



Australian Government



CARBON POLLUTION
REDUCTION SCHEME

Green Paper

JULY 2008

www.climatechange.gov.au



Why we need to act

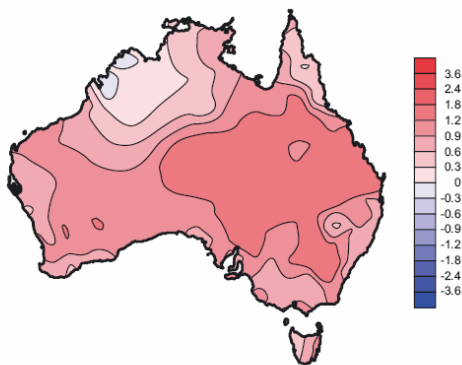
- With one of the hottest and driest continents on earth, Australia's economy and environment will be one of the hardest and fastest hit by climate change if we don't act now.
- Climate Change threatens Australia's food production, agriculture, water supplies, as well as icons like the Great Barrier Reef, the Kakadu wetlands and the big tourism industries they support.
- Addressing climate change is one of the key economic and environmental challenges facing Australia and the rest of the world.



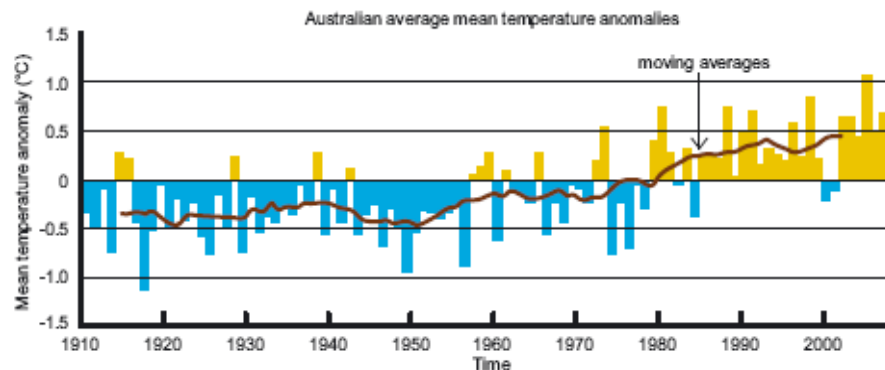
The science of climate change

- Carbon pollution is causing climate change, resulting in higher temperatures, more droughts, rising sea levels and more extreme weather.
- The science of climate change presented in the IPCC Fourth Assessment Report in 2007 paints a clear picture – warming of the climate system is unequivocal.
- It is very likely that greenhouse gas increases related to human activity have caused most of the rise in global mean temperature since the mid-20th century.

Trend in mean temperature 1950-2007 (°C per decade)



Source: Bureau of Meteorology



Source: Bureau of Meteorology



Three pillars: Government's climate change strategy

- Mitigation
 - Reducing Australia's greenhouse gas emissions
 - 60 per cent emissions reduction by 2050
- Adaptation
 - Adapting to climate change that we cannot avoid
- International engagement
 - Helping to shape a global solution



The global context

- Climate change requires a global response
- Australia is not acting alone in introducing a Carbon Pollution Reduction Scheme
 - A similar scheme is already operating in 27 European countries
 - 28 states and provinces in the US and Canada are introducing similar schemes
 - New Zealand is introducing emissions trading
 - Both US presidential candidates are committed to introducing schemes to reduce carbon pollution
 - Japan is considering introducing a scheme
- Australia needs to take its place as part of the leading group
- Australia is carefully calibrating its response in light of international action



Why implement an Australian Carbon Pollution Reduction Scheme?

- Title – Carbon Pollution Reduction Scheme – emphasises objective, emissions trading is the mechanism
- Reducing carbon pollution involves costs
- Emissions trading is the most efficient and cost effective way to reduce emissions
- Emerging as the preferred mechanism for reducing carbon pollution internationally



About the Green Paper

- Basis for consultation – outlines design options and identifies preferred positions
 - Not final decisions
- Covers design of the scheme – carbon pollution target to be determined in late 2008
 - Pathway towards 2050 target, preserving economic prosperity and energy security
- Careful/methodical approach to design and implementation
 - Extensive stakeholder consultation
 - Implementation to cover around 1000 companies
- White Paper/exposure draft legislation – end 2008



Key points

- Achieving low carbon economy a major economic reform
- Need widest possible effort – excluding/shielding sectors comes at an overall cost
- Assistance to households and business to adjust to the carbon price while ensuring scheme achieves its central objectives
 - Use every cent raised to assist households and business



How will the Carbon Pollution Reduction Scheme work?

