



AUSTRALIAN INDUSTRY GROUP

# Climate Policy: The Clean Energy Future Plan

## Outline

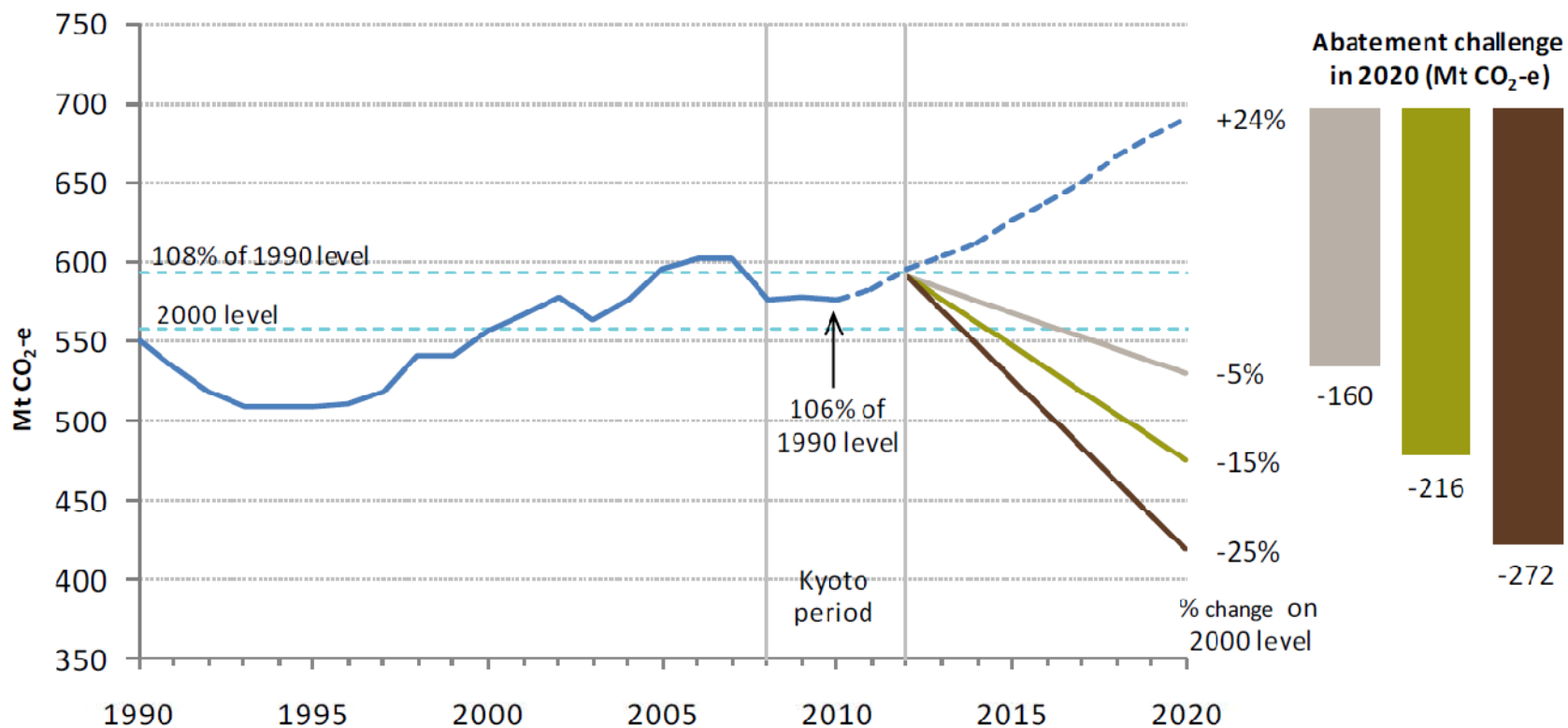
July 2011

# Clean Energy Future: The Objective

- To reduce Australia's net contribution\* to global greenhouse gas emissions
  - 2020 Target:
    - At least 5% below 2000 levels by 2020
    - Up to 15-25% depending on the extent of international action
  - 2050 target (**new**)
    - 80% below 2000 levels by 2050
- \* *Net contribution includes certified offshore abatement and domestic offsets*

