

## **ETG GOLDEN RULES – MAY 2009**

In order for any emissions trading system to be successful it must meet certain criteria:

Environmental rationale – the trading system must, and must be seen by all parties, to be achieving a valid environmental objective to reduce emissions.

Economic rationale – the trading system must, and must be seen by all parties, to be more flexible and cost-effective than other ways of achieving the environmental objective.

Credibility – the system must be credible since only credible systems succeed. Hence, the administrative procedures must be adequate to ensure compliance with the climate change goals. There must be an element of trust since in many cases pragmatic solutions to problems will be needed. Appropriate monitoring and verification will enhance credibility.

Simplicity – simplicity is essential in the design, operation and administration of the system. Good simple, pragmatic solutions will be more successful in achieving the environmental and economic objectives where more complex ones will fail. A deviation from simplicity should only be introduced when demonstrably necessary.

Equity – inequities within the system should be minimised as far as possible. Since the valuation of companies and their investment policies have been based on certain explicit and implicit rights it is important that any trading system does not introduce a step-change shock to the status-quo but enables the achievement of the desired objective.

Transparency – the system must be transparent so that there is national and international confidence in the system. For confidence in the system the disclosure of information must be conducted in a controlled and well signalled manner.

Predictability and Certainty - in order to inspire business confidence, encourage innovation and investment there must be a high degree of certainty so that business can invest. Predictability is the ability to forecast scarcity within the market i.e. level of abatement required against unconstrained emissions. This can be undermined by political and regulatory uncertainty for example through overlapping policy measures.

Market Integrity – an efficiently functioning system is one with a mature and robust emission allowance market that has the confidence of investors and is capable of providing the long term price signals. A stable and deep emissions market will assist in developing a liquid market with the objective of minimising price volatility and market shocks.

Inclusivity – the system should be as inclusive as possible in the long term though some restrictions will be necessary in the short term.

## **Process Golden Rules**

The ETG provides input to Government on all aspects of emissions trading. It enables communication between Government, industry and commerce and aims to contribute to Government thinking at a formative stage of policy development. In order to provide useful input to Government, ETG relies on timely information from Government, attendance of Government representation at Working Group meetings and feedback on the views provided to Government.

In order to promote effective input into policy development the ETG will;

- Support open discussion with Government and respect any confidentiality of information provided to the ETG by Government
- Act in a manner consistent with ETG's position as a non-lobbying organisation
- Present consensus views to Government wherever possible and where this is not the case will identify possible pros and cons of different approaches
- Provide timely input to Government through papers agreed and signed off at Working Group level

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