- Large emitters need to acquire a carbon pollution permit for every tonne of emissions
- Number of permits is limited (the ‘cap’)
 - Permits have a value – carbon becomes a cost of production
- Emissions monitored and audited
- Surrender permits at the end of the compliance year
- Permits can be traded

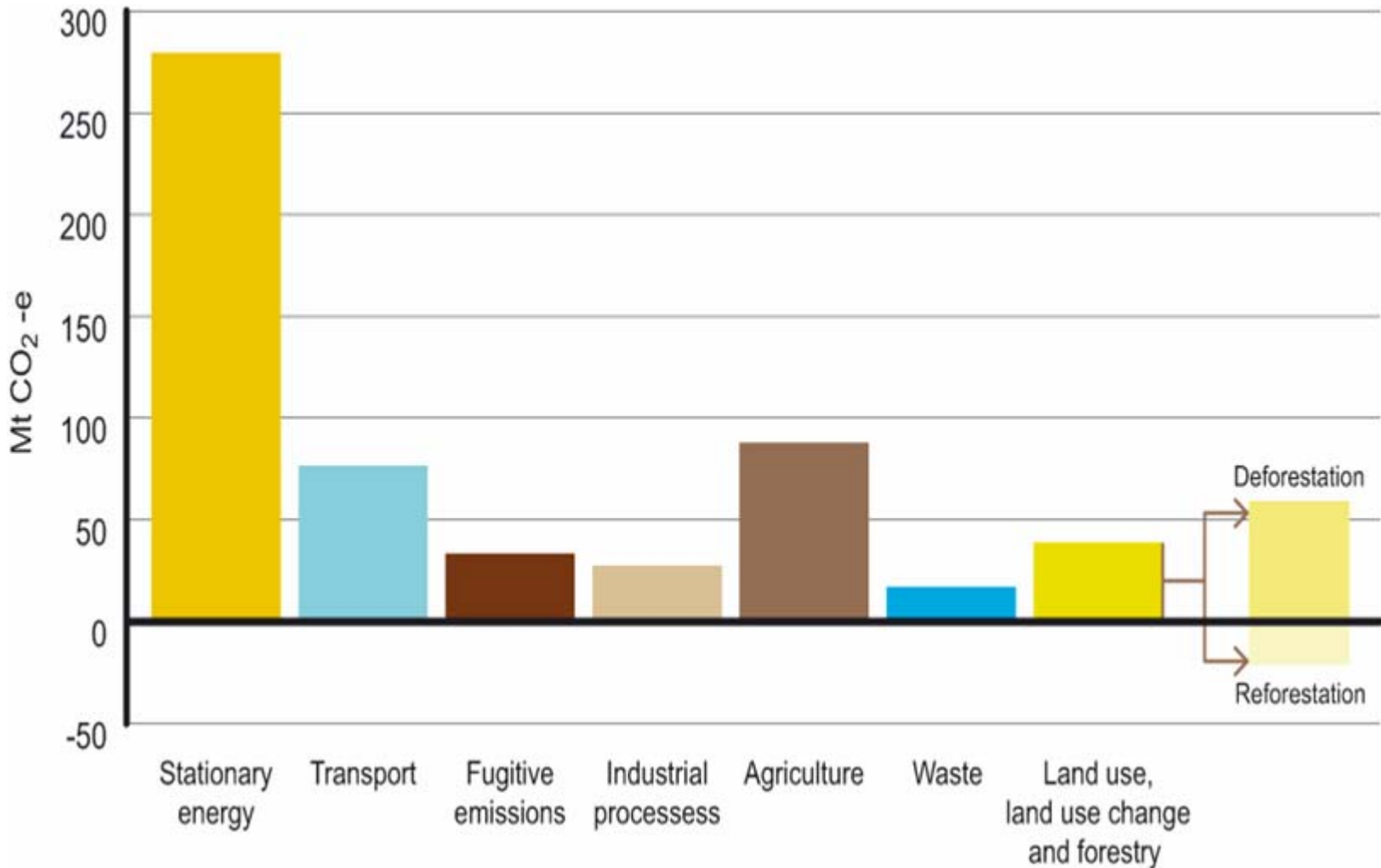


Scheme coverage (1)

