

DETAILS OF PROPOSED CPRS CHANGES

1. BUDGET IMPACT

- The Budget impact of the package is attached (see page 18).
- The additional expenditure measures cost \$1.28 billion over the forward estimates and \$7.01 billion over the period to 2019-20. The Government and the Opposition have agreed to adjust the household package to recognise the lower projected carbon price which is estimated to reduce expenditure by \$5.76 billion to 2019-20.
- Taken together, this implies a net cost to the budget of \$204 million over the forward estimates and \$769 million over the period to 2019-20 compared with MYEFO.

Household Measures

- The Government is committed to helping households with the impact the CPRS. It has designed an assistance package for low- and middle-income households that calibrates almost all support to the expected carbon price impact of the scheme.
- The Government will modify the level of household assistance to reflect the lower carbon price estimate of \$26 per tonne in 2012-13 (included in the 2009-10 MYEFO). The estimated 2012-13 carbon price forecast at MYEFO (\$26) is lower than forecast at Budget (\$29) due to the appreciation of the Australian dollar.
 - This will reduce expected price increases for goods and services and lead to a smaller rise in the overall cost of living impact of the CPRS.
- This scaling results in the Government delivering on its commitment to support low and middle income households (at the lower carbon price) once the flexible carbon price commences from 2012-13.
- Scaling household assistance will also require minor revisions to the structure of the assistance package.
- The overall budget impact of the modifications to the household assistance package is to reduce spending by \$0.91 billion over the forward estimates and \$5.76 billion to 2019-20.

Implementation:

- *Legislative amendment in the November sitting*
- *Adequacy of household assistance to be reviewed annually in the Budget process*

2. EITES

Assistance Rates

- EITE assistance rates will commence in 2011-12 at 94.5 per cent for highly emission intensive activities and 66 per cent for moderately emission intensive activities and decline at an annual rate of 1.3 per cent per annum. The Government's 'global recession buffer' will be integrated into base assistance rates and will not be removed after 5 years.
- To further enhance the environmental outcomes from the CPRS, the Government will also:
 - modify the EITE assistance policy to cap EITE allocations to 100 per cent of an EITE entity's direct and indirect electricity and steam emissions costs to reduce the likelihood that windfall gains will be provided to EITE industries under the program;
 - modify the EITE assistance policy to ensure that in situations where a given output is produced from eligible EITE activities using either primary materials or recovered/recycled materials as inputs, the same rate of EITE assistance be applied to both activities;
 - require an automatic statutory review of CPRS legislation, including EITE policy, as soon as practicable after Australia signs a new multilateral agreement on climate change which imposes obligations to take action to reduce greenhouse gas emissions. The review will examine the implications of that agreement for the CPRS. In line with existing policy, five years' notice will be given to any modifications to the EITE assistance program, unless modifications were required for compliance with Australia's international trade obligations; and,
 - direct the independent Expert Advisory Committee to take into account the findings of Working Group III of the IPCC when considering appropriate caps and gateways in the first statutory review in 2014.

Implementation:

- *EITE rates of assistance to be implemented via regulation - no amendment necessary*
- *Policy commitment incorporated in Hansard or laid before Parliament.*
- *Legislative amendment in the November sitting to require CPRS review following signing of new multilateral climate change agreement.*

Review of Carbon Productivity Contribution for EITEs

- The Independent Expert Review will consider the appropriateness of EITE assistance in 2014 and the Government will provide five years notice of any material changes for any general modifications arising out of that review.
- The Government will request the Independent Expert Review to advise whether the carbon productivity contribution should change for a specific industry.

