

The Carbon Pollution Reduction Scheme – Key Aspects of the White Paper

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Emissions Targets

On 15 December 2008 the Government released the Carbon Pollution Reduction Scheme (“**the Scheme**”) White Paper and with it, Australia’s carbon emissions targets post 2012.

The Government has set its commitment at between 5% and 15% below 2000 levels by 2020.

- The 5% target is unconditional
- The 15% target applies if all major economies commit to substantially restrain emissions, with advanced economies talking on reductions comparable to Australia.

Coverage

- The Scheme will have a very broad coverage including all six greenhouse gases under the Kyoto Protocol.
- There are no changes to the sectors covered in the Green Paper, and thus the Scheme will cover emissions from stationary energy, transport, fugitive emissions, industrial processes, waste and forestry sectors. Forestry is to remain as opt-in, and the future inclusion of agriculture to be decided on in 2013, however the earliest inclusion date is 2015.
- Less than 1,000 businesses are expected to have direct liabilities under the Scheme since emissions from facilities with total direct emissions less than 25,000 tones of CO₂-e are not included.

Permit Allocation

- Permits will be allocated through a combination of auctioning and free allocation to certain entities.
- Allocation will progressively move towards 100% auctioning as the Scheme matures, subject to the provision of transitional assistance for emissions-intensive trade-exposed industries and coal-fired electricity generators.

Auctions

- Auctions for permits will be held 12 times throughout the financial year.
- Entities receiving free permits will be able to sell these at auction occurring in 2010 and 2011.

- The Government will advance auction future vintages. There will be consultation with industry on possible deferred payment arrangements for auctions of future vintage permits of a limited and strictly transitional nature; in particular, there will be no consideration of options involving the delivery of permits before final payment or without the payment of a deposit.
- The first auction will take place as early as is feasible in 2010, before the commencement of the Scheme.

Assistance to Emissions-Intensive Trade-Exposed (EITE) Industries

- EITE companies have lobbied hard for free permits since the release of the Green Paper, on the basis that their products are priced on international markets, and arguing that they cannot pass on carbon costs until their overseas competitors face similar imposts.
- Proposals for free permits are more generous than previous (Green Paper) indications. Eligibility criteria will be easier to meet and will allow companies to opt to have emissions intensity (tonnes CO₂-e/\$m) judged on the basis of value added rather than revenue. These new criteria are expected to allow LNG and petroleum refining to now be eligible for free permits.
- Aluminium, cement, lime and integrated steelmaking are expected to qualify for 90% free permits; and alumina, petroleum refining and LNG for 60% assistance. Other sectors that may qualify include pulp and paper, other iron and steel, chemicals, non-ferrous metals and glass.
- Free permit allocation will decline by 1.3% p.a, to reach 79% (for 90% free permits) or 52.6% (for 60% free permits) by 2020-21.

Assistance to Coal-fired electricity generators

- Assistance will be available to coal-fired generators with emissions intensity above 0.86 tonnes CO₂-e/MWh while operating, or committed to be constructed, on 3 June 2007.
- Provision of a fixed allocation of free permits (i.e. c.\$3.9bn of assistance in nominal terms) to generators over five years.
- Conditions to assistance include:
 - (a) The generator must maintain its generation capacity at 3 June 2007 levels. In order to reduce capacity, it must be shown that the reduction will not cause a supply shortfall.
 - (b) Following review in 2012-13, the final two years' permits will be withheld if a "windfall gain" looks likely for a particular generator.

Carbon Price

- Australian Treasury modelling has shown that, based on cuts of 5-15% on 2000 levels, carbon prices will start at around \$25/tonne in 2010.
- A price cap will apply for the five years of trading, which has been set at \$40, rising at 5% p.a. real.
- Offsets: There will be an unlimited acceptance of Kyoto Protocol project-based carbon credits, such as those generated under the Clean Development Mechanism. However, there is no opportunities to generate offsets from domestic sources until after review in 2013.
- Unlimited banking and limited borrowing from future years will be permitted.

Use of Revenue Raised

The Government projects that revenue from the Scheme will be in the region of \$23.5bn over 2010-11 and 2011-12, assuming a carbon price of \$25/tonne.

It is proposed that the revenue will be used as follows:

- \$9.9bn direct assistance to households
- \$4.3bn fuel tax adjustments to households and industry
- \$7.4bn free permits to strongly affected and EITE industry
- \$2.15bn Climate Change Action Fund to assist businesses, communities and regions.

The Climate Change Action Fund (CCAF)

- The Government has established the CCAF under the White Paper to provide assistance to business, industry and communities making the transition to functioning under the Scheme.
- The CCAF has four streams:
 - (a) Information dissemination to businesses about the CPRS, its impacts and measures to reduce carbon footprints;
 - (b) Investment and innovation assistance to assist businesses improve energy efficiency and reduce emissions;
 - (c) Structural assistance to smooth adjustment transitions; and
 - (d) Assistance for coal mining involving the promotion of emissions abatement and specific transitional assistance.
- The CCAF will be rolled out prior to trading commencement.

Proposed Timetable towards Trading Commencement

- Exposure draft legislation for the CPRS is expected to be released in late February 2009.
- Following public comment on the exposure draft, which ends in April 2009, the Government intends to introduce the relevant bills to Parliament in May 2009.
- Following successful passage of the legislation, the Scheme is expected to commence on 1 July 2010.

Worldwide Developments

	2020 targets	2050 targets
Commitments		
Australia	5-15% below 2000 levels 4-14% below 1990 levels	60% below 2000 levels 60% below 1990 levels
European Union	20-30% below 1990 levels	60-80% below 1990 levels
United Kingdom	26-32% below 1990 levels	80% below 1990 levels
Proposals		
United States (proposal of President Obama)	Return to 1990 levels	80% below 1990 levels

COP-15: Climate Change Conference in Copenhagen

The parties to the United Nations Framework Convention on Climate Change will meet in Copenhagen in December 2009 to negotiate the successor to the Kyoto Protocol. It is hoped that the parties will reach agreement on a "Copenhagen Protocol" which will set out climate change commitments for the period post 2012.

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