- 6 Kyoto gases
- Around 75% national emissions
- Around 1000 firms with mandatory obligations
 - Large direct emitters (>25kt)
 - Upstream fuel suppliers to small emitters
 - All liquid fuel upstream
- Agriculture coverage not before 2015
- Forestry opt-in 2010
- Limited scope for offsets



Scheme coverage (2)





Commitments on fuel

- Cut fuel taxes on cent for cent basis to offset impacts of Carbon Pollution Reduction Scheme
 - Periodically assess adequacy for 3 years
 - Review adjustment mechanism at end of 3 years
- Businesses
 - Agriculture and fisheries – offset for 3 years
 - Heavy road vehicles – offset on cent for cent basis, review adjustment mechanism after 1 year

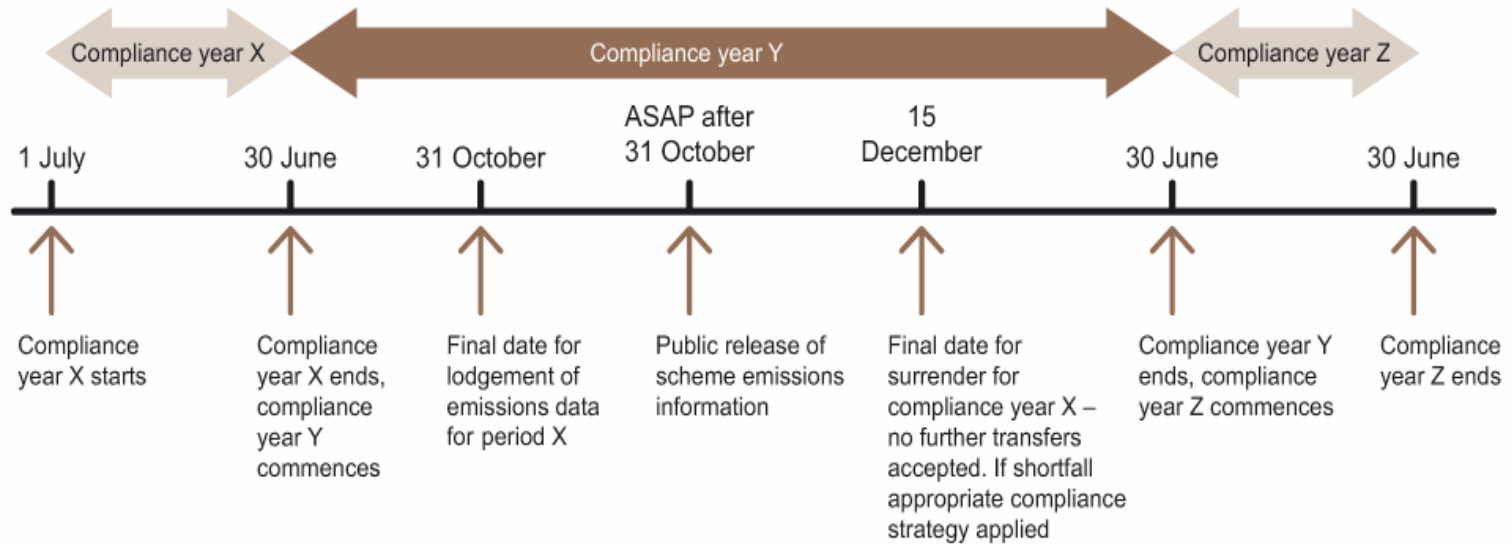


Reporting and compliance

- National Greenhouse and Energy Reporting System (NGERS) the foundation
- Emissions Reporting System (OSCAR) – single report for both schemes
- Scheme obligations – operational control
- Large emitters $\geq 125\text{kt}$ – 3rd party assurance required
- Staged improvements in measurement methodologies over time



