Quantity flexibility in the Australian ETS: rolling caps

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Emissions cap

Current emissions

Emissions cap

Uncovered sector emissions

Trajectory

Target

Time

National emissions MtCO₂-e

Note: Trajectory and budget is illustrative only
Cap setting process

Note: Trajectory and budget is illustrative only

National emissions MtCO$_2$-e

Emission caps

Potential advantages

- Flexibility – take new information into account
- Some forward notice of future caps
- Given banking, could have an immediate effect on prices
  - Could help manage volatility in prices
Implementation challenges

• How long is appropriate for fixed caps?
• Governance – who decides on ambition?
  – Cumbersome for Parliament to frequently decide
• Will not always substitute for a price cap in case of a short-term shortage (lack of longer-term borrowing)
• Need to develop predictability
  – What are the criteria? Price-related? Only price, or broader issues?