

Carbon Pollution Reduction Scheme

Bakers Research Note

Recent Alterations to the CPRS Schedule

By Fiona McRobie

Prime Minister Kevin Rudd announced significant changes to the structure of the Carbon Pollution Reduction Scheme (CPRS) in a press conference on 4th May 2009¹. Initially announced in December 2008 in the White Paper, the CPRS is the Government's primary policy regarding tackling climate change. The initial scheme, confirmed in the Carbon Pollution Reduction Scheme Act 2009 introduced on 10th March outlined a target of reducing Australian greenhouse gas emissions by 5 to 15 per cent of 2000 levels by the year 2020 through an emissions trading scheme (ETS) due to commence on 1 July 2010.

This scheme was opposed by the opposition, the Green party, and leading spokespeople in emission intensive industries. Last week's announcement proposed three major alterations to the original CPRS framework:

- The starting date of the ETS is to be delayed until 1 July 2011 with a fixed price phase for 1 year.
- Potential increase in the reduction target to 25% of 2000 levels dependent on the outcome of the UN Climate Change Conference in Copenhagen in December.
- The Australian Carbon Trust was introduced for individuals and businesses who wish to make a voluntary contribution to the CPRS.

These three changes are motivated by three different factors: the current global economic crisis, the need to continue to encourage a strong outcome in Copenhagen, and the desire to provide business and investment certainty for the future.

Described by the Prime Minister as a 'slow start' with a 'strong finish', the new framework is aimed at

¹ Press Conference, 4 May 2009
http://www.pm.gov.au/media/Interview/2009/interview_0965.cfm

achieving greater emissions reductions without putting Australian industry at a disadvantage during the global economic downturn.

Industry Measures: Delaying the ETS and the Global Recession Buffer

Following pressure from industry the delayed ETS will be run for a year through a *fixed price phase* with an unlimited number of permits being issued to liable companies for \$10 per tonne. The scheme will then transition to a market system from 1 July 2012 but will proceed with a price cap for at least the first five years of the scheme.

The Global Recession Buffer was introduced as an addition to the assistance package already in place for emissions-intensive, trade-exposed (EITE) companies (*Table 1*). This assistance takes the form of an allocation of permits for the company's activities during a compliance period. Originally, EITE firms were to be allocated by the Government 60% or 90% of the permits they would require (based on the previous years emissions), this has now been increased to include a 5 or 10% buffer.

	<i>Original Assistance Package</i>	<i>Global Recession Buffer</i>
Highly EITE²	90%	Additional 5%
Moderately EITE	60%	Additional 10%

Table 1: Global Recession Buffer Allowances³

The introduction of this buffer will limit the impact of the CPRS on EITE firms beyond the original arrangement, and will be in place for at least the first

² By definitions given in the White Paper, Chapter 12: Highly EITE activities have emissions intensity of greater than 2000t CO₂-e/\$m revenue or 6000t CO₂-e/\$m value
Moderately EITE activities have emissions intensity of 1000-1999t CO₂-e/\$m revenue or 3000-5999t CO₂-e/\$m value added
<http://www.climatechange.gov.au/whitepaper/report/pubs/pdf/V2012Chapter.pdf>

³ Media Release - Carbon Pollution Reduction Scheme: Support in managing the impact of the global recession
http://www.pm.gov.au/media/Release/2009/media_release_0969.cfm

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five years of the scheme before the first review of the EITE assistance package (*Table 2*).

	2011 - 2012	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016
<i>Under Original Scheme:</i>					
Highly EITE	90%	89%	88%	87%	85%
Moderately EITE	60%	59%	58%	58%	57%
<i>With Global Recession Buffer:</i>					
Highly EITE	95%	93%	92%	91%	90%
Moderately EITE	66%	65%	64%	63%	63%

Table 2: Annual Assistance for EITE firms⁴

Finally, businesses and community groups that do not qualify for EITE assistance can apply for funding through the Climate Change Action Fund, which has been allocated \$500m by the Federal Government, in order to fund expenditure on energy efficiency solutions.

Prior to the announcement of the changes to the CPRS, Bakers Investment Group released a research note outlining some implications of a delay in the schedule (*Carbon Pollution Reduction Scheme: Pressures to Change the CPRS Schedule*, released March 2009). As a combined result of the delayed implementation date and \$10 permits, activity in the carbon market has almost ceased as companies stopped pricing carbon into their activities⁵. This implies that carbon abatement strategies are on hold, and investment into energy efficiency and emission reduction technologies is slowing. The Climate Change Action Fund may provide some relief here, but capital investment in carbon abatement is a less attractive strategy for businesses that won't be taking the market-price of carbon onto their books until 2012.

