

AUSTRALIA'S CLEAN ENERGY FUTURE PACKAGE

IMF-Japan High-Level Tax Conference for Asian and
Pacific Countries

31 January 2012, Tokyo

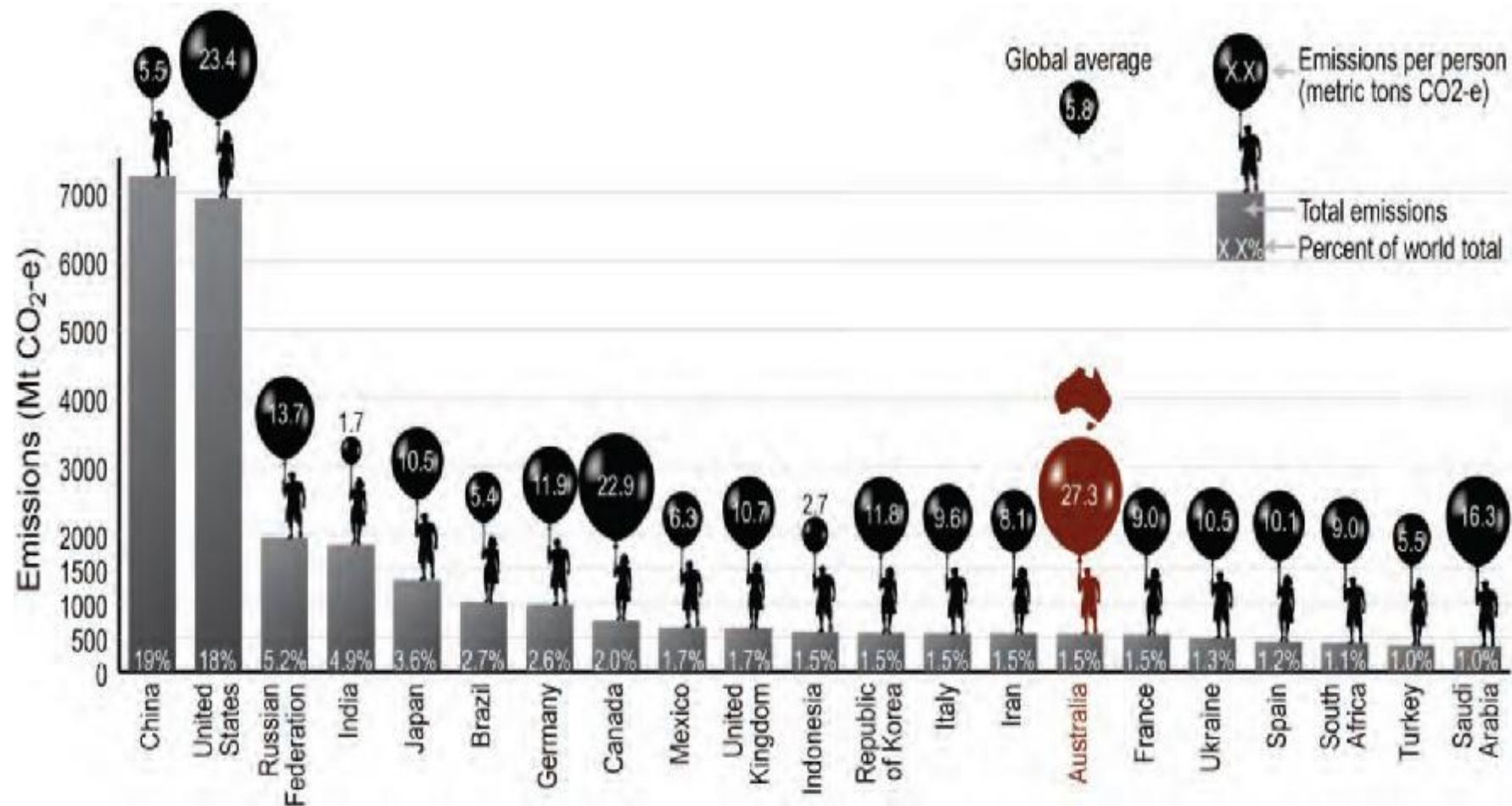
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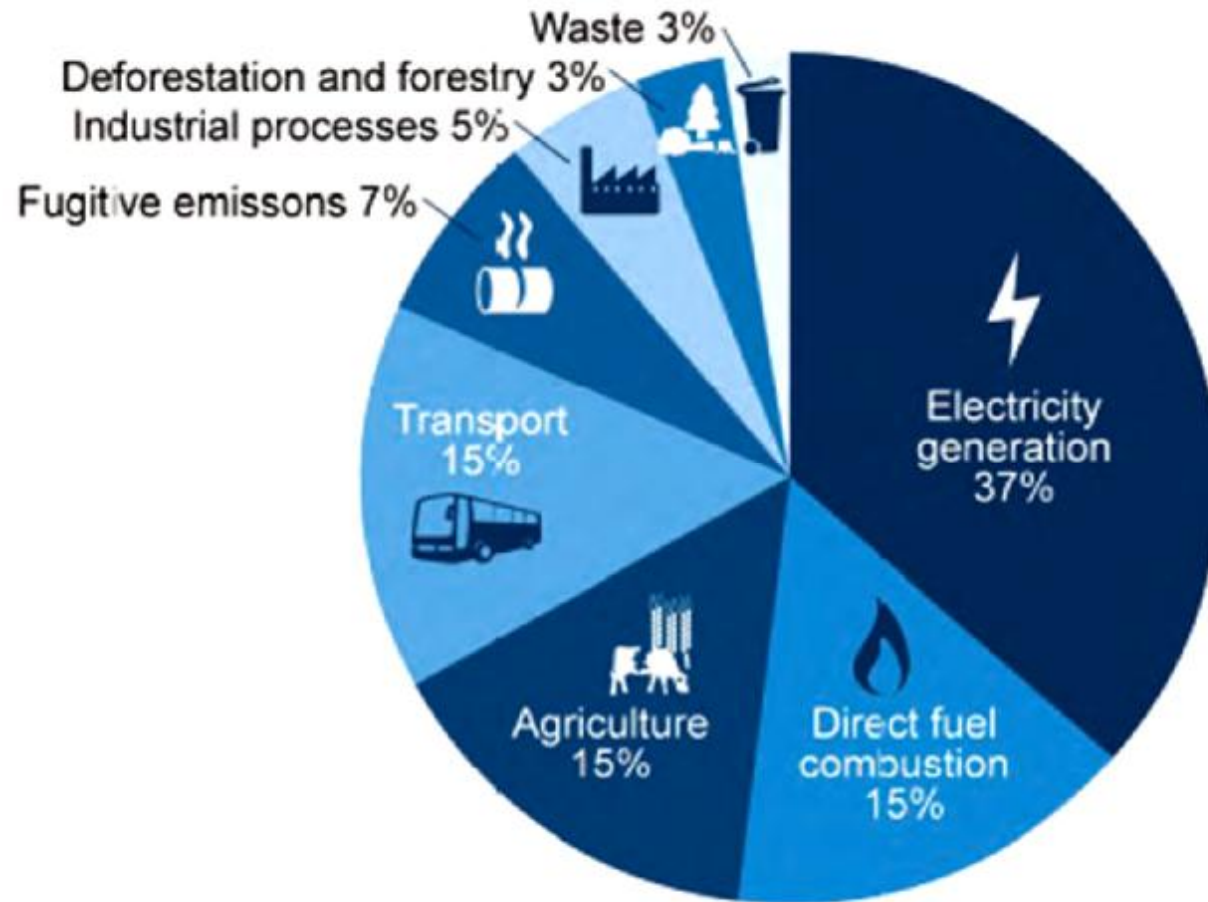
Introduction

