



Australian Government
**Department of Climate Change
and Energy Efficiency**

Australia's Emissions Trading Scheme: Design Features and Lessons Learned – presentation to IEA-IETA-EPRI emissions trading workshop

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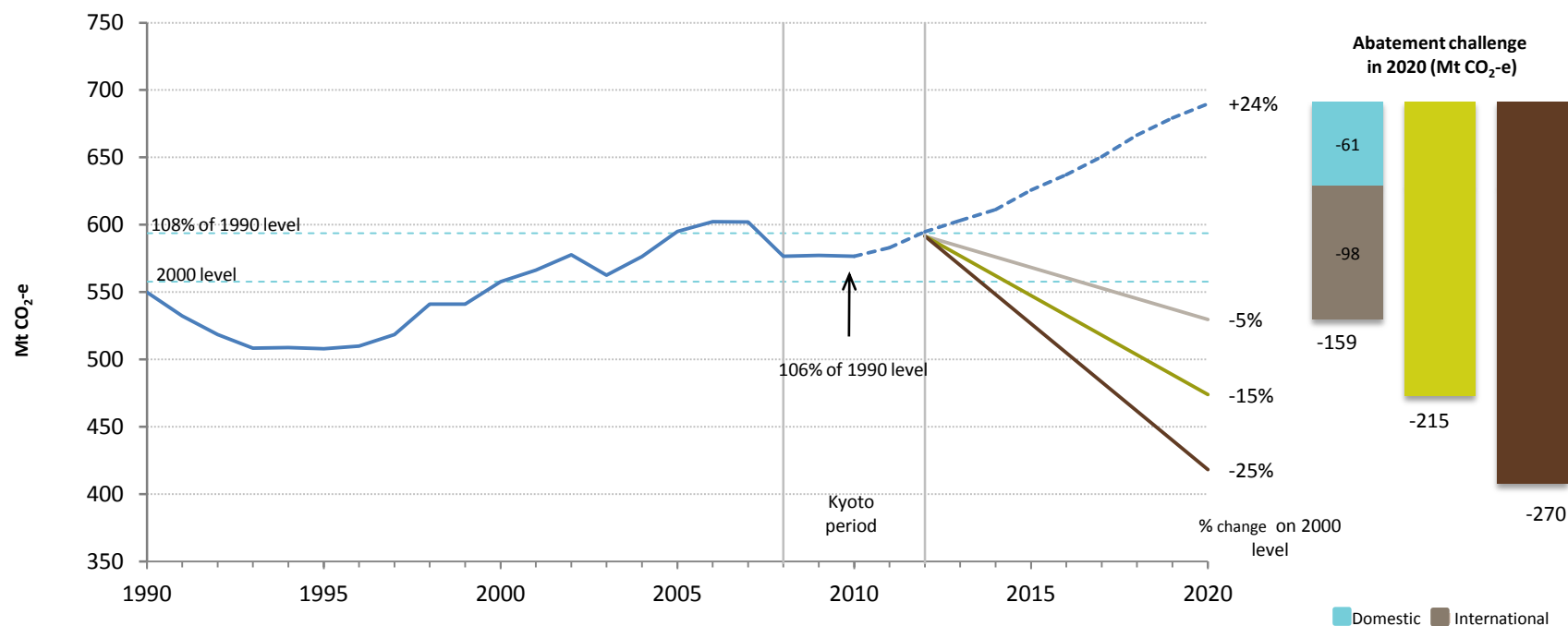
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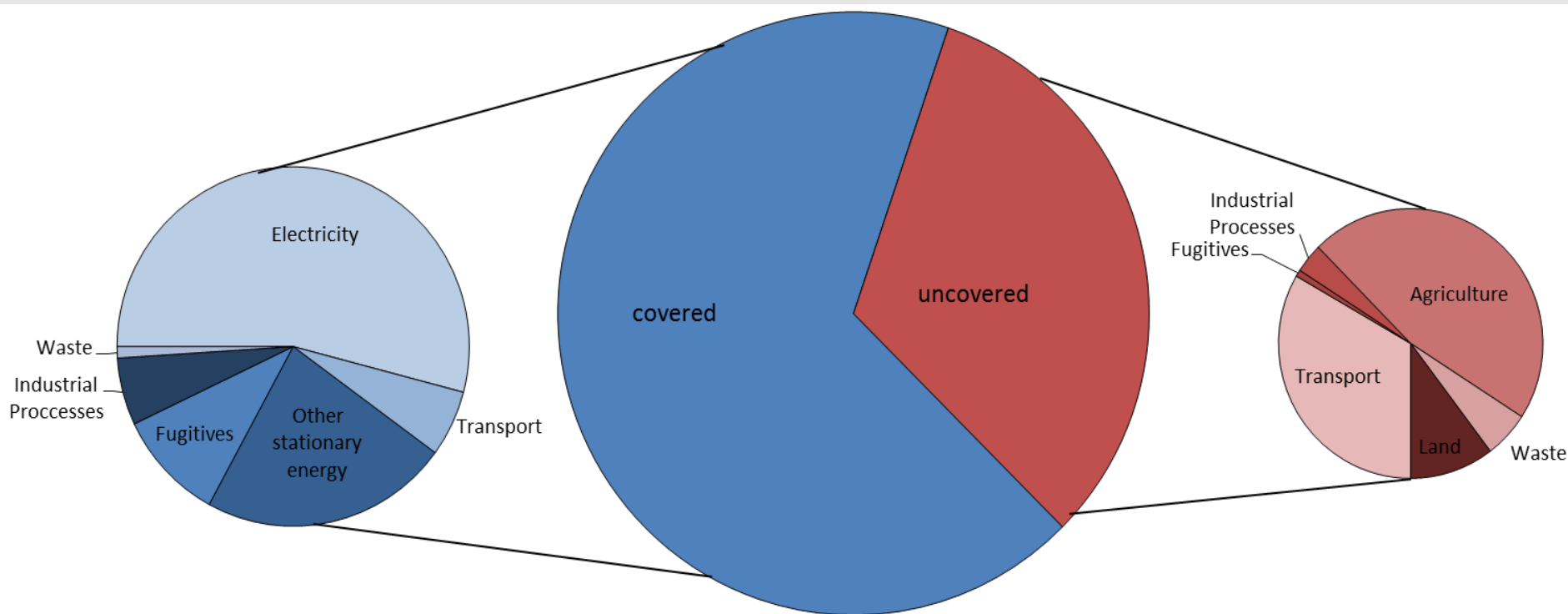