- The Independent Expert Review will advise on whether to change the carbon productivity contribution based on an assessment of whether a substantial proportion of relevant producers in competitor markets face lower carbon constraints than Australian producers:
 - in assessing comparability of carbon constraints facing producers in Australia and other countries, the review will take account of assistance policies relevant to those producers;
 - evidence that the carbon constraints facing a substantial proportion of producers in competitor markets were lower than the carbon constraints facing producers in Australia would be evidence that it was appropriate to cease application of the carbon productivity contribution such that assistance rates did not fall below 90 and 60 per cent;
 - if less than 70 per cent of relevant competitors in an industry have introduced comparable carbon constraints, this will be taken as prima facie evidence that the carbon productivity contribution should cease; and
 - the Independent Expert Review will also take into account other evidence including the extent to which Australian industries meet world best practice in emissions efficiency and the degree of exposure to trade competition.
- Consistent with the current policy on the conduct of reviews of EITE assistance, assessments of carbon constraints will consider both explicit carbon prices and other regulatory measures. The Government intends to commission the Productivity Commission to undertake detailed work on carbon constraints to inform the Independent Expert Review.
- The above assessment will be conducted on an industry-by-industry basis.
- The Government will do this by notifying these matters as part of the relevant policies to be considered by the Independent Expert Review in carrying out its review.
- If the Independent Expert Review recommends that the carbon productivity contribution should reduce or cease, the Government makes a policy commitment that this can be applied immediately through amendments to the regulations. Any increases in the carbon productivity contribution will be subject to the five year notice provision outlined above.

Implementation:

- Policy commitment incorporated in Hansard or laid before Parliament.

Liquified Natural Gas

- LNG is expected to be a moderately emissions-intensive EITE activity and general allocations of free permits will be made according to the ordinary EITE rules, that is, each eligible producer will receive free permits at a fixed rate of permits per tonne of LNG produced.

- An additional supplementary allocation of permits will be provided for LNG projects to ensure that all projects receive an effective assistance rate at or above 50 per cent in relation to their LNG production.
- The supplementary allocation will be for the number of permits needed to "top up" the previous year's allocation to provide an effective assistance rate of 50 per cent for the LNG project.
- In determining the supplementary allocation, the emissions associated with the entire LNG production process would be taken into account, that is, including extraction and transportation emissions associated with LNG production, but excluding emissions attributable to other saleable products, such as the production of condensate and LPG:
 - this will require a methodology to be developed and included in regulations to define boundaries around the LNG project.
- This will be an ongoing measure, not a fixed-term transitional assistance program.
- Based on current information about project emissions intensities and commencements, this assistance is estimated to have a fiscal impact of around \$0.6 billion over the period to 2019/20.
- The need for this supplementary assistance will be assessed by the Independent Expert Review, including whether it is appropriate to apply a carbon productivity contribution to the supplementary allocation.

Implementation:

- *Policy to be implemented via regulation - no amendment necessary.*
- *Policy commitment incorporated Hansard or laid before Parliament.*

Food processing

- A five-year, \$150 million stream of assistance for the food processing sector will be established within the Climate Change Action Fund (CCAF):
 - this stream will be dedicated to funding emissions reduction measures within the primary food processing industry, with initial priority given to dairy processing, meat processing and malt production facilities;
 - this stream will enable:
 - : a comprehensive investigation into abatement opportunities at all major primary food processing facilities;
 - : grant funding to support the development and deployment of technologies to reduce emissions from waste water at meat processing facilities and dairy processing facilities;
 - : grant funding to support the conversion of facilities from coal to natural gas;

- : exploration of the potential to generate electricity in cogeneration plants, from captured waste water methane; and
- : assistance with the implementation of energy efficiency opportunities.
- in some situations it is expected that abatement and/or fuel switching may result in facilities reducing their liability under the scheme to such an extent that they would no longer be directly liable parties; and
- a reallocation of funding within the CCAF will accommodate this stream.
- The food processors will be able to apply for other elements of CCAF funding if this allocation is fully subscribed.
- In addition, the Independent Expert Review will examine the impact of the CPRS on the primary food processing industry in the first scheduled Review in 2014 drawing on analysis by the Productivity Commission:
 - The review will take into account international developments relevant to the impact of the CPRS on the industry, including the assistance arrangements for food processors in comparable countries, in particular New Zealand.
- The food processing industry will benefit significantly from the Transitional Electricity Cost Assistance Programme (see below).