- Australian context for pricing carbon emissions
- Australia's Clean Energy Future package
- Carbon Pricing Mechanism
- Impacts on Households and Business
- Carbon price revenue
- Lessons for mobilising climate finance

Australia's carbon emissions

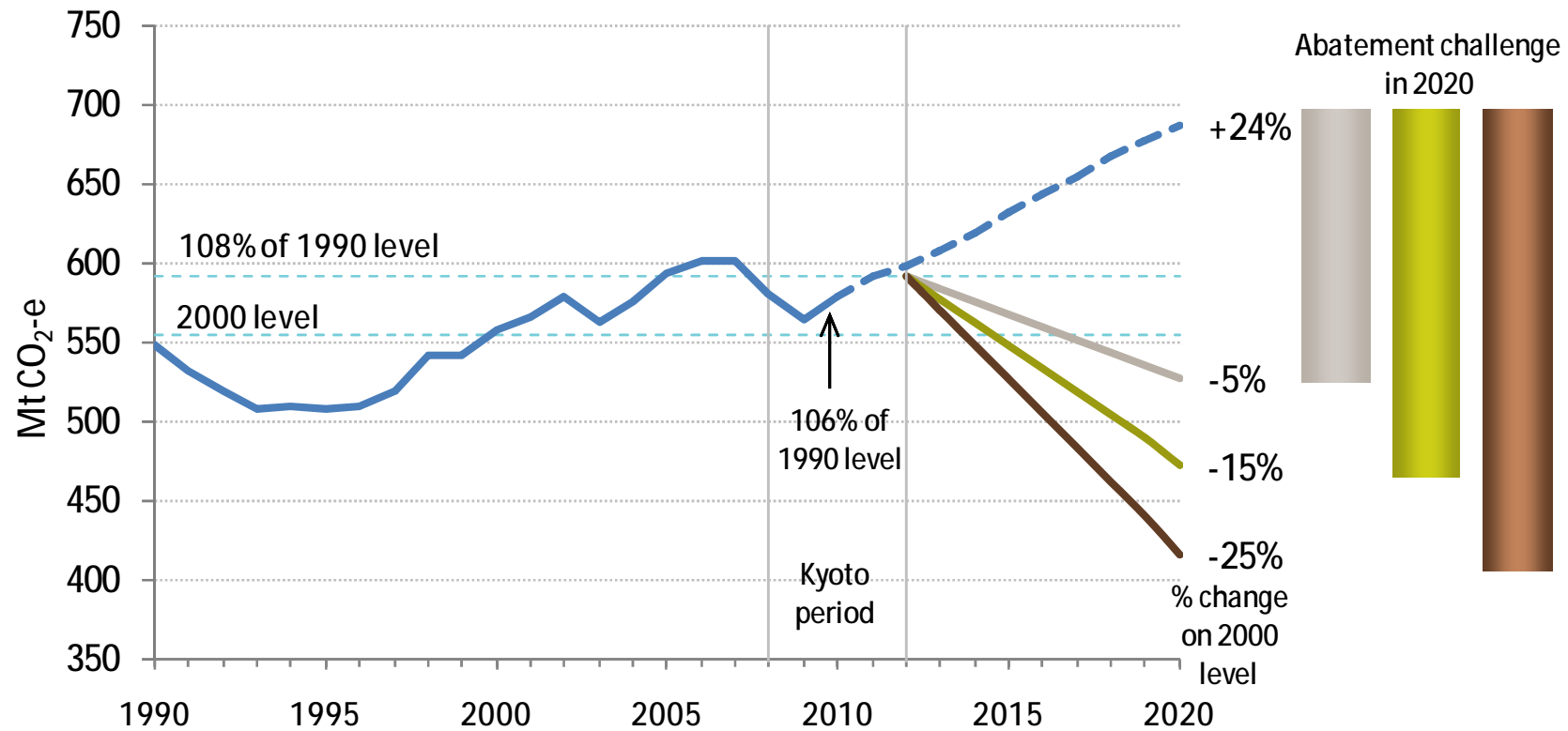


Australia's emissions profile



Australian targets

Projected growth in emissions and the abatement challenge



Clean Energy Future Package

- 4 elements:
 - Carbon price
 - Energy efficiency
 - Renewable energy
 - Land-based abatement



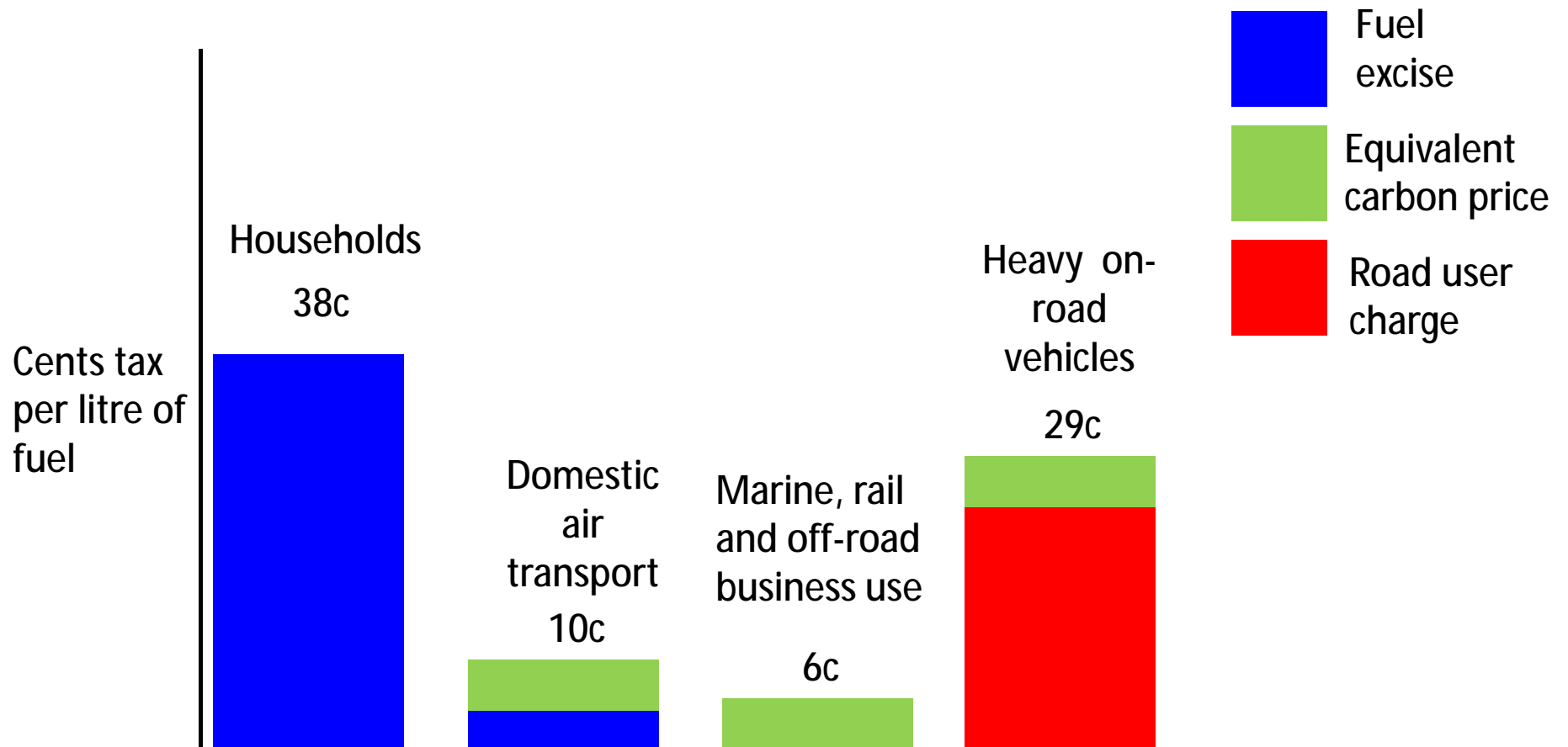
Who pays the carbon price?

