Australia’s Carbon Pricing Mechanism Architecture

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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

Government and Parliament
Major policy decisions

Clean Energy Regulator
will administer
- Carbon Pricing Mechanism
- Carbon Farming Initiative
- Renewable Energy Target
- National Greenhouse and Energy Reporting System

Climate Change Authority
will review, recommend and track
- Level of pollution caps
- Operation of the carbon price
- Other climate change mitigation initiatives
- Progress towards pollution reduction targets

Productivity Commission
will review and report on
- International pollution reduction actions
- Jobs and Competitiveness Program
- Fuel excise and taxation regime
## Level of the fixed price

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<tr>
<th>Policy</th>
<th>Rationale</th>
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| • Started on 1 July 2012:  
  – $23.00 in 2012-13  
  – $24.15 in 2013-14  
  – $25.40 in 2014-15 | • Start economic transformation  
• Transition to the international price |
Determining the level of the pollution cap

Indicative national emissions trajectory

Uncovered emissions (estimated)

Pollution cap

National emissions CO₂-e

2015-16
2016-17
2017-18
2018-19
2019-20

2020 Target

Allocated to industry or auctioned
# Process for setting pollution caps

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<tr>
<td>• <strong>Climate Change Authority</strong> recommends trajectory and caps to Government.</td>
<td>• Credibility, transparency and predictability</td>
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<tr>
<td>• Govt sets five years worth of pollution caps in advance, and extends by one year every year.</td>
<td>• Business certainty. Less important with international linking.</td>
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<td>• Caps will be set in regulations that are tabled in Parliament.</td>
<td>• Accountability</td>
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<td>• Default pollutions caps in legislation in the event regulations are not made or are disallowed.</td>
<td>• Business certainty that scheme will transition to flexible price</td>
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### Flexible price period architecture

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<td><strong>Price ceiling</strong>&lt;br&gt;• 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.</td>
<td><strong>Price ceiling</strong>&lt;br&gt;• Avoid price spikes, enhancing business certainty.</td>
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<tr>
<td><strong>Banking</strong>&lt;br&gt;• Unlimited banking allowed during flexible price period</td>
<td><strong>Banking</strong>&lt;br&gt;• Mitigate price volatility and improve efficiency by addressing demand/supply imbalance; encourage early action.</td>
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<td><strong>Borrowing</strong>&lt;br&gt;• Borrowing from the next vintage year limited to 5% of liability</td>
<td><strong>Borrowing</strong>&lt;br&gt;• Provide flexibility and prevent price spikes, particularly around surrender date.</td>
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<td><strong>Linking to markets</strong>&lt;br&gt;• Access to CER and EUA mkts within limits&lt;br&gt;• Full access to CFI credits</td>
<td><strong>Linking to markets</strong>&lt;br&gt;• Access to lowest cost abatement opportunities.&lt;br&gt;• Support development of carbon markets.&lt;br&gt;• Limits to ensure supplementarity.</td>
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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)