



Comparing the White Paper with the Garnaut Review recommendations

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Outline

- Many areas where Garnaut Review and White Paper are in agreement
 - 450 arising from strong international action in Australia's national interest
 - Many fundamental and detailed design features
- But discussing here some areas of differences
 - Targets
 - Prices
 - Reliance on CDM credits
 - Permit allocation and revenue use

National targets: numbers	
WHITE PAPER	GARNAUT REVIEW
<p>2020:</p> <ul style="list-style-type: none"> —5% unconditional up to —15% conditional on international agreement <p>2050: —60%</p> <p>Post-2020 commitments to be reviewed if strong agreement at Copenhagen</p>	<p>2020:</p> <ul style="list-style-type: none"> — 5% unconditional — 10% if int'l agreement 550-compatible <p>2050: 25% if int'l agreement 450-compatible, 80% for 550, 90% for 450</p>

National targets: principles	
WHITE PAPER	GARNAUT REVIEW
<p>Emphasis on per capita reduction rates: capita reductions greater than for EU —20%</p> <p>Little mention of per capita levels</p>	<p>Contraction and convergence to equal per capita levels over time: High per capita level means faster reduction rates</p> <p>High population growth rate means relatively slower reductions in absolutes</p> <p><i>Can't pick and choose – both elements are integral to the principle</i></p>
60% at 2050: no conceptual foundation	<p>80% of 90% at 2050.</p> <p>equal per capita entitlements actual levels may differ through trading</p>

Australia's targets in the international view: the upside

- Pulling through with a comprehensive ETS,
putting numbers on the table
 - positive reception eg Yvo de Boer comments
- Any reduction is significant,
because the underlying trend is a steady increase
 - -10% compared to 2000 means -25% to -31% compared to
business-as-usual at 2020

Australia's targets in the international view: the downside

- Cannot claim that -15% is compatible with path to 450
 - Garnaut 550, 2020 / 1990: EU -20%, USA 0%, Australia -10%
...these are the EU and US commitments currently planned
...based on these, the world seems to be on the path to 550
 - Garnaut 450, 2020 / 1990: EU -36%, USA -19%, Australia -25%
 - Arguments for even stronger differentiation ie tougher targets for
developed countries (historical responsibility)
- Not including -25% is apparently closing off Australian
proportionate contribution to a 450-type agreement
 - Only a slim chance ... but why shut the door before Copenhagen?
 - Adjusting post-2020 targets comes too late



What is the difference between -15% and -25%?

- A more ambitious target primarily means buying more permits
 - Australia almost definitely a permit buyer for stringent targets
- Purchases come largely from developing countries
 - eg a more ambitious target means that Australia would support more mitigation in developing countries
- The amounts are significant but not overwhelming
 - Purchasing international permits for an additional —10% :
50 mt @ (say) \$50/t = \$2.5 billion / yr
 - This extra cost is less than the planned payments to EITE industries



Permit price



Permit prices and international trading/linkages

Australia's domestic permit price determined by either...

1 Domestic supply and demand

- Banking means that expectations about the future are reflected in starting price
- Domestic price lower than international (CDM?) price: unlikely

2 International permit price

- Domestic price capped at international price
- Remainder of target fulfilled by buying international permits/credits
- A tighter target only means more international purchases

3 Price cap

- If price cap lower than international price



Permit price

WHITE PAPER

Until 2015:
Price determined by domestic supply & demand incl forward looking,
but capped at CDM price (now ca \$26/t, expected to rise), OR
Capped at government price cap \$40/t rising to \$49/t +CPI

After 2015:
No price cap, but no permit sales.
Price capped at CDM price.
Price could be lower than in other markets.

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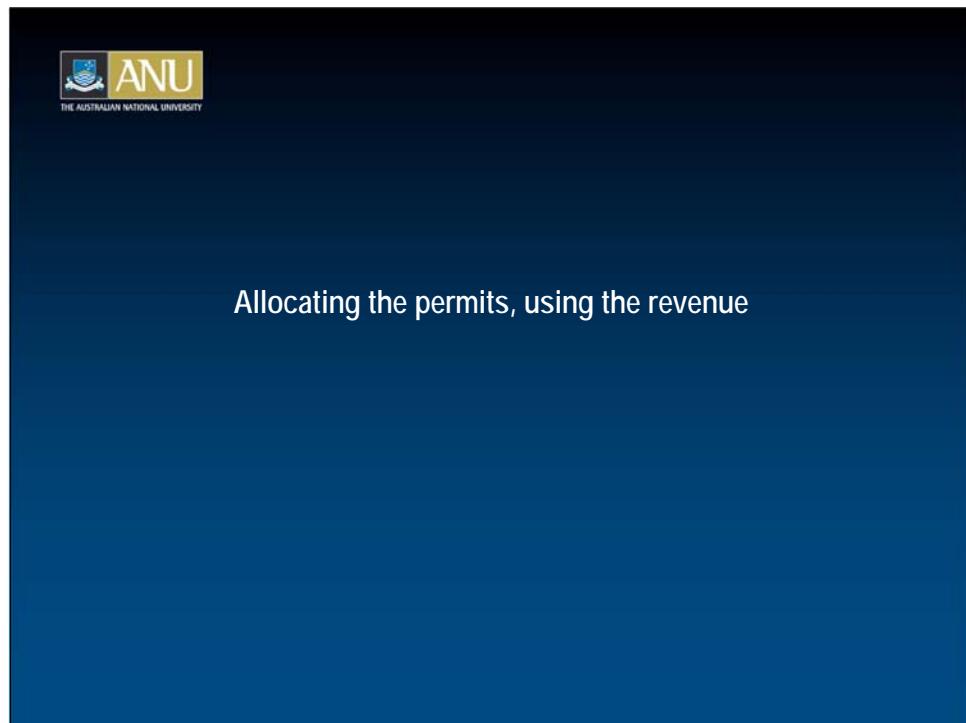
Until 2012:
Fixed price \$20/t rising to \$22
no banking / borrowing