- Carbon Pricing Mechanism: Large emitting facilities that generate over 25,000 tonnes of CO₂-e emissions each year
- Liquid transport fuel: not covered by CPM. Some users pay carbon price through the fuel tax system
- Synthetic greenhouse gases: not covered by CPM. Importers pay carbon price through the excise system

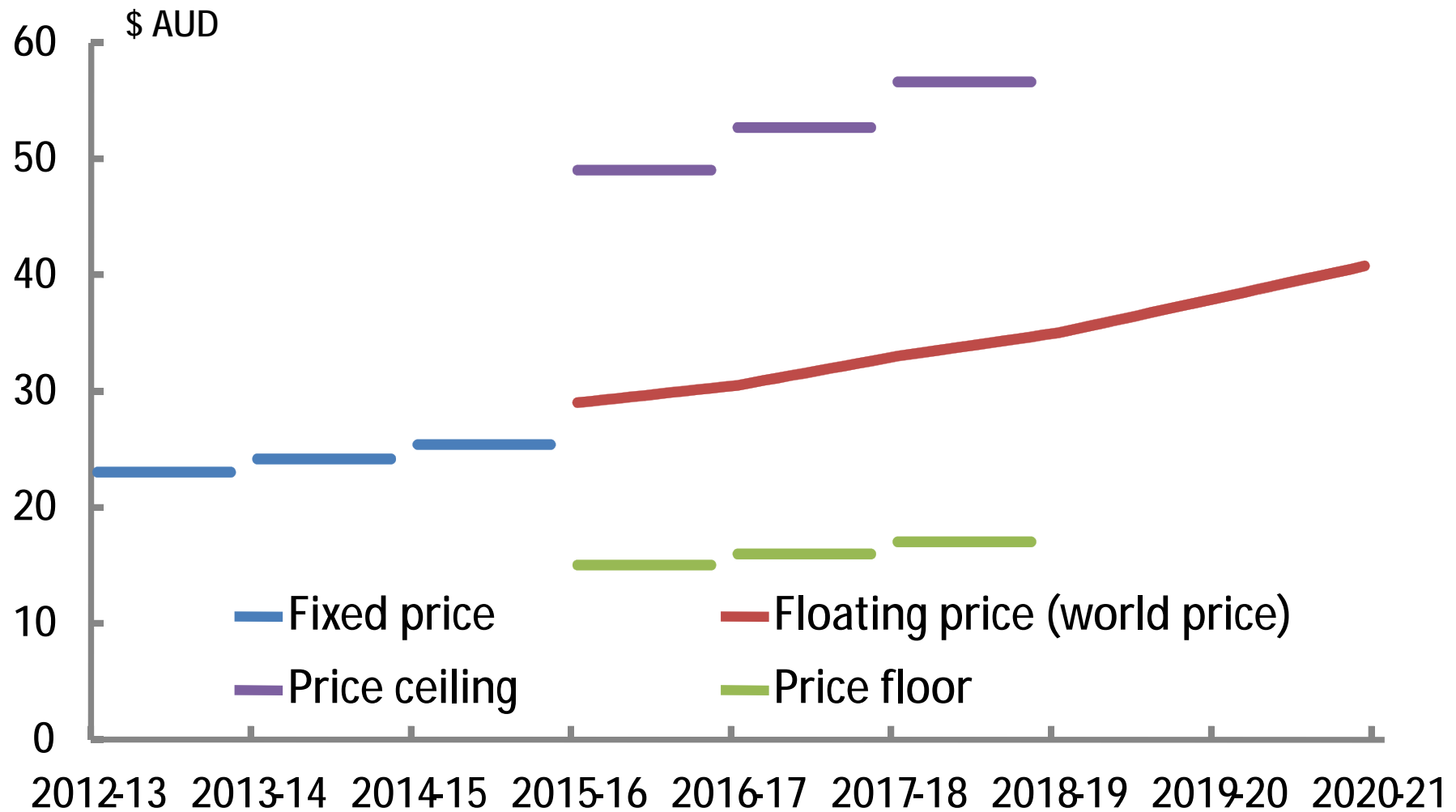
Carbon Pricing Mechanism – liability

- Large emitting facilities will be liable—
generate over 25,000 tonnes of CO₂-e
emissions each year
 - Households and small businesses have no direct obligations
- Need to surrender a permit to the
Government for each tonne of CO₂-e
- Permits will be auctioned by the Government
 - Some permits will be given away as industry assistance

Treatment of fuel and transport



Carbon price over time



Stage 1: Fixed price period

- Commencing on 1 July 2012 with a 3-year fixed price period:
 - \$23.00 in 2012-13
 - \$24.15 in 2013-14
 - \$25.40 in 2014-15
- Liable entities purchase a permit for every tonne of emissions.
- No international linking in fixed price period.

Stage 2 – Flexible Price Period

- Cap and trade scheme
 - Auction and free allocation of permits
 - Government sets caps each year; number of permits are reduced over time in order to reach emissions target
 - Businesses free to trade permits acquired from the Government
 - International linking

