

# Carbon Policy Briefing Note

**Date:** 16 July 2008  
**Subject:** Commonwealth Green Paper



The Commonwealth Government has released a Green Paper outlining preferred positions for the introduction of an emissions trading scheme called the "Carbon Pollution Reduction Scheme".

## Key Considerations for your Business

- › Are you a liable party under the scheme (do you emit more than 25,000 tonnes)?
- › If you are trade exposed, are you likely to be compensated?
- › Will your energy bill increase?
- › What can you do to reduce emissions and take advantage of opportunities under the scheme?
- › Are there cashflow issues associated with your participation in this scheme?
- › What are the taxation implications of this scheme for your business?

## Background and Next Steps

The Commonwealth Government has committed to introducing an emissions trading scheme on 1 July 2010. The Green Paper is the first outline of preferred positions the Government intends to take in designing the scheme. Submissions on the Green Paper are due on 10 September 2008. The next steps are:

- › Release of the final Garnaut report and Treasury modelling on the economic impacts of trajectories under the scheme (September and October 2008);
- › Release of a White Paper and draft legislation outlining the final scheme design in December 2008;
- › Passage of the draft legislation in mid-2009; and
- › Consultation on supporting regulations during 2009.

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## Summary of the Proposed Scheme

- › The scheme is to commence on 1 July 2010 and operate on a financial year basis with annual compliance obligations
- › It will be a cap and trade scheme. Permits will be created and will reflect a cap on total Australian greenhouse gas emissions. Businesses will be required to purchase permits for each tonne of greenhouse gases emitted
- › All six greenhouse gases will be covered
- › The scheme will have a price cap (i.e. penalty) for the first five years. The scheme does not include a make good provision for the first five years (while this is not explicitly stated, a price cap cannot exist if a make good provision exists)
- › State and Territory Governments are encouraged to transition their schemes (e.g. NSW Greenhouse Gas Abatement Scheme) into the Carbon Pollution Reduction Scheme
- › The difference between the scheme cap and Australia's national obligation would be recognised through the allocation and immediate retirement of permits for non-covered sectors each year
- › Analysis in the report indicates that electricity and gas prices could increase by between 9 and 16 percent based upon a \$20/tonne carbon price. The increase in price of all products (as measured through the CPI) would be in the order of 0.9 percent
- › Early action would not be recognised explicitly through the allocation of permits

## Coverage and Points of Liability

- › All sectors are to be included except agriculture. Agriculture is to be included in 2015 with a final decision to be made by 2013
- › All businesses in the stationary energy and industrial sectors (e.g. generators, pipeline operators, mines, aluminium smelters) will be required to hold permits for their emissions if they emit more than 25,000 tonnes per year
- › Transport emissions will be included in the scheme. The point of liability will be placed on upstream fuel suppliers. The Government has committed to cut fuel taxes on a cent for cent basis to offset the initial price impact under the scheme
- › Emissions from the waste sector will be included. The thresholds for coverage for individual landfills is yet to be determined although 25,000 tonnes is suggested as it would result in fewer than 100 participating facilities and account for 80 percent of landfill volume
- › Emissions from LPG production and combustion will be covered. The points of liability are likely to be placed throughout the supply chain
- › Forestry is to be included on an opt-in basis
- › These points of liability would result in fewer than 1,000 businesses (<1% of businesses) being directly impacted by the scheme

### **Nature of Permits**

- › Permits will be created under the scheme legislation. They will be known as Australian emission units (AEUs)
- › Permits will be personal property, transferable and defined as a financial product for the purposes of the *Corporations Act 2001*
- › Permits will be “date-stamped”. They will only be able to be surrendered after the date they are stamped with. This effectively ensures that companies cannot borrow large volumes of future permits to meet current obligations

### **Banking and Borrowing**

- › Unlimited banking of permits would be allowed.
- › Liable parties will be able to borrow up to a small percentage of the following years permits (amount yet to be determined but is to be less than 5%) to meet the current year obligation