# A substantial shift in development path

Figure 1 Australia's emissions trends, 1990 to 2020

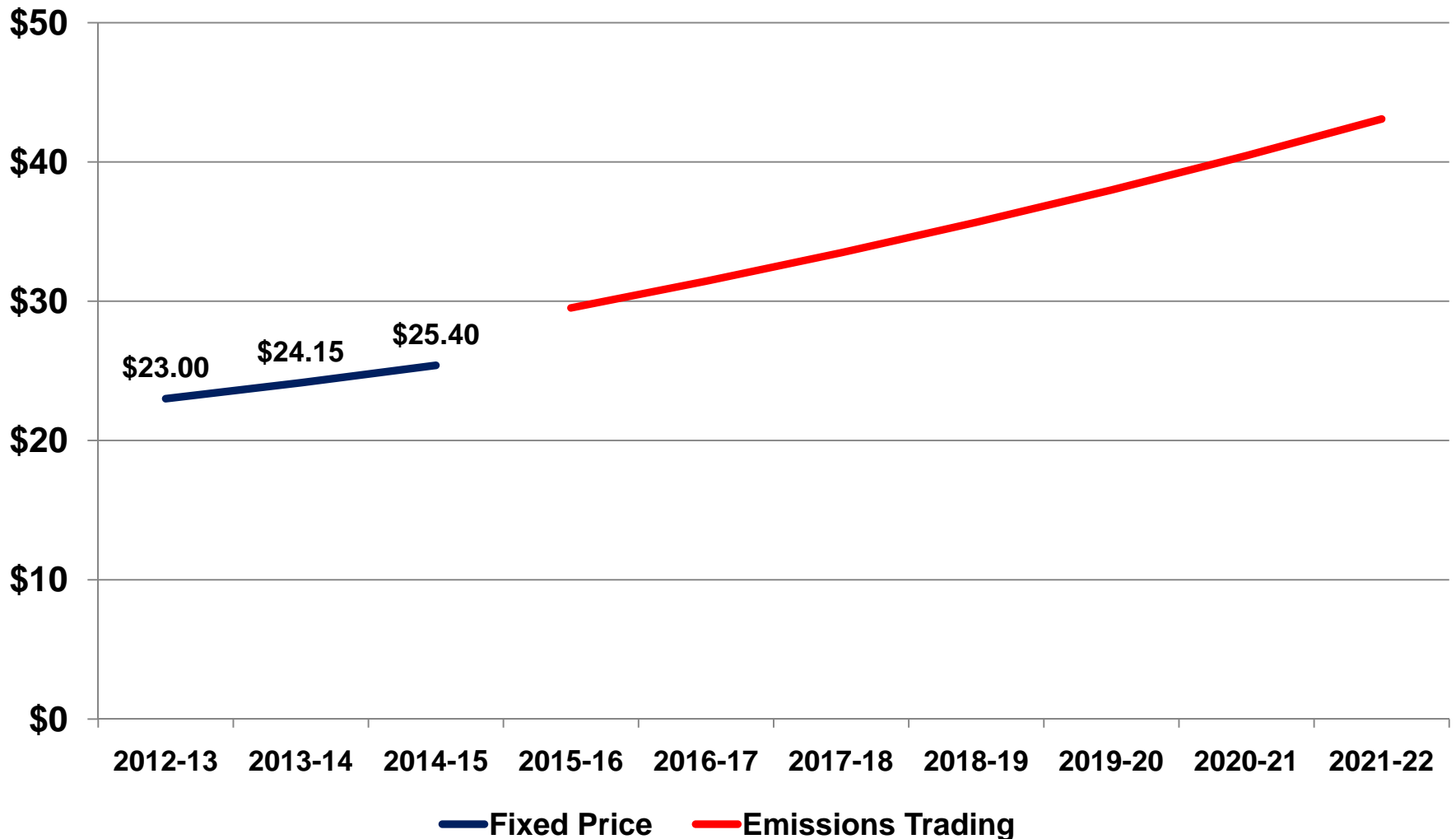


Note: Trajectories to the 2020 target range are illustrative, they begin in 2011-12 at 108 per cent of 1990 levels (consistent with Australia's Kyoto Protocol first commitment period target) and assume a straight line reduction to the target.

