Australian Government

CARBON POLLUTION REDUCTION SCHEME: Australia's Low Pollution Future

WHITE PAPER
DECEMBER 2008

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The need to act

- Australia will be one of the first and hardest hit of developed countries
  - Key interest in effective global action
- Moving early to reduce carbon pollution costs less than delaying action, and smoothes the transition to a low pollution economy
- Australia joining other countries in reducing carbon pollution
  - Making real cuts while growing Australia's economy can encourage global efforts

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Carbon Pollution Reduction Scheme: significant economic reform

- Process begun with NETT, previous Government's Task Group
- Green Paper set a platform for detailed engagement
- Extensive consultation with stakeholders all the way through
  - 1000 submissions plus extensive bilateral and roundtable meetings
- Government has heard from stakeholders and responded
- Now at decision point for significant economic reform process
  - need to settle difficult decisions and implementation detail

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White Paper in overview

- Key policy decisions
  - Medium-term target and indicative trajectory
  - Household and business assistance measures
  - Carbon prices
  - Other elements of market design
- Builds on Green Paper framework
- Key changes
  - more extensive EITE assistance
  - more features to assist cost control

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Responding to climate change in an uncertain economic environment

"*We must not let the financial and economic crisis distract our attention from moving towards long-term rational climate policies*." – OECD Secretary-General

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A substantial economic reform

- Largest reform since the opening of the economy in the 1980s
- For the first time cost of carbon pollution will be factored into all decisions in the economy
- Wide coverage ensures costs are low and impact is equitable
- Carbon cost provides incentives to invest in low emission technologies, and to innovate
- Every cent raised by Australian Government will be used to assist households and businesses

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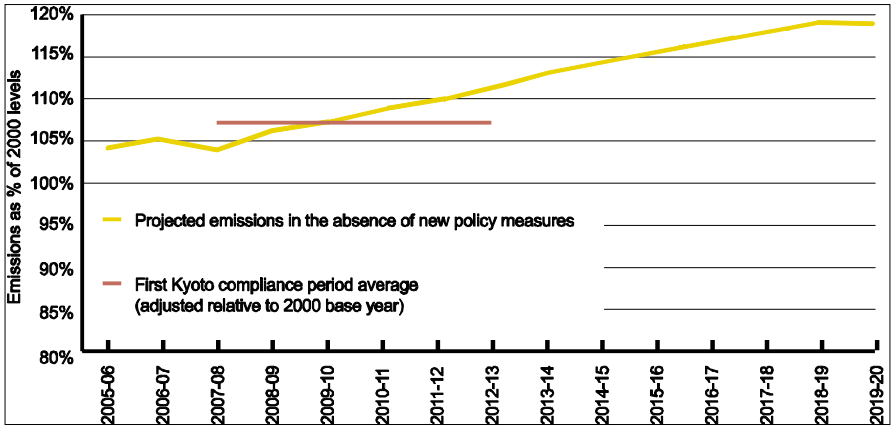
Significant momentum in Australian emissions



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Medium term national target

- Serious and credible commitment to global action consistent with continued economic growth and improved living standards
  - Medium-term target of between 5% and 15% below 2000 levels by 2020
  - 5% unconditional
  - 15% if all major economies commit to substantially restrain emissions, and advanced economies take on reductions comparable to Australia

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Australia to play full part in ambitious global action

- Fair and effective global action leading to emissions stabilising around 450ppm, or lower, in Australia's interests
- If a comprehensive agreement consistent with ambitious stabilisation goals emerges, Australia prepared to play its full role in achieving agreed goal
  - Will set targets beyond 2020 consistent with this
  - 2020 target range positions Australia well to make such a contribution
  - Committed to existing long-term target of a 60% reduction from 2000 levels by 2050
  - Government will consider changing its long term target if necessary to play its full role

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Targets in comparison

- 5-15 range – a significant contribution
- Population growth of 45% between 1990 and 2020
- 5-15 in aggregate translates into 34 – 41% for each and every Australian

