An Overview of Australia’s Climate Legislation

SPEECH: Hon Mike Rann, Australian High Commissioner to the UK

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Lord Deben, Lord Prescott, distinguished Legislators from around the world. I’m very pleased to have been invited here today to present an overview of Australia’s climate legislation, and would like to thank Globe for this opportunity. I would also like to thank Lord Deben for his kind remarks about Australia and its legislation.

I should point out that prior to my recent appointment as Australian High Commissioner to the UK, I was Premier of South Australia and Minister for Climate Change & Sustainability, as well as a member of the International Leadership Council of the UK-based Climate Group, and was Chairman of Low Carbon Australia Ltd, the Federal Government agency that provides finance for companies to reduce emissions and reduce costs.

I am pleased that previous speakers have already mentioned the leadership role played by sub-national governments around the world. The Climate Group estimates that more than 60 per cent of the decisions that affect the climate are made at the sub-national level; by states, regions, provinces and cities. So it is important to recognise the pioneering work of sub-national governments who have often acted as laboratories or test beds for climate action nationally and internationally.

I would particularly like to mention the great work of Canadian Provinces such as Quebec and Manitoba; California in the US; Catalonia in Spain; Wales and Scotland in the United Kingdom; KwaZulu-Natal in South Africa and São Paolo in Brazil. Through The Climate Group, sub-national governments have also committed to planting one billion trees, with more than 500 million already committed.

In addition, sub-national governments such as Gujarat in India; Chongming Island in Shanghai, China; Kigali in Rwanda; and Swansea in Wales are working with the UKs Ecological Sequestration Trust, led by Professor Peter Head CBE, on projects designed to harness CO2 and use it productively to make soils more fertile.

Australia’s climate change architecture

Nationally, Australia has a very good story to tell in this area – and so we should, since we are the highest per-capita emitter of CO2 in the developed world, and climate change is a particular threat to us.

Much of our hot, dry continent faces the potential loss of high-production farming land that remains a foundation pillar of the economy. Climate change also poses a serious threat to Australia’s precious water resources because of the already marginal nature of much of our rainfall.
Our response to this threat was a long time in the making, but Australia has now produced what the Government believes is a world-leading package of measures to reduce emissions and drive investment in clean energy.

I will just briefly outline the key features of Australia’s policy architecture supporting a clean energy future, before moving on to talk about our carbon price legislation:

- Firstly, Australia – in a bipartisan way - aims to source 20% of our energy from renewable technologies by 2020, and to drive A$20 billion of investment in renewables by 2020. Some ask, is this achievable? Well, in my own state of South Australia this was exceeded nine years ahead of schedule, with more electricity now derived from wind (26%) than from coal (24%).

- Nationally, we are setting up a A$10 billion Clean Energy Finance Corporation to further leverage private sector finance for renewable energy and clean technology projects.

- We are also setting up the Australian Renewable Energy Agency, which will manage A$3.2 billion in renewable energy research and development funding.

- Secondly, our Carbon Farming Initiative will allow landholders to receive carbon credits for their climate change abatement work through carbon farming projects.

- Thirdly, we are also tackling energy efficiency, with preparatory work for an Energy Savings Initiative.

- Fourthly, and perhaps most importantly, Australia has legislated for a Carbon Pricing Mechanism, which came into effect on 1 July last year – and this is the focus of my presentation today.

**The Carbon Pricing Mechanism**

The Carbon Pricing Mechanism is central to Australia’s unconditional target of reducing emissions by 5% below 2000 levels by 2020 (though of course if we see stronger action around the world, we will look at upping this target). Some of its greatest advantages are as follows:

- A carbon price is the most economically efficient, lowest-cost way of reaching our target.

- It allows the Government to set, from July 2015, a cap on annual emissions from key industries covered by this legislation.

- It makes Australia’s biggest polluters pay for the greenhouse gas emissions they create. In other words, they have been given a clear
incentive to reduce their emissions intensity as we transition to a full emissions trading scheme.

• The scheme is consistent with the international architecture established under the UN Framework Convention on Climate Change, so that our own emissions reduction work contributes in a meaningful way to the global response.

While the legislation came into effect only last year, the groundwork started much earlier.

Reporting of the emissions data that underpins Australia’s emissions trading scheme commenced in 2008, under the National Greenhouse and Energy Reporting Scheme.

By getting an early start on monitoring, reporting and verification, we have allowed business and other affected parties time to get used to one of the carbon price’s major compliance elements.

This gradualist approach is also evident in the emissions trading scheme itself.

The carbon price is fixed for the first three years, allowing businesses time to get used to the new system – to understand their obligations and to start planning ways of reducing their pollution.

The scheme then automatically transitions to a flexible-price system in 2015-16, where the carbon price will be set by the market.

Similarly, the international linkage of the scheme is being phased in gradually. From 1 July 2015, the Australian scheme will link to the European Union Emissions Trading Scheme. But initially it will be a one-way link, where Australia will accept EU units; then, by 1 July 2018, it will be a full two-way link, where both schemes will recognise each other's units.

Gradualism has been a feature of the build-up to the legislation too. It has taken us a long time to get to this point.

It was back in 1999, during the Howard Government, that the Australian Greenhouse Office first began exploring the potential form of an Australian emissions trading scheme, and it was in 2007 that our national, state and territory governments produced reports on what the scheme might look like, via their Task Group on Emissions Trading.

