



Australian Government

The Low Carbon Economy

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Key Points

- Achieving low carbon economy a major economic reform
- Need widest possible effort – excluding/shielding sectors comes at an overall cost
- Assistance to households and business to adjust to the carbon price while ensuring scheme achieves its central objectives
 - Use every cent raised to assist households and business

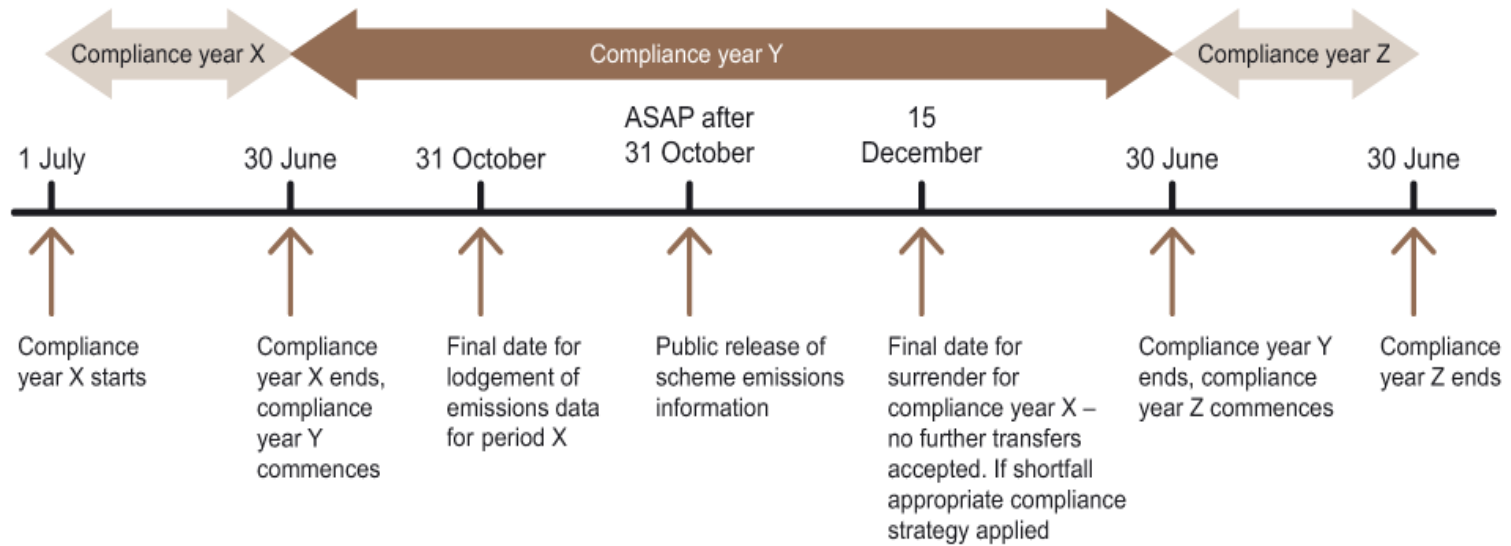


Reporting and compliance

- National Greenhouse and Energy Reporting System (NGERS) the foundation
- Emissions Reporting System (OSCAR) – single report for both schemes
- Scheme obligations – operational control
- Large emitters $\geq 125\text{kt}$ – 3rd party assurance required
- Staged improvements in measurement methodologies over time

