Determining Australian Carbon Pricing Coverage

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Design Principles

1. Administrative Simplicity
2. Credible Institutions
3. Environmental Integrity
4. Economic Efficiency
5. Awareness of Distributional Impacts
## Coverage – policy objectives

<table>
<thead>
<tr>
<th></th>
<th>Cost of abatement</th>
<th>Cost of administration</th>
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</thead>
<tbody>
<tr>
<td>Broad coverage</td>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td>Narrow coverage</td>
<td>Higher</td>
<td>Lower</td>
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<tr>
<th></th>
<th>Compliance costs</th>
<th>Cost of administration</th>
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<tr>
<td>More flexibility</td>
<td>Lower</td>
<td>Higher</td>
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Balancing policy objectives

Ways in which this balance has been managed:

• exclusion of a small number of sectors from the carbon price
  – eg. agriculture - alternatives measures implemented
• existing administrative systems have been used to apply the carbon price to some emissions
• flexibility has been provided in how liabilities are managed where the benefits are likely to outweigh costs
Broad coverage

0.025% of registered businesses will have direct liability for around 60% of domestic emissions.

Total emissions:
564 Mt in 2009

Covered: 382 Mt (around ⅔rd)
- Electricity: 207 Mt (54%)
- Other stationary energy: 87 Mt (23%)
- Fugitives: 38 Mt (10%)
- Industrial processes: 23 Mt (6%)
- New waste: 4 Mt (1%)
- Air, rail and water transport: 23 Mt (6%)

Not Covered: 182 Mt (around ⅓rd)
- Agriculture, forestry and fishing: 85 Mt (46%)
- Land use: 19 Mt (10%)
- On-road and light transport: 61 Mt (33%)
- Legacy synthetic gases: 6 Mt (4%)
- Legacy waste: 10 Mt (6%)
- Legacy fugitives: 1 Mt (1%)
Liability for a carbon price

The carbon price will be applied through two channels: the carbon pricing mechanism; and adjustments to the fuel tax system and synthetic greenhouse gas arrangements.

Equivalent carbon price applied through separate legislation to:
- air, rail and water transport,
- non-transport uses of liquid and gaseous fuels (for 2012-13), and
- synthetic greenhouse gases

Abatement opportunities
The Carbon Farming Initiative provides incentives in the agricultural sector to sequester carbon and realise the value of this through the carbon pricing mechanism.
Direct coverage of emissions from facilities

- 25,000 tonne CO$_2$-e threshold
  - achieves broad coverage while minimising the number of liable entities
- Operational control test
  - liable entity has access to data and influence over operating policies
- Default or higher order methods
  - balance compliance costs against benefits of site-specific methods (eg continuous monitoring)

Emissions included in the threshold
- Electricity generation - fuel combustion
- Other stationary energy combustion
- Fugitive emissions - oil, coal, gas
- Industrial processes
- Waste and wastewater
Flexibility to transfer liability for facilities

• Facilitates efficient management of liabilities within commercial structures
Specific issues addressed for landfill facilities

- **Legacy emissions excluded**: Emissions from waste deposited before 1 July 2012 are excluded as landfill operators have limited ability to pass through costs.
- **Prescribed distance rule**: Can be used to address waste diversion from covered to uncovered facilities.

How a small landfill could be covered

- **Liable**: Landfill facility with at least 10,000 tonnes CO$_2$-e of emissions
- **Covered landfill facility ≥ 25,000 tonnes CO$_2$-e
- **Prescribed distance**

... but small landfills are **not covered** under the regulations

- **Not liable**: Landfill facility with at least 10,000 tonnes CO$_2$-e of emissions
- **Covered landfill facility ≥ 25,000 tonnes CO$_2$-e**
- **Prescribed distance is 0km**
Natural gas, liquid fuels and synthetic greenhouse gases

- Specific arrangements used to apply the carbon price to diffuse emissions sources
- Existing legislation used where possible to minimise costs and additional complexity
  - Synthetic greenhouse gases through existing Ozone Protection and Synthetic Greenhouse Gas Management legislation
  - Liquid fuels through existing fuel tax legislation
- Carbon pricing mechanism upstream coverage arrangements developed for natural gas
  - (and gaseous fuels (LPG, LNG) from 1 July 2013)
Upstream coverage of natural gas

- Complete coverage of natural gas combustion emissions
  - natural gas suppliers are responsible for emissions from their customers’ use of gas
  - except where the customer quotes an **Obligation Transfer Number (OTN)**
  - large facilities must quote an OTN
    - balances more accurate estimation at facilities against compliance costs
  - Flexibility for certain other end to quote an OTN
Liquid fuels

- An ‘equivalent’ carbon price applies to domestic aviation, domestic shipping, rail and non-transport uses through the existing fuel tax system.

**Before 1 July 2012**
- Fuel tax included in fuel cost
- Fuel Tax Credit from the Australian Tax Office

**After 1 July 2012**
- Fuel tax included in fuel cost
- Fuel Tax Credit from the Australian Tax Office

**Opt-in Scheme**
- Available from 1 July 2013
- Fuel tax included in fuel cost
- Fuel Tax Credit from the Australian Tax Office

- Effective carbon price paid
- Liability for fuel

- Using existing systems minimises administrative and compliance costs
- Opt-in Scheme provides flexibility in how businesses manage the carbon price
Synthetic greenhouse gases

- Equivalent carbon price applies to:
  - Hydrofluorocarbons (HFCs)
  - Most perfluorocarbons (PFCs)
  - Sulphur hexafluoride ($\text{SF}_6$)

- Based the value of the carbon price and on global warming potential of each gas

- Rebates provided when gases are exported (e.g., in products) and specific conditions are met

- From 1 July 2013 incentives will be provided for the destruction of waste gases recovered at end of life
## Summary of arrangements

<table>
<thead>
<tr>
<th>Direct emitters</th>
<th>Natural gas (including CNG)</th>
<th>Gaseous fuels (LPG and LNG) from 1 July 2013</th>
<th>Liquid fuels (including LPG and LNG until 1 July 2013)</th>
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</thead>
<tbody>
<tr>
<td><strong>Default liability:</strong></td>
<td>Operator of a facility producing emissions</td>
<td>Natural gas supplier (usually retailers)</td>
<td>Gaseous fuel supplier</td>
</tr>
<tr>
<td><strong>Liability can be allocated or transferred to:</strong></td>
<td>Joint venture partners (Mandatory and Designated Declared Joint Ventures)</td>
<td>Large gas consuming facility – on quotation of Obligation Transfer Number (OTN), which must be accepted</td>
<td>End user – on quotation of OTN</td>
</tr>
<tr>
<td>Financial controller or members within a corporate group (Liability Transfer Certificate)</td>
<td>End user – on quotation of OTN, which may be accepted</td>
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