Australian Government

MULTI-PARTY CLIMATE CHANGE COMMITTEE

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CLEAN ENERGY AGREEMENT

The Multi-Party Climate Change Committee was established in recognition that Australia needs to reduce its carbon pollution as part of global efforts to combat climate change. Cuts in global pollution are necessary to reduce the risks posed by unmitigated climate change, including the potential for dislocation of populations, in particular in vulnerable countries. For Australia, these risks are large, threatening our economy, our natural heritage (including icons such as the World Heritage listed Great Barrier Reef), food security, and our way of life.

The Committee considers that a carbon pricing mechanism is the most cost-effective and economically responsible way of reducing Australia's carbon pollution, and that its introduction would enable Australia to play its part in global efforts to reduce the risks posed by climate change. A carbon price will provide opportunities for innovation and investment in clean technologies, and opportunities and rewards for improved land use management. Complementary measures will continue to play an important role in the transition to a clean energy economy.

The Committee has carefully considered a wide range of issues in developing the Clean Energy Agreement, including the principles that were clearly articulated at the outset of this process. The key elements of the package that have been agreed by the MPCCC, as set out in the measures' descriptions in the attached document, are:

- The introduction of a broad based carbon price in Australia, commencing from 1 July 2012 with a fixed price period and transitioning to a fully flexible cap-and-trade carbon pricing mechanism on 1 July 2015.
    - The fixed price will commence at $23 per tonne of CO_2-e;
    - Coverage of the scheme will include stationary energy, most business transport emissions, industrial processes, non-legacy waste, and fugitive emissions, with direct liability under the mechanism limited to large emitters;
    - International linking will be allowed in the flexible price scheme;
    - Kyoto compliant credits from the Carbon Farming Initiative will be able to be used for compliance.
- The establishment of a new more ambitious 2050 target for emissions reductions which will be set at 80 per cent below 2000 levels.
- The establishment of a new independent Authority – the Climate Change Authority – which will :
    - provide advice to the Government on progress towards meeting announced targets;
    - make recommendations on pollution caps, voluntary action, trajectories, long term emissions budgets and mechanism design issues;
    - conduct regular reviews on the carbon price mechanism, NGER reporting, the Renewable Energy Target and other matters upon request.
- Household assistance measures to support low and middle income households and to support energy efficiency improvements in households to reduce energy costs;
- Business assistance measures to support jobs and competitiveness and support investment in the business sector to increase energy efficiency and reduce carbon pollution;
- Measures to support an orderly transition of our energy sector and underpin energy security;
- Enhanced support for innovation in low emissions and renewable technologies through:
    - the establishment of a $10 billion fund, the Clean Energy Finance Corporation, to drive investment in the commercialisation and deployment of low emissions and renewable technologies; and
    - the consolidation of existing renewable technology support measures into the Australian Renewable Energy Agency, to establish a more holistic approach to the Government's support for early stage investments in renewable technologies;
- Commitments to regional and rural communities through land measures which will:
    - support participation in the Carbon Farming Initiative;

- provide incentives for land sector projects that deliver biodiversity and other additional environmental benefits; and
- support regional planning and skills development.

The Committee considers that this package of measures enables Australia to meet its committed emissions reduction targets in the most environmentally effective and economically efficient way. It will establish a clear and predictable framework that will enable investment decisions to be taken, climate change risks to be managed and the transformation of Australia's energy sector, in particular, to proceed over the coming years. It will decouple the traditional relationship between carbon pollution and economic growth.

The Committee recognises that this set of reforms marks a step change in the way Australia will address the challenge posed by climate change. And, consistent with the history of successful reforms in Australia, the Committee has considered it important to introduce a set of arrangements, for both households and businesses, to ensure that this step change is managed in a responsible way.

The introduction of the carbon price mechanism provides a range of new opportunities. It provides the opportunity to re-focus Australia's innovation effort onto the important area of low emissions technologies. And it provides the opportunity to further consider the ways in which the land sector will continue to adapt and contribute towards the national effort to move to low emissions and a clean energy future. Across the Australian economy, the introduction of a carbon price will reward innovation and ingenuity and will position Australia well for the next phase of economic growth that will be driven by low emissions and clean energy investments across the world.

ARCHITECTURE

STARTING PRICE AND FIXED PRICE PERIOD

Issue/measure

- The carbon price mechanism will commence with a carbon price of $23 per tonne and will rise at 2.5 per cent per annum in real terms.
- The carbon price mechanism will commence with a three year fixed price period.

Description

- The fixed price in the first three years will be $23 in 2012-13, $24.15 in 2013-14 and $25.40 in 2014-15.
  - These prices rise by 2.5 per cent in real terms allowing for 2.5 per cent inflation per year, which is the midpoint of the Reserve Bank of Australia's target range and consistent with Treasury projections in the 2011/12 Budget.
- During the fixed price phase, liable entities will be required to surrender a permit for each tonne of reported emissions. An unlimited number of permits will be available for purchase from the Government at the specified fixed price.
- In the fixed price period, liable entities will be able to purchase permits from the Government at the fixed price for the relevant compliance year, or surrender eligible Carbon Farming Initiative credits up to a quantitative limit or permits allocated free of charge by the Government.
- During the fixed price period, liable entities will generally be required to make a 'progressive payment' before the end of the compliance year (15 June) to discharge 75 per cent of their estimated liability for that compliance year. They must acquit the remainder of their liability by 1 February in the following compliance year.

AUSTRALIA'S LONG-TERM EMISSIONS REDUCTION TARGET

Issue/measure

- Set a new 2050 emissions reduction target to reduce Australia's net greenhouse gas emissions to 80% below 2000 levels by 2050. .

Description

- Australia's long-term emissions reduction target will be to reduce Australia's net greenhouse gas emissions to 80 per cent below 2000 levels by 2050.
- Such an emissions reduction is important with regard to the achievement of a global outcome consistent with limiting temperature increases below two degrees as set out by the Copenhagen Accord and Cancun Agreements.
- The target will be reflected in the objects of the legislation to establish the carbon price mechanism.
- The Climate Change Authority will have regard to the long-term target set by the Government in recommending pollution caps and trajectories to deliver Australia's contribution to the mitigation of climate change risks.

TRANSITION ARRANGEMENTS

Issue/measure

- From the fourth year of the mechanism Australia's carbon pollution from the covered sectors will be capped under a fully-flexible cap-and-trade emissions trading mechanism.

Description

- The carbon price will automatically transition to a fully-flexible, market-driven carbon price under a cap-and-trade emissions trading mechanism in the fourth year of the mechanism.

- As outlined in the Climate Change Authority overview, the Authority will carry out extensive public consultation and publish a report in February 2014 recommending pollution caps for the first five years of the flexible price period.

- The Government will announce the first five years of pollution caps in the 2014 Budget and will table regulations setting five years of pollution caps in the Parliament no later than the end of May 2014.

- If the regulations are made, pollution caps will be extended by one year every year from 2015-16 onward to maintain a minimum of five years of caps at any given time.

Arrangements if regulations setting pollution caps are disallowed

- Default arrangements are required to ensure that the carbon price mechanism continues operating in the event that one or more Houses of Parliament reject the pollution caps by disallowing the regulations.

- The operation of the default arrangement will ensure that covered sector emissions are reduced in absolute terms each year by an amount, expressed in mega tonnes, at least consistent with meeting Australia's unconditional emissions reduction target as submitted by the Government to the UN and supported by the Coalition.

- If the Parliament rejects the regulations presented in 2014 the mechanism will automatically allow for a pre-prescribed pollution cap to come into effect for the first flexible price year only.

- In the event that default arrangements are triggered for the first year of the flexible price, the Government will be required to submit a proposal for the subsequent five years of pollution caps no later than the Budget in the following year (and for every subsequent year should new regulations continue to be disallowed).

- If a pollution cap is not in place 12 months before the start of a compliance year, the pollution cap for that year would default to a fixed number of tonnes less than the pollution cap for the previous year to ensure continuing absolute emissions reductions.

