



Australian Government
**Department of Climate Change
and Energy Efficiency**

Update on Australia's carbon pricing mechanism

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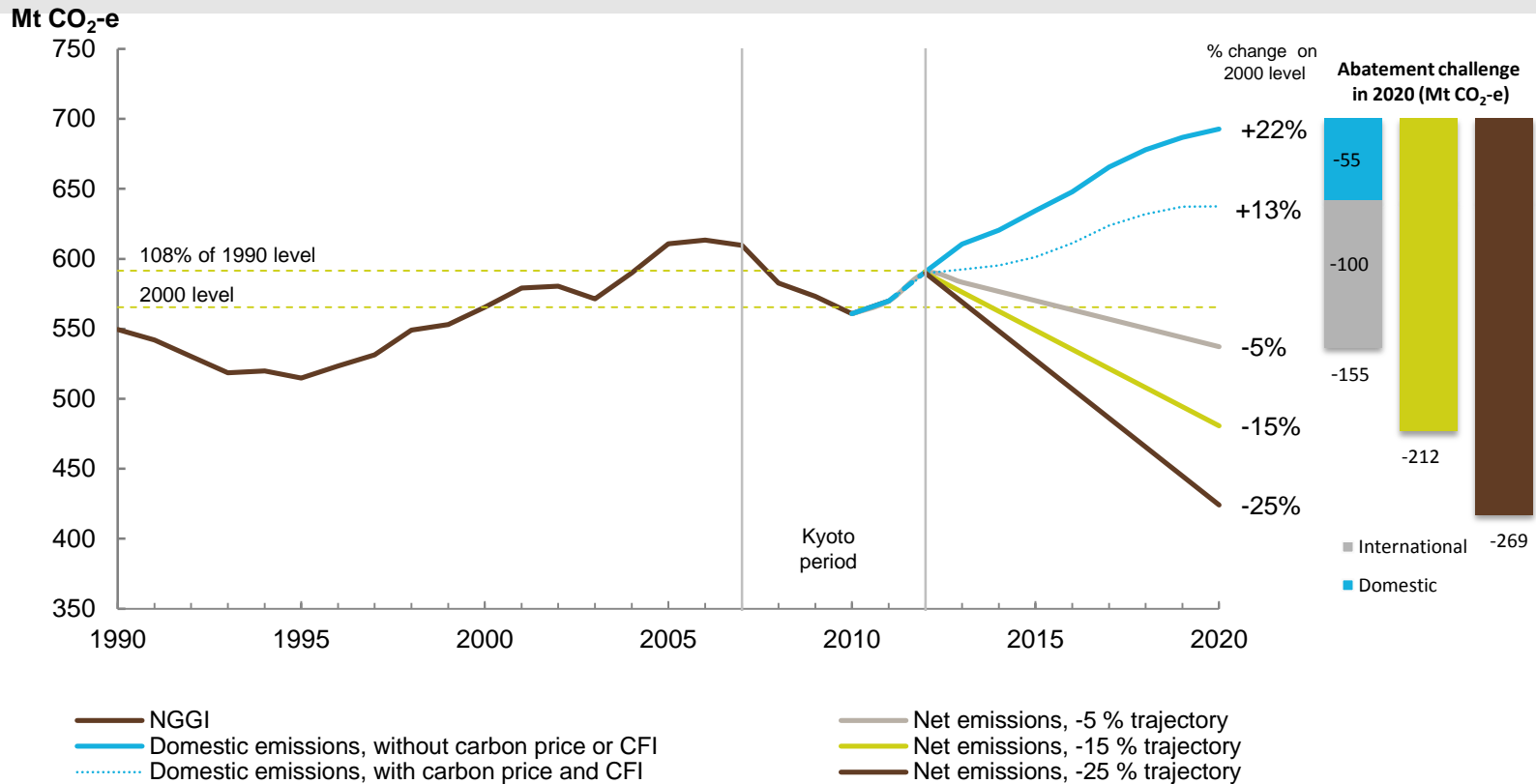
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Summary