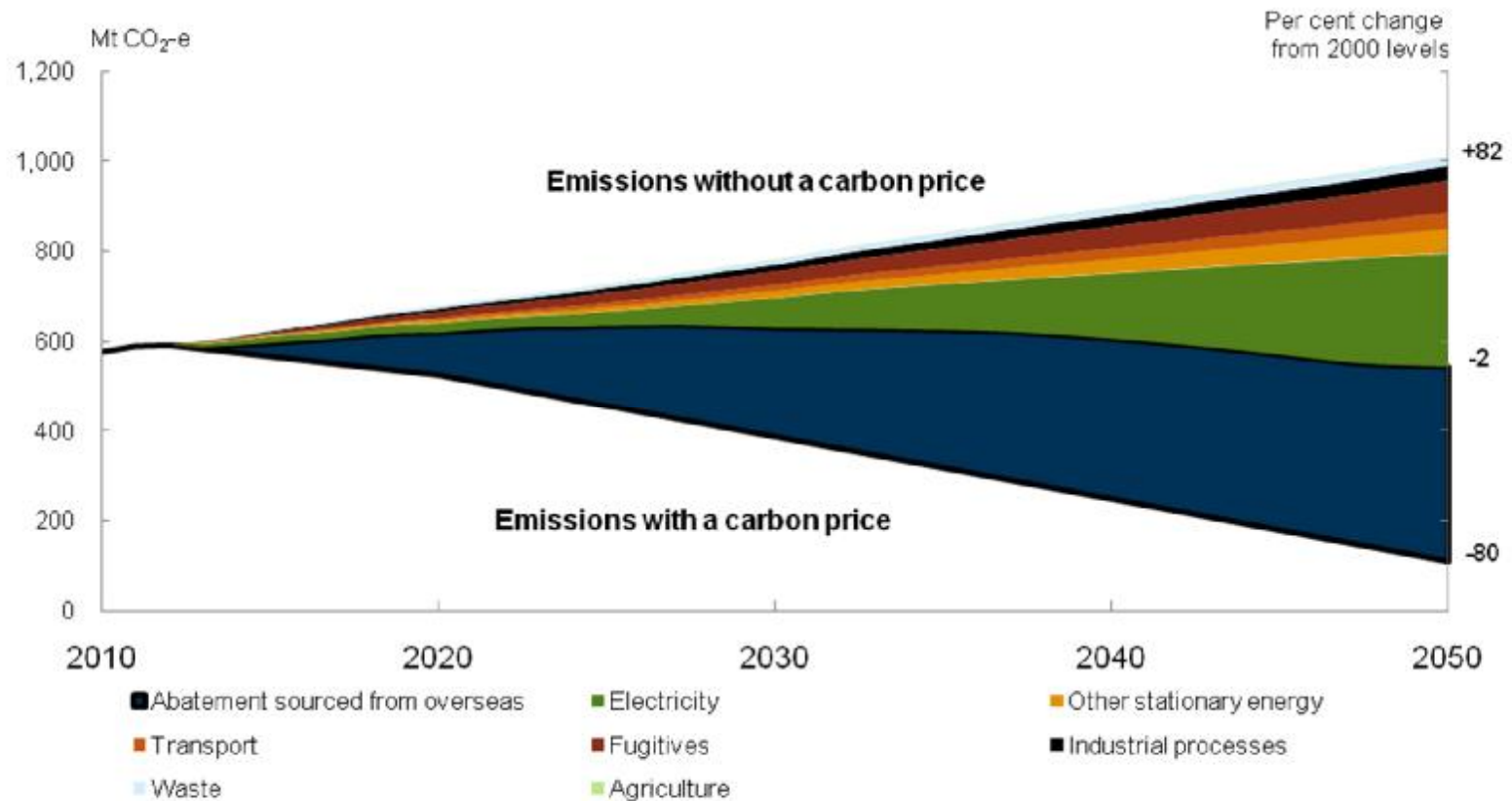
Benefits of international linking

- **Australia**
 - Access to global least-cost abatement
 - Part of a global response to climate change
- **Developing countries**
 - Private investment flows to generate eligible carbon permits