COVERAGE

Issue/measure

- The carbon price will have broad coverage from commencement encompassing: stationary energy; most business transport emissions; industrial processes; non legacy waste; and fugitive emissions (other than from decommissioned coal mines).

DESCRIPTION

- The coverage of the carbon price mechanism will be brought into effect as follows:
  - Emission sources will generally be covered by applying liability to facilities that have scope 1 greenhouse gas emissions of 25,000 tonnes of CO_2-e a year or more.
  - An additional threshold of 10,000 tonnes of CO_2-e will apply to landfill facilities within a prescribed distance of large landfill facilities to address concerns about displacement of waste from covered to non-covered landfills.
  - Retailers of natural gas will be liable for emissions arising from the use of the fuels they supply to customers, with some flexibility to transfer liabilities to facilities.
  - A carbon price will not be applied to transport fuels (including diesel, petrol, LPG, CNG and LNG) used by cars, light commercial vehicles, agriculture, forestry and fishery activities.
  - Other business transport emissions (including mining) and non-transport emissions from the use of liquid fuels, LPG, CNG and LNG will be subject to an effective carbon price.[*]
  - As aviation fuels do not receive fuel tax credits, domestic aviation fuel excise will be increased by an amount equivalent to the carbon price. International aviation fuel use will not be covered as this is subject to international negotiations.
  - High global warming potential synthetic greenhouse gases (mainly used as refrigerants) will be subject to an equivalent carbon price using existing import and manufacture controls under the Ozone Protection and Synthetic Greenhouse Gas Management legislation and by providing incentives for destruction of waste gases recovered at end of life.
- Agricultural and land sector emissions will not be covered under the carbon pricing mechanism.
  - The Carbon Farming Initiative will provide a source of eligible offset credits for the carbon price mechanism and so help unlock the potential for land sector abatement.

[*] Whilst not part of this package, the Government will announce its approach to heavy on road vehicles separately.

INTERNATIONAL LINKING

Issue/measure

- International linking to credible international carbon markets and emissions trading schemes from the commencement of the flexible price period.

Description

- International emissions units will not be permitted for compliance during the fixed price phase but will be able to be used for compliance during the flexible price phase.
- Over the period until 2020, liable parties must meet at least 50 per cent of their annual liability with domestic permits or credits.
- Any restrictions placed on acceptance of international emissions units will be to ensure the stability and ongoing credibility of the carbon price mechanism, the environmental integrity and effectiveness of the carbon price, and consistency with Australia's international objectives and obligations.
- The Climate Change Authority will play a key role in regularly advising on the integrity of international units, including recommending units which should be prohibited and any new types of units which should be accepted.
  - The Authority will review the requirement that liable parties must meet at least 50 per cent of their liability with domestic permits or credits in its 2016 review.
- The following eligible international emissions units will be included in the legislation establishing the carbon price (but could be excluded or limited by future regulations):
  - Certified Emission Reductions (CERs) from Clean Development Mechanism projects under the Kyoto Protocol, other than temporary CERs, long-term CERs, and CERs from nuclear projects, the destruction of trifluoromethane, the destruction of nitrous oxide from adipic acid plants or from large-scale hydro-electric projects not consistent with criteria adopted by the EU (based on the World Commission on Dams guidelines);
  - Emission Reduction Units (ERUs) from Joint Implementation projects under the Kyoto Protocol, other than ERUs from nuclear projects, the destruction of trifluoromethane, the destruction of nitrous oxide from adipic acid plants or from large-scale hydro-electric projects not consistent with criteria adopted by the EU (based on the World Commission on Dams guidelines);
  - Removal Units (RMUs) issued by a Kyoto Protocol country on the basis of land use, land-use change and forestry activities under Article 3.3 or 3.4 of the Kyoto Protocol; and
  - any other international units that the Government may allow by regulation.
- The Government may add to the types of international emissions units that are recognised for compliance under the carbon price mechanism, where:
  - the addition does not compromise the environmental integrity of the carbon price mechanism;
  - the addition is consistent with the objective of the carbon price mechanism, including Australia's international objectives; and
  - there has been consultation by the Climate Change Authority with stakeholders, analysis of the expected impact on the carbon unit price by an independent review, and notification to the market.

- The Government acknowledges that linking to other credible trading schemes, including the EU emissions trading scheme and NZ emissions trading scheme, would be in Australia's national interest and the types of units accepted and qualitative restrictions imposed by those trading schemes would be taken into account in determining what units may be accepted by the Australian mechanism.

- The Government will retain the right to disallow the use of a given type of international emissions unit for compliance at any time to ensure the environmental integrity of the mechanism and consistency with Australia's international objectives.

  – Liable parties holding such units in their registry accounts will be able to use those units for compliance in the compliance year in which the units were disallowed, but not subsequently.

- Export of domestic permits (except for Kyoto-compliant Carbon Farming Initiative credits) will not be permitted while a domestic price cap is in place, except as part of a bilateral link to another emissions trading scheme with appropriate provisions in place to maintain the environmental integrity of the linked schemes.

- When there is no longer a price cap in place, export of permits will be allowed.

- The Government will only consider future bilateral links with schemes that are of a suitable standard, based on a range of criteria including:

  – an internationally acceptable (or, where applicable, a mutually acceptable) level of mitigation commitment;

  – adequate and comparable monitoring, reporting, verification, compliance and enforcement mechanisms; and

  – compatibility in design and market rules.

ELIGIBILITY OF OFFSETS FROM THE CARBON FARMING INITIATIVE

Issue/measure

- Eligibility of emissions credits created under the Carbon Farming Initiative (CFI) for compliance under the carbon price mechanism.

Description

- The carbon price mechanism will link to the CFI such that:
  - liable entities will be allowed to surrender Kyoto-compliant CFI credits for up to five per cent of their liability in the fixed price period;
  - liable entities will be able to use Kyoto-compliant CFI credits with no quantitative restrictions in the flexible price period; and
  - the Government will retain the power to allow non-Kyoto compliant CFI credits to be used for compliance in the carbon price mechanism, in the event that the nature of Australia's international obligations change.
- Kyoto compliant CFI credits will be tradable between entities and bankable for future use. Excess holdings of CFI credits in any one year will be able to be used to offset emission liabilities in future years.
- Kyoto compliant CFI credits may be able to be exported without restriction during both the fixed price period and the flexible price period.

FLEXIBLE PRICE ARCHITECTURE

Issue/measure

- Design features during the flexible price phase: pollution caps, price cap and floor, banking, borrowing and permit auctions.

Description

- Pollution caps:
  - Five years of pollution caps will be announced in advance and extended each year to maintain a minimum five year period of caps at any given time.
- Price cap:
  - A price cap will operate in the first three years of the flexible price period. The price cap will be set at $20 above the expected international price in 2015/16 (as set in regulations no later than 13 months before the end of the fixed price period) and will rise by five per cent in real terms each year.
  - If the world is on a 450 ppm trajectory or higher, this will be reflected in international prices and the price cap will automatically be $20 above this price. The level of the international price will be examined closer to the point of the transition to ensure that the price cap reflects a $20 margin above its expected level.
  - A review of the role of the price cap will occur after the first three years of the flexible price period.
- Price floor:
  - A price floor of $15, rising by four per cent in real terms each year, will operate for the first three years of the flexible price mechanism.
  - A review of the role of the price floor will occur after the first three years of the flexible price period.
- Permits:
  - Permits will be treated as personal property and as financial products, and can be held and traded by any legal or natural person.
  - Permits will be fully bankable and short-term borrowing will allow liable entities to use permits from the following year to discharge up to five per cent of their liability.
  - Permits will be allocated primarily through auctioning, taking into account transitional assistance provisions for key sectors.
  - Auction arrangements will be set out in a legislative instrument.

VOLUNTARY ACTION

Issue/measure

- Recognition in the carbon price mechanism of voluntary action by households and businesses to reduce emissions.