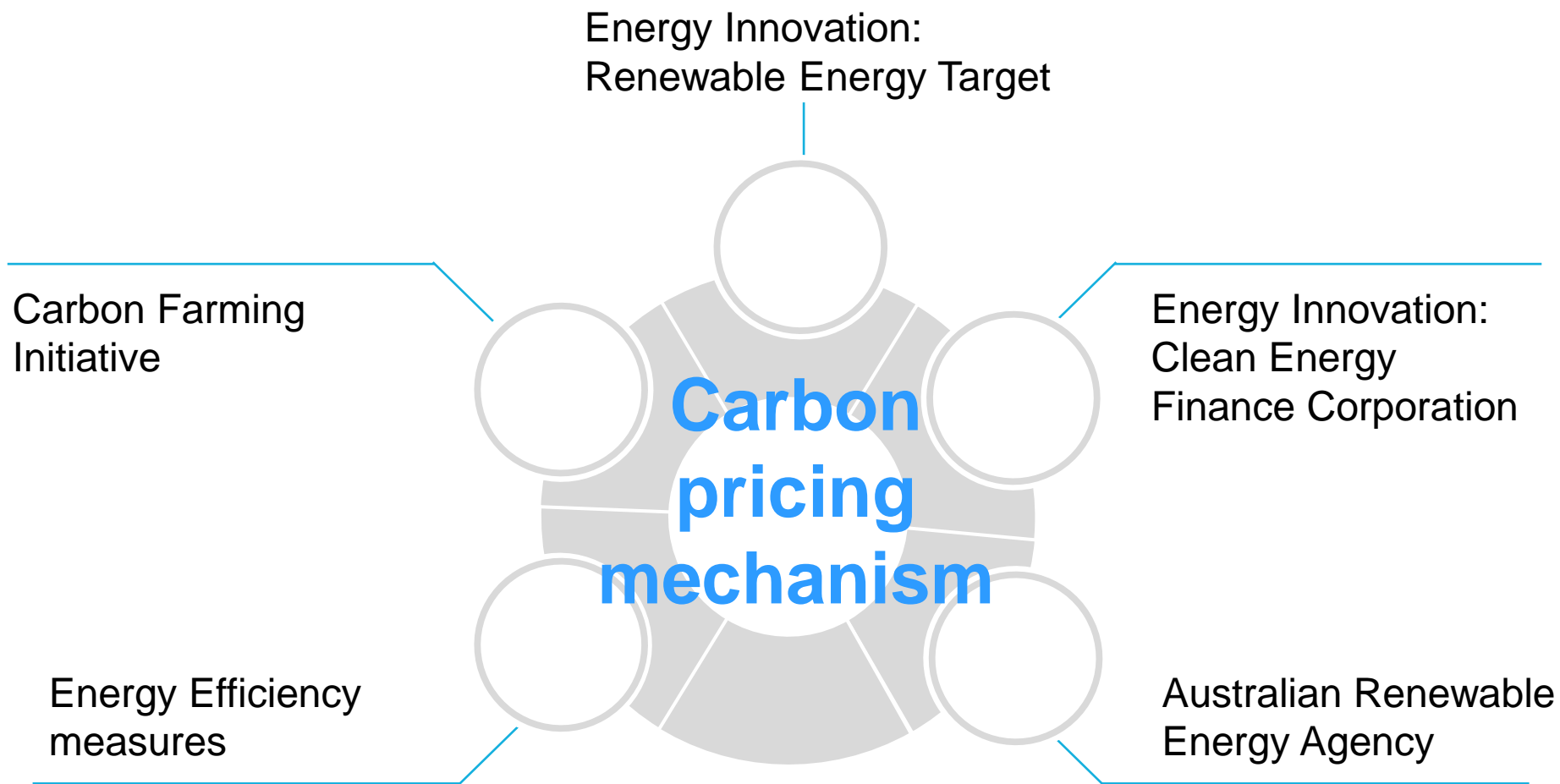
- Australia faces a significant emissions reduction challenge
- The Australian Government has put in place a comprehensive policy package, with a carbon price as the centrepiece
- The carbon price mechanism drives least cost abatement in the economy, and will be linked to the international carbon price
- The goal is to achieve continued economic growth while decoupling from emissions growth