Implementation:

- *No legislative amendment required.*
- *Programme appropriated in future Budgets as part of CCAF, with provision made for separate stream of assistance.*
- *Policy commitments incorporated in Hansard or laid before Parliament.*

3. AGRICULTURE

Agriculture excluded

- The Government makes a policy commitment to exclude agriculture indefinitely from the CPRS.
- The Government will amend the CPRS bill to explicitly exclude agriculture emissions from the scheme:
 - this means that a future act of Parliament would be required to reverse this decision, providing additional certainty to the sector.
- The Government will work with industry to:
 - monitor world's best practice in reducing agricultural emissions and consider a range of ways in which the agriculture sector can contribute to the transition to a low-pollution economy; and
 - introduce voluntary emissions reporting trials in 2011 to allow the sector to better understand and manage its emissions.
- The Government commits to conducting a Productivity Commission review in 2015 of whether the sector is at world's best practice mitigation and an examination of the potential measures to achieve this.

Implementation:

- *Legislative amendment in the November sitting.*
- *Policy commitment to be incorporated in Hansard or laid before Parliament.*
- *Government will work with stakeholders to revise the work programme to incorporate policy commitments.*

Offsets

- The Government will introduce amendments to provide for crediting of abatement from agricultural emissions and other sectors not covered by the CPRS (for example, legacy waste) that are counted towards Australia's international climate change obligations, with the following features:
 - a policy and legislative framework that ensures any domestic offsets meet internationally accepted principles of permanence, additionality, measurability, avoidance of leakage, independent audit and registration;
 - promotion of best practice standards;
 - an independent expert committee will be established to vet offset methodologies and recommend robust methodologies to the Minister for approval:

- This means that the Minister would accept or reject methodologies, but would not be able to modify the committee’s recommendations
 - provisions for interested persons to refer methodologies for assessment by the independent expert committee;
 - approval of projects and crediting of abatement from commencement of the CPRS on 1 July 2011;
 - compliance requirements, including monitoring, reporting, record-keeping, auditing and appropriate enforcement mechanisms; and
 - legislation would be flexible and would allow new sources to be included once they are recognised in Australia’s international commitments.
- CPRS permits will be provided for abatement from the sources that are counted towards Australia’s international commitments, subject to the development of robust methodologies:
 - livestock
 - manure management
 - fertiliser use
 - burning of savannas
 - burning of agricultural residues
 - rice cultivation
 - avoided deforestation
 - legacy waste
 - emissions from closed landfill facilities.
- The Government will continue advocating in the international climate change negotiations to ensure the post-2012 accounting rules only require countries to account for emissions and removals of greenhouse gases resulting from human activity.
- In the meantime, the Government will promote voluntary market offsets through implementation of the National Carbon Offset Standard. This will provide scope for a market for abatement from the following sources that are not counted towards Australia’s international commitments:
 - agricultural soils (grazing and crop land management), including biosequestration through soil carbon and biochar;
 - enhanced forest management; and
 - non-forest revegetation and vegetation management.

- Abatement from these sources will transition into the CPRS once abatement is internationally recognised and provided that other CPRS requirements are met.
- To facilitate this, NCOS methodologies would be assessed by the same expert independent expert committee responsible for advising the Minister on CPRS offset methodologies and NCOS requirements would be consistent with those of the CPRS wherever possible.
- To further enhance the environmental outcomes from the CPRS, the Government will also:
 - provide credits for regrowth forests on deforested land (legally cleared between 1990 and 31 December 2008);
 - provide credits for soil carbon on deforested land (for land legally cleared between 1990 and 31 December 2008) from 2013;
 - include conditions for forests earning forest credits to have adequate water entitlements and planning approvals; and
 - require that offset projects do not involve, or include material obtained as a result of, clearing or harvesting of native forests.