Description

- Voluntary action will be recognised under the carbon price in four ways.
- First, the Government will take voluntary action into account when setting pollution caps. Voluntary action will be treated as additional when accounting for Australia's post-2012 targets. This will allow Australia to achieve emissions reductions beyond our 2020 emissions reduction target.
- Second, in the flexible price period, permit holders may voluntarily cancel their permits. These will not be counted towards meeting Australia's national emissions targets, however, it will reduce the number of credits available in the market. Holders of international units and Carbon Farming Initiative credits may voluntarily cancel their units and credits at any time from the start of the mechanism.
- Third, a tax-deductable Pledge Fund will be established from the commencement of the mechanism to help individuals access the carbon market and voluntarily cancel permits and credits, including non-Kyoto credits under the Carbon Farming Initiative.
- Fourth, any purchases of accredited GreenPower from the date that the carbon price mechanism commences will be accounted for as voluntary action.
  - In the fixed price period, the Government will measure GreenPower purchases on an annual basis and take these into account when setting the initial pollution caps. As pollution caps are to be set at least 13 months before the end of the fixed price period, only those GreenPower purchases measured at the time of making regulations will be counted in the initial caps. The remaining GreenPower purchases during the fixed price phase will be accounted for in later caps.
  - In the flexible price period, the Government will measure GreenPower purchases on an annual basis and directly take these into account in setting the pollution caps that will apply beyond the existing set of five years' known caps.
  - Adjustments to the pollution cap for GreenPower will be backed by a commitment not to count those imputed emission reductions towards meeting the national target.
- Voluntary action in addition to GreenPower and voluntary cancellation of permits could also be recognised, on advice from the Climate Change Authority on whether a robust methodology could be developed to recognise additional voluntary action by households.

GOVERNANCE

CLIMATE CHANGE AUTHORITY

Issue/measure

- Establishment of an independent expert advisory authority to undertake reviews of the carbon price mechanism and provide recommendations to the Government.

Description

- The Climate Change Authority (the Authority) will be established by legislation as an independent body to review key aspects of the carbon price mechanism and the Government's climate change mitigation initiatives. The key functions of the Authority will be to:
  - Provide recommendations to the Government on future pollution caps. In making its recommendations the Authority will have regard to:
    - : announced Government medium and long term targets;
    - : estimates of the global emissions budget;
    - : progress towards emissions reductions;
    - : economic, social and other relevant factors; and
    - : voluntary action, including GreenPower and any approved new methodologies.
  - Make recommendations on indicative national trajectories and long-term emissions budgets, having regard to the long-term target set by the Government and estimates of the global emissions budget;
  - Annually report to Government on progress being made to reduce Australia's emissions to meet national targets, any indicative national trajectory or budget, including:
    - : analysis of the extent to which the emissions reductions objectives are being achieved from reductions in domestic emissions and from the purchase of international permits.
  - Make recommendations to the Government on whether a robust methodology could be developed to recognise additional voluntary action by households.
  - Conduct regular reviews of and make recommendations on the carbon price mechanism (household assistance, the Jobs and Competitiveness Program and coal sector jobs package will be reviewed separately. The terms of reference of the general reviews of the Jobs and Competitiveness Program, will specify that the Productivity Commission would consult with the Climate Change Authority on whether the established pattern of assistance is avoiding carbon leakage, facilitating industry transition and whether it is supporting emissions reduction objectives.).
    - : Including a review of the role of the price floor and cap after the first three years of the flexible price mechanism.
  - Conduct reviews of and make recommendations on the National Greenhouse and Energy Reporting system, the Renewable Energy Target, the Carbon Farming Initiative;
  - Conduct reviews and make recommendations on other matters as requested by the Minister for Climate Change and Energy Efficiency (Minister); and
  - Conduct reviews and make recommendations on other matters as requested by the Parliament; and
  - Conduct or commission its own independent research and analysis into climate change and other matters relevant to its functions. The Authority will engage with

relevant representatives on climate change matters from across Australia in order to share research and information on climate change and gain input into its analysis.

Composition of Authority

- The Authority members will be made up of nine experts with a particular focus on climate science, economics, climate change mitigation, emissions trading, investment and business.
- The Authority will be supported by an independent staff.

Reviews of the carbon price mechanism by the Authority

- The first scheduled carbon pricing review will report to the Minister by 28 February 2014. This review will provide recommendations on the pollution caps for the first five years of the flexible price period.
- The Authority will produce annual recommendations for each new fifth year pollution cap to be published every year by 28 February. This recommendation will provide a clear signal to market participants about the Authority's view about future ambition and carbon prices.
- Major reviews of the mechanism will be required as follows:
  - The second scheduled carbon pricing review will provide recommendations on other aspects of the mechanism to the Minister by 31 December 2016.
  - The third scheduled review will be a review of all aspects of the carbon price mechanism, which the Authority will report to the Minister by 31 December 2018.
  - From that time onward, each subsequent review will be completed within five years of the last. The Minister may also request a review at any time.
- A review of the Renewable Energy Target will take place in the second half of 2012 and every two years after that.
- A review of the Carbon Farming Initiative will take place by the end of 2014 and every three years after that.
- The Authority will prepare a public report with each of its reviews.

Public Consultation

- The Authority will be required to hold public consultations as part of each of its reviews. This will include public hearings and a process of public submissions.

Accountability of the Government and the Parliament

- Following receipt of the Authority's first report by 28 February 2014, the Government will be required to include its formal response in the 2014-15 Commonwealth Budget – making carbon budgeting a key component of the Commonwealth's budget.
  - A new budget paper – "Budget Paper No. 5: Commonwealth Annual Carbon Budget" will be produced and tabled in Parliament as per all other budget papers.
- The Government would be required to introduce the first carbon budget regulations (comprising the first set of pollution caps for the next five years) into the Parliament no later than the end of May 2014.
- If the pollution caps presented in the regulations differ from the recommendations of the Authority, the Government will be required to justify the difference in its response.

INDEPENDENT REGULATOR

Issue/measure

- Establishment of an independent regulator to administer the carbon price mechanism.

Description

- An independent regulator (the Clean Energy Regulator) will be established to administer the carbon price mechanism within a limited and legislatively prescribed discretion.
- The carbon price regulator will fulfil all usual regulatory functions and manage regulatory risk. It will be responsible for:
  - providing education on the mechanism, especially with regards to administrative arrangements for regulating the mechanism;
  - assessing emissions data to determine each entity's liability ;
  - operating the Australian National Registry of Emissions Units;
  - allocating permits; and
  - monitoring, facilitating and enforcing compliance with the mechanism.
- In administering the National Greenhouse and Energy Reporting System, the Regulator will take over the role of accrediting auditors for the Carbon Farming Initiative and the National Greenhouse and Energy Reporting System.
- The regulatory functions of the National Greenhouse and Energy Reporting System, the Renewable Energy Target, and the Carbon Farming Initiative will be brought together with the carbon price regulator to form an independent regulator from July 2012.

PRODUCTIVITY COMMISSION REVIEWS

Issue/measure

- Establishment of the role for the Productivity Commission to undertake several reviews in connection with the introduction of a carbon pricing mechanism.