Australia's Mitigation Challenge and Targets



Commitment by 2020 (reduction from 2000 levels)	Per capita
%	% per capita
-5	-29
-25	-44

Australia's Emissions Trading Scheme - coverage



- Under the scheme, entities are liable if they control a facility that generates over 25,000 tonnes of carbon dioxide equivalent per year
- For the 2012-13 financial year, there are currently 316 identified liable entities

Indicative revenue and spending from carbon pricing: 2011-12 to 2014-15



Source: Mid-year Economic and Fiscal Outlook, 2011-12

Lessons learned: A phased approach to provide time to adjust

Monitoring and reporting		Fixed price period	Flexible price emissions trading scheme
Phase 1 (1 July 2008 - June 2012)		Phase 2 (July 2012 - June 2015)	Phase 3 (July 2015 onwards)
Monitoring and reporting The first phase of carbon pricing in Australia involved implementing a single national framework for the reporting and dissemination of information about the greenhouse gas emissions, energy use and production of corporations through the <i>National Greenhouse and Energy Reporting Act 2007</i> (NGER)	Carbon price	Fixed price in AUD: - \$23 in 2012-13 - \$24.15 in 2013-14 - \$25.40 in 2014-15	Set by market – likely to track EU price due to linking arrangements
	Banking	Not permitted	Unlimited
	Borrowing	Not permitted	Limited to 5% of liability being met using units from next years' vintage
	Domestic offsets	Up to 5% of liability can be met using eligible domestic offsets generated under the Carbon Farming Initiative	Eligible Carbon Farming Initiative units can be used to meet up to 100% of liabilities
	International linking	Not permitted	Up to 50% of an entity's annual liability can be met using eligible international units, of which up to 12.5 per cent may be Kyoto units. Export of Australian units permitted from 2018, or earlier if subject to an international agreement
	Caps	No cap	First five years of caps set by Government in 2014 and extended by one year annually (5 years certainty of pollution caps at all times)
	Price controls	Fixed price	Price ceiling to apply for first three years of Phase 2, set AUD\$20 above the expected EU price

Lessons learned: Legislation should provide certainty on key aspects...

- In designing the approach, 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
- For example:
 - The pollution cap will be extended by one year every year in regulations from 2015-16 to maintain five years of known scheme caps at any given time
 - Three years' notice will be provided of modifications to emissions-intensive, trade-exposed industry permit allocations that will have a negative effect on business

... but flexibility allows the integrity of the scheme to be maintained

- The Australian scheme was designed at the outset to provide certainty but also enable 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 scheme are currently being legislated 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.

Lessons learned: Independent institutions have an important role to play

Clean Energy Regulator

will administer

- Carbon Pricing Mechanism
- Carbon Farming Initiative
- Renewable Energy Target
- National Greenhouse and Energy Reporting System

Climate Change Authority

will review, recommend and track

- Level of pollution caps
- Operation of the carbon price
- Other climate change mitigation initiatives
- Progress towards pollution reduction targets

Productivity Commission

will review and report on

- International pollution reduction actions
- Jobs and Competitiveness Program
- Fuel excise and taxation regime

Thank you for your time.

Further information on the Australian scheme is available at:

www.climatechange.gov.au

www.cleanenergyregulator.gov.au

www.climatechange.gov.au/cfi

Questions?