'credit') trading may provide a useful supplement to existing policy measures because it:

- is non-prescriptive and places abatement decisions into the hands of emitters;
- provides greater certainty that Australia will achieve its Kyoto Protocol target because the number of permits on issue is controlled;
- allows the market to set the permit price;
- encourages least cost emissions savings;
- provides continual incentives to seek out least cost abatement opportunities and to improve technology or processes; and
- lends itself to devolution to the private sector.

These factors highlight the potential benefits of an emissions trading system. However, these benefits will depend crucially on features incorporated in its design and compliance structure.

The AGO discussion paper series (four papers released through 1999) explores these design issues, and is recognised as an important contribution to the domestic and international debate. However, detailed design requirements remain ambiguous because of gaps in our knowledge on key costs and behavioural relationships in the economy and the need for greater clarity in developments overseas. The AGO is currently engaged in further work designed to fill these gaps and ensure that if Australia chooses to take on obligations under the Kyoto Protocol, an effective domestic response package can be put in place that will fulfil those obligations at least cost to the national economy. Such a package would also be tuned to stimulating the fullest range of commercial and technological opportunities inherent in the transition of the national economy to sustainably lower emission levels.

Carbon credits

The Kyoto Protocol provides for flexibility mechanisms that Parties can use to assist in meeting their assigned amounts.

Australia has argued internationally for an emissions trading regime with minimal restrictions, as a flexible regime empowers the private sector to use flexible and innovative approaches to achieve least cost emission abatement.

Article 17 of the Kyoto Protocol allows Parties included in Annex B of the Protocol (ie developed countries and countries whose economies are in transition that have specific emission reduction targets) to participate in *International Emissions Trading* for the purposes of meeting their assigned amounts. Participation in such trading is voluntary. As Article 3.3 requires developed Parties to count carbon sequestrations and emissions from certain sinks activities (see 'Sequestration') towards their emission commitments,

there is a clear implication that credits from eligible sinks activities can be traded internationally.

Article 6 of the Kyoto Protocol permits *Joint Implementation* whereby Annex B Parties are able to invest in projects in other developed countries to assist in meeting their assigned amounts. Article 6 explicitly provides for trading of carbon credits from sinks activities: any Annex B Party may transfer to, or acquire from, any other such Party emissions reduction units (ERUs) resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases. Such projects must provide removals by sinks that are additional to any that would otherwise occur.

Article 12 of the Kyoto Protocol provides for a *Clean Development Mechanism* (CDM) which assists Annex B Parties in achieving compliance with their targets through use of certified emission reductions units accruing from CDM projects in countries without emission commitments (ie in developing countries). Article 12, which deals with the CDM, does not explicitly refer to projects to enhance anthropogenic removals by sinks. This means that clarification on the inclusion of greenhouse sinks in the CDM is a matter for negotiation and resolution. Australia supports the inclusion of sinks in the CDM.

The arrangements agreed for the inclusion of sinks in the international arena would be reflected in any future domestic emissions trading system. However, there would be scope to engineer domestic sinks crediting arrangements so that they provided appropriate incentives for environmentally beneficial action over and beyond carbon sequestration. Crediting arrangements could be targeted at generating environmental spin-offs such as replanting of native species, salinity mitigation and reduced land degradation.

Once generated through recognised sequestration activities, carbon sinks credits would be freely tradable and fully exchangeable for Australian issued emission permits within a domestic trading system. Because they would be essentially synonymous with emission permits they would also have full access to the international permit trading market.

Sequestration

Plants remove carbon dioxide from the atmosphere during photosynthesis. Over time, stores of carbon build up in leaves, stems, roots and the soils. 'Sequestration' refers to this process of removing carbon from the atmosphere and storing it in 'carbon pools' such as forest biomass, wood products, and soils. Any process or mechanism which removes (sequesters) a greenhouse gas or its precursor from the atmosphere is known as a 'sink.'

Carbon sequestration can offer important options for flexible, low-cost abatement of greenhouse gas emissions. Many activities that sequester carbon also provide other environmental benefits. For example, they can help to maintain biodiversity and to enhance sustainable land management.

The Kyoto Protocol does not provide for comprehensive coverage of all greenhouse sinks. However, it does provide the framework for the implementation of a limited range of carbon sequestration activities.