Description

- The Productivity Commission will be commissioned to undertake ongoing work to quantify mitigation policies in other major economies. It will start immediately to expand the number of countries, industries and policies evaluated and to build up a comprehensive, robust and up-to-date data set. Estimating impacts of emission mitigation policies in major economies on an industry-by-industry basis will be a critical input to the reviews outlined below.
- The Productivity Commission will be commissioned to review industry assistance measures and other policies including:
  - The review of the operation and effectiveness of assistance arrangements under the Jobs and Competitiveness Program including an assessment of whether fewer than 70 per cent of relevant competitors in each industry have introduced comparable carbon constraints, taking into account all mitigation policies and relevant assistance policies.
    - : The first review will take place in 2014-15 and thereafter in line with the independent reviews of the carbon price mechanism, scheduled to report in December 2016 and December 2018.
      - The terms of reference of the general reviews of the Jobs and Competitiveness Program, will specify that the Productivity Commission would consult with the Climate Change Authority on whether the established pattern of assistance is avoiding carbon leakage, facilitating industry transition and whether it is supporting emissions reduction objectives.
    - : A review of assistance provided to a particular activity could be conducted earlier than 2014-15 if requested by the Government. Priority could be given to:
      - Industry sectors receiving the greatest level of assistance;
      - Industry sectors experiencing the fastest rates of growth in assistance; or
      - Industry sectors where there is strong evidence of windfall gains as a result of the assistance.
  - The review of the practicalities associated with moving to the model described in the Garnaut Climate Change Review—Update 2011, including whether it is the most effective and efficient means of preventing carbon leakage and assisting industry to transition and whether the Government should adopt this approach.
  - During these reviews of the Jobs and Competitiveness Program, the Productivity Commission may recommend changes to the Carbon Productivity Contribution rate.
  - Examining the impact of a carbon price and associated Government assistance measures on the coal mining sector taking into account advice from the CSIRO and industry on the availability of cost-effective abatement technology.
  - The review of the impact of the carbon pricing mechanism on industries as referred by the Government.
    - : Once the carbon pricing mechanism has commenced, firms may make a request to Government to have the impact of the mechanism on their sector assessed.

The Government will establish a set of guidelines that sets out when such requests would be referred to the Productivity Commission and the terms of reference for these reviews.

  – The review of fuel excise/taxation, with any changes to be implemented after three years (2015/16). It is anticipated that this review will include examination of the merits of a regime based explicitly and precisely on carbon/energy content of fuels.

- In conducting a review, it is expected that extensive stakeholder consultation would be required as well as the opportunity for interested parties to make submissions and to respond to a draft report prior to the publication of the final report.

HOUSEHOLDS, COMMUNITIES AND REGIONS

HOUSEHOLD ASSISTANCE

Issue/measure

- Provision of assistance to meet commitments to low and middle-income households for increases in the cost of living resulting from a carbon price.

Description

- The commitments to households are:
  - more than 50 per cent of the carbon price revenue will be used to assist households;
  - millions of households will be better off under the carbon price;
  - assistance will be permanent;
  - low-income households (including all pensioners) will be eligible for assistance that at least offsets their average expected cost impact from carbon pricing;
  - middle-income households will be eligible for assistance that helps them to meet the expected cost impact from carbon pricing; and
  - households containing individual/s with a relevant concession card and who are certified to have a medical condition or disability which would result in higher essential electricity costs are eligible for additional assistance.
- The income definitions for these commitments are:

Household income	Single	Couple without children	Couple with children	Sole parent
Low (less than)	$30,000	$45,000	$60,000	$60,000
Medium (between)	$30,000-$80,000	$45,000-$120,000	$60,000-$150,000	$60,000-$150,000
High (above)	$80,000	$120,000	$150,000	$150,000

- The income definitions are based on the relevant signposts in the tax and transfer system (through which assistance will be delivered).
- Assistance to households will be delivered through the tax and transfer system.
- The assistance has been designed so that rents for public housing tenants will not increase as a consequence of the assistance provided.
- Low income households that are not fully assisted through tax and transfer arrangements will be able to apply for a Low Income Clean Energy Supplement.
- The Government will facilitate an opt-in program where household assistance payments can be directed towards accredited energy efficiency measures through non-government organisations.
- The following arrangements will apply to aged care residents:
  - household assistance will be shared between aged care providers and their residents in an approximate 55:45 split, by increasing the percentage of the basic pension payable to the provider (from 84 per cent to 85 per cent);

- ‘grandfathering’ arrangements will be established for around 2 per cent of existing residents not in receipt of a pension or other income support payment and not holding a Commonwealth Seniors Health Card (CSHC), so their fees do not increase as a result of the change in fee structure outlined above; and
- aged care facilities will be provided with additional funding to address the costs they incur in respect of their ‘grandfathered’ residents.

- Noting the recommendations of the Henry review, the Government agrees to put the issue of payment rates, including relativities of different forms of payments, on the agenda for discussion at the tax forum to be held on 4 and 5 October 2011.
- The Government confirms that the carbon price legislation will be drafted in such a way that any legislated non-indexation related payment increase will flow through to carbon price assistance.

ESSENTIAL MEDICAL EQUIPMENT PAYMENT

Issue/measure

- Provision of additional assistance to people with very high electricity costs due to a medical condition or disability.

Description

- The Essential Medical Equipment Payment will be provided to households containing individual/s with a relevant concession card and who have very high essential electricity costs due to a medical condition or disability.
- The additional annual cash payment of $100 will be paid through Centrelink and the Department of Veterans' Affairs to people using pieces of equipment recognised by any state or territory medical electricity assistance scheme. People with thermoregulatory dysfunction and a relevant concession card will also be eligible for the same level of assistance.
- A claimant must meet the following criteria to be eligible for the Essential Medical Equipment Payment :
  - the claimant is a current Australian Government concession card holder (Pensioner Concession Card, Health Care Card, Commonwealth Seniors Health Card or equivalent DVA concession card excluding DVA Gold Card); and
  - the claimant must show that they, or the concession card holder they care for in their household, meet specified medical condition/medical appliance requirements; and
  - the claimant or the person they care for is the holder of the electricity account.

REVIEW OF HOUSEHOLD ASSISTANCE

Issue/measure

- Review of the household assistance package to maintain its relevance and adequacy.

Description

- The Treasurer and the Minister for Families, Housing, Community Services and Indigenous Affairs, in consultation with relevant ministers, will annually review the adequacy of household assistance in the Budget process.
- This review will examine the real value of the assistance provided on the introduction of the carbon price and take into account:
  - Movements in prices for a consumption basket used in calculating the assistance (including movement in prices of goods and services particularly affected by the carbon price);
  - The indexation and tax arrangements for the assistance provided, including the adjustment for the bring forward; and
  - Any new information about the weights of items in the consumption basket.
- In addition to these annual reviews there will be a review of the household assistance package in parallel with the broader carbon pricing mechanism review in 2013-14.

EXPANDING LOW CARBON COMMUNITIES

Issue/measure

- Expansion of Low Carbon Communities to fund pilot projects to help low-income households and provide grants to community organisations to help manage rising energy costs.

Description

- The existing Low Carbon Communities program will be redesigned and have funding increased to:
  - pilot energy efficiency approaches that assist low income households reduce their energy costs; and
  - provide additional support for local government and community organisations to undertake energy efficiency upgrades to community-use buildings and facilities.

Low Income Household Assistance

- The proposal will fund a new initiative aimed at improving the energy efficiency of low-income households. This program will provide grants to consortiums of local councils, community organisations, energy retailers and energy service companies to pilot approaches that assist low income households reduce their energy costs to adjust to the impacts of a carbon price.
  - Competitive grants will fund around 15-20 pilot projects across the country to test a suite of energy efficiency measures that target specific market failures that will not be addressed through direct cash assistance.
  - Some of these pilot projects will be consistent with community sector proposals.

Community Organisation Grants

- Competitive grants would be available to support local councils and community organisations retrofit or upgrade community-use facilities to reduce their energy costs and to serve as demonstration projects to promote long-term energy efficiency behaviour change in the community. Examples of projects that could be funded under this stream include:
  - implementing low emission opportunities within council owned and managed community facilities;
  - improving public lighting by replacing inefficient street lights with high efficiency technologies and replacing incandescent traffic lights with modern LED versions;
  - installation of cogeneration/trigeneration systems;
  - energy efficient retro-fitting and retro-commissioning of council or community premises; and
  - installing sub-metering/smart metering/building energy management systems.

HOUSEHOLD ADVICE LINE AND WEBSITE

Issue/measure

- A household information and telephone advice line and extension to the national website, *LivingGreener*, providing information on how households can improve their energy efficiency to save money and manage the impacts of increasing energy costs.

