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Special Report by Patrick Brown

More than just a tax: a new carbon reduction initiative, Aussie-style

The Australian government has proposed a complex package of measures designed to make a fast start on the reduction of greenhouse gas emissions.

Australia is not only dependent on coal-fired plants for a majority of its electrical generation, but the export of coal, steel and aluminum to Asia are important sources of national income. To tackle the nation's most significant sources of carbon dioxide, the Labor minority government, with the support of the Greens and two independent MPs, has crafted a sophisticated and flexible approach that combines a carbon tax, that evolves into an Emissions Trading System, with support for the development of renewable energy sources and increased energy efficiency.

It offers financial compensation to key industries, businesses, and low- and middle-income Australians, mandates the early closure of some 2000MW of the worst brown coal electrical generation plants, puts into place specific measures to support 'carbon farming' and biodiversity, and supports voluntary action.

Permanent Organizations

The core programs of Australia's climate change approach are to be managed and advised by expert organizations, to be created by legislation at arm's-length from government, with funding streams established in law, so that they cannot be 'raided' for other government priorities.

Targets are to be set, continuously reviewed, and updated annually by an expert Climate Change Authority. This Authority, at arm's-length from the government, will report on progress and make new recommendations annually, on February 28, for Australia's 'emissions trajectory', and the government will have to justify—both to the parliament and to the public—any differences between its proposals and the Authority's

recommendations.

Other new permanent bodies—an Australian Renewable Energy Authority (ARENA), a Clean Energy Finance Corporation, an independent Clean Energy Regulator, and a Land Sector Carbon and Biodiversity Advisory Board, together with the existing Australian Energy Market Operator (electricity) and the Productivity Commission—will manage and supervise the funding of programs designed to initiate and encourage GHG emissions reduction in specific sectors of the Australian economy.

Committee Negotiations

The approach was developed through negotiation within a Multi-Party Climate Change Committee (MPCCC) established in September 2010 by Labor Prime Minister Julia Gillard. The MPCCC included representatives from Labor, the Greens, and two independent MPs. The coalition opposition was invited to participate but declined.

In February this year, the prime minister released a report outlining the 'broad architecture' of a carbon price mechanism, for public discussion. This July, the Committee released the text of a 'Clean Energy Agreement' which described its initial proposals to get climate change action started.

It is clear from these proposals that the Greens, on whose support the Labor government depends, had a significant influence on the package; it is considerably more sophisticated and comprehensive than the previous Carbon Pollution Reduction Scheme (CPRS), which was a simple emissions trading plan, and on which the prior Labor government fell (see related article, page 1).

In particular, the CPRS was characterized by fixed and modest targets; too modest for the Greens, who joined the

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Conservative opposition in voting it down.

The new proposal embraces rolling targets, revised annually by the Climate Change Authority (CCA). The target for 2050 is now an 80% reduction from 2000 levels, thought to be consistent with a 2°C limit to world temperature rise.

The new proposal makes use of the initial carbon tax to fund a wide spectrum of ambitious programs in the development of renewable energy, and compensation to affected enterprises and individuals.

The transport sector, a significant GHG source, survived the negotiations virtually untouched, the only change being the cancellation of a 6¢ per litre excise tax rebate on fuel used in mining. However, this alone totaled A\$1.8 billion annually!

Domestic aviation fuel will carry an increased excise tax equivalent to the carbon price. The rebate remains for road transport and some other industries, but there is a possibility in the future of further cancellations.

There will be new carbon dioxide emissions standards for light vehicles.

Elements of the Package

The carbon tax, initially applied to 500 of Australia's largest GHG emitters, will start on July 1, 2012 through the government's sale of emissions permits at \$23 per tonne (some permits will be allocated free by the government). The price will increase over two years to A\$25.40, at which time it is expected to approximate the world carbon credit price, and it will transition to a 'fully flexible cap and trade system'. Australian corporations will then be able to buy and sell carbon credits on the world market.

A floor price of A\$15 and a ceiling of A\$20 above the expected international price will be set when trading begins so that investors may be assured of the continuing value of Australian carbon credits. Until 2020, Australian emitters will be restricted from buying from offshore sources more than 50% of the carbon credits they need. Kyoto-compliant credits from the Carbon Farming Initiative (see below) may be used.

The independent Clean Energy Regulator will administer the carbon price mechanism. Many of the programs below represent a consolidation and co-ordination of existing government programs.

Household Assistance

The price of some household necessities, particularly electricity, is expected to rise, and cost the average

Australian family a little less than A\$10 per week. The government proposes to compensate families through changes to the income tax system averaging slightly more than A\$10 per week. The tax free threshold, below which no income tax is payable, will rise from \$6,000 to \$19,000 per year, and additional benefits will be paid, concentrating on households with incomes under A\$40,000.

Business Assistance

This mainly takes the form of compensation to vulnerable industries, particularly those essential to Australia's economic health. Most exposed industries, such as coal, steel, aluminum, zinc, and pulp and paper will initially receive free permits. Energy Intensive Trade Exposed industries will be compensated to the value of lost competitiveness; this means that it will take into account the carbon taxes paid by their overseas competitors. Guaranteed compensation will be limited to five years.

The Productivity Commission will be responsible for ensuring that compensation to polluters drives transformation, instead of paying polluters to continue polluting. Business will also benefit from accelerated depreciation and a government-funded Jobs and Competitiveness program.

The government calculates that the initial carbon value of A\$23 per tonne will be sufficient to discourage any new coal generation plants being built. In addition, the government will pay for the closure of 2000MW of old coal-fired plants by 2020.

Energy Efficiency

A variety of existing and new programs to encourage energy efficiency, renewable electricity generation, and low emission technology will be managed by ARENA and the new Clean Energy Finance Corporation, run by an independent Board and funded to A\$10 billion over five years. They will concentrate on technological developments which can be brought to market relatively quickly. This means that Carbon Capture and Storage, with an estimated implementation date of 2040, will not be funded.

The Australian Energy Market Operator will prepare plans to operate the electricity grid on a 100% renewable energy supply.

Rural and Regional Communities

Special assistance to regional and rural communities will focus on community organization initiatives and assistance to low income households, including a A\$200

million Low Carbon Communities Fund. The Remote Indigenous Energy Program will refocus on renewable sources, and there will be assistance for regional natural resource planning for climate change.

Carbon Farming Initiative

This part of the carbon strategy deals with the role of farms and forests as carbon sinks, and the possible sale of the carbon credits thus created. It also covers the environmental effects and advantages of land use and cultivation initiatives, and includes funding for biodiversity and skills development. It will be managed by the Land Sector Carbon and Biodiversity Advisory Board.

International Action

These are just a few of the elements of a carbon package that will inevitably affect virtually every facet of Australian life, its economy and its government. This proposal has the potential to make Australia a leader in international climate action. The Australian government expects that it will increase the chances of an ambitious global agreement. ✉

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