

CPRS WHITE PAPER: WHAT ARE THE IMPLICATIONS FOR BUSINESS?

December 2008

On 15 December 2008, 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 is the major policy instrument in the Government's plan to reduce Australia's greenhouse gas emissions.

The CPRS White Paper follows the release of the Green Paper in July and an extensive consultative process with stakeholders. It also follows the Garnaut Climate Change Review and the release of Treasury modelling in the intervening months.

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 also 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.

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".

Considering that Australia's emissions are already well above the 2000 level and are set to grow further on current projections, a reduction of between 5% and 15% of 2000 levels by 2020 represents a substantial transformation. The extent of the change is even more challenging because our population is growing relatively rapidly.

Table 1 (below) summarises some of these key relativities.

The Government also released indicative annual caps for the first three years of the CPRS. These are in line with both our Kyoto commitments and our current trajectory and should be readily achievable. These are summarised in Table 2.

Table 2: 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%

Coverage

As proposed in the Green Paper, the CPRS will have a very broad coverage including almost all sectors and all greenhouse gases. Agriculture will not be covered from the outset but the Government is predisposed to include it from 2015. Deforestation is also not included and forestry is included on an opt-in basis.

The coverage of the CPRS includes fugitive emissions from waste facilities although there is an arrangement whereby emissions related to the existing stock of landfill are excluded.

Only facilities with total direct emissions of more than 25,000 tonnes of CO₂-e are included. Liabilities will also be imposed on upstream suppliers of fuel and synthetic greenhouse gases.

Less than 1,000 businesses are expected to have direct liabilities.

Point of Liability

The Green Paper had proposed that the liability would rest with the party that had operational control of a facility. The White

Table 1: 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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Paper retains this as a default position but creates scope for the party with financial control to assume 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

Under a 5% reduction target the price of permits in 2010 has been estimated at 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 sets out estimates of electricity price rises in different states in 2010 and 2020.

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

CPI Impacts, Fuel Offset and Household Compensation

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%.

The Government will over-compensate low income households and provide assistance to middle income households by a combination of measures:

- Increases in income support payments;
- Increases in Family Tax Benefit payments;
- An increase in the Low Income Tax Offset; and
- A cent-for-cent reduction in fuel tax for the first three years.

The adequacy of household support will be reviewed annually.

While low income households will be better off overall as a result of the generous compensation arrangements, the higher prices paid for electricity and other energy (including petrol after 2012-13), will still act as an incentive to improve energy efficiency.

Emissions Intensive Trade Exposed Businesses

A key area of Ai Group's focus in our submissions and representations to the Government has been on the need to bolster support for emissions intensive trade exposed (EITE) businesses. In the absence of strong support, these businesses would bear the brunt of CPRS both because they are emissions intensive and therefore have higher costs and because they are trade exposed and therefore unable to pass on these costs either in export or domestic markets.

The White Paper makes a number of important improvements relative to the Green Paper proposals. These are:

- Increasing the quantity of permits allocated to EITE businesses and extending the range of industries that will be eligible for EITE permits. The expanded range will include paper products and plastics manufacturers, gas producers and oil refineries;
- 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.

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Under the White Paper arrangements EITE businesses will be eligible for an allocation of permits based on their own output and the industry-wide average emissions intensity of the emissions intensive activities (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.

Electricity Sector Adjustment Scheme

The particular impact on the most emissions intensive coal-fired electricity generators has been recognised with a \$3.9 billion allocation over five years in the form of an allocation of permits. The payments will be contingent on the generator maintaining its generation capacity unless no shortfall in overall supply will result. There will also be a windfall gain review with the potential for the final two years allocation of permits to be withheld.

Complementary Policies

While the CPRS is the central means of reducing greenhouse gas emissions, the Government intends to also introduce an expanded Renewable Energy Target, make investments in carbon capture and storage and pursue a range of energy efficiency measures.

In addition the Government will facilitate the emergence of a voluntary carbon market by developing a national standard for carbon offsets.

The Government has also asked the Australia's Future Tax System Review to consider the interrelationship between the tax system and the CPRS.

The Government regards its Green Car Plan as a policy that will have an impact on greenhouse gas emissions.

The Government has not released the Report of the Wilkins Review which was asked to consider the value of other Commonwealth policies in the context of the CPRS.

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 including Ai Group briefing sessions and services at www.aigroup.com.au

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

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%