

Australia's Carbon Pricing Mechanism

May 2013

On 10 July 2011, Prime Minister the Hon. Julia Gillard MP launched the Clean Energy Future package, the Government's policy framework for tackling climate change. The centrepiece of this package is the Government's carbon pricing mechanism, which came into effect on 1 July 2012. In addition to the carbon price, the package contains compensation measures for households and business; investments in energy efficiency and renewable energy; and investments in agriculture and land use.

More information is available on the Clean Energy Future website, [here](#).

In the 2013-14 Federal Budget the Gillard Government revised its carbon price projection for 2015-16 from \$25.40 to \$12.10 per tonne. This paper has been updated following the release of the Government's new projections.

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The Carbon Price

Recognising that putting a price on carbon is the most environmentally effective and cheapest way to cut carbon pollution, the Government is introducing a carbon price from 1 July 2012. From 1 July 2012 – 1 July 2015, the carbon price will be fixed, before moving to a floating price Emissions Trading Scheme (ETS) from 1 July 2015 onwards.

The carbon price will be set at \$23 per tonne of emission for the 2012-13 financial year. This price will rise by 2.5 per cent per year in real terms over a three year fixed price period until 1 July 2015, when the carbon pricing mechanism moves to a floating price ETS.

The Government will then put annual caps on the amount of carbon pollution that can be released into the atmosphere by entities covered by the carbon price. A price ceiling will apply for the first three years of the flexible price period.



A Climate Change Authority (CCA) will be established to provide expert advice on key aspects of the carbon pricing mechanism. Former Reserve Bank Governor and former Treasury Secretary, Bernie Fraser, will become CCA's Chairman. The CCA will recommend to Government future pollution caps under the ETS. The Government will make final decisions on these pollution caps, based on the CCA's recommendations. The CCA will complete its first review by February 2014. More information about the CCA is available [here](#).

Link to the EU Carbon Market

On Tuesday 28 August 2012, Minister for Climate Change and Energy Efficiency the Hon. Greg Combet AM MP announced that from 1 July 2015, the date when the Australian carbon price moves to a floating prices ETS, it would be linked with the European Union ETS.

Launched in 2005, the EU ETS is the largest carbon market in the world, operating in 30 countries including the 27 EU Member States plus Iceland, Liechtenstein and Norway. The EU is Australia's second largest trading block, and linking the Australian ETS to the EU scheme has been a long-term goal of the Government. The announcement is the result of several months of negotiations between the Australian Government and the European Commission.

Linking the two schemes will enable participants in one scheme to use units from another scheme for compliance purposes. This will provide benefits including reducing the cost of cutting carbon pollution, increasing market liquidity and supporting global cooperation on climate change.

From 1 July 2015, the schemes will be linked one-way, whereby Australian businesses will be able to use EU carbon units to help meet liabilities under the Australian ETS. A full two-way link with mutual recognition of carbon units will be established no later than 1 July 2018. Australian companies will be able to purchase EU carbon units for future compliance in Australia with immediate effect.

To facilitate linking, the Australian Government will make two changes to the design of the Australian carbon price. These are that:

- the price floor of \$15 per tonne due to commence on 1 July 2015, will not be implemented.
- a new sub-limit will apply to the use of eligible Kyoto units. While liable entities in Australia will still be able to meet up to 50 per cent of their liabilities through purchasing eligible international units, only 12.5 per cent of their liabilities will be able to be met by Kyoto units.

Legislative amendments will be required to make the above changes, and the Australian Greens as well as two independent Members of Parliament, Tony Windsor and Rob Oakeshott, have indicated they will support the legislation required to enable the linking.

In making the announcement, Minister Combet described the linking as the best outcome for Australia, both economically and environmentally. He said that this would be the first of many future ETS linkages, and announced that he was already in negotiations with his New Zealand counterpart to discuss also linking the NZ ETS.

Minister Combet's press release is available [here](#). The European Commission has produced a list of Frequently Asked Questions on the linking of the two schemes, available [here](#).

