

CPRS WHITE PAPER: KEY POINTS

December 2008

On 15 December, the Australian Government released its White Paper Carbon Pollution Reduction Scheme: Australia's Low Pollution Future (CPRS White Paper) in which it sets out the design of the CPRS that it intends will take effect from 1 July 2010.

The CPRS White Paper follows the release of the Green Paper in July and an extensive consultative process with stakeholders. Ai Group made an influential submission on the Green Paper and in developing the White Paper the Government consulted particularly closely with Ai Group.

Targets and Caps

- The CPRS White Paper confirms the Government's commitment to the long-term goal of reducing Australia's greenhouse gas emissions by 60% of 2000 levels by 2050;
- It announced Australia's medium-term target of a reduction in greenhouse gas emissions by 2020 of between 5 per cent and 15 per cent of the level they were in 2000;
- The 5 per cent reduction is a unilateral commitment that will guide Australia's policy regardless of the level of international agreement;
- The Government also released indicative annual caps for the first three years of the CPRS.

covered from the outset but the Government is predisposed to include it from 2015; and

- Emissions from facilities with total direct emissions less than 25,000 tonnes of CO₂-e are not included. Liabilities will also be imposed on upstream fuel suppliers and synthetic greenhouse gases. Less than 1,000 businesses are expected to have direct liabilities.

Point of Liability

The Green Paper had proposed that liability will rest with the party that has operational control of a facility. The White Paper retains this as a default position, but creates scope for the party with financial control assuming liabilities.

Penalties

The Government proposes imposing a penalty on businesses that do not surrender sufficient permits. The penalty will be a prescribed amount set in regulations each year but no more than average price in the previous financial year plus 10 per cent (plus interest). In addition the business will be required to make good the shortfall by surrendering permits in the following year. Any shortfalls will be published.

Price Caps, Price Impacts and Household Compensation

Price cap

The Government will establish a price cap for the period to 2015-16 to limit price volatility. This will start at \$40 a tonne in 2010 rising by 5% + CPI per year.

Price impacts

The price impact will depend on the reduction targets:

- Under a 5% reduction target the price of permits in 2010

Table 1: Indicative Caps 2010-11, 2011-12 and 2012-13

Financial Year	Indicative cap relative to 2000 emissions
2010-11	109%
2011-12	108%
2012-13	107%

Australia would move from the 5% towards the 15% end of the range "in the context of global agreement under which all major economies commit to substantially constrain emissions, and the advanced economies take on reductions comparable to Australia" (see Table 2).

Coverage

- CPRS will have very broad coverage including almost all sectors and all greenhouse gases. Agriculture will not be

Table 2: What Does a Reduction Target of 5% to 15% of 2000 levels mean?

Reduction on 2000 levels	Reduction relative to current projections (120% of 2000 levels)	Reduction of per capita emissions (relative to 2000 levels)
5%	21%	27%
15%	30%	34%

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has been estimated to be around \$23 per tonne (in nominal terms). The 2020 price under the same target is expected to be around \$47 in 2020.

- Under a 15% reduction target, the price of permits in 2010 has been estimated at around \$32 per tonne (in nominal terms). The 2020 price under the same target is expected to be around \$67 per tonne in 2020.

The average electricity price rise has been estimated at around 0.8 permits per megawatt hour for the 2010-20 decade as a whole. In NSW and Victoria, prices are expected to rise by more than the average.

Table 3: Illustrative Electricity Price Increases

Permit price assumption	2010	2020
	\$23 per tonne	\$47 per tonne
	\$/MWH	
NSW	16.79	44.18
QLD	14.26	42.77
SA	17.48	28.67
TAS	7.82	27.26
VIC	18.63	44.18
Weighted Average NEM	16.10	41.36
WA (wholesale)	14.26	31.02
Weighted Average (National)	16.10	40.42

The Government is assuming a \$25 permit price in 2010-11. Price impacts for households will be concentrated on electricity and other energy prices. The CPI impact is expected to be around 1.1%.

Emissions Intensive Trade Exposed (EITE) Businesses

In the absence of strong support, EITE businesses would bear the brunt of the CPRS both because they are emissions intensive and have higher costs and because they are trade exposed and unable to pass on these costs either in exports or in the domestic market.

Table 4: EITE Permit Allocation

Tonnes of CO2-e per \$ million of revenue	Tonnes of CO2-e per \$ million of value added	2010 allocation based on firm output and industry-wide emissions intensity
2,000 +	6,000 +	90%
1,000-1,999	3,000 – 5,999	60%

The White Paper makes a number of important improvements:

- Increasing the quantity of permits allocated to EITE businesses and extending the range of industries that will be eligible for EITE permits;
- Raising the proportion of permits allocated to EITE businesses over time and therefore creating more scope for these businesses to grow over time;
- Changing the basis of measurement of emissions intensity to include an option to be assessed on a value-added basis; extending the base period for evaluation of emissions intensity and allowing some indirect emissions from sources other than electricity to be included in the calculation of emissions intensity (see Table 4).

Climate Change Action Fund

The White Paper allocates \$2.15 billion over five years to the Climate Change Action Fund (CCAF) to assist business adjust to the CPRS. The CCAF has four streams:

- Information dissemination to businesses about the CPRS, its impacts and measures to reduce carbon footprints;
- Investment and innovation assistance to assist business improve energy efficiency and reduce emissions;
- Structural assistance to smooth adjustment transitions; and
- Assistance for coal mining involving the promotion of emissions abatement and specific transitional assistance.

Further Information

The White Paper, a summary and a range of fact sheets are available online at www.climatechange.gov.au/whitepaper/index.html

Ai Group has a range of information about the CPRS and Ai Group information sessions and services at www.aigroup.com.au

Please contact Peter Burn (peter.burn@aigroup.asn.au or 02 9466 5503) for further information.