# Clean Energy Future: The Basics

- Price imposed on greenhouse gas emissions from 1 July 2012
- 3-year fixed price phase: 2012-3 to 2014-5
- Converts to emissions trading from 1 July 2015
- *Direct* liabilities on ~500 entities (with more than 25,000 tonnes of CO<sub>2</sub> pa)
- Changes in some fuel excise, fuel tax credits & separate coverage of synthetic greenhouse gases

# Clean Energy Future: Carbon Prices



# Clean Energy Future: Coverage

- Facilities emitting 25,000+ tonnes (CO<sub>2</sub> equivalent) of CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O & perfluorocarbons (reported under NGERS)
- Adjustments to fuel excise and fuel tax credits for *off-road* use from 1/7/12 (**not** agriculture, forestry, fisheries)
- Reduction in fuel tax credits for *on-road* use in heavier vehicles (above 4.5 tonnes gross vehicle mass) from 1/7/14
- Synthetic greenhouse gases: equivalent price imposed under separate, existing regulatory regime
- Forestry, agriculture & legacy waste “included” - offsets

# Clean Energy Future: Cash flow

- In fixed price period payments are due in two instalments, for example in 2012-13 year:
  - 75% (of estimated emissions): 15 June 2013
  - The rest: 1 February 2014
  - Shortfall penalty of 1.3 x price (and no tax deduction)
- In emissions trading phase (from 1 July 2015)
  - All on 1 February of the following financial year
  - Shortfall penalty of 2 x price (and no tax deduction)
- Adjustments to excise and changes to fuel tax credits rates will apply from the start of the financial year

# Clean Energy Future: Emissions trading (from 1 July 2015)

- Price floors and ceilings from 2015-16 to 2017-18
- Up to 50% of liabilities can be met with valid imported permits (none in fixed price period)
- Up to 100% of liabilities can be met with compliant domestic offsets (limited to 5% in fixed price period)
- Early auctioning of flexible price permits in the fixed price period
- Flexible permits can be 'banked' for future use without limit
- Limited 'borrowing' – up to 5% of liabilities can be borrowed using permits of the following year's vintage

# Clean Energy Future:

## Electricity supply

- Energy Security Fund
  - \$5.5 billion for strongly affected generators
  - Additional amount for payments for the “orderly closure” of 2,000 MW of capacity by 2020
- Energy Security Council to advise on any emerging risks to security of supply
- Transitional loans for some generators
- Regional structural adjustment

# Clean Energy Future: Cost pass through

## **Complete pass-through**

- No competition from imports *and* if emissions intensity is no greater than for domestic competitors

## **No pass-through**

- Supply in domestic/export markets competes with producers without carbon cost imposts

## **Partial flow-through**

- More emissions intensive producers without import competition

# Clean Energy Future: Electricity prices

- Treasury modelling suggests an increase in *wholesale* electricity prices of about \$18 per MWh hour 2012-13 to 2016-17
- Delivered electricity prices for business currently range from \$100 to \$180 per MWh
- Carbon pricing is expected to add around 10% to household electricity prices in 2012-13 (9% to gas prices).