Compensation and Adjustment Measures

Revenue raised from the carbon price will be used by Government to fund adjustment and compensation measures, as well as to support energy efficiency and renewable energy initiatives.

Over half the money raised from the carbon price will be used to assist households. The Government estimates that nine in 10 households will receive a combination of tax cuts and payments to help with the costs of the carbon price. The compensation will be targeted at those Australians in the greatest need, particularly pensioners and low and middle income households. On average, households will see cost increases of \$9.90 per week, while the average assistance will be \$10.10 per week.

Tax Cuts

From 1 July 2012, all taxpayers with incomes of up to \$80,000 will get a tax cut, with around 60 per cent of taxpayers getting a tax cut of at least \$300. These tax cuts are designed to help Australians manage the impacts on prices from the carbon price, and to participate in the transition to a clean energy future.

A further round of tax cuts was planned for 2015 for all taxpayers with incomes up to \$80,000. Due to the downward revised projections of the carbon price in the 2013-14 Budget these tax cuts have been deferred until the carbon price exceeds \$25.40, which is currently projected for 2018-19.

Payments

Further assistance will be provided to people who receive government payments such as the Age Pension, Disability Support Pension, Carer Payment, Newstart Allowance and Family Tax Benefit, through increases in these payments. The introduction of the carbon price is expected to result in a one off increase in prices of 0.7 per cent in 2012-13. In order to ensure low-income households are able to cover their average expected price impact, most government payments will be increased by an amount equivalent to 1.7 per cent of the maximum rate.

This assistance will first be delivered to eligible recipients through a one-off, tax-exempt, lump sum [Clean Energy Advance](#) from May 2012. After that, assistance will be paid through a new [Clean Energy Supplement](#) at the same time as payments.

An additional tax-exempt [Low Income Supplement](#) will be available for low-income households who might not receive enough assistance through tax cuts or Government payments to offset their average expected cost impact under a carbon price. The supplement can be applied for and will be paid through Centrelink, on an annual basis as a lump sum of \$300 from 1 July 2012.

Renewable Energy

The carbon price will provide a significant market based incentive for the development of clean technologies, especially renewable energy. To complement this market signal, the Clean Energy Future package also facilitates targeted investments to bring forward new technologies at as low a cost as



possible through two key organisations: the Clean Energy Finance Corporation and the Australian Renewable Energy Agency.

A Clean Energy Finance Corporation

A new commercially oriented [Clean Energy Finance Corporation \(CEFC\)](#) has been established to drive innovation through commercial investments in clean energy through loans, loan guarantees and equity investments. The CEFC will have \$10 billion to implement its mandate.

The CEFC will leverage private sector financing for renewable energy and clean technology projects, investments critical to the transformation of the Australian economy. It will identify projects and remove barriers that would otherwise prevent the financing of large scale renewable energy projects. Investments will focus on renewable energy, energy efficiency and low emissions technologies and the transformation of existing manufacturing businesses to re-focus on meeting demand for inputs for these sectors.

The CEFC will be run by an independent board made up of experts in banking, investment management and clean energy and low emissions technologies. It will commence operations on 1 July 2013.

More information on the CEFC is available in Hawker Britton's occasional paper, [here](#).

The Australian Renewable Energy Agency

A new, independent statutory body, the [Australian Renewable Energy Agency \(ARENA\)](#), will be created to consolidate administration of \$3.2 billion in Government support for renewable energy technology innovation previously administered by the Australian Centre for Renewable Energy (ACRE), the Australian Solar Institute (ASI) and the Department of Resources, Energy and Tourism.

ARENA will be established as an independent statutory body, and will adopt a holistic approach to financing the research, development, commercialisation and demonstration of renewable energy technologies.

ARENA will commence operations on 1 July 2012.

The 2013-14 Budget extended funding for ARENA by two years to 2021-2022

Energy Efficiency

The Clean Energy Future package also includes initiatives to reduce carbon pollution by improving energy efficiency for households, businesses, local governments and community organisations.