Implementation:

- *Offset chapter to be included in amendment in November sitting and detailed in supplementary Explanatory Memorandum.*
- *Regrowth forests to be included in amendment in 2010.*
- *Other environmental enhancements to be included via amendments in 2010.*
- *NCOS to be implemented outside of legislation. Government to advocate improved international accounting in international negotiations.*
- *Policy commitments to be incorporated in Hansard or laid before Parliament .*

R&D into agricultural abatement

- To assist farmers to take advantage of these expanded offset opportunities, the Government will provide additional R&D investment of \$50 million into the development and on-farm testing of emissions reduction options, including biosequestration and livestock, supported by the voluntary reporting trial. This funding would include support for the development of a global alliance on agricultural mitigation research proposed by New Zealand.

Green Carbon Fund

- The Government will establish a \$40 million *Green Carbon Fund* to build the resilience of natural ecosystems that are under threat from climate change.
- The first stream of the fund will provide support to monitor and plan for the impact of climate change on biodiversity and land and water resources. The second stream will support

initiatives to encourage environmental stewardship and biodiversity where there are carbon co-benefits.

Implementation:

- *Program appropriated in future Budgets.*
- *Policy commitments to be incorporated in Hansard or laid before Parliament .*

4. COAL SECTOR

- \$1.5 b of assistance will be provided to the coal sector over 5 years. There will be two components to this assistance:
 - A \$1.23b Coal Sector Adjustment Scheme will be established to provide transitional assistance to the most emissions-intensive coal mines in the form of permits; and
 - A \$270m Coal Sector Abatement Fund will be established within the Climate Change Action Fund (CCAF) to provide grant funding for coal sector abatement projects and capital grants with a priority for electricity generation from waste coal mine gas.
- In addition, the Independent Expert Review will examine the impact of the CPRS on the coal mining sector in the first scheduled Review in 2014, drawing on analysis by the Productivity Commission, and taking into account advice from the CSIRO on the availability of cost-effective abatement technology.

Coal Sector Adjustment Scheme

- The Coal Sector Adjustment Scheme will provide free permits to the most emissions intensive mines.
 - these are those coal mines that have a fugitive emissions intensity above 0.1 tonnes CO₂-e per tonne of saleable coal (also known as “gassy” coal mines); and
 - eligible mines will be those where coal mining operations were carried out for some or all of the two years from 1 July 2007 to 30 June 2009.
- The pool of permits that will be set aside to provide assistance to these mines will be equal to 9.72 m permits per year for five years.
 - this pool is equal to around 60 per cent of the fugitive emissions from gassy mines during 2008/09;
 - this model of assistance will enable the fugitive emissions carbon liability for the most gassy mines to be reduced from around \$20 per tonne of saleable coal to around \$5 per tonne of saleable coal at a \$25 carbon price. Other gassy mines will face a lower fugitive emissions cost after assistance; and
 - assistance will be linked to production and capped at base period production levels.

Implementation:

- *Amendments will be made to the Carbon Pollution Reduction Scheme Bill in November sitting.*

Coal Mining Abatement Fund

- In addition, the Coal Mining Abatement Fund within the Climate Change Action Fund will be allocated an additional \$20 million, taking it to \$270 million, to fund coal mine abatement

projects and capital grants with a priority for waste coal mine gas electricity generation projects.

- Funding for abatement projects and capital grants will be provided on a three for one basis, with coal mine operators required to meet three quarters of the cost of the project.
- Any permits not allocated under the Coal Sector Adjustment Scheme will be auctioned, and those auction revenues will be added to the \$270 million Coal Mining Abatement Fund in CCAF.
- The current COAG process will review specific Renewable Energy Target (RET) issues to consider whether new waste coal mine gas projects should be eligible under the RET; and whether annual targets under the RET should be increased to offset the number of additional Renewable Energy Certificates not backed by generation as part of the ‘Solar Credits’ mechanism.