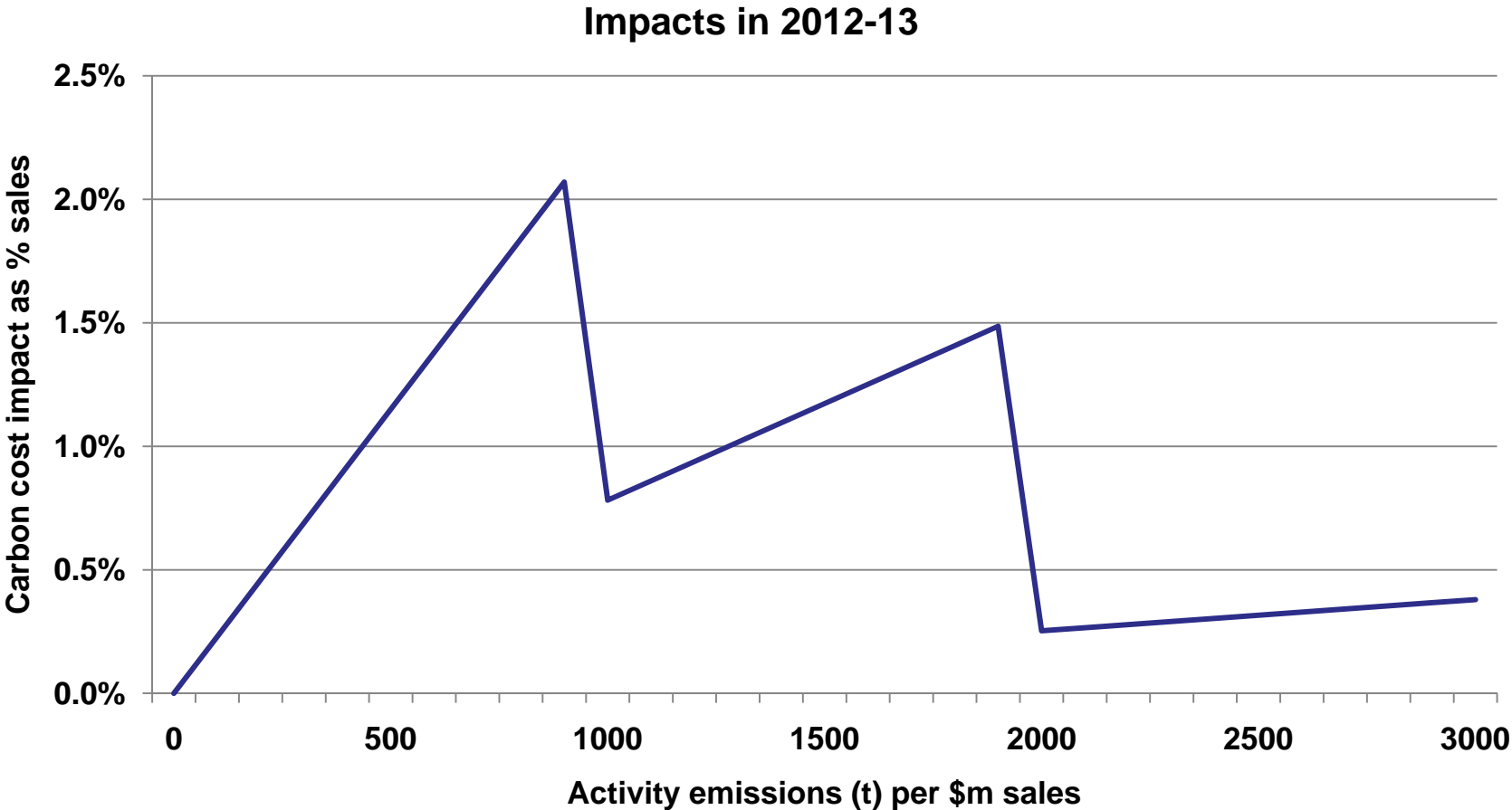
# Clean Energy Future: *Jobs and Competitiveness Program*

- Highly emissions-intensive activities (more than 2,000 t/\$m revenue) 94.5% assistance initially
  - (e.g. aluminium smelting, steel and many pulp and paper activities)
- Moderately intensive activities (1,000-2,000 t/\$m) 66% assistance initially
  - (e.g. glass container production)
- This assistance would slowly decline over time.
  - Regular reviews by the Productivity Commission to consider if reduction should halt (if competitors still did not face comparable carbon constraints)
- PC can also review whether assistance should be extended or delivered differently.
- 100% cap removed