Meanwhile, a leading economist, Ross Garnaut, conducted thorough modelling on the costs and benefits of acting on climate change in 2007 and 2010, backed up by the Australian Treasury’s own comprehensive modelling work in 2008 and 2011.

During all this groundwork, there was also a false start. In 2009, the Government tabled legislation for an emissions trading scheme, the Carbon Pollution Reduction Scheme, in Parliament, but the legislation did not pass the Australian Senate.
Following the 2010 election, the Government established a Multi-Party Climate Change Committee to design a new emissions trading scheme.

In July 2011, the Government announced the details of the Carbon Pricing Mechanism. The Clean Energy Legislation was passed, following a prolonged and heated national debate, in December 2011.

**Australia’s carbon pricing legislation in detail**

I’ll now present a few more details of how this legislation works.

As I mentioned, the carbon price is fixed for the first three years, while business gets used to the system. The price will be A$23 in 2012-13, A$24.15 in 2013-14, and A$25.40 in 2014-15.

During the fixed-price period, units can be traded but cannot be banked or borrowed. Limited domestic offsets from the Carbon Farming Initiative can be used. No international units can be used during the fixed price period.

The scheme then automatically transitions to a flexible-price system in 2015-16, where the carbon price will be set by the market. Once the price is flexible, we might expect to see Australia’s carbon price be set by the international price.

At this point, unlimited banking will be allowed, and limited borrowing will also be allowed. Domestic offsets from the Carbon Farming Initiative can be used to cover up to 100% of an entity’s liability.

From July 2015, eligible international units can be used to cover up to 50% of a liability. Within the limit on eligible international units, there is a sub-limit on the use of Kyoto Protocol units (CERs, ERUs and RMUs).

The Climate Change Authority will advise on the integrity of new international units, and the Australian Government can disallow types of international units at any time to ensure environmental integrity.

A price ceiling will exist for the first three years of the flexible-price period, to prevent price spikes. This will reduce the risk for businesses as they gain experience in having a market set the carbon price.

The carbon pricing mechanism includes wide coverage right from the outset: it extends to the stationary energy sector, some transport emissions, industrial processes, non-legacy waste, and fugitive sources. This accounts for around two-thirds of Australia’s CO2 emissions.

The non-covered sectors, producing the other one-third of emissions, include agriculture, forestry and fishing, and on-road and light transport.

The legislation stipulates that a carbon-price liability applies to direct emissions from a facility. A facility is liable if it has emissions of 25,000 tonnes CO2-equivalent each
year or more, or if it is a natural gas supplier. The Clean Energy Regulator has identified 323 potentially liable entities so far.

**Minimising the impact**

The Australian Government wants to minimise the impact on business, jobs, households and the Australian economy from the introduction of the carbon price. The legislation reflects this.

To prevent carbon leakage – in which trade-exposed, emission-intensive exposed industries would be ‘forced to shut up shop’ and move to countries with lax pollution standards – the Government will provide free permit allocations to emissions-intensive trade-exposed industries.

The amount of assistance will depend on the level of exposure to international markets and/or emissions intensity, and it will decline annually. This ensures that there is still incentive for business to improve the emissions intensity of their products.

Targeted grant programs will also promote innovation and investment in energy efficiency to assist businesses to reduce their carbon price costs.

An Energy Security Fund will provide transitional assistance as the electricity generation sector makes the journey to low-emissions generation. The Fund offers a limited allocation of permits and cash to assist highly emissions-intensive coal-fired generators adjust to the introduction of a carbon price and prepare for a lower emissions future.

Households will also be helped. Our Treasury’s economic modelling predicted that the carbon price will increase Australia’s consumer price index by about 0.7%. Australian families are being compensated for price rises, via a link between the carbon pricing mechanism and Australia’s tax and welfare systems.

More than half of the revenue raised through the carbon price goes to households, particularly low-income households, in the form of tax cuts and increases in pensions, allowances and family payments.

To put this in concrete terms: the carbon price was predicted to increase household electricity prices by 10% in 2012-13, requiring the average Australian household to pay an extra A$3.30 a week. The tax cuts and benefit increases amount to an average of A$10.10 a week.

**Lessons learned**

Let me finish by sharing with you the key lessons we’ve learned from our legislative and policy process.

The overarching lesson is that legislation should provide *certainty*. But policymakers also need the *flexibility* to adjust the policy when required, so that the scheme’s integrity is maintained.
One way to combine certainty and flexibility is through notice periods. We designed our legislation to ensure there are reasonable notification periods concerning changes to the way the scheme works.

So, for example, our pollution cap will be extended by one year every year in regulations from 2015-16 – this means everyone knows, at any given time, what the next five years of scheme caps will be.

Or, to take another example, three years’ notice will be provided of modifications to emissions-intensive, trade-exposed industry permit allocations that will have a negative effect on business.

Yet another example: recently, we had to change the legislation to support linking our scheme with the EU ETS. But almost three years’ notice has been provided for these changes.

Another lesson: the passage of the main body of legislation is not the end of the story. Many tasks still lie ahead. For example:

- 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 Government’s in-house economic think tank, 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

Conclusion

The Australian Government prides itself on having become a leader in legislation to tackle climate change, and in having done so in a way that:

- offers both certainty to business as well as adaptability for policymakers;
- protects jobs and household living standards;
- supports and encourages businesses as they transition to lower emissions;
- drives investment in renewable; and
- is consistent with renewed action globally and by our key international partners.

We look forward to working with all of you in the years to come.

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