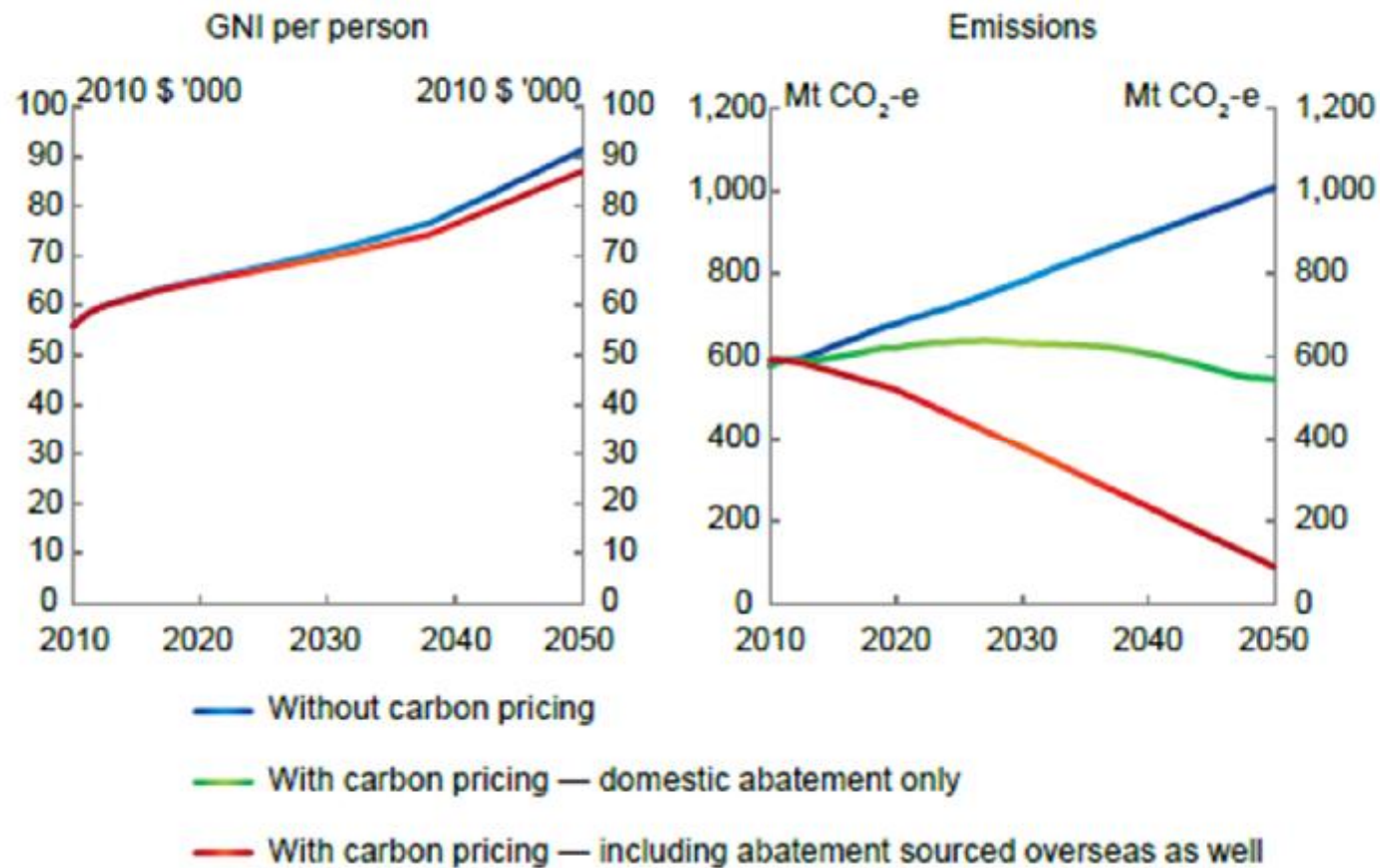
Impacts of the carbon price



Impacts - emission reductions



Impacts - emissions reductions and economic costs



Impacts – household prices

Household impact of \$23 carbon price

| | % impact | \$ per week |
|----------------|----------|-------------|
| Electricity | 10 | 3.30 |
| Gas | 9 | 1.50 |
| Food | <0.5 | 0.80 |
| Overall effect | 0.7 | 9.90 |