Compliance timeline





National emissions targets

- Long term national emissions target – 60% reduction c.f. 2000 levels by 2050
- Medium term national emissions target range announced 2008 with white paper
- Take into account Garnaut Review (September) and Treasury modelling (October)
- Indicative trajectory – 5 years in advance
 - 2010-11 to 2012-13 announced 2008
 - 2013-14 to 2014-15 announced 2010



Caps and gateways (1)

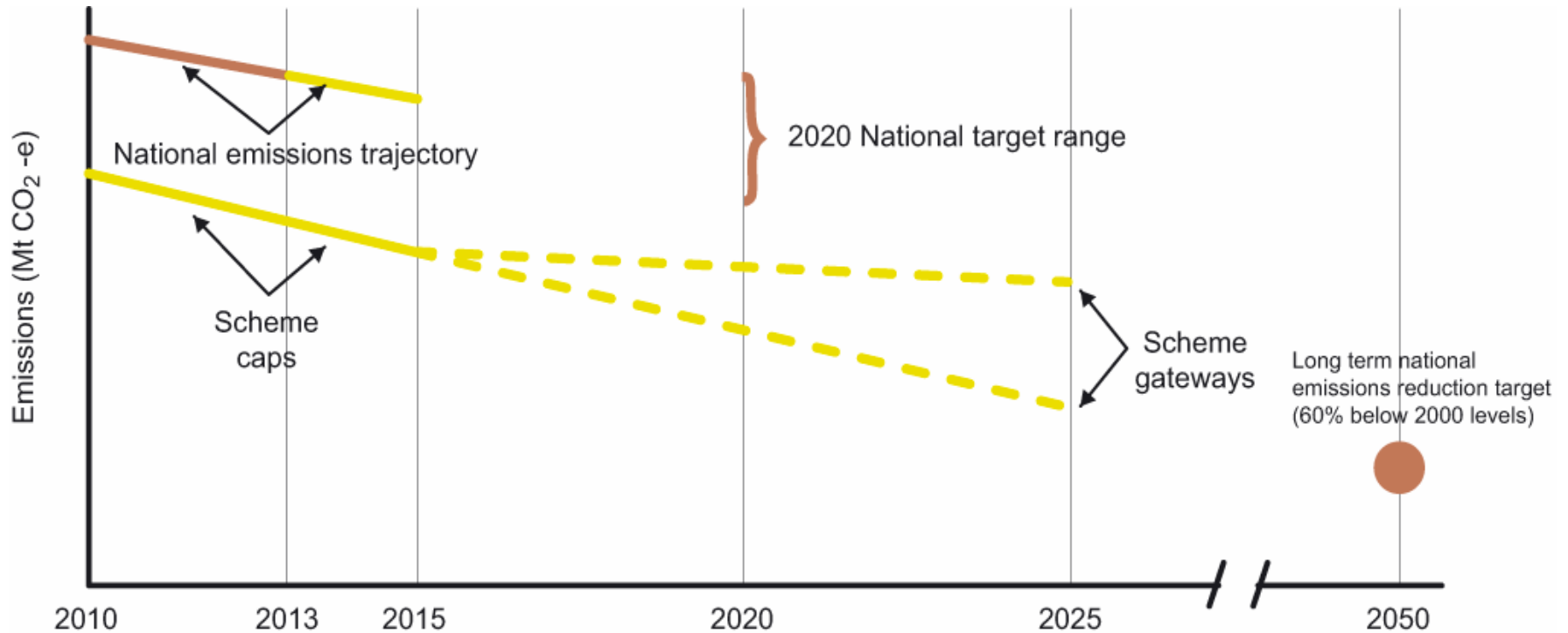
- The stringency of the scheme's future emissions caps will impact on the carbon price
- Business will want guidance over caps for price inferences and to inform investment

BUT

- The uncertain medium term international negotiating environment requires flexibility
- Proposed guidance:
 - 5 years of caps, extended annually
 - 10 years of 'gateways', extended every 5 years



