

Emissions Trading Scheme - the basics

This fact sheet explains the basics of an emissions trading scheme and how it might affect Victorian households, local governments and small businesses.

What are greenhouse gases and how do they contribute to climate change?

The way we live is resulting in more and more greenhouse gases being released into the atmosphere. This includes the way we make and use energy, the way we manufacture products and the transport we use. The greenhouse gases, such as carbon dioxide and methane, resulting from these activities are forming a 'blanket' over the earth, trapping in some of the heat from the sun.

This is often called the 'greenhouse effect', because it causes average global temperature to rise. But excessive emissions of 'greenhouse gases' does more than that, which is why we now talk about the problem of 'climate change'.

Dangers of climate change

As temperatures rise, weather patterns are altered in complicated ways. In Victoria, this means a higher likelihood of dangerous weather patterns, with more frequent or severe droughts, floods, storms and bushfires. If we don't limit the temperature increases then sea levels will rise as polar ice caps melt, and we will lose important habitats and species.

Why is the Australian Government introducing an emissions trading scheme?

To avoid the worst of these dangers we need to cut our greenhouse gas emissions. Australia is one of the world's biggest greenhouse gas emitters per capita. As an already hot, dry continent we are also among the countries with most to lose from the effects of climate change. Because of these realities, we need to take a leadership role to add momentum to the global push to reduce emissions.

Putting in place measures now to reduce emissions will also position the Australian economy to benefit from global investment in renewable energy and other growing sectors focused on sustainability.

So the single most effective thing the Australian Government can do right now is introduce an emissions trading scheme – also called a Carbon Pollution Reduction Scheme – which will come into force in 2010.

What is an emissions trading scheme?

Emissions trading schemes set a total limit or cap on the amount of greenhouse gases that specific industries can emit each year. Businesses that are covered by the scheme must buy a part of this overall cap equal to their yearly emissions, just as businesses now pay for their water or energy usage. This is important because at the moment it is free for companies to pollute.

How will an emissions trading scheme reduce greenhouse gas emissions?

By making businesses pay for permits, greenhouse gas emissions will have a direct cost. Over time the number of permits available for sale is reduced, so businesses will have to reduce their emissions through improving the way they operate. Not only will this reduce overall greenhouse gas emissions, but it will also encourage innovation and create new jobs in sustainable industries.

How does an emissions trading scheme usually work?

Permits to emit greenhouse gases are sold through an auction, which means that the price of the permits is determined by the market and businesses that buy more permits than they need can trade them like in the stock market.

That's why it's called an emissions trading scheme.

What types of businesses will be required to participate in an emissions trading scheme?

Businesses and industries that directly emit large amounts of greenhouse gases (that can be relatively easily measured) are typically required to participate in an emissions trading scheme.

At the beginning of the scheme it is most likely to cover electricity generation, high energy users and transport. Over time the scheme can be widened to include other sectors of the economy such as waste.

Individual households do not directly participate in the scheme.

The final decision of which businesses and industries will participate in the emissions trading scheme will be made by the Australian Government. The Victorian Government will work to ensure that issues of importance to Victorian households and businesses are considered.

What impact will the emissions trading scheme have on households and small businesses not participating in the scheme?

Activities that produce greenhouse gas emissions are likely to become more expensive, while 'greenhouse friendly' actions become more affordable.

Businesses and industries participating in the emissions trading scheme may pass on their increased costs to their customers. Producing energy from fossil fuels creates a large proportion of the total greenhouse gases so the main impact of emissions trading will be increased energy costs for all of us.

How is the Government working to protect households?

The Victorian Government is already putting in place measures to improve efficiency in Victorian households such as the Victorian Energy Efficiency Target (VEET) scheme, which gives energy providers incentives to do things like install insulation and replace traditional light globes. These measures not only reduce emissions, but also help save households money because of lower energy costs.

More broadly, emissions trading will collect billions of dollars through the sale of permits. The State Government believes a large proportion should go towards assisting households – especially low-income households – while they adapt to higher utility costs. We are working with the Australian Government to ensure this principle is enshrined in the scheme.

How can you prepare for an emissions trading scheme?

The best way to prepare for an emissions trading scheme is to reduce the amount of energy you or your business use every day. There is a lot of information already available to help you do this, and the Victorian Government's *Save Energy* website is a good place to start:
www.saveenergy.vic.gov.au

More detailed information about Australia's emissions trading scheme is available at the Australian Government's website:
www.climatechange.gov.au/emissionstrading

Other helpful links:

www.climatechange.vic.gov.au
www.garnautreview.org.au

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