INTRODUCTION

In 1997, the Public Accounts and Estimates Committee began its inquiry into environmental accounting and reporting. On 3 June 1999, the Committee tabled its Interim Report in Parliament covering three major areas: environmental accounting for organisations and governments, public reporting on the state of the environment, and environment performance reporting in both the public and private sectors. In December 1999, the Government tabled its response to the Interim Report, which provided a broad overview of the Government's position on the issues raised by the Committee.

In July 2000, the Committee announced it would undertake a further inquiry to the Interim Report, and released the Follow-Up Inquiry into Environmental Accounting and Reporting Issues Paper. The Issues Paper covered seven main areas: the Commissioner for Ecologically Sustainable Development (ESD), State of the Environment Reporting, national environmental accounting, private sector environmental performance reporting, public sector environmental reporting, environmental auditing and verification and environmental levies.

During the Follow-Up Inquiry, the Committee was provided with detailed presentations and demonstrations on the major environmental reporting processes and programs of the Department of Natural Resources and Environment (NRE) and the Environment Protection Authority (EPA Victoria). Factual answers to the Follow-Up Inquiry's 62 questions, and responses to approximately 30 additional questions which were sent to EPA and NRE were also provided. NRE and EPA officers also appeared at the Committee hearings to answer further questions. While detailed answers where provided to most of the questions raised by the Committee, the responses to questions on the Commissioner for ESD and State of the Environment reporting were broad as the Government was finalising for release its Consultation Paper on the Commissioner for ESD, and did not want to pre-empt the options in the Consultation Paper by providing detailed responses to the PAEC Follow-Up inquiry.

In March 2002, the Committee tabled its Final Report on Environmental Accounting and Reporting, and makes a series of recommendations in relation to the legislative framework for the Commissioner for ESD and associated State of the Environment Reporting, environmental accounting, national environmental accounts, auditing and verification, and environmental performance reporting. As the Government Response to the Final Report outlines below, the Government is already implementing initiatives or about to implement initiatives that are referred to in the Final Report.

Some of the key initiatives are:

- the establishment of the Commissioner for ESD
- introduction of State of the Environment Reporting
- the release and implementation of Growing Victoria Together, which expresses the Government's broad visions for Victoria's sustainable future
- the introduction of the Premier's Business Sustainability Awards
• the commitment that all Government departments will be required to develop environmental management systems and undertake environmental reporting

• EPA Victoria’s co-ordination of the United Nations Environment Programme’s Finance Initiatives in Australasia

• the introduction of sustainability covenants as an innovative tool to encourage companies to increase their resource use efficiency and to reduce their ecological impact.

The Government’s detailed response to each recommendation is outlined below.

**Chapter 2 – Commissioner for Ecologically Sustainable Development**

<table>
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<tr>
<th>Rec. No.</th>
<th>Details of Recommendation</th>
<th>Proposed Response</th>
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| 2.1      | The Victorian Commissioner, in consultation with the wider community, have a role in devising and monitoring an ecologically sustainable development strategy for Victoria. | • Development of the SoE Framework will include consideration of sustainability reporting.  
  
  *Growing Victoria Together* outlines the Victorian Government’s sustainable development framework.  
  
  • Monitoring and reporting mechanisms are currently being developed as part of *Growing Victoria Together.* |
| 2.2      | The Victorian Commissioner be responsible for ensuring that the overall environmental management system for Victoria reflects environmental legislative and policy objectives. | • It is the responsibility of Government to ensure that its environmental management system reflects its legislative and policy objectives. Through SoE reporting the Commissioner may comment of the effectiveness of the system.  
  
  • The Commissioner will also undertake annual strategic reporting on agency progress in implementing environmental management systems (EMSs) across Government. See also response to recommendation 4.7. |
| 2.3      | The Victorian Commissioner have primary responsibility for the preparation of the SoE report and for ensuring that the report is tabled in Parliament. | • SoE reporting will be a key role of the Commissioner.  
  
  • The Minister will be required to table all SoE reports prepared by the Commissioner in Parliament within 10 sitting days of receiving the reports. |
| 2.4      | The Victorian Commissioner have responsibility for referring public complaints about environmental management to government agencies and for monitoring the responses of those agencies. | • PAEC recommendation recognises resourcing issues associated with an Ombudsman-type role.  
  