Article 3.3 of the Kyoto Protocol requires Parties to count towards their targets carbon sequestration and emissions from afforestation,reforestation and deforestation. The activity must be directly human induced and have taken place since 1990, and the measurement of changes in carbon stock or greenhouse gas emissions resulting from the activity must be verifiable and transparent.

In order to implement Article 3.3, Parties will need to agree on the meaning of the terms afforestation, reforestation, deforestation, 'since 1990' and 'human induced'. Parties will also need to agree on the accounting methodologies to be used to calculate changes in greenhouse gas emissions following the application of eligible sinks activities.

Australia will be seeking decisions on Article 3.3 that:
- preserve the Kyoto Protocol outcome that allows Australia to gain credit for reducing rates of land clearing, and
- provide sufficient flexibility and cost effectiveness in terms of definitions and accounting rules for sinks activities in line with the diversity of Australia's land use, land use change and forestry activity.

Article 3.4 establishes a negotiating process for the inclusion of additional sinks activities relating to the agricultural soils and land use change and forestry categories. An additional activity must be human induced and have taken place since 1990, the measurement of changes in greenhouse gas emissions resulting from the activity must be verifiable and transparent, and measurement uncertainties must be taken into account.

In order to implement Article 3.4, Parties will need to agree on the meaning of the terms 'since 1990' and 'human induced'. Parties will also need to agree on the accounting methodologies to be used to calculate changes in greenhouse gas emissions following the application eligible additional sinks activities.

Australia has supported inclusion of revegetation as an additional sink activity, and has indicated that it may support further additional activities (such as forest management or conservation tillage) if further assessment supports this.

Australia is seeking decisions on these issues at the sixth Conference of the Parties to the Framework Convention on Climate Change (COP6, November 2000).

Australia's position on these issues is spelled out in a Submission of 1 August 2000 to the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat by 1 August 2000.

Revegetation

Afforestation and reforestation activities are included under Article 3.3 of the Kyoto Protocol. However (depending on the definitions adopted), a range of revegetation activities may not qualify as afforestation and reforestation. The types of revegetation that may not qualify as afforestation or reforestation include agroforestry activities, plantings of shrubs or small trees (for example, saltbush, tea tree or mallee trees), and small or scattered plantings. These revegetation activities could be included as additional activities under Article 3.4.

In its 1 August 2000 submission to the UNFCCC, Australia has proposed that revegetation be included as an additional sinks activity under Article 3.4. Revegetation is defined in the submission as the human induced establishment of woody vegetation.

Including revegetation as an additional activity under Article 3.4 would help to generate additional credits towards Australia's Kyoto target. It also carries broader benefits for biodiversity conservation, water quality and dryland salinity. Furthermore, the carbon sequestered by revegetation can be adequately measured and reported. Including revegetation as an additional activity under Article 3.4 therefore meets the Kyoto Protocol's requirements of measurability and verifiability of an additional activity, and is in line with Australia's sustainable management objectives.

Land management

Changes in agricultural land or forest management practices can result in increased carbon stocks or reduced greenhouse gas emissions. The provisions of the Kyoto Protocol on greenhouse sinks have the potential to deliver added incentive for sustainable land management.

Definitions (eg. forest)

In order to implement Article 3.3 of the Kyoto Protocol, Parties will need to agree on key definitions for activities and rules for carbon accounting. The definitions of afforestation, reforestation and deforestation, accounting rules, and the requirements for an activity to have taken place 'since 1990' and be 'direct human induced,' will set the scope of the forestry activities eligible under Article 3.3.

Australia is seeking definitions for afforestation, reforestation and deforestation that:

- are sufficiently flexible to allow inclusion of the diversity of Australia's forest estate and those of other Annex B (developed) countries,
- are consistent with the National Forest Inventory,
- will allow Australia to gain credit for reducing rates of land clearing during the commitment period (2008-2012), and
- ensure that carbon sequestered and emitted by these activities can be measured at low cost through the National Carbon Accounting System and other existing data sources.

Australia's 1 August 2000 submission defines afforestation and reforestation as the direct human induced establishment of new forests (trees and woody vegetation) on lands which historically have not contained forests (afforestation) or which have been under some non-forest use for a period of not less than 5 years (reforestation).

Under Australia's 1 August 2000 submission, deforestation will be accounted when the proportion of canopy cover per hectare on a given area of forested land is reduced by 30% or more as a result of direct human induced removal of trees. Significant removal of trees or woody vegetation will therefore be regarded as deforestation and be accounted for, minimising opportunities for selective reporting of deforestation events.