# Clean Energy Future: Other Business Measures

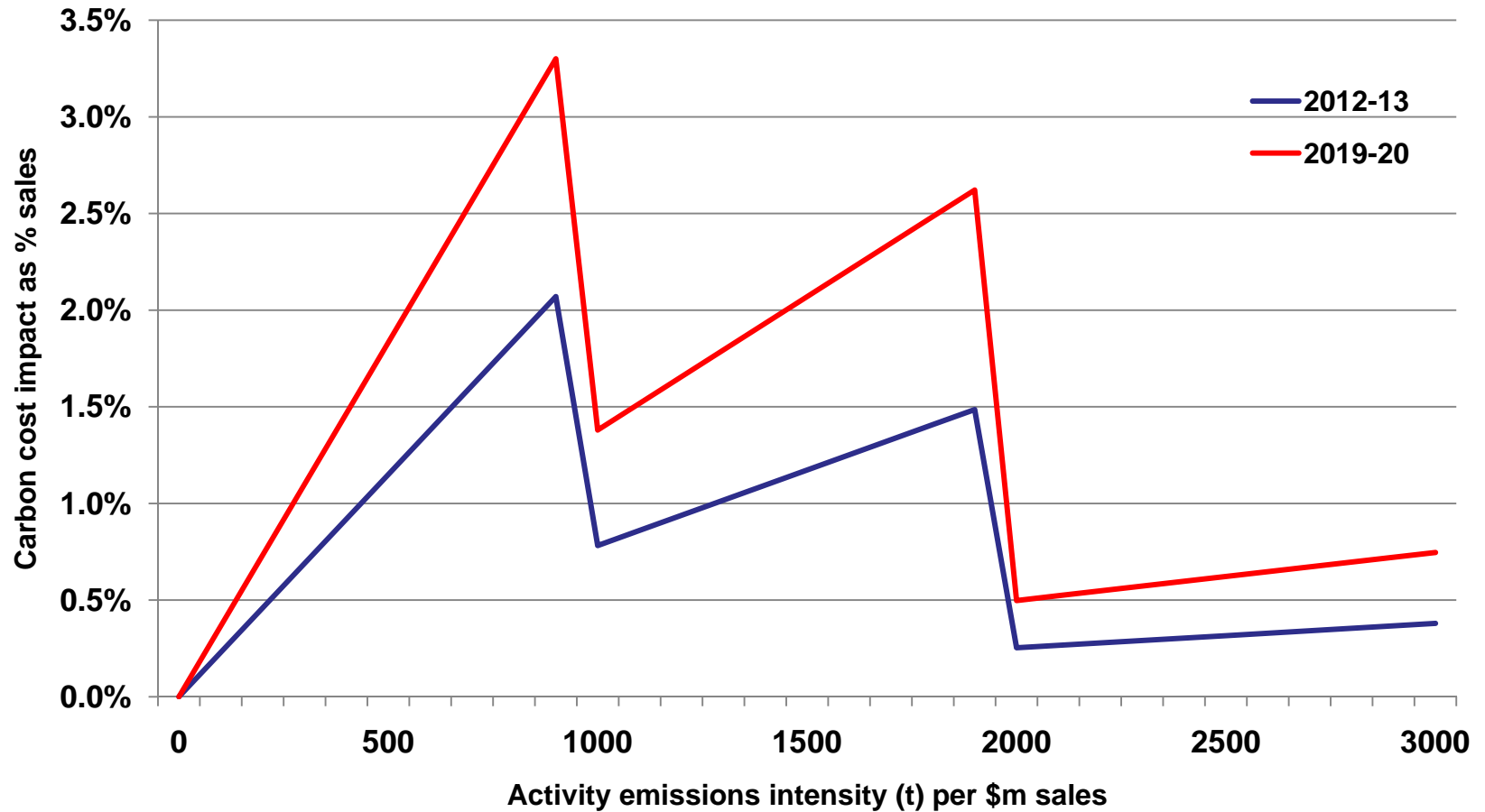
- The **Steel Transformation Plan** - \$300 million in additional support
- The **Clean Technology Program (CTP)** (*focus on manufacturing*)
  - **Capital investment** in energy efficiency and emissions reduction (\$800m);
  - Industry **low-carbon** R&D (\$200m); and
  - Efficiency in the **food processing** (\$150m) and **foundry** (\$50m) sectors.
  - Industry **skills** program (\$32m)
  - Efficiency **information** to small business (\$40m).
- The **small business asset write-off**
  - increased from \$5,000 to \$6,500 for businesses with turnover less than \$2m
- **Clean Energy Finance Corporation (CEFC)**
  - Invest in businesses seeking to **commercialise and deploy renewable energy, energy efficiency and low pollution technologies**. It will invest up to \$2 billion per year from 2013.

# Clean Energy Future: Impacts



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## Potential carbon price impacts



# Clean Energy Future: Households

- Package delivered through tax cuts and pension/benefit changes and payments to self-funded retirees
- Tax cuts aimed at below \$80,000 individual income via a large increase in tax free threshold
  - Borrowed from the Henry Review positive for low-income workforce participation
- Targeted package
  - 4,000,000 households more than 120% compensation
  - 66% of households at least more compensation than costs
  - 90% of households some compensation
- CPI impacts
  - 0.7% in 2012-13
  - 0.9% 2012-13 to 2015-16 (includes initial 0.7%)

# Clean Energy Future: Next Steps

## **MEMBER REACTIONS/INFORMATION**

- Briefing Note & Fact Sheets
- July & August Branch Council Meetings
- Leaders Group
- BizAssist Briefings July/August
- Specific Climate Policy Meetings August
- September National Executive Meeting

## **POLITICS**

- Push boundaries particularly on price, grants and regulation
- Opposition – workability of alternative approaches and transition

## **PREPARATION**

- Business information and energy efficiency sessions
- Navigating grant programs and assisting grant applications
- Ongoing information and service provision



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