



Australian Government



Australia's Carbon Pricing Mechanism – Cap Setting

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Cap setting

What do caps do?

- Set maximum allowable pollution level over a time period
- Reflect emissions targets and international obligations
- Determine overall cost to the national economy
 - But might not determine the carbon price
 - International linking and other design elements interact
 - *Banking, borrowing, price controls, domestic offsets*
- Determine no. of allowances for allocation:
 - Manage distributional impacts
 - Provide industry assistance or adjustment assistance
 - Invest in low emissions technology RD&D or innovation

Caps in Australia's ETS

- Absolute, annual caps
 - Financial years from 1 July 2015
- Cap levels not yet determined
- Climate Change Authority – Feb 2014
- Cap Regulations – May 2014
- Default caps in *Clean Energy Act*

Caps in Australia's ETS

- Five years' caps set in regulations
- Extended by one year, each year
 - Climate Change Authority report
 - Government's decision
 - Parliament can disallow cap regulations
- Default caps if needed
 - one year at a time

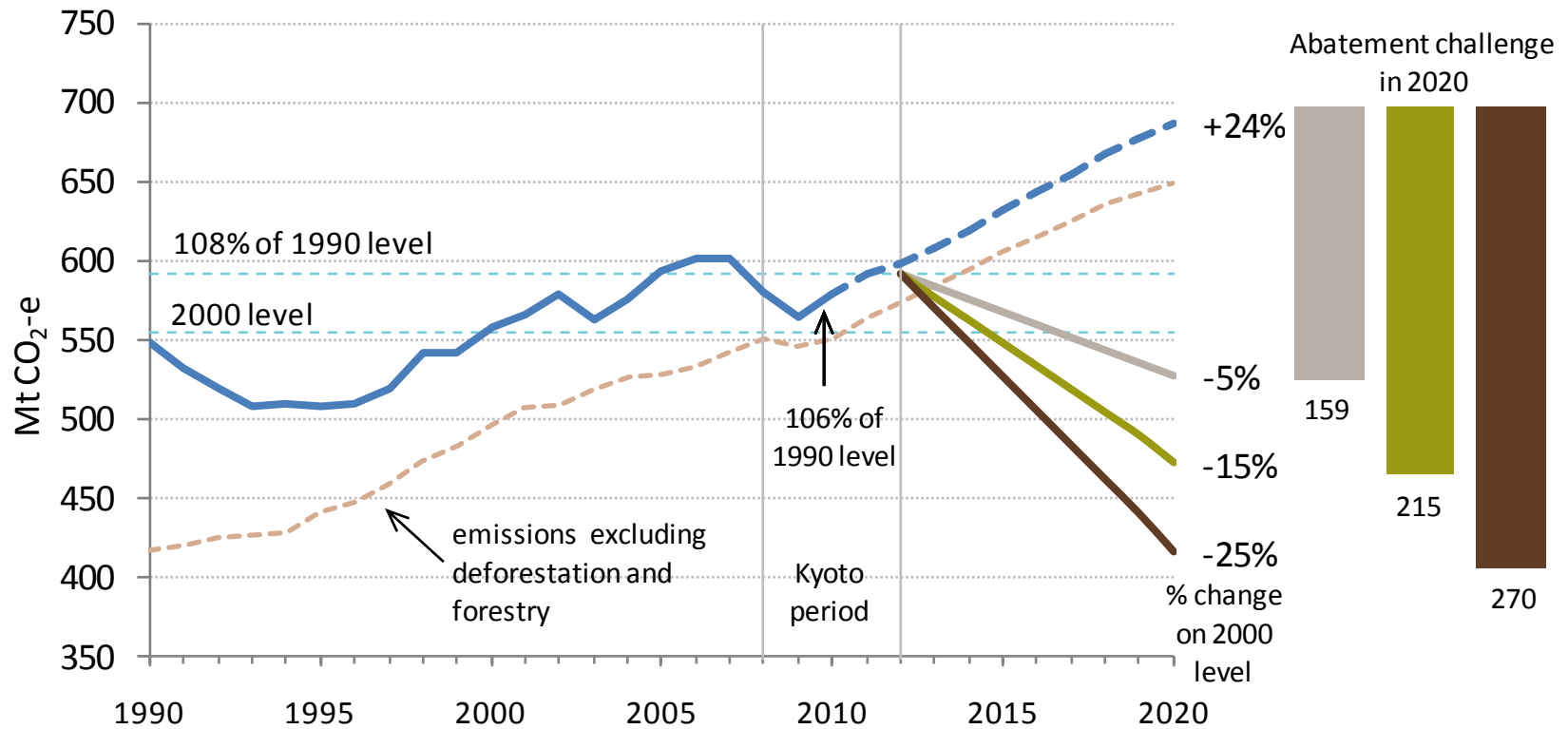
Cap-setting and national targets

- Caps likely to be driven by national targets
 - Target trajectory minus non-covered sectors' emissions?
 - Default caps linear trajectory to -5%
- National projections and economy-wide modelling inputs to target range

