Overview: The Carbon Pricing Mechanism Legislation

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Australia’s Clean Energy Legislation

- Encouraging **energy efficiency**
- Promoting innovation and investment in **renewable energy**
- Introducing a **carbon price** and using revenue raised to assist households and businesses
- Creating opportunities in the **land sector** to cut pollution, improve productivity, sustainability and resilience
Australia’s 2020 target is ambitious

Source: DCCEE projections (2012)
Why use emissions trading to introduce a carbon price?

**Efficiency**

**Least-cost**
Utilises the market to allocate emissions to their highest value use; can cover most emissions through placing an obligation on a small number of large businesses.

**Certainty**

**Achieves targets**
Provides certainty about the level of emissions; consistent with international architecture.

**Flexibility**

**Adaptable**
Reflects economic conditions; ambition can be adjusted; can link to other cap-and-trade schemes.
Staged implementation of carbon pricing in Australia

- Emissions reporting: 1 July 2008
- Fixed price emissions trading: 1 July 2012
- Flexible price emissions trading with price ceiling and one-way link to EU ETS: 1 July 2015
- Fully flexible emissions trading with full link to EU ETS: 1 July 2018
A Long Road to Carbon Pricing

- 1999 - Australian Greenhouse Office papers on emissions trading
- 2006/2007 - States and Territories’ National Emissions Trading Taskforce
- 2007 – Prime Minister’s Task Group on Emissions Trading
- 2008 - **Carbon Pollution Reduction Scheme** Green and White Papers
  - Garnaut Climate Change Review
  - Treasury Economic modelling
- 2009 – Carbon Pollution Reduction Scheme Bill introduced into Parliament
- 2010 – Carbon Pollution Reduction Scheme Bill withdrawn from Parliament
- July 2011 - Multi-Party Climate Change Committee releases the design of the Carbon Pricing Mechanism
- December 2011 – **Clean Energy Act** is passed
- July 2012 – Carbon Pricing Mechanism commences
Australia’s Clean Energy Legislation: fixed and flexible price periods

Fixed price period

- 2012 - 13: $23.00
- 2013 - 14: $24.15
- 2014 - 15: $25.40

Started on 1 July 2012

Flexible price period

- 2015 - 16
- 2016 - 17
- 2017 - 18

In the first three years of the flexible price there is a price ceiling that will be set at $20 above the expected international price, rising by 5% real per year.

Automatic transfer to flexible price on 1 July 2015
International Linking

• Liable entities will be able to use international units in the flexible price period to meet up to half of their liabilities.
  – Within the overall limit on the use of eligible international units, there is a sub-limit on the use of Kyoto Protocol units.

• Australia’s carbon price is expected to be set by the international carbon price

• In August, Australia and the European Commission announced a plan to link the Australian and EU schemes from 2015
  – Australian legislation has already been amended to enable this link
• **Climate Change Authority** makes recommendations to the Government by February 2014

• Five years worth of pollution caps will be announced no later than May 2014

• Caps will then be extended by one year every year, always providing five years of certainty
Coverage of the Australian carbon price

0.025% of actively trading businesses will have direct liability for around 60% of domestic emissions covered by the carbon pricing mechanism.

Liability in the Clean Energy Legislation

- Carbon price liability applies to direct emissions from a facility
- A facility is liable if it has emissions of 25,000 tonnes CO$_2$-e each year or more or it is a natural gas supplier
- Reported emissions under the *National Greenhouse and Energy Reporting* (NGER) Scheme are used to determine liability
- The Clean Energy Regulator has identified 323 potentially liable entities so far
Industry Support

• Free permit allocations to emissions-intensive trade-exposed industries
  – Assistance is based on average industry emissions intensity of production and the level of production
  – Assistance is provided at two rates depending on level of exposure to international markets
  – Assistance provided at two rates – 94.5% and 66% based on emissions intensity
  – Assistance declines annually
  – Provided in a way that retains full incentives for business to improve the emissions intensity of their products

• Targeted grant programs to assist comparatively less emissions intensive businesses become more energy efficient to offset costs

• Within energy sector, fixed and time limited free permit allocations to the most emissions intensive generators (addresses risks to energy security)
Household assistance

- More than 50% of carbon price revenue raised will go to households
- Assistance targeted to low-income households
- Assistance delivered through reform of the tax system
  - Taxpayers under $80,000 will all get a tax cut, with most receiving a tax cut of at least $300 a year
  - 1 million households will no longer need to file a tax return
- Assistance also provided through increases in payments to pensioners and beneficiaries
Lessons learned: Legislation should provide certainty on key aspects…

- Policymakers need to trade off the benefits of flexibility to change policy settings (i.e. through regulations) against the certainty provided by legislation

- Notice periods matter: the legislation is designed to ensure there are reasonable notification periods concerning changes to the operation of a number of aspects of the scheme
… but flexibility allows the integrity of the scheme to be maintained

- The Australian legislation provides certainty but also enables opportunities, such as international linking, to be taken up.

- Scheme design decisions can also provide governments with the capacity to respond to changed circumstances to maintain integrity.

- For example, to support linking with the EU ETS, a number of changes to the Australian legislation have recently been made including:
  
  - *Floor price*: The floor price of $A15 (rising annually by 4 per cent in real terms) will not be implemented to ensure that the Australian price is set by the international price.
  
  - *Kyoto units*: A quantitative limit of 12.5 per cent has been placed on Kyoto units
  
  - Almost three years’ notice has been provided on these changes.
Ongoing work on the Clean Energy Legislation

• The Climate Change Authority will make recommendations on caps for the first five of the years of the flexible price period by February 2014
• The Productivity Commission will review industry assistance arrangements in 2014-15
• The European Commission and Australia are working to agree registry arrangements by mid-2013
• Australia and the European Commission will negotiate an agreement for a full two-way link commencing no later than mid-2018