

Australian CPRS details announced - big on assistance, small on targets

15 December 2008

Key points

Today the Government released a White Paper, which sets out the detail of the proposed Carbon Pollution Reduction Scheme (CPRS) for Australia. The centrepiece is the medium term target for reducing Australia's CO₂-e.

In the short-term, the Government proposes 'indicative' CO₂-e targets of:

- 109% of 2000 levels in 2010-11,
- 108% of 2000 levels in 2011-12, and
- 107% of 2000 levels in 2012-13.

These short-term targets will be 'indicative' only. They will be reviewed and updated annually in the light of local and international events.

In the longer term, Australia's will aim to cut national CO₂-e emissions by:

- **5% of 2000 levels by 2020** (with the potential to cut by up to 15% if substantial international agreement and action occurs).
- **60% of 2000 levels by 2050.**

The CPRS will include an emissions trading scheme commencing in 2010, as previously detailed in the Green Paper (June 2008). The Government estimates the introduction of the CPRS will cause a one-off CPI increase of 1.1% in 2010, based on a \$25 carbon permit price.

In the first full year of trading (2010-11), the Government expects carbon permits to raise around \$11.5bn in revenue. Around 25% of carbon permits will be allocated free of charge to emissions-intensive companies. As promised, all of the revenue raised is being returned in adjustment and assistance measures, including \$3.9bn to households, \$2.4bn in fuel excise adjustments and \$2.9bn to emissions-intensive industries.

CPRS development timetable

When ?	What ?	Who ?
15 Dec 2008	White Paper	Government
Early 2009	Consultations on the White Paper	Government & industry
Mid 2009	Bill debated & passed by Parliament	Government
1 July 2009	Second stage of GHG mandatory reporting commences	Approx. 500 large GHG emitters
Mid 2009	Consultation and drafting of ETS technical regulations to support Act	Government
Late 2009	ETS Act, regulations and statutory regulatory body commence	Government
March 2010	First auction of emissions permits. Market commences trading.	Approx. 1,000 companies with large GHG emissions & other traders
1 July 2010	Third stage of GHG mandatory reporting commences	Approx. 700 large companies with large GHG emissions

Sources: Government White Paper; Dept of Climate Change.

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Key announcements: CO₂-e reduction targets

In the short-term, the Government proposes 'indicative' CO₂-e targets of:

- **109% of 2000 levels in 2010-11**
- 108% of 2000 levels in 2011-12
- 107% of 2000 levels in 2012-13.

These short-term targets are 'indicative' only. They will be reviewed and updated annually for each five-year period, in the light of local and international events and conditions, including the UN's Framework Convention on Climate Change negotiations in Copenhagen (commencing next year).

These targets include emissions from the whole economy, not just those sectors covered by emissions trading (the CPRS). They do not assume any imported or exported carbon pollution credits, or any banked or borrowed credits over time.

In the longer term, Australia's CO₂-e targets will be to cut national CO₂-e emissions by:

- **5% of 2000 levels by 2020** (equivalent to a 27% cut from 2000 levels per capita by 2020). There is potential to cut Australian emissions by up to 15% if all other major economies commit to 'restrain emissions' and other advanced economies also cut their emissions substantially.
- **60% of 2000 levels by 2050** (this long-term target remains unchanged from earlier Government commitments).

This intermediate target of just 5% by 2020 is well below the 25% cut by 2020 that was recommended by Prof Ross Garnaut earlier this year. It leaves the larger, harder cuts to national CO₂-e to the later stages of the target period.

Treasury modelling released in October indicated the expected costs by 2020 of the various CO₂-e reduction scenarios vary from around \$700 in GNP per person per year for a 5% cut to \$1,200 in GNP per person per year for a 25% cut from 2000 emissions levels (see table 1 below). Treasury estimates that for a 5% cut by 2020, this is equivalent to waiting four months longer to achieve the same growth in GNP per capita. A 25% cut by 2020 would have cost 70% more than the proposed 5% cut, in terms of GNP per capita per year by 2020.

Figure 1: Treasury estimate of national costs of reducing emissions

	Base case / reference	CPRS -5	CRPS -15	Garnaut -10	Garnaut -25
Current GNP per capita, \$	50,400	50,400	50,400	50,400	50,400
CO ₂ -e starting price, 2010 A\$/tonne	n/a	23	32	30	52
By 2020:					
- CO ₂ -e change from 2000 levels, %	+40	-5	-15	-10	-25
- GNP per capita, \$	55,900	55,200	54,900	55,000	54,700
- GNP cost per capita per year by 2020, \$	0	700	1,000	1,100	1,200
By 2050:					
- CO ₂ -e change from 2000 levels, %	+88	-60	-60	-80	-90
- GNP per capita, \$	83,700	79,400	78,700	79,100	78,000
- GNP average annual growth, %	1.2	1.1	1.1	1.1	1.1
- GNP cost per capita per year by 2050, \$	0	4,300	5,000	4,600	5,700

Source: Treasury 2008, *Australia's Low Pollution Future*.

