

# Climate Change Group

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## Carbon Pollution Reduction Scheme Green Paper

The Federal Government this week unveiled the first details of its highly anticipated emissions trading scheme, which has been titled the Carbon Pollution Reduction Scheme (“Scheme”). In its 516 page Green Paper, the Government confirmed its commitment to the Scheme operating as a “cap and trade” scheme and outlines its preferred design framework.

A summary of the key elements of the Scheme follows, including:

- Coverage: the Government considers that the Scheme should have maximum practical coverage of greenhouse gases (“GHG”) and industry sectors.
- Obligations: businesses meeting Scheme thresholds will need to purchase sufficient carbon pollution permits (“Permits”) to match their annual greenhouse gas emissions.

- The market for Permits: this includes a number of key points for businesses to take note of.
- Government assistance: there will be a range of Government assistance programs to assist businesses.

### 1. Coverage under the Scheme

The Government considers that the Scheme should have maximum practical coverage of GHG and industry sectors. It estimates that the Scheme will affect 1,000 businesses which account for roughly 75% of Australia’s total GHG emissions.

## Industry Sectors

The industry sectors to be included from the outset are:

- stationary energy (electricity generation, energy production in manufacturing, petroleum refining, construction and commercial industries and domestic heating);
- transport (road and rail transport, domestic aviation and domestic shipping);
- fugitive emissions (emissions during the production, processing, transport, storage and distribution of coal, oil and gas);
- industrial processes (chemical reactions from manufacturing processes, mineral processing, chemical production and metal production); and
- waste (solid waste sent to landfill and the treatment of domestic, commercial and industrial wastewater).

Forestry will not be compulsorily included at commencement, but forest landowners who “opt-in” to the Scheme will receive free Permits for increases and will be required to purchase Permits for decreases in the net carbon storage of their forests.

The Government considers that including the agricultural sector is not practical at commencement, but is in favour of its eventual inclusion. The final decision is to be made in 2013 and the earliest inclusion date will be 2015.

### Direct and indirect obligations

Industry sectors will be covered by a combination of direct and indirect obligations. In general, sectors will be covered by a combination of:

- direct obligations on facilities with emissions over a defined threshold;
- indirect obligations on fuel suppliers (including but not limited to petroleum suppliers) for emissions resulting from combustion of fuel downstream in the supply chain; and
- indirect obligations on domestic manufacturers and importers of synthetic GHG.

### Direct obligations threshold

In the interests of balancing compliance costs against Scheme coverage, the Government will set emissions thresholds above which direct obligations will apply.

In general, facilities with direct emissions of 25,000 tonnes or more of carbon dioxide equivalent per annum will have direct obligations under the Scheme. This threshold is in line with the facility reporting threshold under the National Greenhouse and Energy Reporting Act 2007 (see our National Greenhouse and Energy Reporting Scheme summary for further details).

## 2. Obligations for those businesses covered

From 1 July 2010, businesses covered under the Scheme will be required to purchase sufficient carbon pollution permits (“Permits”) to match their annual GHG emissions.

Those businesses will be able to buy Permits at auction or on the secondary trading market. At the end of the year, each firm will surrender a Permit for every tonne of carbon dioxide equivalent emitted that year.

The Scheme’s reporting framework will build on the National Greenhouse and Energy Reporting Scheme (“NGERS”). The Government considers that one annual emissions report will be adequate for each business covered under the Scheme for the purposes of both the Scheme and the NGERS, however large emitters may be required to have their emissions reports assured by a third party.

## 3. The market for Permits

### Permits

Permits will be personal property which cannot be extinguished without compensation. Permits will also be “financial products” for the purposes of the Corporations Act 2001. Anyone will be able to purchase and hold Permits and this ownership will be tracked on a national registry so that legal title of a Permit will only be transferred upon entry on the registry.

The sum of all Permits on issue will be capped annually at levels which are consistent with the Government’s long term goal of reducing national emissions by 60% by 2050 (compared to 2000 levels).

The Government has suggested it will cap the price of Permits until mid 2015, and this cap will be set at a level which is above the estimated market price of Permits.

Permits can be banked for an unlimited amount of time. This means they can be bought in one year and then used in later years. The Government will also allow short-term borrowing of Permits from future years’ emissions caps.

Annual caps will be set by the Government 5 years in advance and indicative bands or “gateways” will be set for future annual caps in the subsequent 10 years. The purpose of this is to ensure investor certainty.

### Linking internationally

In the short term, there will be limits on the import of international offset credits by domestic emitters, which will be specified in the White Paper.

The Government’s long term preference is for open trade within the context of an effective global emissions constraint.

#### 4. Assistance from Government

##### Emissions-intensive trade-exposed industries

The Government will initially provide free Permits to businesses that are deemed to engage in emissions-intensive activities which produce trade-exposed products. For those trade-exposed businesses that are only moderately emissions intensive, the Government will not provide free Permits, but will provide alternative, lower-level assistance.

##### Coal-fired electricity generators

The Government proposes to provide a limited amount of direct assistance to coal-fired electricity generators. This assistance will be provided once only at the outset of the Scheme and will be determined on the basis of the generator's capacity and whether it uses black or brown coal.

##### Climate Change Action Fund

The Climate Change Action Fund will be set up by the Government to assist businesses in transition to the Scheme. It will invest in new low emissions processes and industrial energy efficient projects with long payback periods.

##### Fuel

The Government will cut fuel excise taxes on a cent for cent basis to offset the initial price increase caused by the Scheme. This measure will be assessed and adjusted over 3 years, and it will be reviewed at the end of this period. An equivalent rebate will be applied to fuel use in agricultural and fishing industries. For heavy vehicle road users, fuel taxes will also be cut on a cent for cent basis, with review after one year.

#### 5. The months ahead

The Government has emphasised that any positions outlined are not final and invites stakeholder feedback on all aspects of scheme design. Submissions must be made by 10 September 2008 to the Department of Climate Change. We would be happy to assist in the preparation of submissions.

The Government intends to outline its final decisions when it releases its White Paper in December this year. The White Paper will be accompanied by exposure draft legislation. We will provide a summary of the proposed legislation when it is released.

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