Description

- The single, user-friendly Government website will be expanded to provide information on living sustainably and to link all Commonwealth, state and territory energy efficiency and climate change programs, including:
  - new content for schools and local governments;
  - information tailored by life event; and
  - targeted information to address the information needs of Australians during the transition to a price on carbon.
- Tailored advice to householders will be delivered through social media channels, with phone line backup.
- A mobile phone application will also be introduced to better target younger users.

REMOTE INDIGENOUS ENERGY PROGRAM

Issue/measure

- A program to help indigenous communities access clean, affordable and reliable 24-hour power supply, manage their energy efficiently and use it to contribute to improvements in health, education and long-term economic viability.

Description

- The program will build on the success of the former Renewable Remote Power Generation Program (RRPGP).
- It will provide financial support to install renewable energy generation systems in 50 to 70 remote indigenous communities over the life of the program.
- It will also include training in basic system maintenance and the provision of energy efficiency information to encourage ongoing energy management.
- The program will be managed by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), which will select suitable delivery organisations to roll out the installations and training program.

REGIONAL STRUCTURAL ADJUSTMENT ASSISTANCE

Issue/measure

- Structural adjustment assistance for regional workers and communities.

Description

- Funding will be set aside for regions in the event that they are affected by the introduction of a carbon price.
- The Department of Regional Australia, Regional Development and Local Government will monitor the impacts of the carbon price on regions to determine areas where structural adjustment assistance may be required.
- For identified regions, structural adjustment assistance will be delivered through formal arrangements that engage state, territory and local governments, community groups and unions, including through place based investment and service delivery approaches.
- Where appropriate the Government will facilitate regional cooperation.

BUSINESS ASSISTANCE

JOBS AND COMPETITIVENESS PROGRAM

Issue/measure

- Provision of assistance to emissions-intensive trade-exposed (EITE) industries will provide significant support for jobs and protect the competitiveness of these industries from risks of carbon leakage. The Jobs and Competitiveness Program will also ensure that industry, local communities and workers have a smooth transition to a clean energy future.

- The Jobs and Competitiveness Program will be implemented in a manner to ensure that a level of assistance is provided to trade exposed and emissions intensive industries that is economically and environmentally efficient.

Description

- The Jobs and Competitiveness Program will provide assistance as follows:

  – Assistance will be provided on an activity basis to ensure that assistance is targeted to the emissions-intensive transformation taking place. Permit allocations will be based on the historical average emissions intensity of entities conducting the same activity. This will reward entities that reduce their emissions in the future.

  – Eligibility for assistance will be based on an emissions intensity and trade exposure test. Activity assessments and activity definitions that have already taken place will remain valid under the carbon price mechanism.

  – Initial assistance rates will be set at:

    : 94.5 per cent of the industry average baseline for activities with an emissions intensity of at least 2,000t CO_2-e/$m revenue or 6,000t CO_2-e/$m value added; and

    : 66 per cent of the industry average baseline for activities with an emissions intensity between 1,000t CO_2-e/$m and 1,999t CO_2-e/$m revenue or between 3,000t CO_2-e/$m and 5,999t CO_2-e/$m value added;

  – Initial rates of assistance will be reduced by a Carbon Productivity Contribution (CPC) of 1.3 per cent per annum.

  – Businesses will receive assistance for their direct emissions as well as the cost of their indirect emissions from electricity and steam use, and some upstream emissions from natural gas and its components used as feedstock. The electricity allocation factor will be set at one permit per megawatt hour; however, this may be adjusted in respect of pre-existing large electricity supply contracts that were in place at 3 June 2007.

  – Liquefied Natural Gas (LNG) projects will receive a minimum effective assistance rate of 50 per cent in relation to their LNG production via a supplementary allocation of permits delivered through the mechanisms under the Jobs and Competitiveness Program.

  – Allocation of permits will be based on an entity's previous year level of production with a true-up to account for any changes in actual production.

  – Allocations of permits will generally be made early in the eligible compliance year, however during the fixed price period, 25 per cent of the allocations in respect of direct emissions will be deferred until the beginning of the following year.

  – New entities conducting an existing EITE activity will receive the same assistance as existing entities conducting the activity. New activities may be able to apply for assistance, with baselines set in line with international best practice.

- To retain the full incentive to invest in emissions reductions technologies, permit allocations will be uncapped for existing facilities. Allocations to new facilities will be limited by the regulations in a manner which avoids windfall gains from the assistance arrangements.
- There will be a minimum five year period of assistance, accordingly changes to the assistance arrangement specified here will not occur before 2017-18.
- Three years' notice will be provided of modifications to EITE allocations that will have a negative effect on business. The notice period may overlap with the five year minimum assistance period.

- Once the carbon pricing mechanism has commenced, firms may make a request, in accordance with guidelines to be set out by the Government, that the Government task the Productivity Commission to: undertake an assessment of the impact of the carbon price on their industry taking into account circumstances affecting the competitiveness of the industry and any assistance provided to the industry; and make recommendations to the Government about whether it should adjust support to the industry and if so the appropriate delivery mechanism for that assistance.
- The Productivity Commission will be asked to review the Jobs and Competitiveness Program in 2014/15 and thereafter consistent with the timing of general carbon price mechanism reviews with a view to assessing whether an alternative pattern and level of assistance would meet its objectives, particularly economic and environmental efficiency, more effectively. A review of assistance provided to a particular activity could be conducted earlier than 2014-15 if requested by the Government, and priority could be given to industry sectors receiving the greatest levels of assistance, experiencing the fastest rates of growth in assistance or where there is strong evidence of windfall gains as a result of the assistance.
- The terms of reference of the general reviews of the Jobs and Competitiveness Program, will specify that the Productivity Commission would consult with the Climate Change Authority on whether the established pattern of assistance is avoiding carbon leakage, facilitating industry transition and whether it is supporting emissions reduction objectives.
- The Productivity Commission reviews will consider, *inter alia*:
  - the feasibility and data availability of amending the EITE assessment framework to one based on an assessment of the estimated expected global uplift of prices of individual EITE products if other countries had implemented a carbon price equivalent to that applied in Australia, as proposed by the *Garnaut Climate Change Review—Update 2011*;
  - whether EITE activities are making progress towards best practice energy and emissions efficiency for the industrial sector to which those activities relate;
  - whether additional activities should be added due to commodity price movements or other relevant matters;
  - whether windfall gains are being conferred on entities carrying out EITE activities;
  - the effect of existing facilities having no cap on permit allocations;
  - the growth in the EITE sector and implications for total free permit allocations under an emissions cap;
  - the existence of broadly comparable carbon constraints applying internationally;
  - the appropriateness of the LNG supplementary allocation policy;
  - the impact of carbon pricing on the competitiveness of EITE industries, including an analysis of carbon cost pass-through, the level of abatement achieved and the effect

of the CPC on EITE activities over time. The Productivity Commission may recommend changes to the CPC; and

  - whether fewer than 70 per cent of relevant competitors in each industry have introduced comparable carbon constraints, taking into account all mitigation policies and relevant assistance policies, and hence whether the application of the prevailing CPC rate for a specific industry should pause when assistance rates reach 90 per cent for highly emission intensive industries, or 60 per cent for moderately emissions-intensive industries.

- The Government would implement the approach proposed by the *Garnaut Climate Change Review—Update 2011* if the Productivity Commission recommends that it is the most effective and efficient means of preventing carbon leakage and assisting the industry to transition and recommends that the Government adopt this approach. This will be subject to the minimum assistance and the notice period set out above.

ENERGY SECURITY AND TRANSFORMATION

Issue/measure

- Measures to underpin Australia's energy security and promote transformation of the energy sector to a cleaner future.

