



Carbon Pollution Reduction Scheme White Paper released 15 December 2008

Assistance in the pipeline for energy intensive and trade exposed industries.

On 15 December 2008 the Commonwealth Government released its White Paper on the Carbon Pollution Reduction Scheme. It is intended that the Scheme will commence on 1 July 2010. The Government has reinforced Australia's commitment to carbon reduction targets of 15% below 2000 levels by 2020 in the short term, and 60% below 2000 levels by 2050 in the mid term, in addition to the renewal energy generation target of 20% by 2020.

It is now clear that the Government believes that acting on climate change is essential, and that Australia should aspire to be at the forefront of carbon reduction. Importantly it is stated in the White Paper that a wait and see approach leaves the economy exposed to far more serious future adjustment costs that could leave assets stranded, workers unemployed and households exposed to rising costs.

The White Paper reinforces that the primary tool in early emissions reduction is a cap and trade emissions trading scheme (ETS). The Australian Securities and Investments Commission (ASIC) will be given power to regulate the operation of the ETS, its power derived from the characterisation of carbon permits as financial products under the Corporations Act 2001 (Cth). In addition to ASIC regulation, the Government has recognised the need to safeguard participants from potential manipulation of permit auctions, banking and borrowing of permits. In this regard, the competition provisions of the Trade Practices Act 1974 will be applicable. An independent panel will review the operation of the ETS soon after its implementation.

The White Paper provides further guidance about the likely costs of carbon and carbon permits in the coming years. The maximum base price of carbon will be capped

for 5 years commencing 1 July 2010 at \$40 per tonne, increasing annually at a fixed percentage of 5%. The market will then determine the actual price of carbon, with the price expected to be approximately \$25 per tonne. The Government expects to receive \$11.5 billion in revenue relating to pollution permits in 2010-2011.

In light of the carbon reduction and renewable energy generation targets, the Government has confirmed its commitment to assisting trade exposed and energy intensive industries. In general, access to Government assistance has been increased by expanding eligibility criteria, lowering emissions to revenue thresholds and expanding the types of emissions and costs for which assistance may be provided, including the establishment of an "electricity allocation factor." Furthermore, it is expected that 25-35% of the total carbon pollution permits would be allocated to entities operating in these industries.

Additional assistance is also provided to entities in strongly affected industries, namely coal fired electricity generation. In recognition of the serious impact that the ETS will have on these industries, a "once and for all" allocation of permits will be issued to coal fired electricity generators under the Electricity Sector Adjustment Scheme. The Government has decided to provide a fixed administrative allocation of permits, valued at approximately \$3.9 billion over the first 5 years of the Scheme, to generators based on an initial carbon price of \$25 per tonne.

Businesses and households will be assisted in their transition to a carbon-constrained economy by the Climate Change Action Fund, valued at approximately \$2.15 billion.

If you have any queries about the carbon pollution reduction scheme white paper, please contact Vanessa Johnston on (03) 9242 4732 or via email vanessa.johnston@madgwicks.com.au

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