Replanting and harvesting that occur under commercial forestry are not defined as reforestation or deforestation activities under Australia's approach.

Under Article 5.2 of the Kyoto Protocol, the 1996 IPCC Revised Inventory Guidelines govern monitoring and reporting for the first commitment period. The IPCC Guidelines associate afforestation and reforestation with a change in land use, whilst deforestation involves conversion of forests to non-forests.

Some Parties support the use of the Food and Agriculture Organisation (FAO) definitions of afforestation, reforestation and deforestation. Under some formulations of the FAO definitions, regeneration following harvesting is counted as reforestation but harvesting is not counted as deforestation. Use of the FAO definitions could provide some Parties with large commercial forestry estates with large windfall accounting gains from commercial forestry activities, without any additional carbon sequestration – effectively a renegotiation of Kyoto targets.

If the FAO definitions were applied to the calculation of Australia's carbon stocks in 1990 then Australia may not have a net source of emissions from land use change and forestry in 1990. This would prevent Australia from using Article 3.7 to include emissions from land use change in its 1990 baseline and therefore from gaining credit for reducing land clearing rates.

There is no requirement in the Kyoto Protocol for a definition of a forest to implement Article 3.3. In the Australian 1 August 2000 submission to the UNFCCC, elements of a definition of a forest have been incorporated into the definitions for afforestation, reforestation and deforestation. This approach seeks to avoid an unnecessary and lengthy negotiation on a forest definition that will need to cover the diversity of all Annex B Parties' forests. The definitions of afforestation and reforestation put forward in Australia's 1 August 2000 submission are designed to provide coverage of the full range of our native forests, plantations and woodlands (ie be compatible with the scope of the National Forest Inventory definition of a forest).

ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPLICATIONS – THE POLICY RESPONSE FRAMEWORK

- **Current Policy Settings**

It has been accepted that expert scientific advice about the causes and implications of climate change is sufficiently robust to indicate a need for global action. In a recent speech to the Insurance Council of Australia (10 August 2000), Senator Hill noted that:

> ' The evidence is mounting that our actions are having a discernible and detrimental impact on the earth's climate system. Common sense demands that we take precautionary steps to minimise that impact. Early and effective actions are our best form of insurance to reduce the risk of the sort of consequences I referred to earlier; severe weather fluctuations, rising sea levels, reduced agricultural production because of reductions in the amount of arable land and so on.
>
> Developed nations accepted this viewpoint when in Kyoto in 1997 they agreed to achieve by 2010 a global target of reducing greenhouse emissions by 5 per cent on 1990 levels. Australia accepted its fair share of the burden when we agreed to significantly curtail the growth in our emissions from an expected 43 per cent down to just 8 per cent — an effort roughly equivalent to that accepted by other nations.'

The overall framework for Australia's greenhouse response is laid out by the Prime Minister in his Statement of November 1997('Safeguarding the Future: Australia's Response to Climate change') where the Prime Minister made clear that:

- '….the Government has addressed the critical issue of global warming in a way that effectively promotes Australia's national interests…'
- 'those interests lie both in protecting Australian jobs and Australian industry interests whilst ensuring that Australia plays her part in the world wide effort needed to reduce greenhouse gas emissions'.

- '….pulling our weight doesn't mean carrying more than our fair share of the burden. Only with all countries working together, carrying equal burdens can we achieve an effective global outcome'.
- 'this will require creativity, persistence and in some instance sacrifices – but the benefits of preserving our environment and quality of life for the sake of our children are too important to forego'.

On the heels of the Prime Minister's statement, the Kyoto Conference in December 1997 agreed an outcome which well reflected Australia's position. In particular, the Kyoto Protocol included differentiated emissions targets tailored to the national circumstances of individual developed countries. This means that the level of cost for Australia through its Kyoto target would be comparable to the cost imposed upon other developed nations. The Kyoto Protocol also allowed nations to apply a wide range of abatement measures and policies to achieve their emissions targets.

Under the Kyoto Protocol, Australia has an emissions target of 108% relative to 1990 emissions levels for the first five year commitment period from 2008-2012. Most other developed countries have targets requiring a reduction or stabilisation in emissions relative to 1990. Overall, developed countries committed to reduce their aggregate emissions by 5%.