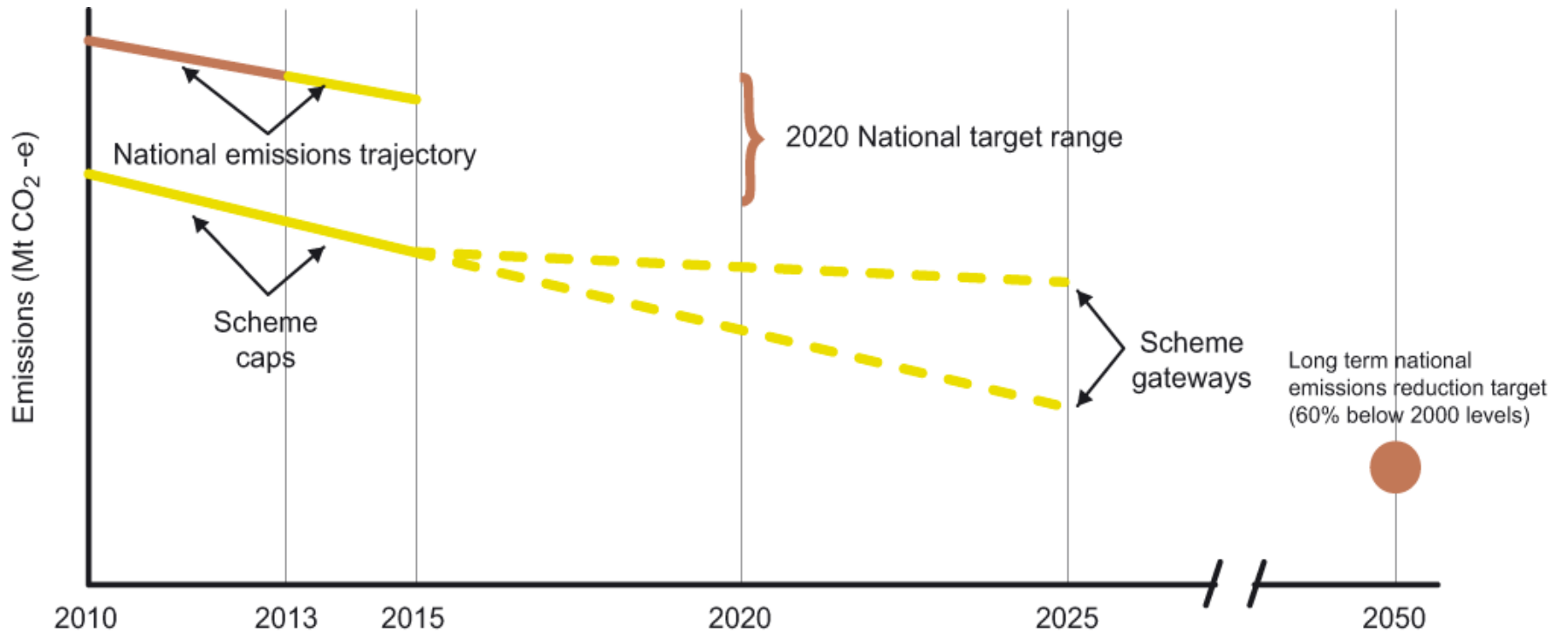


Compliance timeline





Caps and gateways





Operation of Carbon Market

- Expectations of future carbon prices will drive investment and behavioural change
- Need to create robust and credible carbon market – property rights, registry
- Permits to be banked indefinitely
- Limited borrowing
 - Small percentage of following year's vintage can be used for compliance
- Price cap
 - Form and level to be determined



Linking with International Schemes (1)

- Use of international credits can reduce cost
- International links help build an effective global response
- Minimising implementation risk an early priority
 - Want a stable/predictable start up
- Kyoto consistency important at start up
- Should link only with robust schemes



Linking with International Schemes (2)

- Preference for open links over time within an effective global emissions constraint
 - National emissions targets to be interpreted in net terms, that is, taking into account trade in international credits
- Allow use of Kyoto units for compliance
 - Some initial restrictions
- No transfer of permits outside Australia in short term
- Provide five years certainty to market on types and quantities of international units allowed



Permit allocation

- Mixture of auctioning and free allocation
- 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



Assistance to business, regions and workers

Climate Change Action Fund

- Capital investment in new low-emissions technologies
- Industrial energy efficiency (long paybacks)
- Dissemination of innovation and best practice among small medium sized businesses
- Regional and worker assistance as required
- Predominantly for those sectors not receiving permit allocation
- Funding/scope to be finalised in white paper



Emissions-intensive, trade-exposed (EITE) industries

- Risk of carbon 'leakage' from lack of comparable carbon constraints
- Need to balance support for EITE firms with other community interests, so EITE assistance to be adjusted over time to ensure contribution to emissions reductions from all sectors