⁴ See footnote 1, with rates of assistance declining at a rate of 1.3 per cent per year, in line with the Carbon Productivity Contribution set out in the White Paper

⁵ The Australian, 'Carbon Market's Disappearing Act', 11 May 2009 <http://www.theaustralian.news.com.au/business/story/0,28124,25457368-5005200,00.html>

New Emissions Reduction Targets: A Stimulus for Global Co-operation

The White Paper had outlined the Government's commitment to reduce carbon dioxide emissions by 15% of 2000 levels by 2020. This has been retained, but with the additional amendment that should an agreement be reached at the UN Climate Change Conference in Copenhagen in December to stabilise atmospheric carbon dioxide levels by at least 450 parts per million by 2050, Australia will commit to reducing emissions by 25% of 2000 levels. In such a scenario, up to 5% of the 25% would be achieved through Governmental purchase of international credits, such as avoided deforestation credits, by the.

This would bring the Australian targets closer to those already set by the EU and the UK. The EU set their reductions target of 20% of 1990 levels by 2020 into law in April, with the option of increasing this to 30% dependent on a global agreement⁶. The UK announced a 'Carbon Budget' in April outlining a tighter emissions reduction schedule⁷.

Australia	5 – 15% of 2000 levels by 2020 Up to 25% of 2000 levels, dependent on a global agreement
EU	Minimum of 20% of 1990 levels by 2020 Up to 30% of 1990 levels, dependent on a global agreement
UK	22% of 1990 levels by 2008 - 2012 28% of 1990 levels by 2013 - 2017 34% of 1990 levels by 2018 - 2020

Table 3: Comparison of Emissions Reduction Targets

The desired outcome of the offered increase in the Australian emissions reduction targets is to encourage a strong, co-operative, global agreement at

⁶ European Climate Change Programme (ECCP), Commission welcomes adoption of climate and energy package, 23 April 2009 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/628&format=HTML&aged=0&language=EN&guiLanguage=en>

⁷ Department of Energy & Climate Change, Press Release - UK sets world's first carbon budgets, 22 April 2009 <http://www.decc.gov.uk/en/content/cms/news/pn047/pn047.aspx>

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Copenhagen in which advanced economies commit to make deep cuts into their carbon dioxide emissions, and the major developing economies agree to slow and then reduce their annual emissions.

Since the Government has tied the decision on the emissions reduction target to the setting of a firm global commitment, there is increased uncertainty about the number of permits that will be made available after July 2012. This has a direct influence on the price of carbon that needs to be factored into financial modelling. Until a firm decision is made on the 2020 target, the minimum 2020 target of a 5% reduction below 2000 levels may be deemed the most prudent choice when companies make investment decisions regarding carbon abatement strategies.

The Australian Carbon Trust: Enabling Individual's Involvement

The final amendment to the CPRS is the introduction of the Australian Carbon Trust in response to concerns that the actions of individuals to reduce their emissions will not be taken into account within the original CPRS framework⁸. The Australian Carbon trust, which is to be developed by the Government in collaboration with the Carbon Trust which has been established in the UK since 2001⁹, will provide a website for individuals to calculate their energy use and make tax deductible contributions of any amount to the Energy Efficiency Savings Pledge Fund. This fund will pool pledged money in order to buy and retire carbon pollution permits.

Additionally, within the structure of the Australian Carbon Trust, the Australian Government will seed an Energy Efficiency Trust with \$50m. This fund will provide up-front capital at a commercial rate for

businesses wishing to invest in energy efficiency improvements.

The Australian Carbon Trust's Energy Efficiency Savings Pledge Fund offers an innovative method for individuals to be involved in seeing the nation meet its targets, but it is worth noting that there has not yet been any clarification as to how the fund's approach of buying and retiring pollution permits will contribute to emissions reduction during the fixed price phase when there is an unlimited or permits available.

CPRS Alterations: Introducing Uncertainty into Business Decisions?

The alterations to the CPRS announced by the Government has provided an answer to many of the concerns raised by industry, but the current format has introduced uncertainty regarding the reduction targets and number of permits, which will impact investment into carbon abatement.

In addition to this, the infrastructure required for an efficient carbon market is becoming a more distant reality. Without specific regulations tailored to carbon markets, the established climate exchanges overseas cannot enlist Australian participants, and have little motivation to do so with a price of carbon set at \$10 per tonne. This, along with the other points highlighted in this note, are issues which cannot be overcome until legislation is firmly tied down, and could take until after Copenhagen to find a firm resolution.

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⁸ Minister for Climate Change and Water, Media Release, 4 May 2009

<http://www.environment.gov.au/minister/wong/2009/mr20090504b.html>

⁹ The Carbon Trust: www.carbontrust.co.uk

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