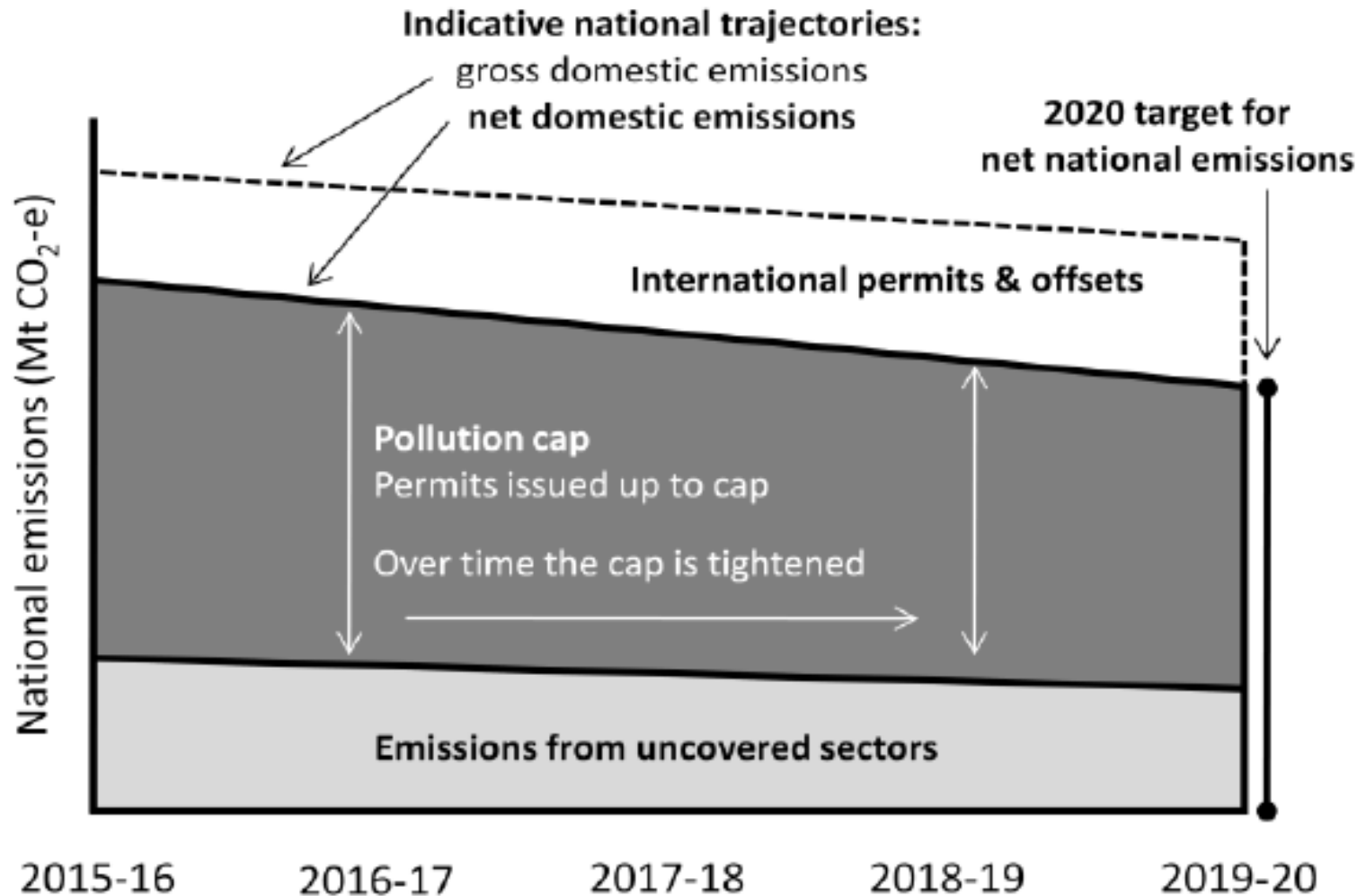
Australia's Mitigation Commitments

- Unconditional -5% target by 2020
- Conditional target up to -25% by 2020
 - dependent on international action
- -80% target by 2050
- Note: 2000 level baseline

Australia's Targets



Stylised cap setting (Australia)



Questions?

Further information about climate change and renewable energy is available online at:

- www.climatechange.gov.au
- www.cleanenergyfuture.gov.au
- www.livinggreener.gov.au.

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