Implementation:

- *Appropriated as additional \$20m for CCAF in future Budgets.*
- *Policy commitments to be incorporated in Hansard or laid before Parliament.*

5. ELECTRICITY GENERATORS

Electricity Sector Adjustment Scheme

- The Government will increase the quantum of assistance available under the Electricity Sector Adjustment Scheme (ESAS) from 130.7 million permits to 228.7 million permits (a 75 per cent increase) – this measure has a Budget cost of \$4.0 billion, taking the total value of the ESAS to \$7.3 billion (\$6.4 billion to 2019/20).
- The Government will extend the period over which ESAS is provided from five years to ten, meaning that generators will be required to comply with the ‘power system reliability test’ over this period to continue to receive assistance – this requirement supports energy security by preventing the exit of a generator from the energy market where this would be likely to breach power system reliability standards
- The Government will introduce a Low Emissions Transition Incentive by amending the power system reliability test further to allow generators to receive credit for their own investments in replacement capacity, sharpening incentives for ESAS recipients to invest in new low emissions replacement generation capacity while continuing to receive the remaining scheduled ESAS payments:
 - new investment that is eligible for LETI will be required to have an emissions intensity less than current best practice coal fired generating capacity in Australia.
- The Government will delay the ‘windfall gains test’ that applies to ESAS assistance to apply to the last three of ten years of assistance, rather than the last two years of five, and apply the test to only half of a generator’s allocation in this three year period – this will give generators greater certainty over their allocations
- The Government will provide additional assurance to energy security by establishing an Energy Security Assurance Mechanism under the guidance of an Advisory Board that will advise the Treasurer on whether there are any remaining low probability systemic risks to electricity market security and, if so, actions necessary to address these risks. Assistance could be in the form of loan guarantees or indemnities and would only be provided where financial distress would cause a significant systemic risk to physical electricity supply, existing market and regulatory mechanisms are not able to address this risk and the applicant had taken all reasonable action to mitigate their exposure to such risks.

Implementation:

- *Duration and quantum of ESAS and adjustment to windfall gains test amendment in November sitting.*
- *Amendment in 2010 to implement change to power system reliability test.*
- *Policy commitments incorporated in Hansard or laid before Parliament.*

Deferred payment at the CPRS Auction

- Deferred payment arrangements for auctions of Australian emissions units will provide a transitional measure to address the working capital costs of participants.
- Deferred payment will apply to the advanced auction of future vintages of emissions units (but not current vintages) sold between 1 January 2011 and 31 December 2013 only, and require a 10 per cent deposit at auction to secure rights to permits. Permits will only be received once the final payment is made. Deferred payments will be available to all bidders.
- The detail of deferred payment arrangements is to be finalised following consultation with stakeholders.

Implementation:

- *Via legislative instruments.*
- *Amendments during sitting November sitting will give Minister power to implement this change.*
- *Policy commitments incorporated in Hansard or laid before Parliament.*

6. ELECTRICITY PRICES

- Establishment of a Transitional Electricity Cost Assistance Program to reduce the impact of the Carbon Pollution Reduction Scheme (CPRS) on electricity prices paid by medium and large enterprises.
- The transitional fund will apply after the fixed-price transitional year (2011-12) and will be capped at \$1.1 billion, distributed over two years as follows:
 - up to 50 per cent of the projected increase in retail electricity prices in 2012-13 due to the CPRS; and
 - the size of the second year payout will depend on available funds, but will be capped at 25 per cent of the projected increase in retail electricity prices in 2013-14 (the rate will be determined based on actual data on the take-up of the program for that year and remaining funds).
- Targeted recipients of assistance will be corporations in the manufacturing and mining sectors; that is, those falling within the following ANZSIC codes:
 - Division B: Mining
 - : Coal Mining
 - : Oil and Gas Extraction
 - : Metal Ore Mining
 - : Non-Metallic Mineral Mining and Quarrying
 - Division C: Manufacturing (including all subdivisions).
- Assistance will be provided to existing and new corporations with facilities consuming electricity (grid or own supplied) above a minimum threshold of 300 megawatt hours per year.
- Assistance will not be provided to facilities that are eligible for permits under EITE, Coal or ESAS assistance.

Implementation:

- *Program appropriated in future Budgets.*
- *AusIndustry to administer.*

7. COMPLEMENTARY MEASURES

Measures to further encourage voluntary action:

- Creation of a new mechanism to take voluntary action into account in target setting, with potential for targets to be adjusted beyond 15 or 25 per cent.