Living Greener Website

The Government has launched the [LivingGreener](#) website, which encourages household energy efficiency, and consolidates information on programs and financial support available from the Australian Government as well as state and territory governments to improve energy efficiency.

Low Carbon Community

The Low Carbon Communities program initially provided \$330 million to fund projects to help low income households, local governments and community organisations save energy. In the 2013-14 Budget \$98 million of uncommitted funds was return to the Budget.

Remote Indigenous Energy Program

The Remote Indigenous Energy Program will provide around 55 remote indigenous communities with funding to install renewable energy systems, reducing reliance on diesel for electricity generation.

Land Use

The Government has announced it will exclude the agricultural and land sectors from the carbon price. These sectors will be able to benefit from the Carbon Farming Initiative.

The Carbon Farming Initiative will provide new economic rewards for farmers and landholders that take steps to reduce carbon pollution. It will do this by creating credits for each tonne of carbon pollution which can be stored or reduced on the land. These credits can then be sold to other businesses wanting to offset their own carbon pollution.

The Carbon Farming Initiative will create a new income stream for farmers, new jobs for rural and regional Australia and provide strong incentives to identify and implement low-cost methods of pollution reduction. An Indigenous Carbon Farming Fund will provide \$22.3 million over five years to support Aboriginal and Torres Strait Islander people to participate in the Carbon Farming Initiative (CFI).

The Clean Energy Future package also establishes a new Biodiversity Fund to help support restoration and protection of biodiverse carbon stores. The ongoing Fund will provide \$946 million over six years from 2011-12.

The Government has inscribed a legally binding 2020 target under the Kyoto mechanism, which includes improved international carbon accounting rules. The Government can now elect to adopt additional land-based activities in its 2020 target, meaning that Carbon Farming Initiative credits from forest management, cropland management, grazing land management and revegetation are eligible for use by liable entities in the carbon pricing mechanism.

As a result, the CFI Non Kyoto Fund is no longer necessary and will not proceed, saving \$234.7 million over four years to 2016-17.

Legislation

On 13 September 2011, the Government introduced the enabling legislation to enact its Clean Energy Future policies. The legislative package was subsequently referred to a Joint Select Committee. The Committee's membership reflected the makeup of the Parliament, with representatives from the major parties and the cross bench. The committee's report was released on 7 October 2011 and is available [here](#).

On 21 September 2011, Minister Combet released updated modelling showing the impact of the carbon tax at the price of \$23 per tonne. The modelling showed that the economy will continue to undergo strong growth, while domestic emissions will fall to nearly half of what they would be without carbon pricing by 2050. The updated modelling is available [here](#).

On 12 October 2011, the package was passed by the House of Representatives, with support from Greens MP Adam Bandt and Independents MPs Rob Oakeshott, Andrew Wilkie and Tony Windsor. The legislation was passed by the Senate on 8 November 2011.

The Government's Clean Energy Future legislative package is made up of 18 separate bills:

1. [Clean Energy Bill 2011](#)
2. [Clean Energy \(Charges—Customs\) Bill 2011](#)
3. [Clean Energy \(Charges—Excise\) Bill 2011](#)
4. [Clean Energy \(Consequential Amendments\) Bill 2011](#)
5. [Clean Energy \(Customs Tariff Amendment\) Bill 2011](#)
6. [Clean Energy \(Excise Tariff Legislation Amendment\) Bill 2011](#)
7. [Clean Energy \(Fuel Tax Legislation Amendment\) Bill 2011](#)
8. [Clean Energy \(Household Assistance Amendments\) Bill 2011](#)
9. [Clean Energy \(Income Tax Rates Amendment\) Bill 2011](#)
10. [Clean Energy \(International Unit Surrender Charge\) Bill 2011](#)
11. [Clean Energy Regulator Bill 2011](#)
12. [Clean Energy \(Tax Laws Amendments\) Bill 2011](#)
13. [Clean Energy \(Unit Issue Charge—Auctions\) Bill 2011](#)
14. [Clean Energy \(Unit Issue Charge—Fixed Charge\) Bill 2011](#)
15. [Clean Energy \(Unit Shortfall charge—General\) Bill 2011](#)
16. [Climate Change Authority Bill 2011](#)
17. [Ozone Protection and Synthetic Greenhouse Gas \(Import Levy\) Amendment Bill 2011](#)
18. [Ozone Protection and Synthetic Greenhouse Gas \(Manufacture Levy\) Amendment Bill 2011](#)