Description

- An Energy Security Fund will be established which will incorporate:
  - potential payment for closure of up to 2,000 megawatts of emissions-intensive generation capacity before 2020, thereby creating opportunities for cleaner energy generation; and
  - energy security measures including free permit allocations and cash payments to assist emissions-intensive coal-fired generators that have an emissions intensity above 1.0 tonne of emissions per MWh of generated electricity, with conditionality around security of supply, transformation and structural adjustment.
- The Government has received advice from energy market agencies that not providing any assistance to emissions-intensive generators could pose significant risks to energy security. The Australian Energy Markets Commission (AEMC) stated that:

> Without an appropriate level of transitional assistance for highly emitting generators we believe there is significant risk to energy security because of the impacts of a number of the generators not having a net equity position that would allow them to operate and maintain their plant, operate effectively in the contract market, and have the willingness and capacity to invest in new plant. We would emphasise that these concerns regarding the financial position of existing market participants does not relate to a concern about their financial position per se, but rather its impacts on the efficient functioning of the overall market and its consequences for energy security. (Correspondence from Mr J. Pierce, Chairman AEMC, 21 June 2011)

- The Australian Energy Market Operator (AEMO) stated that:

> The potential premature departure of high emissions plant and/or delay in new investment could lead to the market not being able to meet its reliability and security standards. Those risks are higher if:
>
> - existing generation participants are under severe financial distress and exit the market early; or
> - participants and potential participants lose confidence in the market and energy industry investment is stalled.
>
> ...
>
> Measures which the Government might put in place which reduce the extent of generator financial distress and which supported investor confidence could be expected to improve reliability and security outcomes in the short-term, and reduce spot prices and expedite the transition to a lower emissions fleet over the longer term. (Correspondence from Mr M. Zema, Managing Director and Chief Executive Officer AEMO, 21 June 2011)

- Other support measures could include loans or loan guarantees.
- An Energy Security Council will also be established to provide additional advice to the Government on possible support measures in the event of systemic risks to energy security.
- The Australian Energy Market Operator already plays a key role in planning the national transmission grid in the National Electricity Market including considering a range of future scenarios and levels of carbon pricing. The Government will propose that the Standing Council on Energy and Resources (formerly the Ministerial Council on Energy) work with the Australian Energy Market Operator to expand these scenarios to prepare for the clean energy transformation and greater integration of renewable energy. This will include further

consideration of energy market and transmission planning implications in moving towards 100% renewable energy.

- The Australian Energy Market Commission will continue its review to identify market and regulatory arrangements that would enable the participation of both supply and demand side options in achieving an economically efficient demand/supply balance in the electricity market. The Government will work with the Commission to ensure these opportunities for reform are maximised.

- The Treasury modelling shows that no new commercial scale coal-fired power stations without CCS are approved and commissioned in Australia once the carbon price is introduced.

- The exception is under one scenario modelled by ROAM. Assuming the world is still in a 550ppm scenario in 2029/30 (highly unlikely at this time), ROAM predict that one supercritical black coal plant will open in WA at that time.

FOOD AND FOUNDRIES INVESTMENT PROGRAM

Issue/measure

- Grant funding for food processors, metal forgers and foundries to invest in energy efficient capital equipment and low emissions technologies, processes and products.

Description

- The Government will provide grants to assist the food processing, metal forging and foundry industries to invest in energy efficient capital equipment and low emissions technologies, processes and products.
- Businesses in the food processing and metal forging industries will be able to apply for funding under this program.
- Funding will be provided on a co-contribution basis, with industry providing three dollars for every dollar provided by the Government.
- This program will be administered by the Department of Innovation, Industry, Science and Research.
- The operation of this program will be reviewed after 24 months.

CLEAN TECHNOLOGY INVESTMENT PROGRAM

Issue/measure

- Grant funding for manufacturing businesses to invest in energy efficient capital equipment and low emissions technologies, processes and products. This will help manufacturing transition to a clean energy future.

Description

- The Clean Technology Investment program will support manufacturers by providing grants to invest in energy-efficient capital equipment and low emissions technologies, processes and products.
- Manufacturing businesses will be eligible to apply for grants if they have facilities that are not eligible for assistance under the Jobs and Competitiveness Program and use:
  - more than 300MWh of electricity per year; or
  - use more than 5 terajoules of natural gas per year or
  - are liable entities under the carbon price mechanism.
- Funding will be provided on a co-contribution basis, with industry providing three dollars for every dollar provided by the Government.
- This program will be administered by the Department of Innovation, Industry, Science and Research.
- The operation of this program will be reviewed after 24 months.

SMALL BUSINESS – INCREASED INSTANT ASSET WRITE-OFF

Issue/measure

- Increase in the instant asset write-off to improve small business cash flow when upgrading assets.
- This will increase the capacity for small businesses to respond to a carbon price by facilitating investments in new capital equipment that will increase energy efficiency, thereby helping small businesses transition to a clean energy future.

Description

- An expanded instant asset write-off will be delivered in 2012/13 by increasing the small business instant asset write-off threshold from $5,000 to $6,500.
- Small businesses with turnover of less than $2 million per annum will be able to access the write-off.
- This measure will be administered by the Australian Taxation Office.

ENERGY EFFICIENCY INFORMATION GRANTS

Issue/measure

- Information for small businesses and community organisations about the likely impacts of the carbon price and to help them make practical energy efficiency improvements to respond to these impacts.

Description

- Grants will be provided to industry associations and NGOs that have established relationships with small businesses and community organisations.
  - The program will fund a number of medium to large projects, selected through several rounds of calls for proposals.
- These industry associations and NGOs will develop and deliver relevant and tailored information about the likely impacts of a carbon price on small businesses and community organisations, and practical steps they can take to manage these impacts. Examples could include:
  - sector-specific information and recommendations on energy efficient processes and equipment for SMEs or community sector organisations;
  - workshops and training courses on key energy efficiency issues, including case studies and success stories; and
  - providing onsite energy efficiency advice.

CLEAN TECHNOLOGY FOCUS FOR SUPPLY CHAIN PROGRAMS

Issue/measure

- Additional funding to enhance the clean technology focus of existing advisory and other non-financial business support programs.

Description

- Additional funding will be used to:
  - enhance the role of Supplier Advocates for the Clean Technology, Water, and Built Environment sectors appointed under the Supplier Advocate program;
  - enhance the roles of National Sector Managers for the Clean Technology, Water and Oil and Gas sectors appointed under the Supplier Access to Major Projects Program (SAMP), which is administered on behalf of the Australian Government by the Industry Capability Network Limited; and
  - develop an action plan for Australian industry involvement in the supply of goods and services for energy efficiency solutions.

LAND SECTOR MEASURES

CARBON FARMING INITIATIVE NON-KYOTO CARBON FUND

Issue/measure

- Government purchase of Carbon Farming Initiative (CFI) credits for non-Kyoto abatement to help farmers improve their productivity and help tackle climate change through an additional revenue stream.

Description

- The Government will purchase land sector abatement that is not counted towards Australia's emissions targets under current accounting rules, including improvements in soil carbon, revegetation and forest management (for example, reduced logging in native forests).

- Credits will be purchased through a competitive tendering process, whereby applicants offering the lowest cost credits are successful.

- The Land Sector Carbon and Biodiversity Advisory Board will be consulted on the design of the fund.

CARBON FARMING FUTURES

Issue/measure

- Assistance for landholders to participate in the Carbon Farming Initiative (CFI) through investing in research, innovation, on the ground action and other initiatives that will break down barriers for participation.

Description

- The Carbon Farming Futures initiative will help landholders to reduce emissions or store carbon by funding research to identify new technologies and practices, developing measurement and reporting methodologies, directly funding landholders to implement abatement projects and connecting farmers with qualified people through extension and outreach activities. The Carbon Farming Futures initiative will comprise four components:
  - Filling the Research gap: funding for research into abatement technologies and practices
  - Developing Estimation Methodologies: funding to convert research finding from Filling the Research Gap into CFI methodologies;
  - Action on the Ground: funding for on-farm abatement and funding to improve the resilience of the land sector;
    - This will include assistance for farmers to upgrade to more sustainable, conservation tillage farm equipment to reduce emissions from soil disturbance, and enhance moisture retention. Assistance will be provided in the form of a 15 per cent refundable tax offset for eligible equipment. Participants will be required to participate in research and methodology development to assist efforts to settle a soil carbon methodology; and
  - Extension and Outreach: new extension officers to help farmers obtain CFI project approval and take action on the land.
- The Land Sector Carbon and Biodiversity Advisory Board will play a key oversight and review role in ensuring these funds are well targeted and maximise the opportunities available.