Caps and gateways (2)





Operation of carbon market

- Expectations of future carbon prices will drive investment and behavioural change
- Need to create robust and credible carbon market – property rights, registry
- Permits to be banked indefinitely
- Limited borrowing
 - Small percentage of following year's vintage can be used for compliance
- Price cap
 - Set well above expected carbon price
 - Form and level to be determined



Linking with international schemes (1)

- Use of international credits can reduce cost
- International links help build an effective global response
- Minimising implementation risk an early priority
 - Want a stable/predictable start up
- Kyoto consistency important at start up
- Should link only with robust schemes



Linking with international schemes (2)

- Preference for open links over time within an effective global emissions constraint
 - National emissions targets to be interpreted in net terms, that is, taking into account trade in international credits
- Allow use of Kyoto units for compliance
 - Some initial restrictions
- No transfer of permits outside Australia in short term
- Provide five years certainty to market on types and quantities of international units allowed



Permit allocation

- Mixture of auctioning and free allocation
- Government commitment:
 - Every cent raised by the scheme will be used to help households and business adjust to the scheme and invest in clean energy options
- Need to carefully balance the needs of different sectors



Commitments to households (1)

- Increase payments to recipients of pensioner, carer, senior and allowance benefits and to other low-income households to meet overall increase in cost of living from scheme
- Provide assistance to middle income households to help meet overall increase in cost of living from scheme



Commitments to households (2)

- Annually review adequacy of payments to beneficiaries and recipients of family assistance
- Provide additional support through energy efficiency measures and consumer information
- Australia's Future Tax System Review is to consider interrelationship between tax and transfer payment systems and the scheme



Assistance to business, regions and workers

Climate Change Action Fund

- Capital investment in new low-emissions technologies
- Industrial energy efficiency (long paybacks)
- Dissemination of innovation and best practice among small medium sized businesses
- Regional and worker assistance as required
- Predominantly for those sectors not receiving permit allocation
- Funding/scope to be finalised in white paper



Emissions-intensive, trade-exposed (EITE) industries

- Risk of carbon ‘leakage’ from lack of comparable carbon constraints
- Need for transitional assistance
- Need to balance support for EITE firms with other community interests, so EITE assistance to be adjusted over time to ensure contribution to emissions reductions from all sectors



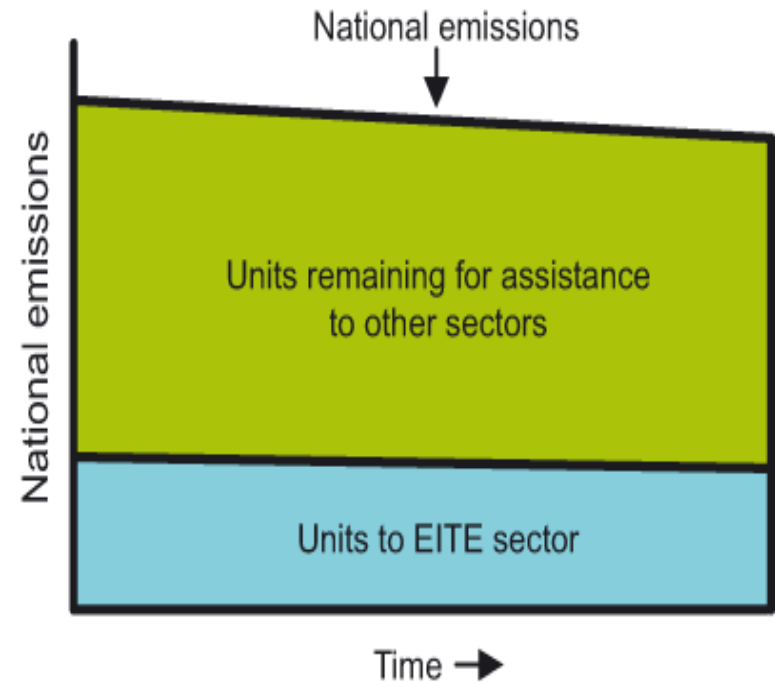
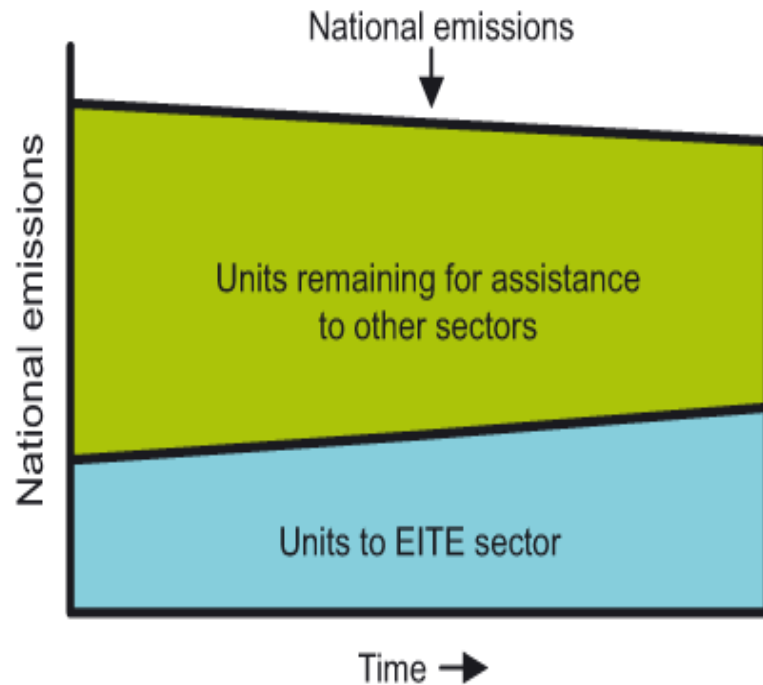
Assistance for emissions-intensive, trade-exposed (EITE) industries