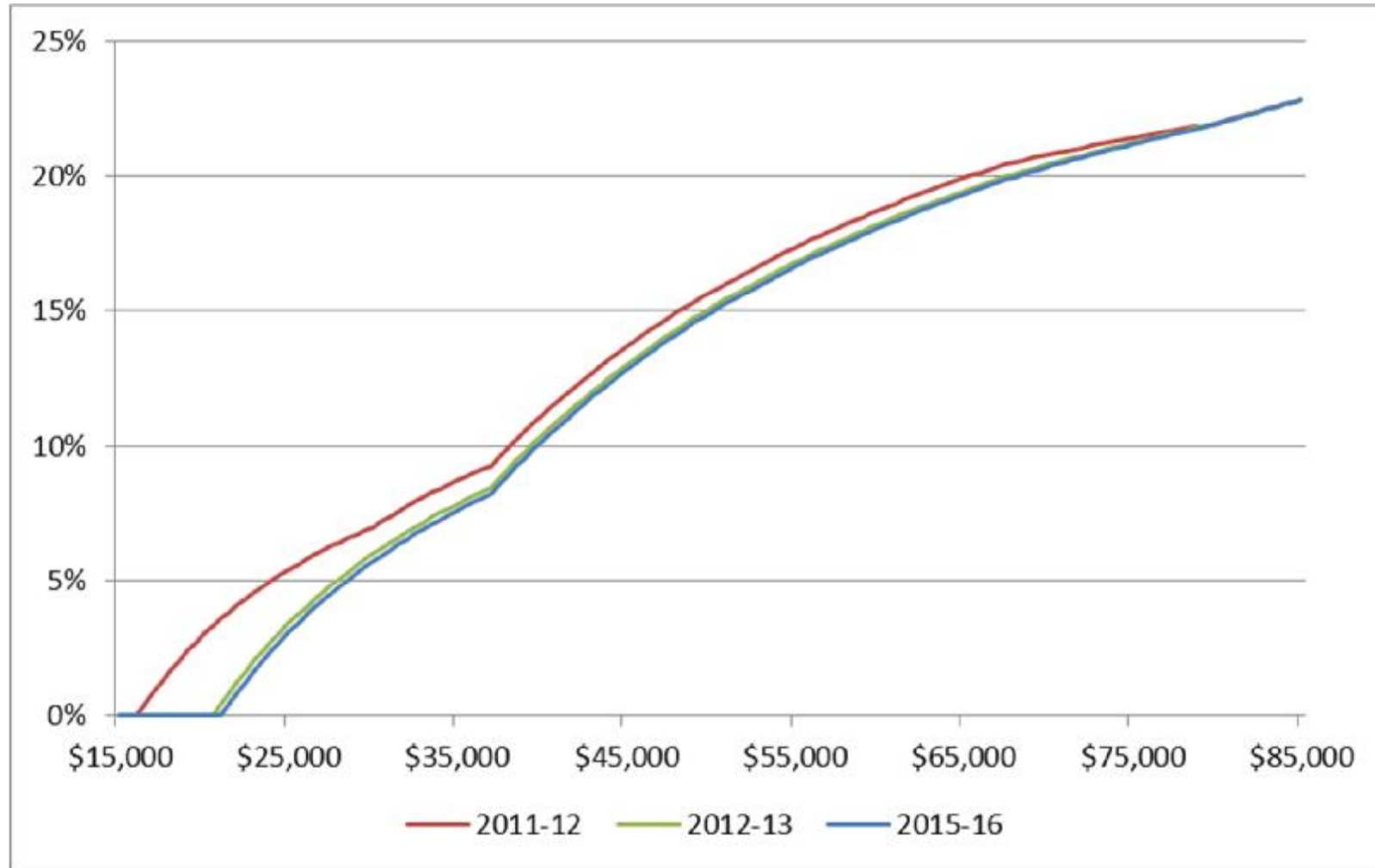
Share of consumption by households

| | CPI |
|-------------|-------|
| Electricity | 1.6% |
| Food | 15.4% |

Using carbon price revenue

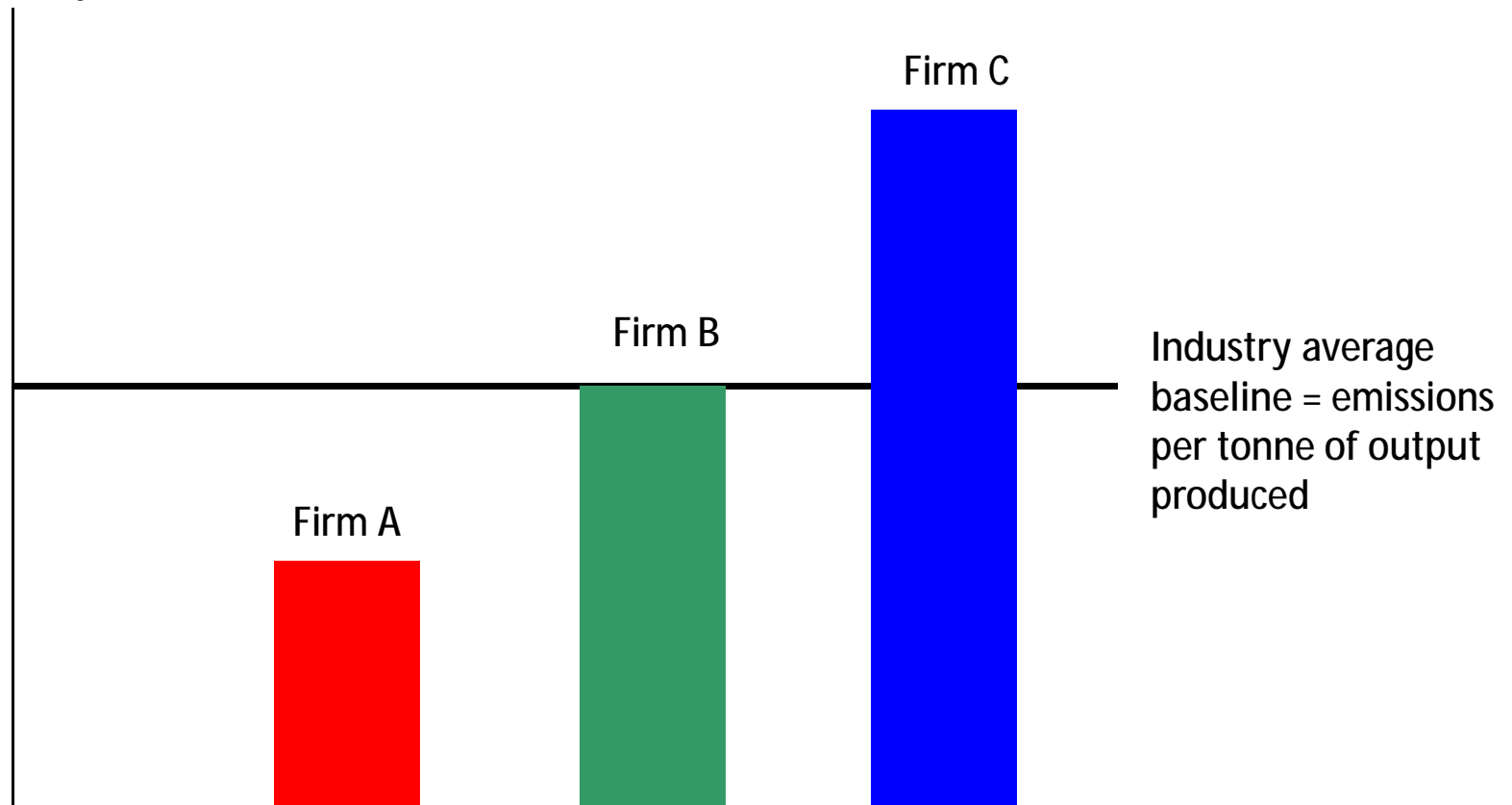
- Household assistance
- Emissions-intensive trade-exposed industries
- Industry sector specific assistance
- Other measures - Renewable energy and the land sector
- Managing and maintaining the scheme

