

# Australia's Carbon Pricing Mechanism Architecture

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thinkchange



# Design Principles

## 1. Administrative Simplicity

- Minimise compliance costs and complexity
- Minimise implementation risk
- Balance with need for flexibility, particularly to address complex commercial arrangements

## 2. Credible Institutions

- Accountability and transparency
- Scheme stability

## 3. Environmental Integrity

- Maintain environmental effectiveness
- Scheme credibility
- Support global mitigation effort

## 4. Economic Efficiency

- Permits should go to highest value use and lowest cost abatement should be undertaken
- Facilitate efficient and informed investment decisions
- Minimise carbon leakage

## 5. Awareness of distributional impacts

- Distributional impacts should be taken into account

# A staged process of introduction

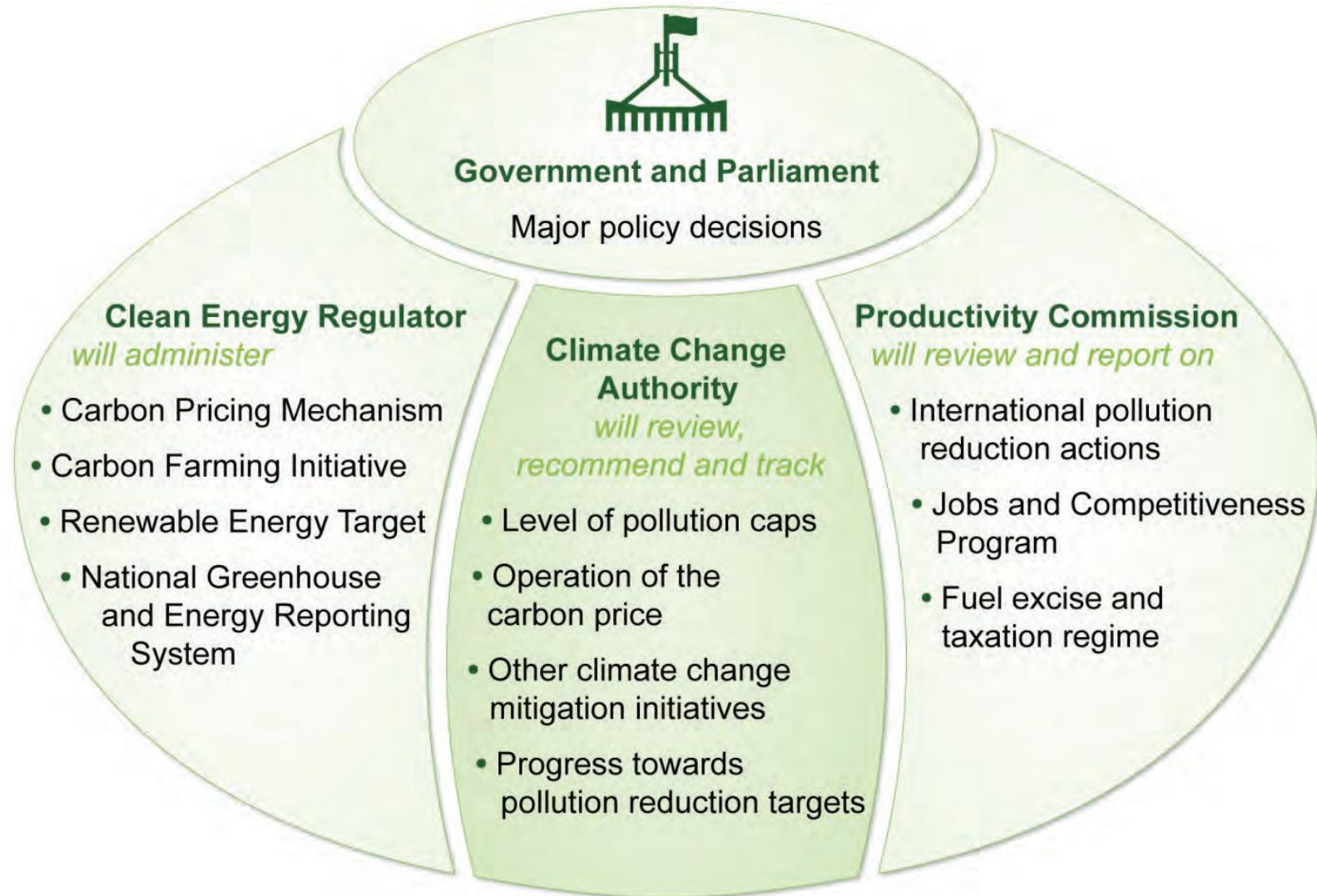
Emissions  
reporting  
**1 July 2008**

Fixed price  
emissions  
trading  
**1 July 2012**

Flexible price  
emissions  
trading with  
price ceiling and  
one-way link to  
EU ETS  
**1 July 2015**

Fully flexible  
emissions  
trading with full  
link to EU ETS  
**1 July 2018**