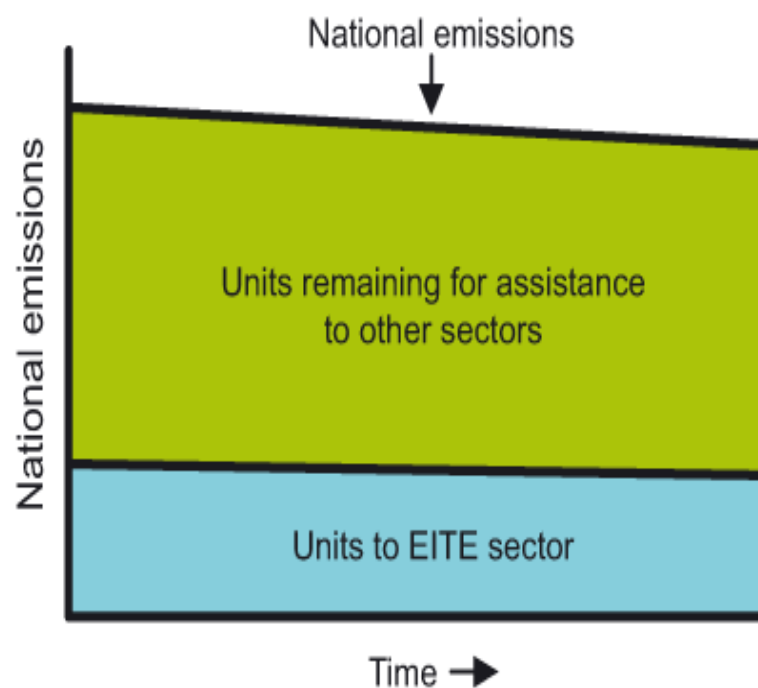
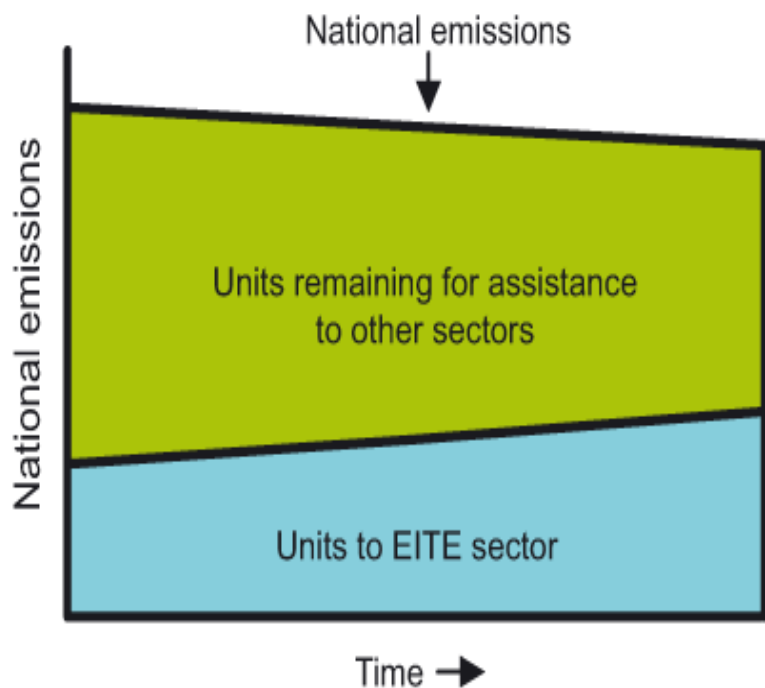
Assistance for Emissions-intensive, trade-exposed (EITE) industries

Assistance is to be:

- provided via free allocation of permits to existing and new EITE firms with respect to direct and indirect electricity emissions
- targeted to activities or processes that are the most emissions intensive and trade exposed
- based on the industry-average emissions intensity for an activity
- conditional on output of an activity



Balancing Emissions-intensive, trade-exposed (EITE) sectoral support





Eligibility for Emissions-intensive, trade-exposed (EITE) support (1)

- Up to around 30% of total permits (including agriculture) to be provided as EITE assistance
- Assistance provided to activities with an emissions intensity above 1500t/\$m revenue
- Two tiers of starting point assistance
 - Activities with EI > 2000t/\$m – 90% baseline emissions
 - Activities with EI between 1500t/\$m and 2000t/\$m – 60% baseline emissions



Eligibility for Emissions-intensive, trade-exposed (EITE) support (2)

- Reduce assistance per unit of output over time to keep share of permits to EITEs broadly constant
- Withdrawal of assistance depends on international developments
- Thresholds and rates of assistance to be finalised in light of additional information



Electricity Sector Adjustment Scheme

- Coal fired generators potentially strongly affected by the scheme
 - Depends on carbon pollution targets
- Need for support to assist firms, regions, workers adjust
- Secure supply – e.g. carbon capture and storage (CCS)
- Underpin investor confidence
- Size of fund to be determined in white paper



Limited direct assistance for generators

- Assistance limited to existing coal-fired generators only
- Determined up-front
- Review to minimise prospect of windfall gains
- Differentiated by black and brown coal fuel
- Permits or cash
- Investigate conditionality
- Determined in light of medium term pollution reduction targets



Governance

- Government/Parliament to set key rules
 - e.g. caps and targets, international links, permit allocation rules, etc
- Scheme Regulator to administer scheme
 - Make independent decisions based on rules set in legislation
- Independent public reviews of scheme



Next steps

- Treasury modelling – October 2008
- White paper, exposure draft legislation and medium term target range – end 2008
- Legislation – introduced 2009
- Scheme start - 2010



Kyoto units

- AAUs – Assigned amount units
- RMUs – Removal units
- CERs – Certified emissions reductions
 - clean development mechanism
 - tCERs, LCERs – from forestry
- ERUs – Emissions reduction units
 - Joint implementation mechanism



Which Kyoto units would be accepted in the initial years?

- CERs
 - Not tCERs and ICERs (liability issues)
- ERUs
- RMUs
- Need to manage carry-over restrictions in Kyoto Protocol

NOT

- AAUs (to 2012-13)
- Review in light of international developments



Conversion and sale overseas of Australian Kyoto units

- Not proposed in initial years
- Primarily to manage implementation risks
 - International demand could raise domestic prices
- To be reviewed over time.
- Joint implementation
 - Not in covered sectors
 - Decision in line with offsets decision in 2013



Future linking arrangements

- Bilateral discussions with New Zealand - EU
- Other countries through the International Carbon Action Partnership