Australia's projected emissions growth means that it has a significant abatement challenge



Commitment by 2020 (reduction from 2000 levels)	Per capita
%	% per capita
-5	-30
-25	-45

The carbon pricing mechanism is the centrepiece of an integrated policy response



The carbon price was developed through an extensive policy design process

Architecture

- A flexible mechanism capable of matching ambition and stability in policy settings
- Predictability in cap setting
- Ensuring the most efficient allocation of units
- Lowest cost abatement with international linking

Coverage

- Ensuring broad coverage and managing administrative complexity
- Putting liability where emissions are produced - or as high as possible in the supply chain - but providing flexibility where needed

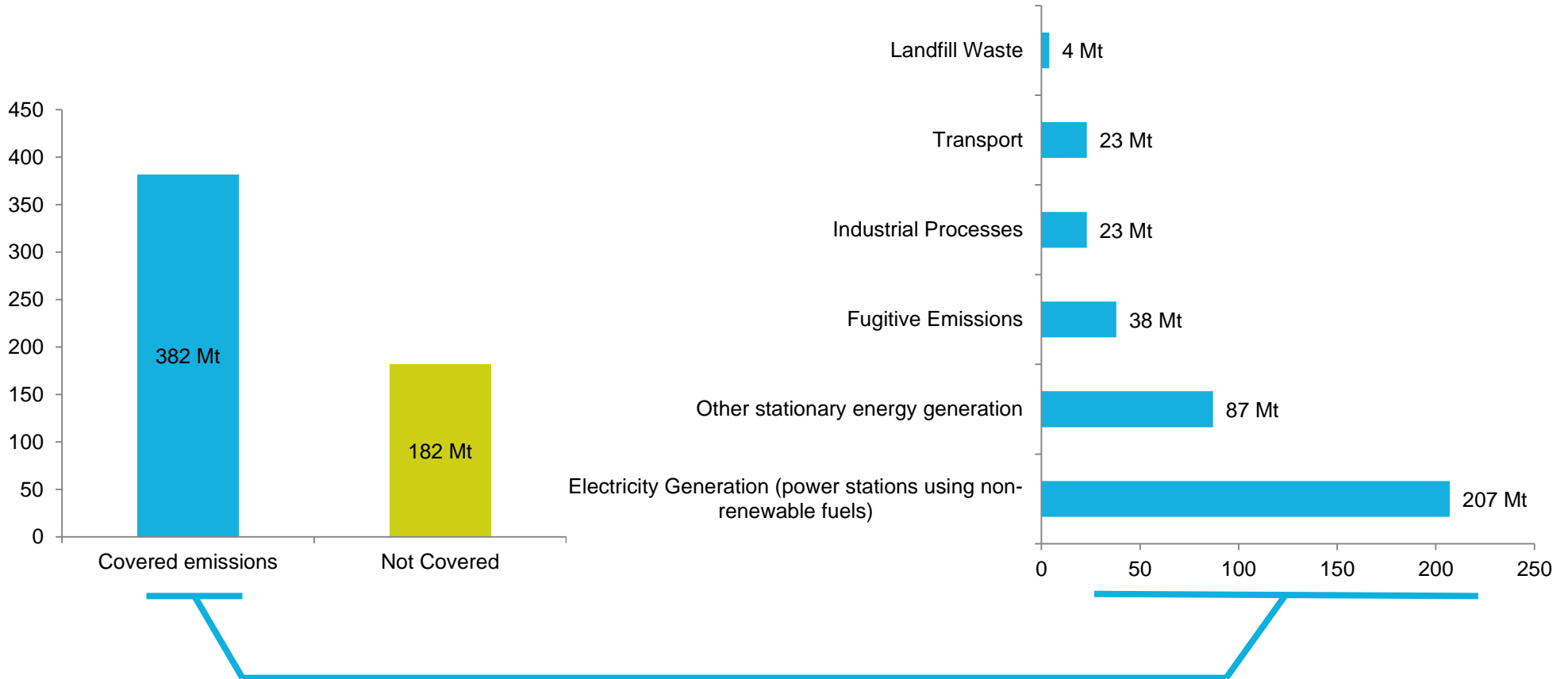
Moving to a clean energy economy

- Preventing carbon leakage while maintaining abatement incentives
- Maintaining energy security and encouraging supply-side investment
- Encouraging demand-side drivers for clean energy