# Governance: stability in policy settings



# Level of the fixed price

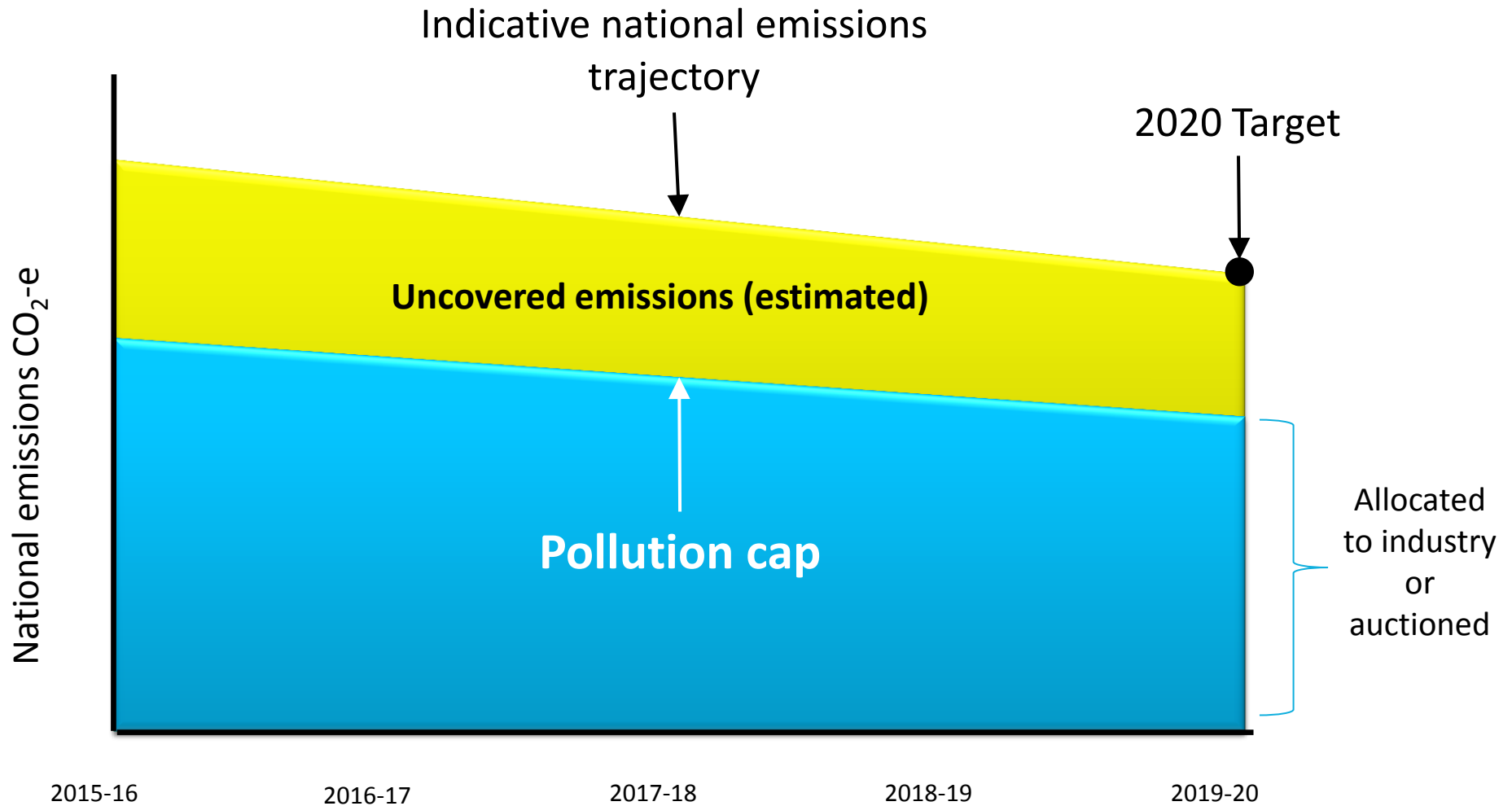
## Policy

- Started on 1 July 2012:
  - \$23.00 in 2012-13
  - \$24.15 in 2013-14
  - \$25.40 in 2014-15

## Rationale

- Start economic transformation
- Transition to the international price

# Determining the level of the pollution cap



# Process for setting pollution caps

## Policy

- **Climate Change Authority** recommends trajectory and caps to Government.
- Govt sets five years worth of pollution caps in advance, and extends by one year every year.
- Caps will be set in regulations that are tabled in Parliament.
- Default pollutions caps in legislation in the event regulations are not made or are disallowed.

## Rationale

- Credibility, transparency and predictability
- Business certainty. Less important with international linking.
- Accountability
- Business certainty that scheme will transition to flexible price

# Flexible price period architecture

## Policy

### Price ceiling

- In first 3 years of the flexible price there is a price ceiling that will be set at \$20 above expected international price, rising by 5% real pa.

### Banking

- Unlimited banking allowed during flexible price period

### Borrowing

- Borrowing from the next vintage year limited to 5% of liability

### Linking to markets

- Access to CER and EUA mkts within limits
- Full access to CFI credits

## Rationale

### Price ceiling

- Avoid price spikes, enhancing business certainty.

### Banking

- Mitigate price volatility and improve efficiency by addressing demand/supply imbalance; encourage early action.

### Borrowing

- Provide flexibility and prevent price spikes, particularly around surrender date.