Assistance is to be:

- provided via free allocation of permits to existing and new EITE firms with respect to direct and indirect electricity emissions
- targeted to activities or processes that are the most emissions intensive and trade exposed
- based on the industry-average emissions intensity for an activity
- conditional on output of an activity



Balancing emissions-intensive, trade-exposed (EITE) sectoral support





Eligibility for emissions-intensive, trade-exposed (EITE) support (1)

- Up to around 30% of total permits (including agriculture) to be provided as EITE assistance
- Assistance provided to activities with an emissions intensity above 1500t/\$m revenue
- Two tiers of starting point assistance
 - Activities with EI > 2000t/\$m – 90% baseline emissions
 - Activities with EI between 1500t/\$m and 2000t/\$m – 60% baseline emissions



Eligibility for emissions-intensive, trade-exposed (EITE) support (2)

- Reduce assistance per unit of output over time to keep share of permits to EITEs broadly constant
- Withdrawal of assistance depends on international developments
- Thresholds and rates of assistance to be finalised in light of additional information



Electricity Sector Adjustment Scheme

- Coal fired generators potentially strongly affected by the scheme
 - Depends on carbon pollution targets
- Need for support to assist firms, regions, workers adjust
- Secure supply – e.g. carbon capture and storage (CCS)
- Underpin investor confidence
- Size of fund to be determined in white paper



Limited direct assistance for generators

- Assistance limited to existing coal-fired generators only
- Determined up-front
- Review to minimise prospect of windfall gains
- Differentiated by black and brown coal fuel
- Permits or cash
- Investigate conditionality
- Determined in light of medium term pollution reduction targets



Governance

- Government/Parliament to set key rules
 - e.g. caps and targets, international links, permit allocation rules, etc
- Scheme Regulator to administer scheme
 - Make independent decisions based on rules set in legislation
- Independent public reviews of scheme



Transitional issues

- Credit for early action
 - No specific arrangements
- GGAS and Qld Gas Scheme
 - Govt to work cooperatively with relevant jurisdictions on transition



Next steps

- Garnaut final report – September 2008
- Treasury modelling – October 2008
- White paper, exposure draft legislation and medium term target range – end 2008
- Legislation – introduced 2009
- Scheme start - 2010



Australian Government

Making a submission

Submissions due 10 September

Email: emissionstrading@climatechange.gov.au

Further information:

www.climatechange.gov.au