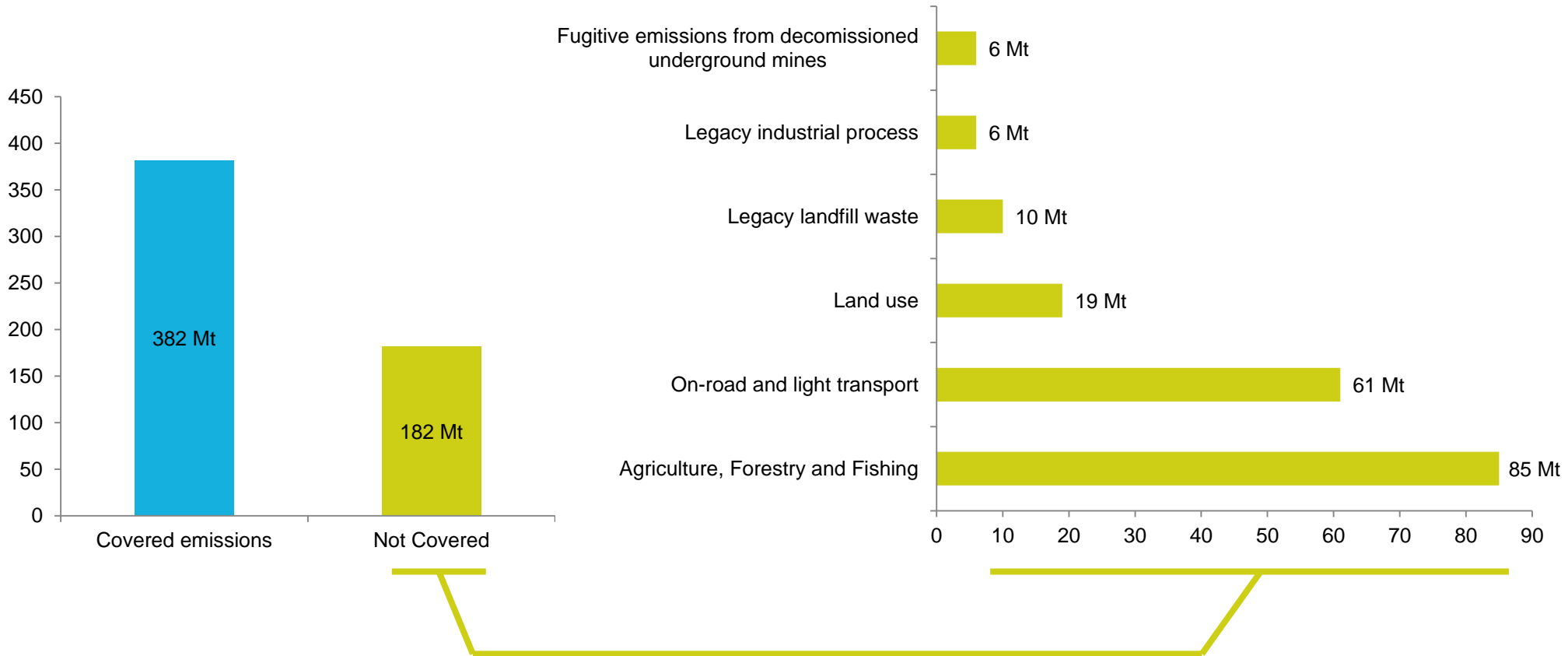
Implementation, compliance and administration

- A staged process of introduction
- An established accounting system
- Clear compliance requirements
- Robust administration and enforcement

What sectors are covered by the carbon price?