### Linking to markets

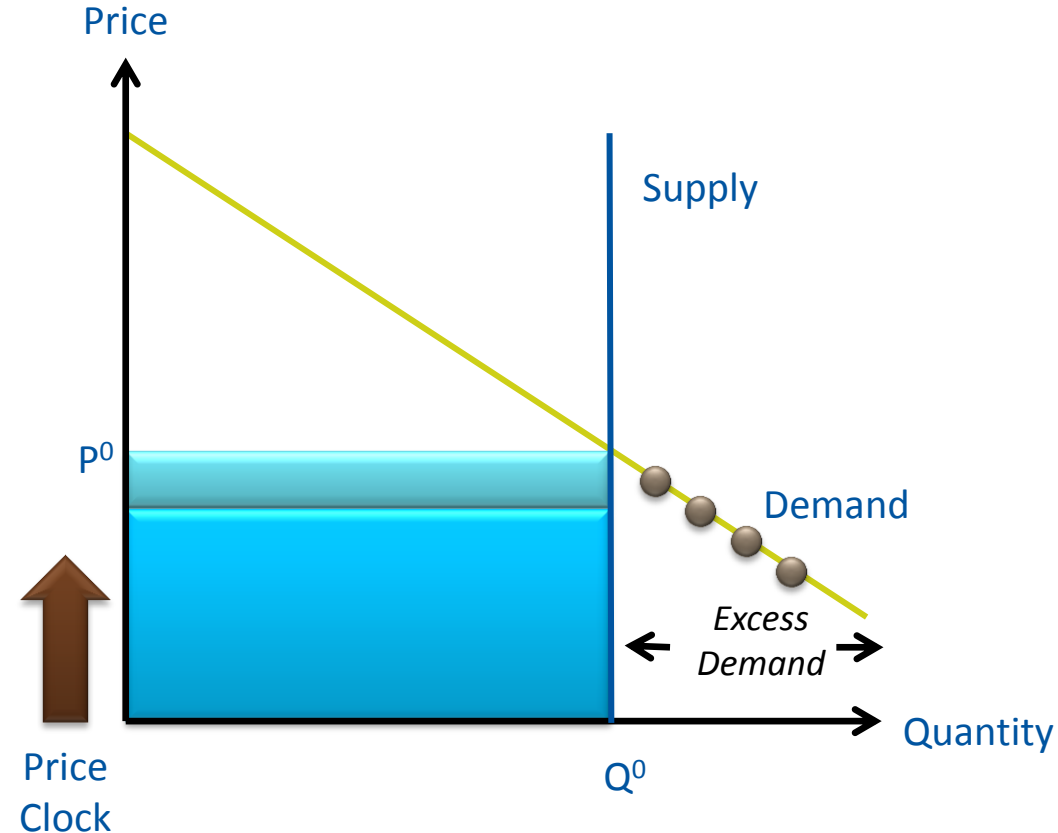
- Access to lowest cost abatement opportunities.
- Support development of carbon markets.
- Limits to ensure complementarity.



# Ensuring the most efficient allocation of units

## Auctions

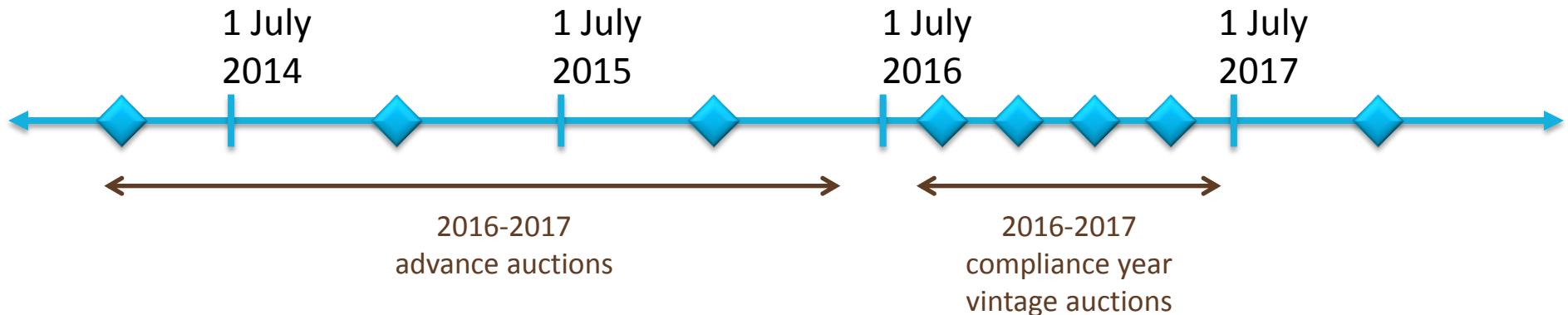
- Details of auction design being finalised:
  - ascending clock auction
  - requirement for a Registry account and collateral
  - open participation
  - advance auctions



# Indicative auction timeline

## Auction schedule

- 8 auctions for each compliance year:
  - 3 - before the compliance year
  - 4 - during the compliance year
  - 1 - prior to the final surrender date



◆ = Auctions of 2016-17 vintage

### Post-vintage Auction

Prior to final surrender date for 2016-2017 compliance year (1 February 2018)