

Emissions Trading Scheme



Queensland's context

Queensland is Australia's largest emitter of greenhouse gas emissions, accounting for about 29 per cent of Australia's total net emissions. This figure reflects a prosperous economy with rapidly growing energy demands, partly due to significant population growth and continued strong investment in energy and emission intensive activities. Queensland's largest emitting sectors include electricity generation (due to a high dependence on coal), land use change (deforestation), agricultural livestock, and transport.

What is an Emissions Trading Scheme?

Emissions trading is a way of reducing greenhouse gas emissions by setting a limit on emissions and dividing this limit into tradeable units (permits). Emitters are then required to purchase a permit to emit a certain amount of greenhouse gases. This limits the amount of greenhouse gases that can be

emitted under law. Permits may also be generated by taking greenhouse gases out of the environment (for example by planting new forests).

By allowing companies and industries to buy and sell emission permits, an Emissions Trading Scheme (ETS) lets the market determine the lowest-cost opportunities to reduce pollution. In this way, an ETS is designed to reduce greenhouse gas emissions in the most cost-effective way.

An ETS is referred to as a market-based approach however the government retains control of certain key elements. The government generally:

- sets the national limit on the amount of emissions that can be generated, and then divides this into tradeable units;
- requires emitters to obtain enough permits to account for their annual emissions; and
- penalises emitters that do not possess enough permits to cover their emissions.

What is Queensland doing?

The Queensland Government supports emissions trading as the centrepiece of Australia's greenhouse gas reduction strategy. To that end, Queensland has been working with other states and territories and the Australian Government on the design of an Australian emissions trading scheme (EMT), which the federal Government has committed to introduce in 2010.

Queensland recognises that an ETS forms just one part of the carbon reduction response. The ETS will need to be complemented by a range of other measures to reduce carbon emissions in areas that may not respond to an ETS or in sectors not covered by an ETS. These complementary policy measures may include energy efficiency initiatives and investment in research and development of low emissions technologies.

The Queensland Government's climate change strategy, ClimateSmart 2050, is currently being reviewed to ensure the state's response is taking into account the latest scientific evidence and policy

advancements at the national and international level, including the design of an ETS.

The Garnaut Climate Change Review

As part of Professor Ross Garnaut's Review of Climate Change, an ETS discussion paper was released on 20 March 2008 putting forward for community discussion a set of principles and design features for an ETS in Australia. The Review received approximately 300 submissions.

A Final Report was released in September 2008 with recommendations on the design of an ETS, which will inform the national debate on an ETS.

Carbon Pollution Reduction Scheme

In July 2008, the Commonwealth Government released a public discussion paper (Green Paper) on the design of an Australian ETS, titled the Carbon Pollution Reduction Scheme. The Paper sets out the Government's preferred position on the design of an ETS and the support proposed to help households and businesses adjust to the economic transformation.

The proposed design is broadly consistent with that proposed by the Garnaut Climate Change Review and Queensland's submission to the Garnaut Review's ETS discussion paper. The key design elements include:

- broad coverage (about 75 per cent of Australia's emissions) including stationary energy, transport, fugitive emissions, industrial processes, waste and forestry;
- it is not proposed to include agriculture until 2015, with a decision due in 2013;
- forestry is covered on an 'opt-in' basis with permits issued for net additional CO₂ storage;
- five years of rolling emissions limits (ie. 2010 to 2015 initially); and
- a carbon price cap from 2010 to 2015, set high enough above the expected permit price to ensure very low probability of use.

The Green Paper estimates that a carbon price of \$20 per tonne of CO₂-equivalent at 2010-11 would increase electricity costs by about 16 per cent; increase gas costs by about 9 per cent; and lead to an average increase in the Consumer Price Index of 0.9 per cent. The impact would be greater or lesser if the carbon price was higher or lower than \$20.

The Carbon Pollution Reduction Scheme provides various levels of assistance to households and businesses for the impacts of an ETS:

- a two tier scheme to provide assistance for emissions-intensive, trade-exposed industries (EITE):
 - 90 per cent assistance to offset the impact of the carbon cost for high-emitters, such as livestock; aluminium smelting; lime and cement production
 - 60 per cent assistance for industries such as aluminium refining; non metallic mineral production and smelting
- assistance to EITE in the form of free permits, to be phased out after 2020, and limited to around 30 per cent of total permits (including agriculture)
- one-off, upfront direct limited assistance for coal fired electricity generators, support for carbon capture and storage technologies and support for affected workers and communities/regions
- a Climate Change Action Fund will be established to assist industries not receiving free permit allocation
- the fuel excise will be cut on a cent for cent basis proportionate to the impact of a carbon price on petrol prices, adjusted regularly depending on the carbon price for three years followed by a review
- assistance to low income households through the tax and payment system will be increased to meet the overall cost of living increase
- assistance to middle income households will be increased to help meet the cost of living increase.

Medium-term targets (ie. emissions caps) and an exposure draft of the CPRS legislation will be publicly released in December 2008. The legislation is

expected to be introduced into Parliament in March 2009. Emissions limits will be announced in early 2010 and the first compliance year is planned to commence on 1 July 2010.

The Queensland Government outlined its position on the design of the ETS in its response to the Green Paper, including:

- supporting the proposed broad coverage of the scheme, a commencement date of 2010 and a 'soft start' for the period 2010 to 2012;
- supporting the need to preserve the international competitiveness of emissions-intensive trade-exposed industries but with a three year review of eligibility, using a rolling average of revenues to allow for smoothing of revenue peaks and troughs, and reserving some permits for new EITE investments operating world best practice production processes;
- supporting the provision of one-off and up-front direct assistance to coal fired generators to compensate for at least 50 per cent of the loss in value of energy assets, and proposing consideration be given to compensation for generators to take account of commitments under existing contracts;
- strongly supporting the need for household assistance through welfare and tax measures to minimise regressive income distribution effects which may arise for low income households and rural and remote communities; and
- advocating for the continued need for the Australian Government to invest in research and development in low and zero-emissions technologies.

More information

Climate change in Queensland

www.climatechange.qld.gov.au

The Garnaut Climate Change Review

www.garnautreview.org.au

Carbon Pollution Reduction Strategy

<http://www.greenhouse.gov.au/greenpaper/index.html>