Country	**2020 targets**	**2020 per capita reduction**	**2050 targets**
Australia	5-15% below 2000 levels (4-14% below 1990 levels)	27-34% below 2000 levels (34-41% below 1990 levels)	60% below 2000 levels (60% below 1990 levels)
European Union	20-30% below 1990 levels	24-34% below 1990 levels	60-80% below 1990 levels
United Kingdom	26-32% below 1990 levels	33-39% below 1990 levels	80% below 1990 levels
Proposal			
United States (proposal of President-elect Obama)	Return to 1990 levels	25% below 1990 levels	80% below 1990 levels

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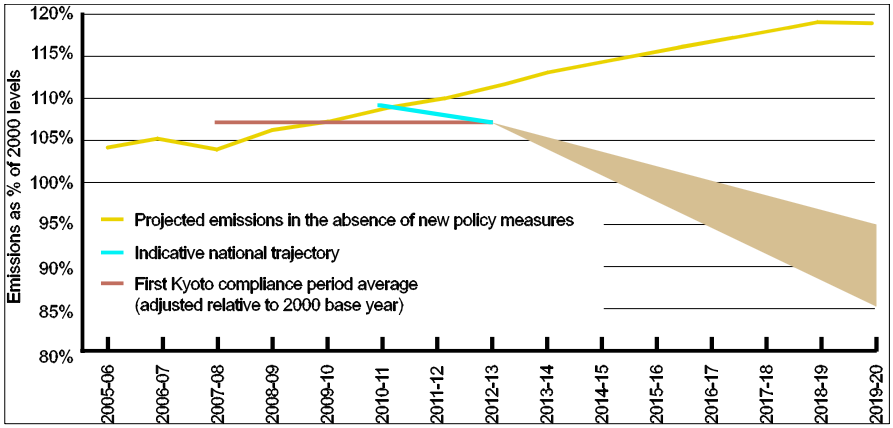
Targets to reduce carbon pollution



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Scheme Design

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Permit allocation

- Mixture of auctioning and free allocation
  - large proportion of permits will be auctioned
  - auction designed to promote an efficient carbon market
- 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

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Auctions

- Monthly auctions
- Further consultation on deferred payment with strict parameters
  - Transitional only
  - No consideration of options involving delivery of permits prior to final payment, or no payment of a deposit

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Caps and gateways

- Business will want guidance over scheme caps to inform investment

BUT

- The uncertain medium-term international negotiating environment requires flexibility
- Allowing imports reduces importance of domestic scheme caps for price
- Guidance:
  - 5 years of caps, extended annually
  - Up to 10 years of ‘gateways’, extended every 5 years

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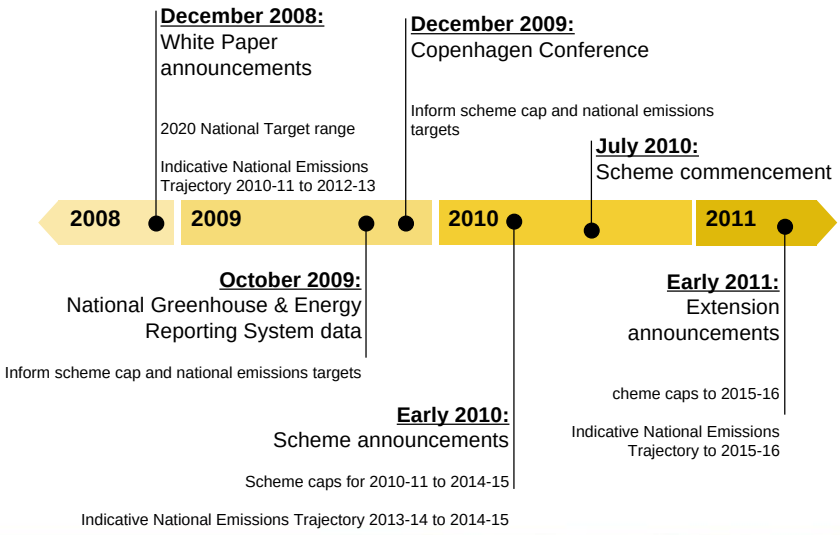
Caps set after Copenhagen



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Design Features influencing carbon price

- Economically responsible trajectory
- Open approach to imports of credits, no exports in early years
- Price cap for five years set at $40, rising at 5% per annum after inflation
- Flexibility to use permits over time
- Regulatory oversight from ASIC, existing TPA provisions