BIODIVERSITY FUND

Issue/measure

- Funding to enhance biodiversity outcomes which will help achieve a significant environmental outcome and tackle climate change.

Description

- The ongoing Biodiversity Fund will support projects that establish, restore, protect or manage biodiverse carbon stores.
- Funding will be provided for establishing biodiverse carbon plantings in targeted areas, such as areas of high conservation value, wildlife corridors, riparian zones and wetlands. The Fund will also support action to prevent the spread of invasive species across connected landscapes and the management of existing biodiverse carbon stores, including management of land already under conservation covenants, subject to land clearing restrictions and publicly owned native forests.
  - The Biodiversity Fund will provide support for landholders to undertake additional actions to manage and maintain existing vegetation for carbon and biodiversity benefits. Conservation management payments will be available for publicly owned native forests to support cessation of logging, and for land subject to land clearing restrictions and covenant arrangements. Without financial support to manage this vegetation, the carbon and biodiversity values may diminish over time. The Biodiversity Fund will also support landholders to control the spread of weeds, pests and feral animals through connected landscapes and enable a broader range of activities to be targeted than would be supported under the CFI.
- The priorities, streaming of funding and criteria for funding will be determined through guidelines after consultation with stakeholders and advice from the Land Sector Carbon and Biodiversity Advisory Board. The Government will table these guidelines in Parliament and respond to any issues raised by the Board in the formulation of the guidelines.
- The permanent Biodiversity Fund will deliver important ongoing co-benefits for farmers and landholders. Future funding will be provided from a share of the future carbon price revenue notionally allocated to the Jobs and Competiveness Program, should it be freed up following Productivity Commission reviews.
- The independent Land Sector Carbon and Biodiversity Advisory Board will play a key oversight and review role in ensuring these funds are well targeted and maximise the opportunities available. Individual funding decisions will take into account the advice on the merits of each proposal and consistency with funding guidelines from the Land Sector Carbon and Biodiversity Advisory Board and any relevant technical committees which that board establishes.

INDIGENOUS CARBON FARMING FUND

Issue/measure

- Support for Indigenous participation in the Carbon Farming Initiative (CFI).

Description

- Funding will be provided to assist indigenous communities to implement CFI abatement projects, including developing governance and contractual arrangements for projects on land held communally or with other interest holders, for example, the Crown and pastoralists.

- Funding will also be provided to develop low cost estimation and reporting tools for abatement activities that are likely to have high indigenous participation, such as savannah fire management.

- The Government will continue to engage with indigenous stakeholders through a roundtable to ensure that opportunities are maximised and barriers to participation addressed.

REGIONAL NATURAL RESOURCE MANAGEMENT PLANNING FOR CLIMATE CHANGE FUND

Issue/measure

- Support for regional Natural Resource Management (NRM) organisations to incorporate climate change mitigation and adaptation components into existing regional NRM plans.

Description

- The Regional NRM Planning for Climate Change Fund will fund:
  - NRM regions to plan for climate change impacts;
  - production of NRM plans in each region to a highly professional, nationally consistent standard, to guide where biosequestration projects (tree plantings, avoided deforestation) should be located in the landscape to avoid unintended negative impacts and maximise carbon co-benefits for biodiversity, water and agricultural production; and
  - research and analysis to produce regional level climate change information in the form of scenarios on regional climate change impacts.
- The Land Sector Carbon and Biodiversity Advisory Board will provide input into these processes.

CARBON FARMING SKILLS

Issue/measure

- Support for carbon farming service providers to ensure that landholders have access to credible, high quality advice and carbon services.

Description

- The Carbon Farming Skills initiative will ensure that there are service providers in regional Australia with the necessary skills to support implementation of the Carbon Farming Initiative. The initiative will comprise three elements:
  - development of a new nationally accredited qualification for carbon brokers, carbon aggregators and other carbon service providers that will provide the basis for establishing standards for the sector;
  - a system of accreditation for carbon brokers and aggregators operating in the CFI; and
  - carbon farming information and training workshops for farm extension officers, catchment management authorities, agronomists and other rural service providers.

LAND SECTOR CARBON AND BIODIVERSITY ADVISORY BOARD

Issue/measure

- Establishment of a permanent, expert Land Sector Carbon and Biodiversity Advisory Board, to provide advice on the implementation of land measures including the Biodiversity Fund to ensure funding is well targeted and maximise opportunities for regional Australia.

Description

- An independent Land Sector Carbon and Biodiversity Advisory Board will be established by legislation to review and oversee land sector initiatives including those related to abatement and biodiversity, including to:
  - report annually to Parliament about the progress of land sector and biodiversity measures;
  - advise the relevant Minister(s) on the implementation of the complementary land sector package;
  - advise on the coordination of research to reduce duplication across the research community, target gaps and enhance the independence of research advice to government;
  - undertake consultations, as necessary, to prepare advice for the relevant Minister(s);
  - advise on key performance indicators for the land sector measures.
- The Board will advise on the guidelines for the priorities, streaming of funding and criteria for funding for the Biodiversity Fund. The Government will table these guidelines in Parliament and respond to any issues raised by the Board in the formulation of the guidelines. The Board will play a key oversight and review role in ensuring the Biodiversity Fund is well targeted and maximises the opportunities available. Individual funding decisions will take into account the advice on the merits of each proposal and consistency with funding guidelines from the Board and any relevant technical committees which the Board establishes.
- The Board will work with the Climate Change Authority, and will report to Government.

CFI RELATED ISSUES

Issue/measure

- Further safeguards to address the risk of adverse environmental outcomes from CFI.

Description

Native Forest Wood Waste and the Renewable Energy Target

- The Renewable Energy Target regulations will be amended to exclude biomass from native forest as an eligible renewable energy resource. This includes products, by-products and waste associated with or produced from, clearing or harvesting of native forests, subject to appropriate transitional arrangements for existing accredited power stations.

Negative list

- The Government will ensure that the CFI negative list (to be captured in regulations) excludes activities that carry a high risk of negative outcomes on the environment or local communities. In particular, the negative list will rule out:
  - Establishing vegetation on land cleared of native vegetation since 1 July 2007. This will remove the risk of a perverse incentive to clear native vegetation in order to establish a carbon forest.
  - Establishing a known weed species. This will remove the risk that invasive species will be part of carbon projects.
  - Establishing forest in conditions where it would risk impacts on the availability of water. This will remove the risk that carbon plantings will affect environmental flows or other water users.
  - Establishing a forest as part of a Managed Investment Scheme. This will reduce the risk of distortions to markets for agricultural land.
- The Government will consult with regional catchment bodies and local government on each new methodology that is developed for the CFI with the aim of ensuring that local areas are aware of the implications of CFI projects being implemented in their areas.

Leakage and native forest conservation projects

- The Government will require that CFI projects involving forest conservation (logging cessation projects) in the publicly owned native forest estate take account of carbon leakage risk.

- Project proponents will be required to include emissions from logging in the forest estate for which they have operational control as part of the accounting for the CFI project. In addition, proponents will be subject to discounting to account for the risk of leakage to other parts of the native forest estate for which they do not have operational control, in line with a methodology to be developed in consultation with stakeholders.

INNOVATION SUPPORT

CLEAN ENERGY FINANCE CORPORATION

Issue/Measure

- Investment in the commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies, and the transformation of existing manufacturing businesses to re-focus on meeting demand for inputs for these sectors.

