



Australian Government

Department of Climate Change

# AUSTRALIA'S CARBON POLLUTION REDUCTION SCHEME

*Presentation to the Eighth Annual Workshop on  
Greenhouse Gas Emission Trading*

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# Establishing the Scheme

- July 2008 Green Paper released
  - identifies range of options and assesses merit
  - basis for consultation
  - submissions closed 10 September
- Carbon Pollution Reduction Scheme
  - cap and trade scheme with
  - broad coverage
  - designed to allow international linking
- Strong public support for action, debate about details of design



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# Wide scheme coverage

- 6 Kyoto gases and coverage in line with Kyoto accounting
- Scheme covers around 75% national emissions
  - All sources except agriculture and deforestation
- Around 1000 firms with mandatory obligations
  - Large direct emitters (>25kt)
  - Upstream fuel suppliers to small emitters
    - All liquid fuel upstream.
    - Fuel tax offset in initial years
- Forestry opt-in
- Agriculture coverage not before 2015
- Limited scope for domestic offsets - not an early implementation priority



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# Setting the Cap

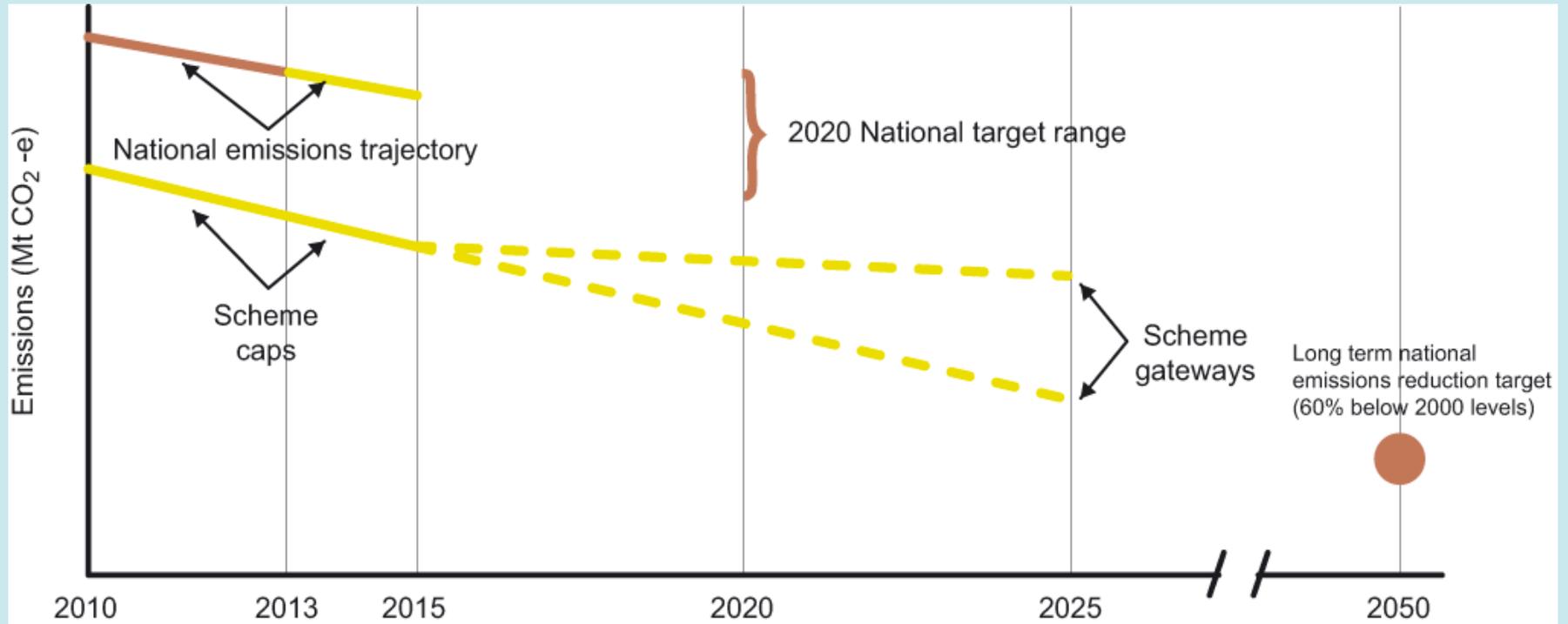
- Long term national emissions target – 60% reduction from 2000 levels by 2050
- Near term caps set to provide certainty while retaining necessary policy flexibility
- Scheme caps to be set 5 years in advance with ‘gateways’ (range) for further 10 years
  - Caps to be extended if international commitment in place
  - Otherwise caps extended annually, gateways 5 yearly
- Medium term (2020) national emissions target range announced at the end of 2008
  - with indication of scheme caps to 2013



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# Scheme caps and gateways



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# Operation of carbon market

- Permits can be banked indefinitely
- Limited borrowing
  - Small percentage of following year's vintage can be used for compliance
- Price cap for the period 2010-11 to 2014-15
  - Set well above expected price
  - Form and level to be determined
  - To be reviewed after this period



# Linking with international schemes

- Scheme designed to link with international markets and schemes
- Preference for open links over time within an effective global emissions constraint
- Allow use of Kyoto units for compliance
  - Some initial restrictions on quantity and type
- Non-Kyoto international units can not be used for compliance
- Provide five years certainty to market on types and quantities of international units allowed



# Export of Australian Kyoto units

- Not proposed in initial years
- Primarily to manage implementation risks
- Joint implementation
  - Not in covered sectors
  - Limited scope (forestry opt-in arrangements)
  - Decisions in line with decisions on domestic offsets
- Exports to be a feature of longer-term linking arrangements
- Bilateral linking to be explored after establishment



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# Permit allocation

- Allocations to progressively move towards 100 per cent auctioning as the scheme matures
- Mixture of auctioning and free allocation at commencement
  - Free allocations to provide targeted support or assistance
- First auction take place prior to scheme commencement
- Advanced auctions of future year vintages



# Assistance to industry

- Need to carefully balance the needs of different sectors
- Free permits for emissions-intensive, trade-exposed (EITE) industries to address potential 'carbon leakage'
  - targeted to activities or processes that are the most emissions intensive and trade exposed
  - conditional on output of an activity
  - based on the industry-average emissions intensity for an activity
- Limited direct assistance for coal-fired generators
  - Provided on one-off basis
  - Rationale: to ensure ongoing investor confidence while avoiding windfall gains



# Next steps

- September Garnaut releases Final Report – input to policy
- October 2008 government modelling released
  - To inform targets and caps
- December 2008 - White Paper and exposure draft legislation
  - final decisions on design, announcement of 2020 target range
- Parliamentary debate in 2009
- Government's intention to commence scheme in 2010
- Registry under development



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