On Wednesday 19 September 2012, Minister Combet introduced into Parliament the legislative amendments that will enable the link between the Australian and European Emissions Trading Schemes. The amendments alter the Clean Energy Act 2011 and the associated Acts listed above. There are three amending bills in total:

1. [Clean Energy Amendment \(International Emissions Trading and Other Measures\)](#)
2. [Clean Energy \(Charges-Excise\) Amendment](#)
3. [Clean Energy \(Charges-Customs\) Amendment](#)

Budget 2013-14

In the 2013-14 Budget the Government revised the projections of the carbon price that will apply in Australia from 1 July 2015. This is based on both market information and long-term modelling, and thus the carbon price is now projected to fall from \$25.40 in 2014-15 to \$12.10 in 2015-16.

Taking into account revised emissions estimates, the revised permit price is estimated to reduce carbon price revenue (including both free and auctioned permits) by around \$6 billion over the four years to 2015-16 compared with the 2012-13 MYEFO.

A large part of the expenditure funded by carbon price revenue is in free carbon permits. As a result, the cost to the Budget of industry assistance arrangements, such as free permits which automatically adjust with the value of the carbon price, is expected to be \$3.9 billion lower over the four years to 2015-16 compared with the 2012-13 MYEFO.

Therefore, in fiscal balance terms the net cost to the Budget prior to factoring in policy changes since the 2012-13 MYEFO is around \$2.1 billion over the four years to 2015-16. The Government has taken the revised revenue estimates into account in making the following adjustments to the priority and timing of clean energy and related expenditures:

- Tax cuts planned for 2015-16 will be deferred until the carbon price is estimated in the Budget to be above \$25.40, which is currently projected for 2018-19. This will save \$1.5 billion over the forward estimates.
- \$274 million of coal industry assistance will be reduced in line with the revised price, over the forward estimates.
- \$662 million of uncommitted funds for low emissions coal and carbon capture and storage will be returned to the Budget.
- Adoption of new land sector accounting rules (which allows carbon farming to be included for Kyoto accounting purposes) will allow the Carbon Farming Initiative Non-Kyoto Fund to be returned to the Budget, saving \$235 million over the forward estimates.
- Australian Renewable Energy Agency (ARENA) funding will be extended by two years to 2021-22, with total funding for the program remaining above \$3 billion for the life of the program.
- \$135 million of uncommitted funds in the Regional Structural Adjustment Assistance Program will be returned to the Budget over the forward estimates as no region has been strongly, negatively affected by the introduction of the carbon price.
- \$160 million of funding for the Clean Technology Programs will be brought forward to 2014-15 to provide additional support and respond to strong demand from Australian manufacturers.
- \$98 million of uncommitted funds from the Low Carbon Communities Program will be returned to the Budget.

As a result of the revised carbon price and these policy changes, the net impact over the four years to 2015-16 will be broadly budget neutral in fiscal balance terms when compared to the 2012-13 MYEFO.

Treasurer Wayne Swan and Minister for Climate Change Greg Combet's joint press release is available [here](#).

Opposition Leader Tony Abbott committed to repealing the Carbon Price Mechanism in his Budget-in-Reply Speech delivered on 16 May 2013. This would cause a \$20.7 billion shortfall in the forward estimates. In addition, Mr Abbott outlined \$5 billion in savings to fund tax cuts and benefits increases tied to the carbon tax compensation for households promised by the government.

Opposition Leader Tony Abbott's press release is available [here](#).