Description

- The Clean Energy Finance Corporation (CEFC) will be established by legislation to support projects using a range of funding tools: loans on commercial or concessional terms, loan guarantees or equity investments.
- To ensure that the CEFC will have ongoing funding, capital returned from projects will be reinvested in the CEFC.
- Funding would be divided into two streams:
  - a renewable energy stream which will have one half of the funding allocated; and
  - a general clean energy stream which will have half of the funding allocated and will be able to fund renewable energy projects in addition to the dedicated stream.
    - For example, if half of the general clean energy funding stream goes to renewables, this means three quarters of the total funding would be dedicated to renewables.
- The Government would appoint an independent Chair (an eminent Australian with experience in banking, investment banking or investment management) to report back in the first half of 2012 on:
  - a proposed investment mandate for the CEFC;
  - the details of the CEFC's governance arrangements;
  - how to frame risk management policies to ensure that investment decisions are based on rigorous case-by-case analysis of candidate projects; and
  - accountability arrangements, including appropriate mechanisms to provide and publish details of the CEFC's investment activity and performance.
- CEFC would also have an independent Board, comprised of experts in banking, investment management, renewable energy, clean energy and low emissions technologies, with its responsibilities to include setting the investment strategy for funds being invested and managing these investments consistent with the investment mandate prescribed by the Government.
- The CEFC will not invest in CCS technologies.
- The Government will formally consult with the renewable energy industry, including wind producers about the role of the CEFC and its relationship with the Renewable Energy Target.

AUSTRALIAN RENEWABLE ENERGY AGENCY (ARENA)

Issue/Measure

- Consolidation of around $3.2 billion in existing Government support for R&D, demonstration and commercialisation of renewable energy technologies into a new Commonwealth Authority with an independent Board of Directors.

Description

- The Government will reform and improve the disbursement and management of existing Commonwealth funding for renewable energy.
- The Australian Renewable Energy Agency (ARENA) would be a Commonwealth Authority established under the Commonwealth Authorities and Companies Act (CAC Act).
- ARENA will have independent governance of $3.2 billion in existing Government support for R&D, demonstration and commercialisation of renewable energy technologies
  - This will include more than $1.5 billion in unallocated funding.
  - The total funding will incorporate committed funding under programs that are currently delivered by the Australian Centre for Renewable Energy (ACRE), the Department of Resources and Energy (DRET) and the Australian Solar Institute (ASI) and the proposed Australian Biofuels Research Institute (ABRI).
  - The Government retains the right to recommend renewable energy projects to ARENA for implementation.
- ARENA will also receive future funding from:
  - dividends returned from the CEFC investments, which would be paid to ARENA rather than to general revenues; and
  - a share of the future carbon price revenue notionally allocated to the Jobs and Competitiveness Program, should it be freed up following Productivity Commission reviews.
- The ARENA board would consist of seven members.
  - The composition of the board will be weighted towards the technology streams that are likely to be considered by ARENA. The board will also include expertise in commercialisation generally, and business/investment experience specifically. Roughly equal representation between technology skills and commercialisation and business experience (three members) will provide balanced recommendations in terms of project viability and the technology ‘fit’ in the context of broader clean energy objectives

LOW EMISSIONS RESEARCH AND DEVELOPMENT GRANTS PROGRAM

Issue/measure

- The Government will provide grants to support business investment in R&D in the areas of renewable energy, low-emissions technology and energy efficiency. This funding will be in addition to the broader R&D tax concession and will help Australia embrace its clean energy future.

Description

- Businesses intending to undertake R&D for low-emissions technologies will be able to apply for funding.
- To be eligible, a project will need to demonstrate that the expenditure relates to eligible low-emissions R&D.
- Funding will be provided on a co-contribution basis.
- This form of assistance recognises that in some instances a higher rate of Government support for innovation to reduce emissions will be important, at least for a transitional period, until private investment in low emissions innovation increases.
- This program will be administered by the Department of Innovation, Industry, Science and Research.
- The operation of this program will be reviewed after 24 months.

ADDITIONAL ENERGY EFFICIENCY SUPPORT

NATIONAL ENERGY SAVINGS INITIATIVE

Issue/measure

- Expedite the development of a national energy savings initiative (ESI).

Description

- Final design work on a national ESI will be undertaken to consider (amongst other issues):
  - the annual targets that would apply;
  - sectoral and fuel coverage issues;
  - energy saving activities to be considered eligible activities; and
  - how a smooth transition from state-based schemes could be managed.
- This is consistent with the Prime Minister's Task Group on Energy Efficiency, which recommended that the Government agree to the introduction of a transitional national ESI to replace existing and planned state energy efficiency schemes, subject to further work and more detailed consultation on its design.
- Subject to the findings of economic modelling and regulatory impact analysis, the Government will make a final decision on whether to adopt a national ESI. A national ESI would be conditional on the agreement of COAG and the abolition of existing and planned states schemes.
- A national ESI would shift delivery responsibility for the roll-out of energy efficient technologies from government to energy retailers, which have more information about their customers (and therefore how to make effective reductions in energy demand).
- The initiative would:
  - Have broad coverage (i.e. it residential, commercial and industrial sectors); and
  - Create an incentive or a requirement to create certificates in both low income homes, and in ways which reduce peak electricity demand.
- A stand-alone national ESI would replace existing state-based energy efficiency schemes in NSW, Victoria and SA, reducing the complexity and duplication that currently exists and allowing energy consumers in states where there are no existing schemes to benefit from increased opportunities to save energy.
- The Federal Government will immediately establish a working group to seek agreement on the replacement of existing state mandatory energy savings schemes and on the appropriate design of a national energy savings scheme.
- The working group will report in the first quarter of 2012.

MANDATORY CARBON DIOXIDE EMISSIONS STANDARDS FOR VEHICLES

Issue/measure

- New light vehicle CO_2 emission standards.

Description

- Australia currently does not have mandatory light vehicle CO_2 emission standards.
  - The mandatory standard will set a national fleet-wide target of average carbon dioxide emissions and each individual motor vehicle company will have to contribute to this target.
  - The average emissions for light vehicles sold in Australia was 213 g/km in 2010.
  - By way of comparison the EU achieved 160 g/km in 2005 and has mandated a target of 130 g/km by 2015 and 95 g/km in 2020.
- The Government has committed to introducing a mandatory emission standard by 2015.
- New legislation will require all car companies to reduce emission levels from vehicles they sell in Australia by introducing better technologies and changing the fleet mix.
- The levels set will be determined in consultation with industry and the broader community.
- The proposed light vehicle CO_2 emission standards will be announced by the Government later in the year.

ENERGY EFFICIENCY OPPORTUNITIES

Issue/measure

- Continuation and expansion of the Energy Efficiency Opportunities (EEO) Program.

Description

- This measure will:
  - extend the base funding of the EEO program through to 2016-17, enabling the Government to deliver on its legislative obligations to administer the *Energy Efficiency Opportunities Act 2006* (the EEO Act) for its second assessment cycle;
  - enhance the EEO program's assessment and verification requirements and expand coverage of the EEO Act to include energy transmission and distribution networks, major greenfield and expansion projects; and
  - establish and implement a voluntary scheme for medium energy use corporations that use less than 0.5 petajoules per annum.
- With the inclusion of generators, transmitters and distributors, the EEO program will cover over 60% of Australia's primary energy use and include all of Australia's largest corporate energy users. The inclusion of a scheme for medium energy use corporations will further expand its coverage to almost 65% of primary energy use.

HOUSEHOLD ENERGY CONSUMPTION AND EXPENDITURE SURVEY

Issue/measure

- A measure to gather and communicate data on household sector energy consumption (including behaviours that affect consumption) and expenditure.

Description

- The survey will collect data to support:
  - innovative solutions to improving household energy efficiency;
  - the design of new energy efficiency policies such as the Energy Savings Initiative, and LivingGreener advice line, which will require granulated and high-quality data on household energy use;
  - the design of existing energy efficiency standards for buildings and appliances; and
  - a better understanding of power pricing options.
- The survey will gather a range of data from households such as: average expenditure on electricity, gas and transport fuels; ownership and usage patterns of key high-energy consuming appliances; and average floor area of households.
- The survey will be delivered by the Department of Climate Change and Energy Efficiency in partnership with the Australian Bureau of Statistics.