To further enhance the environmental outcomes from the CPRS, the Government will also:

- Develop a method for ensuring that the collective voluntary action by households - beyond that projected as a result of the CPRS – will be taken into account in setting future caps.
- Recognise all emissions savings from the use of GreenPower in determining the cap.
- Develop a new Energy Efficiency Mechanism in 2010 with input from a new Prime Minister's Task Group on Energy Efficiency.
 - The Government will establish a new Prime Minister's Task Group on Energy Efficiency.
 - The Task Group will report to the Government by mid-2010 on options for introducing a new Energy Efficiency Mechanism.
 - The Task Group will consider and advise on the most economically and environmentally effective Energy Efficiency Mechanisms that could be considered by the Federal Government to complement the CPRS and the RET.

Implementation:

- *Policy commitments incorporated in Hansard or laid before Parliament.*

8. OTHER ISSUES

Operational subsidiary liability and joint venture liability

- The Government proposes to undertake public consultation post passage with a view to making amendments before July 2011 (the start of the CPRS) that enhance pass-through of carbon costs under existing contracts.
- The Government recognises that the proposals relating to operational subsidiary liability and joint venture liability are aimed at enhancing pass-through of carbon costs by clarifying the point of liability and removing the scope for minority shareholders in a facility to veto investments to reduce emissions for which the controlling corporation is currently liable.
- There are complex technical and legal issues surrounding cost pass-through and proposals to move the point of liability could affect a wide range of parties. Public consultation will ensure that any proposed amendments meet the needs of a broad range of stakeholders, avoid unintended consequences and maintain the integrity of the CPRS.

Implementation:

- *Will consult stakeholders with a view to amendments in 2010.*
- *Policy commitments incorporated in Hansard or laid before Parliament.*

Exported Fossil Fuels

- The Government will introduce minor technical amendments to remove all doubt that fuel exporters (including Australian coal exporters) will not be held liable under the CPRS for the carbon embodied in fuel they export.

Implementation:

- *Amendment in November sitting.*

Fuel Tax Credits for Forestry

- The eligibility for the CPRS fuel tax credit will be extended to forestry from 1 July 2011, in a manner similar to agriculture and fishing operations. The amount of credit will equal the impact of the carbon price on fuel, and reflects the fact that these enterprises do not pay fuel tax and therefore do not receive the benefit of the cent for cent fuel tax adjustment. Agricultural, fishing and forestry will be eligible for the CPRS fuel credit from 1 July 2011 to 30 June 2014, and the Government will review this measure after three years as part of the review of the fuel tax adjustment mechanism.

Implementation:

- *Amendments to give effect to this change to be made in the November sitting.*

CPRS Review Mechanisms

- Procedural provisions under the CPRS legislation will be enhanced to safeguard the interests of applicants and other CPRS participants, including requiring the regulatory authority to exercise its power to seek further information in relation to applications in a reasonable way.

Implementation:

- *Amendments to give effect to this change to be made in the November sitting.*

GOVERNMENT OFFER TO COALITION

NEW MEASURES	<i>Forward Estimates</i>			<i>To 2019-20</i>		
	New	Existing	TOTAL	New	Existing	TOTAL
EITE	24		24	1334		1334
LNG	10		10	610		610
Food processing	0	90*	90	0	150*	150
Coal	340	450*	790	750	750*	1500
ESAS	0		0	3,055		3055
SME electricity price impacts	800	300*	1100	800	300*	1100
Agricultural research	30		30	50		50
Voluntary Action - Green Power	0		0	330		330
Extension of fuel tax credit to forestry	40		40	40		40
Green Carbon Fund	40		40	40		40
Total New Measures	1284		2124	7009		8209
Contingency reserve allocation for CPRS	170			480		
TOTAL NEW SPEND	1114			6529		
ADJUSTMENT FOR LOWER PROJECTED CARBON PRICE						
Household package	-910			-5760		
NET ADDITIONAL SPEND	204			769		

* Reallocation of funds from/within climate change action fund