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

- 5%
- 15%
- 25%
+24%

Mt CO$_2$-e


Abatement challenge in 2020

159 215 270

108% of 1990 level
2000 level
106% of 1990 level

emissions excluding deforestation and forestry
Kyoto period

% change on 2000 level

-5%
-15%
-25%

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Stylised cap setting (Australia)

Indicative national trajectories:
gross domestic emissions
net domestic emissions

2020 target for
net national emissions

International permits & offsets

Pollution cap
Permits issued up to cap
Over time the cap is tightened

Emissions from uncovered sectors

Questions?

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

- [www.climatechange.gov.au](http://www.climatechange.gov.au)
- [www.cleanenergyfuture.gov.au](http://www.cleanenergyfuture.gov.au)

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