  • The Ombudsman already considers ESD issues.  
  
  • To avoid duplication of roles, the Commissioner may provide advice on |
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<tr>
<th>2.5</th>
<th>The Victorian Commissioner may not undertake specific purpose investigations at ministerial request.</th>
<th>ESD issues to the Victorian Ombudsman as appropriate, rather than undertaking a specific Ombudsman-type function.</th>
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| 2.6 | (a) Reports of the Victorian Commissioner be tabled in Parliament. | • Specific purpose investigation is not a core function of the Commissioner. The Minister may however give written directions to the Commissioner to undertake certain functions.  
• Any written directions must be tabled in Parliament. |
|     | (b) In order to enhance environmental accounting and auditing, all reports of the Victorian Commissioner be referred to the Parliamentary Environment and Natural Resources Committee and the Public Accounts and Estimates Committee for review. | • All reports by the Commissioner must be tabled in Parliament by the responsible Minister within 10 sitting days.  
• PAEC can set its own terms of reference, and would not require a specific reference from Government to regularly review the activities or reports of a Commissioner. |
|     | (c) The Government be required to respond to the recommendations contained in the Commissioner’s reports within six months of tabling in Parliament. | • The SoE Framework will outline the appropriate Government response mechanism and timeframe.  
• There is no requirement for the Government to respond to the reports of the Commissioner, other than as determined under the SoE framework. |
| 2.7 | (a) Legislation provide for the Victorian Commissioner to be a statutory officer, reporting to the Parliament through the Premier or other responsible Minister; and | • The position and Office of the Commissioner will be established under specific legislation.  
• The Commissioner will report to the Minister for Environment and Conservation.  
• The Minister will table all reports received from the Commissioner in Parliament within 10 sitting days. |
|     | (b) Legislation provide that the Premier or other responsible Minister table all reports of the Victorian Commissioner in Parliament within 10 sitting days of receipt. | |
| 2.8 | (a) The Victorian Commissioner be appointed for a minimum five-year term; | • The Commissioner will be appointed for a term of 5 years.  
• The Government can undertake a review at any time if considered necessary. |
<p>|     | (b) A strategic management review of the Office of the Victorian Commissioner be undertaken every three years to | |</p>
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<tr>
<th>Section</th>
<th>Description</th>
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<tr>
<td>2.9</td>
<td>The definition of the principles of integration of economic, social and environmental considerations as outlined in the Environment Protection (Livable Neighbourhoods) Act 2001 be included in the legislation for a Victorian Commissioner.</td>
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<td>2.10</td>
<td>The legislation providing for the Victorian Commissioner use the definition of environment contained within the Environment Protection Act 1970.</td>
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<td>2.11</td>
<td>The Victorian Commissioner be responsible for making all appointments to the Commissioner’s secretariat.</td>
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<td>2.12</td>
<td>The Victorian Commissioner should have statutory authority to obtain information, documents and assistance from the public sector, and to request data from the private sector, on matters relating to ecologically sustainable development and the environment.</td>
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<td>2.13</td>
<td>Legislation provide for the Victorian Commissioner to appoint and consult an advisory committee or committees, as required.</td>
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<td>2.14</td>
<td>The Victorian Commissioner report annually to Parliament through the Premier or responsible Minister, on the effectiveness of the Victorian environmental management system and on progress towards sustainable development.</td>
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- The Government will determine whether a report is tabled in Parliament when a review is undertaken.
- The Bill to establish the Commissioner has adopted the principle of integrating economic, social and environmental considerations from the Environment Protection Act 1970.
- Environment is not defined in the Bill establishing the Commissioner which incorporates instead the nationally accepted definition of ESD.
- The Commissioner may employ the necessary staff under Part 3 of the Public Sector Management and Employment Act.
- As outlined in the Bill, the Commissioner will have all the powers necessary to enable it to perform its functions under the Act. It, however, does not have statutory powers in relation to obtaining information from the public and private sectors.
- The Commissioner will have the ability to appoint advisory committees, with the approval of the responsible Minister.
- The Commissioner will provide annual strategic reports on the progress by Victorian Departments and public authorities in implementing environmental management systems.
### Chapter 3 - State of Environment (SoE) reporting

#### 3.1
(a) The Victorian Commissioner consult with industry, departments and agencies and the community to determine their needs in relation to SoE reporting; and

(b) The Victorian Government adopt the Pressure-State-Response-Implications model of SoE reporting if this model is endorsed by stakeholders.