Australia's target reflected its particular national circumstances:

- high dependency on use of fossil fuels for energy needs
- relatively high population growth
- economic and employment growth
- dispersed cities with associated high transport demand
- a high proportion of greenhouse intensive products in Australia's exports (notably aluminium and agriculture), and
- changing patterns of land use for agriculture and forestry

At the time of the Kyoto Conference, Australia published projections of its future emissions growth. Taking into account the range of greenhouse sources and sinks (but not factoring in emissions associated with land clearing activity) and allowing for the effects of greenhouse measures previously in place, Australia's overall emissions were expected to grow by 28% between 1990 and 2010. On a similar basis of assessment but excluding the effect of extant greenhouse measures, Australia's emissions were projected to grow 43% over the period.

Thus, Australia's emissions abatement task reflected by its Kyoto target of 108% was equivalent to the approximately 30% reductions against 'business as usual' committed to by major developed countries.

The Government recognised that achievement of Australia's Kyoto target constituted a challenging but achievable task.

The package of greenhouse measures announced by the Prime Minister in November 1997 was estimated to reduce the projected growth in emissions from 128% to 118%. To achieve the Kyoto target, future additional avenues were available to reduce greenhouse emissions through:

- further greenhouse measures being adopted by Commonwealth, States and Territories under the National Greenhouse Strategy.
- factoring in land clearing emissions and the opportunity to reduce the level of land clearing activity; and
- through securing credits internationally via the flexibility mechanisms of the Kyoto Protocol - international emissions trading, joint implementation and the Clean Development Mechanism.

The Government has continued to reinforce publicly its commitment to the fundamentals laid out by the Prime Minister in 1997. For example, in a release on 23 August 2000, Senator Minchin announced:

- 'While Government remains fully committed to honouring Australia's international greenhouse obligations, it also recognises the importance of maintaining the competitiveness of Australian industry'.
- '….the Government is committed to the pursuit of cost effective greenhouse gas abatement policies and measures in order to minimise the burden for business and the community so that Australian industry can remain competitive'.
- '….Australia will meet its international greenhouse responsibilities but with a guarantee from the Government that these obligations will be met in a cost effective manner so that Australian industry remains competitive and that secures continued strong national economic growth and job creation'.

AUSTRALIA'S APPROACH TO GREENHOUSE RESPONSE

The overall framework for Australia's greenhouse response is set out in the National Greenhouse Strategy adopted by the Prime Minister, Premiers and Chief Ministers and released in November 1998.

The goals of the National Greenhouse Strategy are:

- to limit net greenhouse gas emissions, in particular, to meet our international commitments.
- to foster knowledge and understanding of greenhouse issues.
- to lay the foundations for adaptation to climate change.

The development and implementation of the Strategy is guided by the following agreed principles:

- the need for Australia to have a strategic and comprehensive greenhouse response which is tailored to address our particular national interests and circumstances;
- the need to integrate greenhouse considerations with other government commitments;
- the pursuit of greenhouse action consistent with equity and cost-effectiveness and with multiple benefits;
- recognition of the importance of partnerships between governments, industry and the community in delivering an effective greenhouse response;
- the need for action to be informed by research.

For its part, the Commonwealth has committed almost $1 billion to greenhouse response – the largest and most far-reaching package of measures to address climate change ever undertaken by any government in Australia.

In a submission of November 1999 provided by the Australian Greenhouse Office on behalf of the Commonwealth Government to the Senate Environment, Communications, Information Technology and Arts Reference Committee for its 'Inquiry into Australia's Response to Global Warming', a comprehensive overview was provided on the actions being taken by the Commonwealth in response to climate change. The submission encompasses the strategy and programs covered by:

- the package of measures announced by the Prime Minister in his November 1997 statement 'Safeguarding the Future: Australia's Response to Climate Change'
- the National Greenhouse Strategy, and
- the 1999 'Measures for a Better Environment'.

A copy of this submission is provided as a reference source for the Joint Standing Committee on Treaties (Attachment D).

In the months since that Submission was prepared a number of advances have been made in the development and implementation of announced policies and programs. In particular:

- the Greenhouse Gas Abatement Program ($400 million over 4 years) has been launched with a call for a first round of proposals for funding of greenhouse investments. It has a focus on competitive bidding processes wherever practicable, to maximise cost-effectiveness and abatement outcomes. Subsidy dollars are directed only toward those abatement opportunities that need government support to be viable, and only in the amount required to push them over the line.
- The Renewable Energy (Electricity) Bill 2000 has been introduced into the Parliament to give effect to the Government's mandatory renewable energy target originally announced in the 1997 statement of the Prime Minister.