Income tax reform – tax as a proportion of income



Jobs and Competitiveness Program

Emissions intensity

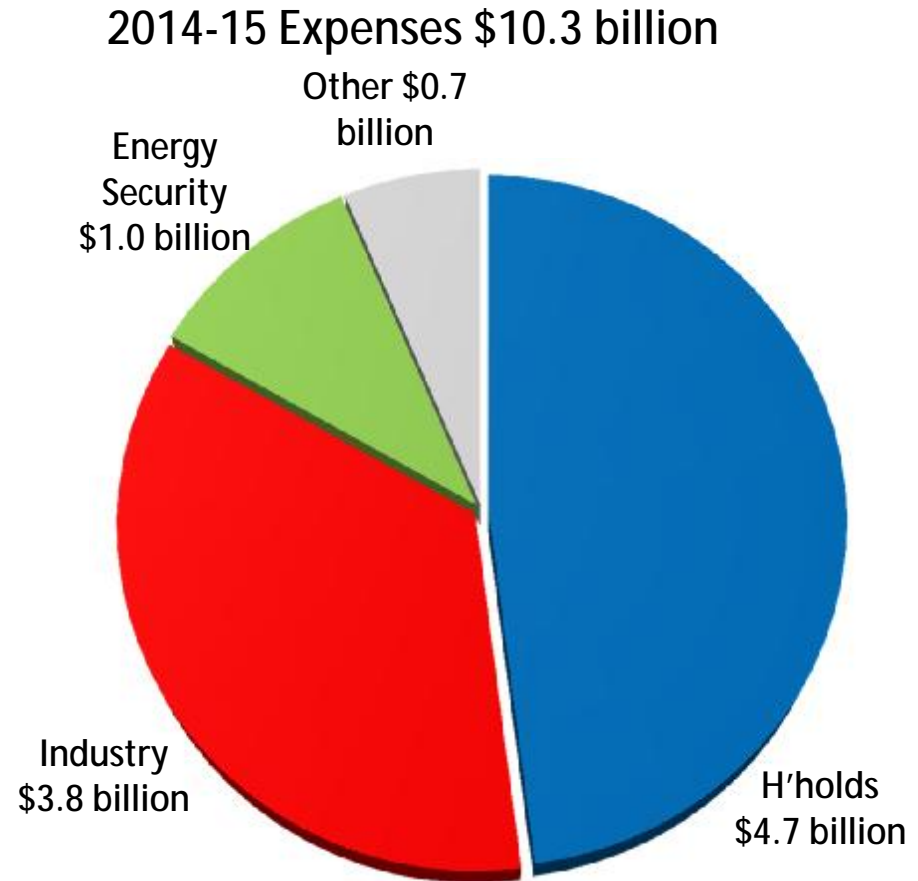
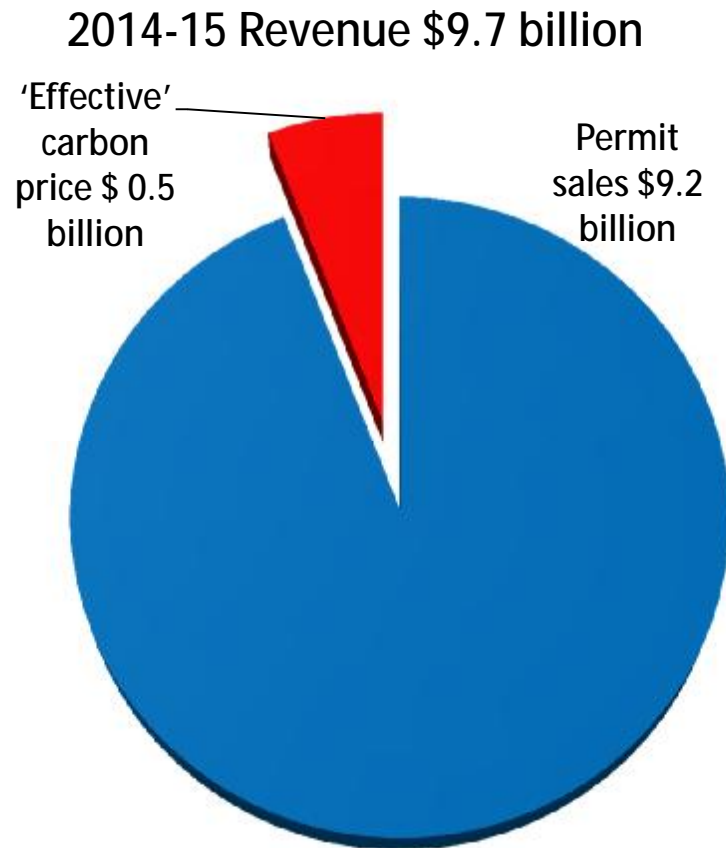


Free permit allocation = (assistance rate) x (industry average baseline) x (production)

Sector-specific assistance

- Coal Sector Jobs Package
 - \$1.3 billion to provide transitional assistance to help the coal industry
- Steel Transformation Plan
 - \$300 million package to support in Australian steel manufacturing
- Clean Technology Food and Foundries Investment Program
 - \$200 million to assist food and beverage processing and metal foundries
- Energy Security
 - assistance for strongly affected generators (A\$5.5 billion); and
 - payment for closure of approx 2000 MW of highly polluting generation capacity by 2020

Allocation of revenue in 2014-15



Conclusion

- The objective of Australia's carbon pricing mechanism is to change behaviour, not raise revenue
- Assistance will be provided to households and trade-exposed industries to help manage cost impacts
- Reform has a budget cost in the short term
- International linking will help to facilitate investment in developing countries