Key announcements: emissions trading

Emissions trading will commence in 2010, as previously announced in the Government's Green Paper (June 2008). Only around 1,000 large industrial companies (producing an estimated 75% of national emissions) are expected to participate directly in obtaining carbon permits. In the first year of trading, carbon permits are expected to raise \$11.5bn in revenue for the Government.

The White Paper assumes a carbon permit starting price of \$25 per tonne of CO₂-e in 2010, but the actual price will be set by the market. The Government estimates this will lead to a one-off retail price increase of 18% for electricity and 12% for gas, equal to \$4 per week for electricity and \$2 per week for gas per household. These price increases will be compensated (see below). The dollar-matched reduction in the fuel excise levy will mean there is no retail price effect for petrol, even though petroleum wholesale distributors will be included.

Around 25% of carbon permits will initially be allocated free of charge to emissions-intensive, trade-exposed (EITE) companies, including:

- 90% of required carbon permits for companies with an emissions intensity of at least 2,000 tonnes of CO₂-e per million dollars in revenue, or 6,000 tonnes of CO₂-e per million dollars of value-added;
- 60% of required carbon permits for companies with an emissions intensity of 1,000-1,999 tonnes of CO₂-e per million dollars in revenue, or 3,000-5,999 tonnes of CO₂-e per million dollars of value-added.

At an estimated \$25 per tonne of CO₂-e, these free permits will be worth an estimated \$3.9bn over the first five years of the CPRS. These rates of assistance to emissions-intensive industries will reduce by 1.3% per year and be reviewed every five years by the Productivity Commission or other Government agencies. Industries can also request additional reviews.

These free carbon permits will be available to new entrants as well as to existing companies in the industries directly covered by the CPRS. If such industries grow at the same rate as the whole economy, then the Government estimates up to 45% of carbon permits will be issued on this free basis by 2020. This large allocation of free carbon permits can be expected to dampen the traded price of permits for companies that still need to buy some or all of their annual permits.

Additional assistance will be given to coal-fired power generators, because they are not classed as 'trade-exposed', even though they are high emissions (see below).

The Government expects almost all industries to grow from current levels under the CPRS, but some industries will have slower growth than they would have had without the CPRS. They include coal, aluminium and other high-emissions industries, as detailed in Treasury's analysis of the CPRS (October 2008).

In contrast, Australia's alternative energy sector is expected to grow "to at least 30 times its current size by 2050". This will include commercial-scale solar, wind, geothermal, tidal and other energy production technologies. Coal-powered electricity generation is expected to decline as these renewables and gas-fired power grows. At this stage, the Government has no plans to introduce nuclear power as part of this change in energy sources.

Key announcements: adjustment and assistance measures

As promised some time ago, all of the annual revenue raised in being returned in adjustment and assistance measures. In 2010-11, an estimated \$11.5bn in revenue will be raised and redistributed, including \$3.9bn to households, \$2.4bn in fuel tax adjustments and \$2.9bn to EITE industries.

Assistance to industry will include:

- \$500mn renewable Energy Fund to help the energy sector meet the Renewable Energy Target of 20% by 2020,

- \$100mn p.a. for a new Global Carbon Capture and Sequestration Institute,
- \$500mn over 8 years for a Low Emissions Coal Fund,
- legislation to allow offshore carbon sequestration projects to go ahead,
- \$2.15 bn Climate Change Action Fund over 5 years, comprising \$1.4bn for small businesses and community groups to purchase energy-efficient equipment plus another \$300mn for coal-related adjustment measures, plus a smaller amount for regional workforce structural adjustments.
- A reduction in the fuel excise levy on a dollar-for-dollar basis so there is no impact at all on retail petrol prices for at least 3 years (subject to review).

Assistance to households will be worth \$6bn in 2011-12 alone. This includes:

- 89% of low income households (2.9 million) will be over-compensated, receiving assistance worth an estimated 120% of the increase in their cost of living. This will be paid through a 2.5% increased pensions, Seniors Concessions Allowances, Low Income Tax Offsets and Family Tax Benefits.
- 97% of middle-income households will also receive direct cash assistance through increased Family Tax Benefits.

Next steps

The Government will now release a Bill for parliamentary debate. The Bill will be amended as necessary to pass it through both houses of Parliament. Once it is passed, it will become an Act and come into force. The government expects this to occur by mid-2009.

Emissions trading is still on track to commence in 2010.

For further information on this topic, see our other publications on our website:

ANZ Industry Update: Emissions Trading, 30 September 2008.

ANZ Industry Update: Emissions Trading, September 2008.

ANZ Industry Update: Emissions Trading, August 2008.

Business and the Carbon Pollution Reduction Scheme: 10 things you need to know, July 2008.

ANZ Industry Update: Emissions Trading, July 2008.

ANZ Industry Update: Emissions Trading, April 2008.

"Update on Australian Climate Change Policy", *ANZ Economic Outlook*, March 2008, pp. 21-24.

"The Road to an Emissions Trading System", *ANZ Australian Economics Weekly*, 8 June 2007.

ANZ Industry Report: Emissions Trading, June 2007.

"Sources of Carbon" *ANZ Australian Economics Weekly*, 23 March 2007.

"Carbon Trading", *ANZ Economic Outlook*, March 2007, pp. 21-24.

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