After 2012:
No ban on permit sales. Permit imports expected.
Price likely to be equal to that in main international markets.

What if the price cap applies?

- **Price cap applies if CDM price > cap price**
 - Not the case on current prices, but might be depending on CDM prices (tracking EU ETS prices) and exchange rates
- **Emitters buy from Australian government at cap price, but national target still needs to be met**
- **Gov needs to buy the shortfall in international markets, and cover the price differential through the budget**
 - Where is the provision in the planned use of permit revenue?
- **Economic costs from wedge between international and domestic price**
 - The efficient way to comply with national target is without price cap

Reliance on CDM offset credits	
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CDM the principal source of foreign units into the Australian system	Rely mainly on permits from comprehensive commitments by developing countries
	CDM unreliable in terms of claimed reductions CDM provides disincentives for developing countries to take on comprehensive commitments ...note, CDM is losing support in Europe – does the CDM really have a future? CDM to be replaced by broader, yet undefined mechanisms?
Unlimited use of CDM offset credits	Quantitative limits on CDM Restrictions on the source countries (only countries not expected to take on commitments)



Auctioning vs free permits	
WHITE PAPER	GARNAUT REVIEW
<p>Many free permits to emissions intensive trade exposed industries</p> <p>Some free permits to coal fired generators</p>	<p>Full auctioning</p>

Free permits to emissions intensive trade exposed industries	
WHITE PAPER	GARNAUT REVIEW
<p>90% free permits for activities $> 2\text{kgCO}_2/\\$ \text{revenue or } 6\text{kgCO}_2/\\$ \text{VA}$</p> <p>60% free permits for activities $> 1\text{kgCO}_2/\\$ \text{revenue or } 3\text{kgCO}_2/\\$ \text{VA}$</p> <p>Generous definition of trade exposure</p>	<p>No free permits, but some financial assistance.</p> <p>"Assistance for material distortions arising from major trading competitors not adopting commensurate emissions constraints."</p> <p>Strive for global sectoral agreements.</p>
<p>Share of revenue: Large, growing</p> <p>Total at startup: 26% (\$3b/yr)</p> <p>36% with agriculture, 45% at 2020 if TEEI grow at same rate as economy ? at 2020 if TEEI grow faster...</p>	<p>Share of revenue: Probably small, shrinking</p>

Household assistance	
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<p>Large, shrinking</p> <p>61% (\$5b/yr) total:</p> <p>42% general assistance to lower and middle income households</p> <p>19% fuel tax reduction, for 5 years</p> <p>... will have to shrink given increases in industry assistance</p>	<p>Large</p> <p>General assistance to lower half income households, permanent.</p> <p>Suggested 50% of total revenue</p> <p>Targeted assistance to low-income households (eg energy efficiency grants)</p> <p>No fuel tax reduction</p>

Free permits to coal fired generators, and assistance to coal regions	
WHITE PAPER	GARNAUT REVIEW
<p>\$3.9b/5yrs distributed according to emissions intensity.</p> <p>Conditional on retaining 2007 capacity</p>	<p>No free permits</p>
<p>Assistance to coal mines and coal regions from Action Fund (total size Fund : 6% of revenue, \$07.b/yr)</p>	<p>Assistance for structural adjustment in coal regions: direct to Hhs and communities</p> <p>\$1b to match industry investment in clean technology</p>



Technology development and diffusion

WHITE PAPER

Small

One of four streams in Action Fund

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Large

\$3b/yr for technology development and diffusion

As part of a proposed international
Low Emissions Technology
Commitment



Summing up, looking ahead: domestic

- The basics are there: comprehensive carbon pricing
- A very cautious, politically pragmatic scheme
 - Somewhat at odds with earlier strong statements by PM
 - Is it an 'ordinary' economic reform, or is it a singular occasion requiring greater resolve?
- What will be the Senate compromises?
 - Watering down possible –
 - but a more ambitious approach may have been rejected
- A bad political economy of industry handouts?
- Could prove difficult to take the trainer wheels off
 - coal generators, trade-exposed industries, price cap



Summing up, looking ahead: international

- Australia is in the game – but not leading
- Missed opportunities
 - to keep in the game for strong ambition (450)
 - to encourage more comprehensive developing country commitments
 - to push for new mitigation mechanisms, esp on technology funding
- But there may still room to move on international strategy
- USA the wildcard, and the promise
 - Strong domestic US emissions trading scheme likely
 - Obama linking climate change – energy security – fiscal stimulus