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Scheme coverage

- Around 75% national emissions
- Around 1000 firms with mandatory obligations
  - Large direct emitters (>25kt)
  - Upstream fuel suppliers to small emitters
    - All liquid fuel upstream
- Some entities will volunteer to take on scheme obligations
  - forest entities
  - some fuel users
- Transition for legacy waste
- Proposed ‘obligation transfer number’ system for netting out of upstream and downstream emissions

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Governance

- Creation of Australian Climate Change Regulatory Authority
  - Incorporating other climate regulators over time
- Make independent decisions based on rules set in legislation
- Independent expert advisory committee to conduct strategic reviews of the scheme every five years

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Reporting and compliance

- National Greenhouse and Energy Reporting System (NGERS) the foundation
- Emissions Reporting System (OSCAR) – single report for both schemes
- Options to transfer obligations
- Voluntary surrender of permits leads to Kyoto unit cancellation

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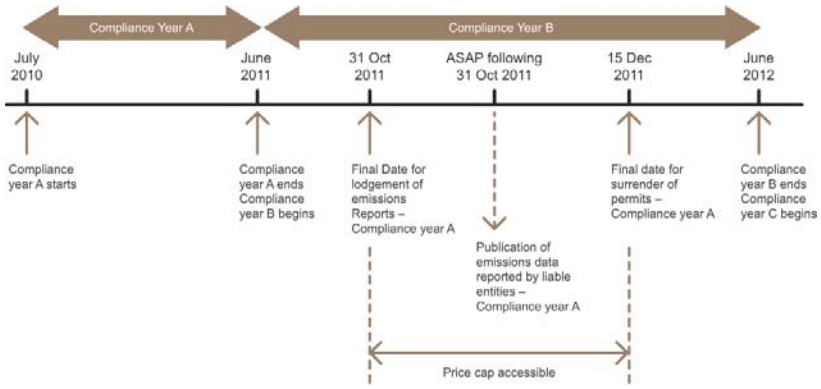
Compliance timeline



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Next steps

- White Paper to form the foundation of Australia's ongoing response to climate change
- Exposure draft legislation to be released early 2009
- Introduction to Parliament in May 2009
- Climate change action fund will be rolled out before scheme commencement
- Following successful passage of the legislation, the scheme is expected to start on 1 July 2010

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Household and Business Assistance

"there is no cost-free way to transition to the low pollution economy of the future" The Hon Prime Minister Kevin Rudd

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Household impacts

- Assumed starting price of $25 will increase:
  - overall cost of living by 1.1 per cent
  - weekly electricity bills by $4
  - weekly gas and other fuel bills by $2
- Overall package approximately $6 billion per annum

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Household package

- Pensioners, seniors, carers and other low-income households will receive additional support, above indexation, to fully meet the expected overall cost of living flowing from the scheme.
  - Around 90 per cent of low-income households (or 2.9 million households) will receive assistance equal to 120 per cent or more of their cost of living increase.
- Middle-income households will also receive support
  - Around 97 per cent of middle income households will receive some direct cash assistance.
  - Middle-income families receiving Family Tax Benefit Part A will receive assistance to meet at least half of the cost of living impacts.

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Fuel tax offset

- Fuel tax to be reduced on a cent for cent basis
  - Cut in fuel tax based on diesel emission factor
  - Six monthly adjustments for three years
  - CPRS fuel credit for 3 years for agriculture and fishing industries
  - CPRS fuel credit for one year for heavy on-road transport
  - Equivalent treatment of LPG, CNG, LNG

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Emissions-intensive, trade-exposed (EITE) industries

- Assistance provided because:
  - risk of carbon leakage from lack of comparable carbon constraints
  - need for transitional assistance
- Assistance to EITE industries will:
  - balance support for EITE firms with other community interests
  - maintain strong incentives for EITE firms to reduce emissions and contribute to Australia's emissions reduction efforts

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Eligibility for EITE assistance

- Assessment based on all entities conducting an activity
  - Emissions intensity test (revenue and value added)
  - Emissions data: 2006-07 and 2007-08
- Revenue/value added data: 2004-05 to first half of 2008-09
- Trade exposure test (trade share and potential for international competition)
- Emissions associated with natural gas used as feedstock taken into account in assessment for EITE assistance
- Formal assessment of eligibility conducted in first half of 2009