### **Target and Caps**

- › At the beginning of the scheme, the Government will announce a minimum of five years of firm targets with one further yearly target announced each year. At any time, the market will have firm targets for the following five years
- › Gateways (higher and lower bounds of potential targets) will be provided for 2020 and 2025 at the beginning of the scheme. These would be extended by five years after each five year period
- › The White Paper (to be released in December 2008) will outline firm targets for 2010-11 through to 2012-13 (three compliance years) and gateways for 2020
- › All other firm targets and gateways will be announced before the scheme in 2010

### **Reporting and Compliance**

- › The National Greenhouse and Energy Reporting Act (NGERS) will provide the starting framework for monitoring, reporting and assurance under the scheme
- › Entities with operational control of an asset will be made responsible for compliance under the scheme
- › A range of emission measurement methodologies are to be used with amendments to these methodologies made only after five years notice
- › Annual reports satisfying obligations under both the Carbon Pollution Reduction Scheme and NGERS will be required by 31 October each year
- › Entities with obligations greater than 125,000 tonnes of emissions will be required to have their annual reports independently verified
- › Permits will be required to be surrendered before 15 December for the previous financial year
- › The scheme regulator would release emissions information for the previous financial year as soon as possible after 31 October each year

## **International Linkages**

- › Liable parties will be able to surrender international Kyoto compliant credits for compliance purposes. A limit will be placed on the number of credits which can be sourced from Joint Implementation (JI) Emission Reduction Units (ERUs) and Clean Development Mechanism Certified Emission Reductions (CERs) except CERs from forestry based projects. These limits will be announced in the White Paper in 2008
- › Assigned Amount Units (AAUs) which are effectively country permits under the Kyoto Protocol will not be able to be exported or imported for the first few years of the scheme. This effectively prevents international linking except for CER and ERU units

## **Allocation of Permits**

- › Some permits will be provided to trade exposed and disproportionately impacted entities at the beginning of the scheme
- › The remaining permits will be auctioned with progression towards 100 percent auctioning as the scheme matures
- › Auctions will be held quarterly with the first auction to be held early in 2010
- › At least one auction of the previous year's permit vintage will be held after the end of the financial year but within one month prior to the surrender date
- › Auctioning will ensure that permits for the following four years will be physically available in the market at any point
- › Any person or company will be able to participate in the auction process
- › Ascending clock auctions will be used

## **Household Assistance**

- › The paper outlines that the Government will provide assistance for households through a range of measures
- › This assistance will include introduction of energy efficiency measures and consumer information to help households reduce energy use

## **Assistance for Emissions Intensive Trade Exposed Industries (EITE)**

- › EITEs will receive an allocation of permits at the beginning of each compliance period, contingent on production
- › Up to 20 percent of AEUs would be freely allocation to EITEs (30 percent if agriculture is included)
- › Industry assistance would cover around 90 percent of emissions for EITE activities that have emissions intensities above around 2,000 tonnes of greenhouse gases per million dollars of revenue and 60 percent of emissions for emission intensities between 1,500 and 2,000 tonnes of greenhouse gases per million dollars of revenue
- › Assistance would be withdrawn when key competitor economies introduce comparable emission reduction schemes

- › Examples of industries which are likely to qualify include aluminium smelting, lime production, cement production, integrated steel manufacturing and pulp and paper manufacturing

### **Assistance for Electricity Generators**

- › Only coal-fired electricity generators in existence at 3 June 2007 would be eligible for the Electricity Sector Adjustment Scheme
- › While much of the details are yet to be finalised, assistance is likely to be based upon whether the generator is black or brown coal and its capacity
- › The quantum of assistance would be determined up front and be 'once and for all'. It may take the form of cash payments or free permit allocation

### **Tax and Accounting Issues**

- › Discrete provisions of the income tax law would be developed
- › The provisions would allow a deduction for expenditure incurred on the purchase of a permit (using the rolling balance method)
- › If the permit is banked, the effect of the deduction would be deferred until the permit is surrendered or sold
- › Free permits or cash payments for compensation would be included as assessable income
- › Scheme transactions would be treated under normal GST rules