The Commonwealth has established a solid strategic framework and a substantial greenhouse response action agenda upon which to build. More remains to be done to complete the steps needed to achieve Australia's Kyoto target. However, planning by Government and business at this point involves decision making in a situation of significant uncertainties.

Most firms which are actively managing and planning around the overall set of business risks including greenhouse, have accepted the consensus of the Intergovernmental Panel on Climate Change on the reality of future global warming. Informed opinion indicates that it is not wise to wait for incontrovertible certainty on the scientific front.

Another key uncertainty relates to: completion of negotiations on key implementation issues – Kyoto mechanisms, compliance and sinks – to the Kyoto Protocol; to the timing and nature of future participation of developing countries in international greenhouse action; and the timing of ratifications of and entry into force of the Kyoto Protocol.

In addressing this uncertainty, Senator Hill, Minister for the Environment and Heritage stated in a speech of 5 May 2000 '….having achieved this outcome at Kyoto, our Government believes that it is in Australia's best interests to bring the Protocol into legal effect sooner rather than later….' Australia is active in the international negotiations in an endeavour to finalise key outstanding issues.

Government and business continue to work through options for advancing policy approaches on greenhouse. For example, over the earlier part of 2000

the Australian Greenhouse Office, Australian Institute of Company Directors and the Business Council of Australia came together in a 'Dialogue on Greenhouse: The report of that dialogue process addresses views about:

- the uncertainty of the policy environment and timelines for international negotiations
- the competitiveness of Australian industry, and aspects of structural adjustment and market opportunities
- the concept of what will be a competitive Australian economy in a future where greenhouse emissions are expected to be priced; and
- the concept of a conditional framework to guide domestic policy.

These programs generally target a "win-win" outcome for the environment and the economy. Many stakeholders, particularly those from industry, have enjoyed significant cost reductions, via improvements in energy efficiency, and informational and public relations benefits through participation in targeted programs. In addition, many of the specific renewable or energy efficiency programs have been successful in targeting and addressing impediments in energy markets and have generated positive industry development spin-offs. The bulk of Australia's current greenhouse policies can be characterised as "no-regrets" in nature.

However, policy is evolving in an effort to position the Australian economy strategically against the prospect of future international agreed emission constraints. The mandatory renewable energy target for Australia's electricity sector will provide a significant stimulus to a world class Australian industry whose importance and export potential is likely to grow as the future unfolds. It is recognised that this is a case of a measure involving costs to industry.

A key area for development of greenhouse response relates to the flexibility provided through the Kyoto mechanisms, or put simply 'international carbon trading'. As stated by Senator Hill on 25 April 2000 – 'In agreeing to the Kyoto Protocol we, in essence, said we were prepared to pay a price for carbon reduction. But if that same price could deliver a greater reduction offshore as opposed to domestically, then we believe there should be flexibility for nations to opt for that better environmental outcome…..We tried hard at Kyoto to ensure the economic realities were appreciated as part of an effective environmental response'. The Kyoto mechanisms provide the means to maximise the economic outcome for industrialised and developing countries and to secure the international competitiveness of the Australian economy.

Domestic emissions trading also offers scope for Australian producers to readily access the international market for emission permits being developed under the Protocol, potentially could provide greater policy certainty, and could provide certainty in achieving the Kyoto target. For this reason, the Government has asked the Australian Greenhouse Office to examine the

feasibility and implications of a national emissions trading system. (The Government has made it clear in a variety of public forums that a taxation approach to emission reduction would not form part of Australia's response to commitments under the Kyoto Protocol). The Government is currently considering advice from the Australian Greenhouse Office regarding next steps on the possibility of domestic emissions trading.

On 23 August 2000, Senator Minchin, Minister for Industry, Science and Resources stated that 'the Government will only implement a mandatory emissions trading scheme if the Kyoto Protocol is ratified by Australia, has entered into force and there is an established international emissions trading scheme'.

A variety of policy responses are available to government for responding to Kyoto Protocol commitments. These are being investigated with a view to developing the most effective package of measures that will minimise any costs to industry or national welfare associated with participating in an international greenhouse response.