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Rates of assistance to EITE industries

- Two rates of assistance:

90% rate of assistance	Activities above 2000t/$m revenue *or* 6000t/$m value added
60% rate of assistance	Activities between 1000t/$m-1999t/$m revenue *or* 3000t/$m-5999t/$m value added

- Rates of assistance reduced by 1.3% per annum for EITE sector - 'carbon productivity contribution'
- Initially around 25% of total permits to be provided as EITE assistance (35% including agriculture)
- EITE assistance could reach 45% depending on growth in the sectors

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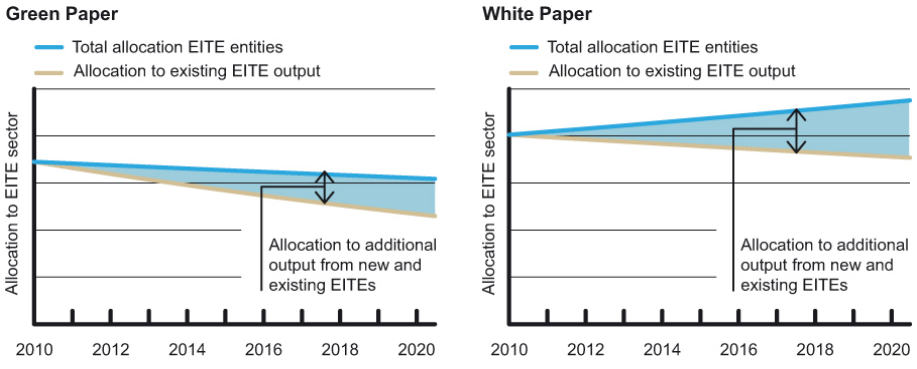
Assistance to emissions-intensive, trade-exposed (EITE) industries



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Assistance to maintain incentives for emissions reductions

- Assistance designed to maximise incentives for EITE industries to adjust to a low-carbon economy, by
  - providing assistance using the same baselines for all entities, new and existing, conducting an activity
  - calculating baselines using historical emissions information – not updating these for reduction in emissions by a firm
  - ensuring all entities bear some carbon cost
  - reducing the rates of assistance over time to ensure EITE activities share in national emissions reductions

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Withdrawal of assistance for EITE industries

- EITE assistance is transitional
- EITE assistance program will be reviewed at the five-year review or at an earlier date if directed by the Minister – e.g. if an international agreement was concluded
- The Government will withdraw assistance as comparable carbon constraints are introduced

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CCAF - assistance to business, regions and workers

- Climate Change Action Fund $2.15 billion over five years
  - Additional $300 million in 2013-14 and 2014-15 for coal industry
- Four streams
  - Information to businesses and community service organisations
  - Rebates for low emission investments
  - Structural adjustment assistance
  - Assistance for high emission coal mines
    - Investing in abatement and assistance for costs

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Electricity Sector Adjustment Scheme

- Assistance valued at around $3.9 billion
- Assistance in the form of permits ensures assistance adjusts in line with impacts on asset values
- Assistance will be:
  - targeted to the most emissions-intensive generators
  - limited to existing coal-fired generators
- Review will assess any windfall gain risks
- Energy sector bodies have indicated the package significantly mitigates risks to energy security
  - 'Low risk of plant shutdown' AER
- Assistance is conditional on windfall gain assessment and remaining available if needed to maintain future energy supply

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Fiscal balance

	2008-09 $b	2009-10 $b	2010-11 $b	2011-12 $b
Revenue from the issuing of permits	-	-	11.5	12.0
Households Assistance Measures				
Assistance for Low and Middle Income Households	-	-	-3.9	-6.0
Fuel Tax Adjustment	-	-	-2.4	-2.0
Industry Assistance Measures				
Assistance to Emissions Intensive Trade Exposed Industries	-	-	-2.9	-3.1
Assistance to Strongly Affected Industries	-	-	-0.7	-0.7
Climate Change Action Fund		-0.3	-0.7	-0.7
Transitional assistance to firms participating in the Greenhouse Gas Reduction Scheme (GGAS)	*	*	*	*
Net Impact of Revenue and Assistance Measures	-	-0.3	0.8	-0.5

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