environment, stakeholders have a particular interest and concern in how the policies that are being developed to mitigate the impacts of climate change will impact on their operations.

This paper presents preliminary results from a study of the potential economic impacts of the Australian government's proposed emissions trading scheme (ETS), to be introduced under its proposed Carbon Pollution Reduction Scheme (CPRS). The proposed ETS is a cap and trade scheme for Greenhouse Gas (GHG) emissions which the Australian government proposes to introduce commencing in the year 2011 to bring about a reduction in Australia's emissions of between 5 and 25 per cent from 2000 levels by 2020, and 60 per cent by 2050.

The paper examines how the Australian ETS will impact on the tourism industry, using a regional dynamic computable general equilibrium (CGE) modelling approach. The proposed ETS will create a price for carbon emissions which will raise costs in those industries which directly and indirectly produce emissions, such as tourism. The impacts on the tourism sector in Australia and the broader Australian economy are analysed[1]. Even though most tourism businesses are not large enough to participate directly in emissions trading under the scheme in their own right, the ETS is likely to set in train changes across the economy which will impact on the tourism industry. For example, by making exports more costly, it will reduce exports leading to pressure on the exchange rate. The reduction in the exchange rate should help inbound tourism (tourism exports). But tourism exports will also be negatively affected by the rises in the price of its inputs. Tourism imports will be affected as the higher exchange rate generates more outbound travel. The implementation of the ETS is also likely to reduce real disposable incomes, which will reduce demand for domestic tourism in Australia.

The paper is organised as follows. The key features of the ETS proposed for Australia are presented in Section Two. Section Three outlines briefly the structure of the Monash Multi-Regional Forecasting (MMRF) CGE model which is used in this paper to assess the possible economic effects of the ETS on the Australian tourism industry, as well as a description of the simulation scenarios developed. The simulation results for macroeconomic, sectoral and tourism outcomes are reported in Section Four. Section Five provides concluding comments.

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