- The Commissioner is to develop a framework for SoE reporting in Victoria that is to be agreed with the responsible Minister.
- In developing the framework the Commissioner will consult widely with industry, the community and State and local government.
- The Pressure-State-Response-Implications model will be considered by the Commissioner in developing the SoE Framework.

#### 3.2
Where there are no satisfactory performance measures of an environmental matter and there is a threat of environmental damage, the Victorian Commissioner should recommend the development of relevant indicators and nominate an appropriate body to develop the performance measures and to monitor developments in this area.

- The Commissioner can recommend performance measures in the development of the SoE framework.

#### 3.3
The Victorian Commissioner work with all levels of government and peak environmental regional and community groups to identify and make available on the internet the data sources for SoE reporting.

- Data supporting SoE reports are likely to be obtained from a variety of sources. The Government will encourage the public availability of this data wherever feasible.

#### 3.4
The Victorian Commissioner establish two Committees to advise on the development of the SoE report: a technical scientific committee and a stakeholder committee.

- The Commissioner will have the ability to appoint advisory committees.

#### 3.5
The Victorian Commissioner release a draft SoE report for three months public comment.

- Public consultation arrangements will be determined by the Commissioner in developing the SoE Framework.

#### 3.6
The expert scientific advisory committee and the stakeholder advisory committee review the SoE reporting process before the start of the next cycle.

- Review mechanism to be decided by the Commissioner and agreed by the Minister as part of the SoE Framework.

#### 3.7
The cycle of Victorian statewide SoE reports be five years.

- Timing of SoE reports will be guided by the agreed SoE Framework.

#### 3.8
The Victorian Commissioner, in consultation with advisory committees, have responsibility for determining the specific themes and framework for SoE reporting.

- The Commissioner will undertake stakeholder/public consultation in developing a SoE Framework. The Framework will be agreed with the responsible Minister.

#### 3.9
The Victorian Commissioner work with

- The Commissioner will undertake
| 3.10 | The Victorian Commissioner work with peak Victorian Local Government bodies and Environs Australia to develop education and training materials for regional and local bodies on SoE reporting and environmental management. | • Key functions of the Commissioner will be to conduct public education programs which promote ESD “best practice”, and support State and local government in engaging the community and industry in adopting ecologically sustainable development principles and practices. |

| 3.11 | The Victorian Commissioner work with the Victorian Local Government Division of the Department of Infrastructure, the Victorian Environment Protection Authority and peak Local Government bodies to improve the use of information technology to gather data and produce SoE reports. | • The Commissioner will not be expected to develop information systems. • Departments and agencies (i.e. NRE, EPA) will continue to work together and with peak local government bodies to develop information management systems that support SoE reporting, and other forms of reporting to ensure transparency and reduce duplication of effort in collecting data. |

| 3.12 | The Victorian Government encourage Local Government to introduce SoE reporting. | • The Commissioner will work with NRE, DOI, EPA and local government to promote SoE reporting at the local level. |

| 3.13 | The legislation on SoE reporting require the Government to respond to each statewide SoE report within six months of the report being tabled in Parliament. | • The SoE Framework will outline the appropriate Government response mechanism and timeframe. |

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**Chapter 4 - Environmental Accounting; National Environmental Accounts; Auditing and Verification; and Environmental Performance Reporting**

