



Express law *fast track information for clients*

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Australia's Carbon Pollution Reduction Scheme

The Australian Government has released a green paper outlining the proposed approach to be taken in the design of Australia's Carbon Pollution Reduction Scheme.

The green paper identifies the key design decisions that are required, discusses alternative approaches to dealing with the key questions to be resolved, and indicates preferences among design options. This note provides a brief summary of key issues covered in the green paper.

In preparing the green paper, the government has drawn on work undertaken by the former government's Task Group on Emissions Trading, the states and territories' National Emissions Trading Taskforce and the Garnaut Climate Change Review, as well as lessons learned from the establishment of the European Union Emissions Trading Scheme and other schemes.

Objective

The paper notes that the objective of the Carbon Pollution Reduction Scheme (the Scheme) is to meet Australia's emissions reduction targets in the most flexible and cost-effective way, to support an effective global response to climate change, and to provide for transitional assistance to the most affected households and firms.

Cap and trade

The paper proposes a cap and trade Scheme. The primary elements of the proposed cap and trade Scheme are a nationwide 'cap' on emissions levels for each year (with 'carbon pollution permits' issued to equate to the total cap amount), and the ability for Scheme participants and other entities to trade the carbon pollution permits issued under the Scheme.

The cap

The cap is the yearly limit on emissions set under the Scheme. A cap will be set for each year. Medium-term trajectories will also be provided by the government in advance.

The permits

After setting the cap, the government will issue 'carbon pollution permits'. Each permit will represent one tonne of CO₂-equivalent emissions (so, if the cap was 100 million tonnes, 100 million permits would be issued). Most permits will originally be released through an auction process, and entities which purchase the permits at auction will be able to subsequently sell those permits (if they choose).

Significant emitters of greenhouse gases will be 'liable entities' under the Scheme, and will be required to acquire and surrender permits to cover every tonne of greenhouse gas that they emit. At the end of each year, each liable entity will need to surrender permits to cover the firm's emissions in that year. The quantity of emissions produced by liable entities will be monitored and audited.

Firms will compete to purchase the number of permits that they require. Firms that value carbon permits most highly will be prepared to pay most for them, while for other firms it will be cheaper to reduce emissions than to buy permits.

Certain categories of firms might receive some permits for free, as a transitional assistance measure (see 'Assistance' below). These firms could use these permits or sell them.

Coverage

The paper notes that broad coverage reduces the costs of cutting pollution. From commencement, the Scheme will cover the stationary energy (such as electricity generation), transport, fugitive emissions (such as greenhouse gases that are released in the course of oil and gas extraction and processing), industrial processes, waste and, on an opt-in basis, forestry sectors. The Scheme is estimated to place mandatory obligations on around 1,000 liable firms, covering the bulk of Australia's emissions.

The paper notes that agricultural emissions will not be covered by the Scheme at the Scheme's commencement, for practical reasons including the difficulty of accurately measuring those emissions. A final decision on coverage of agriculture will be made in 2013.

Reporting and compliance

The Scheme requires liable firms to monitor and report their annual emissions. The reporting framework will build on the existing National Greenhouse and Energy Reporting System (NGERS), which came into effect on 1 July 2008. For more information on the NGERS, see the AGS [Express Law](#) dated 4 October 2007.

International linking

The paper notes that the Scheme will be designed to allow for linkages to be made with overseas emissions trading schemes and carbon markets. These linkages are anticipated to provide opportunities to contribute to a global solution and to reduce the overall costs of meeting emissions targets. For example, if Australia chose to link with an international scheme under which abatement costs are lower, Australian firms could purchase abatement from that market rather than reducing their emissions within Australia.

Scheme governance

The government proposes to establish an independent Scheme regulator, which will monitor and enforce Scheme compliance as well as oversee the permit auctions, allocate free permits (according to the rules for doing so) and maintain a Scheme permit registry.

The paper proposes that an independent review of the Scheme be carried out every five years.

Assistance

The paper outlines proposed mechanisms for providing assistance to households (to meet the overall increase in the cost of living flowing from the Scheme), business (through a Climate Change Action Fund), workers and regions, emissions-intensive trade exposed industries (by providing a share of free permits to firms in those industries), and strongly affected industries (for example, through the Electricity Sector Adjustment Scheme).

Future development

Feedback is sought on all elements of the green paper. The paper notes that the government's intention is to release a white paper incorporating final scheme design decisions, and an exposure draft of legislation for Australia's Carbon Pollution Reduction Scheme by the end of 2008. AGS is continuing to assist the Department of Climate Change with the development of this Scheme.

The full green paper, as well as a summary report, fact sheets and information about making a submission, can be obtained from the Department of Climate Change [website](#).

For further information about the Scheme and the implications it may have for Commonwealth agencies and authorities (including in relation to potential coverage under the Scheme), please contact:

Kathryn Graham
Senior General Counsel
T 02 6253 7167 F 02 6253 7304
kathryn.graham@ags.gov.au

Susie Brown
Senior General Counsel
T 02 6253 7132 F 02 6253 7303
susie.brown@ags.gov.au

Catherine Sainsbery
Counsel
T 02 6253 7465 F 02 6253 7304
catherine.sainsbery@ags.gov.au

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