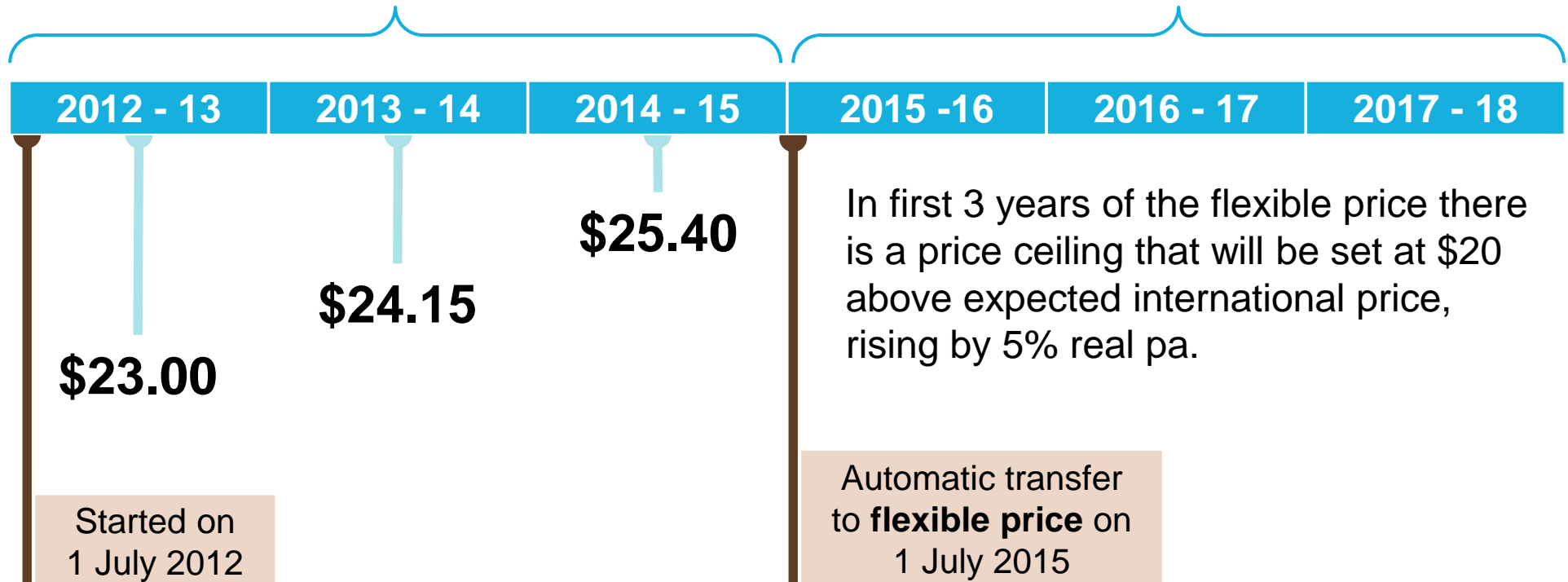
What sectors are not covered by the carbon price?



The carbon price mechanism will switch from a fixed to flexible price on 1 July 2015

Fixed Price Period

Flexible Price Period *(first three years)*



A key advantage of a carbon pricing mechanism is the ability to link to other markets

- Carbon pricing mechanism is designed to link to international carbon markets.
- From 1 July 2015, international units are expected to be used by a significant number of liable entities.
- The domestic carbon price is expected to be set by the international carbon price
- Export of Australian emissions units allowed once price ceiling no longer in place (from 2018).



Negotiations are underway to finalise implementation for EU linking

- European allowances can be surrendered for compliance from 1 July 2015
 - European allowances are defined as a ‘prescribed international unit’
 - Liable entities can purchase European allowances now
- Imports of European allowances once registry arrangements become operational
 - Working with the EC to agree these arrangements by mid-2013, with implementation thereafter
- Exports of Australian units are possible after the full link is established

Governance in place to administer the scheme, and provide advice on future improvements



Government and Parliament



Australian Government
Productivity Commission

- International pollution reduction actions
- Jobs and Competitiveness Program
- Fuel excise and taxation regime



Australian Government
Clean Energy Regulator
Carbon Farming Initiative

- Carbon Price
- Carbon Farming Initiative
- Renewable Energy Target



Australian Government
Climate Change Authority

- Pollution Caps
- Operation of Carbon Price
- Mitigation initiatives
- Pollution Reduction Targets

Economic growth will continue, but decoupled from emissions growth