| 4.1 | The Victorian Government: (a) actively pursue the development of an Australian Environmental Accounting Standard based on international best practice; and (b) seek the support of the Commonwealth Government for a joint approach to the Australian Accounting Standards Board on this matter. | • One effective approach to encouraging accounting bodies to develop environmental accounting practices is to establish partnerships with professional accounting bodies. This is because professional accounting bodies have a critical role in influencing accountants and the Australian Accounting Standards Board. • EPA has been working closely with the Institute of Chartered Accountants of Australia (ICAA) and Environment Australia on an environmental management accounting (EMA) project. See Response to recommendation 4.3. |
| 4.2 | The Victorian Government, in consultation with the accountancy professions, the Commonwealth Government and peak industry bodies, examine requirements for larger companies to use environmental financial accounting procedures in their financial statements. | See response to recommendations 4.1 and 4.3 |
| 4.3 | The following strategies be adopted by the Victorian Government to encourage the development of environmental accounting:  
(a) the Victorian Environment Protection Authority with the Institute of Chartered Accountants in Australia and CPA Australia develop appropriate promotional material for accountants and auditors; and  
(b) the Victorian Government consider funding the Victorian Environment Protection Authority to work with the accounting bodies and the Department of Treasury and Finance to conduct a series of public workshops throughout Victoria. | • EPA is currently working with Environment Australia and ICAA on an Environmental Management Accounting Project. The objective of the project is to promote improved practices and reform in management accounting techniques so that firms are able to improve profitability by reducing costs whilst achieving better environmental outcomes.  
• This is being accomplished by the development of 4 case studies with the aim of producing a “how to booklet” to demonstrate to accountants and auditors the practical application of environmental management accounting principles.  
• Once the project is complete EPA will work with other Government Departments and Agencies, ICAA and CPA Australia to disseminate the information and influence the accounting profession. |
| 4.4 | The Victorian Commissioner and the Victorian Advisory Committee on Statistics work with the Australian Bureau of Statistics to:  
(a) improve the quality of environmental data Victoria supplies to the | (a) As part of the Victorian Statistical Advisory Committee (VSAC), NRE with ABS completed a review of the way that NRE interacts with ABS. The Committee’s report “NRE-VSAC-ABS recommendations for more effective |
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<th><strong>Australian Bureau of Statistics;</strong></th>
<th>interaction&quot; makes a number of recommendations about ways to improve the quality and relevance of environmental data collected by NRE and potentially used by ABS, and will guide improvements in this area.</th>
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<td>(b) improve feedback mechanisms from users of environmental statistical data; and</td>
<td>(b) An Environmental and Geographic Subcommittee of VSAC has been established partly to improve feedback from users of environmental statistics to ABS.</td>
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<td>(c) ensure that data collected from State and Commonwealth agencies is useful for SoE reporting at State level.</td>
<td>(c) VSAC completed a major study “Victorian Framework for Indicators of Regional Wellbeing”. This study identified high level indicators of environmental wellbeing (Chapter 5) relevant to SoE reporting at the State level. The development of an SoE Framework and identification of key SoE indicators will highlight future data needs in this area.</td>
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### 4.5

The Government discuss with other State and Territory Governments and the Commonwealth Government a joint approach to the Australian Accounting Standards Board, to establish an Australian environmental auditing standard for auditing environmental information in financial statements and annual reports.

- The Environment Protection and Heritage Council provides a forum for the discussion of national environment protection and heritage issues. Victoria will seek to progress the implementation of environmental management accounting principles at a national level within this forum.
- See also response to recommendation 4.6.

### 4.6

The Victorian Government work with the Commonwealth Government to:

(a) establish a taskforce with representatives from the professional accounting bodies and the accounting and auditing standard setting boards and relevant stakeholders, to develop key elements of a conceptual framework for the verification of environmental performance reports for publicly listed companies; and

(b) pursue the development of standards for auditors of environmental information in public sector annual reports and public sector environmental performance reports.

- Since 1989, Victoria has operated a statutory environmental auditing system, with environmental auditors appointed under the Environment Protection Act 1970. Victoria’s statutory environmental audit system has been taken up by other States and sets the national benchmark. An environmental audit provides a credible, independent assessment of environmental performance or environmental condition. While most of the environmental audits to date have been undertaken for contaminated land and industrial facilities, companies are now starting to engage Environmental Auditors to verify their corporate environment reports, a growing trend by companies who wish to demonstrate good environmental performance.
| 4.7 | **(a)** Departments and agencies be required to report annually on their progress towards their environmental objectives;  
**(b)** The Department of Treasury and Finance assist departments and agencies to develop environmental indicators to report against in their annual reports; and  
**(c)** Annual reports of departments and agencies include information on environmental performance. |

- EPA is presently developing guidelines for auditors verifying corporate environment reports.  
- The Government is committed to using Environmental Auditors appointed under the *Environment Protection Act 1970* to audit the Environmental Management Systems (EMSS) implemented by Government Departments.  
- See also response to recommendation 4.7  

| 4.8 | **The Environment Protection Authority continue to support awards for environmental reporting linked to environmental management systems.**  

- In February 2002 at the Business Leaders Forum on Sustainable Development at Parliament House, the Premier announced the Government’s commitment to introduce best practice business tools for environmental management in Government Departments. Under this initiative, Victorian Government Departments will be required to implement an EMS by June 2003, develop an environment improvement plan which includes waste reduction targets, comply with a Green Purchasing Policy, report annually on their environmental performance, and audit their EMS.  
- Victorian Government agencies are currently working together to implement the EMS and environment reporting framework.  

- In March 2002, the Victorian Government, in association with Banksia Foundation, launched the Premier’s Business Sustainability Award to reward businesses that excel in the areas of innovation and sustainability. The Award recognises groundbreaking innovation which addresses a strategic need for sustainable development in Victoria. The innovation may be a project, product, service or technology which furthers the environmental, social and economic objectives of the triple bottom line approach to business. The inaugural award was won by Portland Aluminium in recognition for their Spent Pot Lining Treatment and Flouride Recycling Process. In addition ‘Highly Commended’ awards were presented to Pacific Hydro, for their efforts in promoting renewable energy in Victoria with the development of the...
The Government encourage public and private sector enterprises to adopt environmental management systems and associated reporting by expanding relevant programs of the Environment Protection Authority.

- The Government continues to provide financial and in-kind support to the Banksia Awards. These awards recognise organisations that have been innovative in areas such as Corporate Responsibility and Leadership. City West Water won an award in 2002 in part for its Sustainability Report and ongoing ISO 14001 accreditation.

- EPA is presently looking at other avenues in which to support and recognise companies that produce environment and sustainability reports.

- The Government is leading by example by imposing best practice environmental management principles on its own office-based activities. The Government requires Departments to implement an EMS by June 2003. The EMS must be audited annually by an EPA appointed auditor. Associated environmental performance reporting must be included in Departmental annual reports. These commitments are outlined in the response to recommendation 4.7.

- EPA Victoria has a long history with working with the private sector to encourage and facilitate the adoption of environmental management systems and environmental reporting through a range of new and existing programs and initiatives, including the Business Sustainability team, the UNEP Finance Initiatives program, sustainability covenants, ecological footprint pilots, and the statutory environmental auditing program.

- Through EPA’s Business Sustainability Program, EPA Victoria works with industry sectors, through the supply chain of large companies, and development of regional industry clusters to facilitate the uptake of cleaner production/business sustainability practices. A series of case studies have been developed to demonstrate the benefits of implementing EMSs and business sustainability practices.
A recent initiative is the development of an electronically based EMS for SMEs within the galvanising industry.

- Recent changes through the Environment Protection (Resource Efficiency) Act 2002 has seen the introduction of voluntary sustainability covenants. Sustainability Covenants are innovative tool to recognise and encourage companies to increase the resource use efficiency and reduce their ecological impact of their products and services.

- EPA Victoria is also developing ecological footprint methodology as a measure of sustainability, and is working with various private sector organisations to calculate their ecological footprint as a first step to assist those companies to become more sustainable.

- As co-ordinator of the United Nations Environment Programme’s Finance Initiatives in Australasia, EPA Victoria has recently established an Operational Environmental Management Advisory Committee to assist financial institutions in developing improved internal environmental management and external reporting practices.

- EPA is presently developing guidelines for auditors verifying corporate environment reports.

Chapter 5 - Environmental Levies

5.1 Proposals for environmental levies in Victoria be preceded by at least a six months consultation process with stakeholders on the need for the levy, the rate of the levy, as well as the proposed use of the revenue.

- The Government charges levies for the disposal of waste to landfill. These levies have recently been changed to substantially increase them over a five year period. These increases will ensure sufficient funding flows to activities to reduce waste and send a signal to industry to divert waste to more productive uses than landfill disposal. These landfill levies are paid into the Environment Protection Fund.

- In making these changes, the Government committed to continuing to fully hypothecate the landfill levy into the Environment Protection Fund to be used
The Department of Natural Resources and Environment and the Victorian Environment Protection Authority conduct a workshop involving industry groups, local council bodies, regional authorities and groups, environmental groups, academics and the Victorian Commissioner, to discuss and make recommendations for further action on the management of environmental issues and the funding mechanisms to support environmental programs.

- Various Victorian Government departments and agencies have conducted, and continue to conduct, a range of workshops, fora and networks with a broad range of stakeholders to discuss environmental management issues. A number of these are outlined below.

- EPA has established a Sustainability Advisory Network, consisting of leaders from business, academia, environment groups, local and state government to find ways that Government, industry and the community can work together to address sustainability issues.

- In February 2002, the Premier hosted the national Business Leaders Forum on Sustainable Development at Parliament House, which was attended by more than 100 prominent business leaders.

- Under the UNEP Finance Initiatives, a number of finance and environment fora have been organised, including the recent Finance and Sustainability Forum. This forum was hosted by Environment Australia in conjunction with EPA Victoria, and attended by approximately 100 representatives from the finance sector. In 2001, EPA Victoria organised a series of Environmental Credit Risk Seminars for
The recent Environment Protection (Resource Efficiency) Act 2002 provided for the establishment of a Sustainability Fund to help build the capacity of small business, local government and the broader community by funding innovative initiatives that promote environmental improvement and resource use efficiency. The Government undertook detailed negotiation on the use of the Sustainability Fund with affected stakeholders and will ensure a portion of the Sustainability Fund will assist local councils to support local agenda 21 projects and the development neighbourhood environment improvement plans.

One of the primary roles of the Commissioner will be to work with State and local governments to implement measures which promote the adoption by industry and the community of practices that facilitate ecologically sustainable development.

The Government encourages the Victorian Environment Protection Authority and the Department of Natural Resources and Environment to continue to trial innovative environmental economic policies.

The Government recognises the value of economic instruments and has clarified EPA Victoria's ability to apply economic instruments through changes to the Environment Protection Act introduced by the Environment Protection (Liveable Neighbourhoods) Act 2001.

The Government is committed to encouraging innovation through triple bottom line approaches. With this in mind, the Government has recently introduced Sustainability Covenants into the Environment Protection Act 1970. These covenants enable industries, companies and supply chains to enter into voluntary agreements with EPA Victoria to improve resource use efficiency and reduce the ecological impact of products and services. Sustainability covenants provide capacity for companies to harness and respond to shifting economic and environmental dynamics. A number of individual
companies and industry associations have already expressed interest in working with EPA on the development of covenants.

- The Government has also introduced progressive increases to landfill levies with the aim of sending a signal to industry to invest in alternatives to landfill disposal and look for innovative ways of avoiding and reducing the generation of waste.

- The Government has recognised that innovation can also occur at the grassroots and will encourage the development of innovative triple bottom line approaches through the Sustainability Fund which aims to build capacity of small business, local communities and local government.

- The Government has introduced a number of other innovative environmental economic policies, such as:

  *BushTender – Auctioning Biodiversity Conservation Contracts on Private Land*

BushTender is a new approach to the problem of conserving biodiversity on private land. It was developed from new ideas in information economics and game theory. Although it is widely accepted that markets do not exist for environmental goods and services, BushTender has shown that it is possible to create a competitive market for the supply of biodiversity from farmland.

A pilot auction has been run in two regions of Victoria. Landholders developed bids (payments needed) to change land-use to activities that improve the quality of habitat. This could include activities such as fencing remnant vegetation, weed control, pest control etc. The auction was designed to ensure that there was competition between landholders and each bid was assessed on a value for money basis by comparing the improvement in biodiversity per dollar of bid.

The auction has been run successfully and has been shown to offer significant cost savings to government (it has been shown to be seven times cheaper than a fixed price or grant-based approach), easily engaged landholders and allows biodiversity
outcomes to be measured and monitored. In effect BushTender allowed government to become an "intelligent purchaser" and landholders become "competitive suppliers" of biodiversity services.

The trial has now been extended to Gippsland; and a further pilot has been proposed to auction contracts for landholders to supply a broader range of environmental services including salinity, water quality, water quantity as well as biodiversity.

**Tradable emission permits**

NRE has been examining the design and feasibility of a tradable emission permits system for point-source pollution problems.

Tradable emission permits involve capping total emissions at a safe level, allocation of rights to pollute within the cap, trade in permits to pollute and the design of trading rules. This approach has been used successfully in the US and in Australia (the Hunter Salinity Scheme).

**Tradable output quota for rock lobster**

NRE has introduced a tradable output quota for rock lobsters. This approach provides more secure controls on harvest and improves economic efficiency in the industry.