



INTERIM CARBON PRICE: PROPOSAL FOR A TRANSITIONAL CARBON PRICING MECHANISM

The failure to reach agreement on the Government's emissions trading scheme legislation has created a deadlock on the vitally important issue of carbon pricing. The Greens believe that overcoming this impasse is urgent and essential for the national interest.

We are proposing an interim alternative to the Carbon Pollution Reduction Scheme to break the deadlock in the Senate. Rather than locking-in the weak targets proposed by the CPRS, potentially until 2026, the Greens propose a two year fixed carbon price at approximately \$20, based on the Garnaut Review proposals, as an interim measure in the transition to a functional and effective emissions trading scheme. The proposal will provide \$5 billion dividend for households and includes assistance to small business and the emission intensive trade exposed industries. Unlike the Government's CPRS, the proposal would result in a surplus of approximately \$2.97 billion over the two years.

Interim carbon price proposal

Following the Garnaut Report recommendations, the proposal is to adopt a fixed carbon price of \$20 per tonne from July 2010 to July 2012. This transitional approach would mean that action can commence on cutting emissions as soon as possible in an economic environment that creates incentives and certainty for industry.

The Review considers the most appropriate approach to the transition period will be to fix the permit price in order to address both the likelihood of very low prices and fears of the opposite outcome [The Garnaut Climate Change Review: Final Report, page 350].

The scheme would operate using the proposed CPRS administrative framework to ensure a smooth start if and when the parliament commits to binding targets that are consistent with avoiding dangerous climate change. Importantly, as the Garnaut report notes, the transition period would create the space for global and domestic decisions to be made.

Fixing the price of permits will also provide a less anxious environment for implementing...–assistance arrangements for trade-exposed industries. It may even obviate the need for assistance payments during the transition period and allow time for diplomacy to work towards establishing satisfactory global or sectoral agreements. [The Garnaut Climate Change Review: Final Report, page 351]

The fixed carbon price of approximately \$20 per tonne is consistent with Professor Garnaut's original proposal.

The Garnaut Report said:

During the transition period, permits should be sold by the independent regulatory authority at \$20 per tonne in 2010 (in 2005 prices), rising each year by 4 per cent plus the percentage increase of the consumer price index. [The Garnaut Climate Change Review: Final Report, page 350]

Timeframe

The Greens' transitional proposal returns the start date to July 2010 because the global financial crisis is no longer grounds for a delayed start. This fixed permit price, adjusted for inflation, would remain in place until at least July 2012. This timeframe should be sufficient to conclude the debate on the design of the emissions trading scheme and the

adoption of a 2020 target that, unlike the current targets, reflects a fair contribution by Australia to the global effort of limiting global warming to less than 2°C.

In the event that no agreement is reached on the CPRS during the interim period, the carbon tax will continue to operate. The permit price could be reviewed prior to July 2012 to assess its effectiveness.

Assistance Measures

Under this proposal, revenue would be directed towards assisting households, small business and the emission intensive trade exposed industries and invested in energy efficiency renewable energy, and public transport. The proportion of permit revenue that would be provided to households, approximately \$5 billion, is the same as that proposed in the Government's scheme. Consistent with the recommendations of the Garnaut Report, under this proposal there would be no compensation for electricity generators and, during the interim period, no international trade in permits. While Garnaut did suggest that a transition period with a fixed permit price might make any assistance to trade-exposed industries unnecessary, the Report ultimately assumed assistance of 20% of permit revenue during the interim period to the Emission Intensive Trade Exposed Industries.

Shielding of Australia's major trade-exposed, emissions-intensive industries is ... provided through the redistribution of permit auction revenue, capped initially at 20 per cent of revenue between 2010 and 2013, and thereafter declining by 1 percentage point per annum. [The Garnaut Climate Change Review: Final Report, page 295]

The Greens proposal would adopt that recommendation. The following table compares the expected income and expenditure of the Greens Interim Carbon Price proposal and the Government's CPRS.

Table 1: Comparison of costs of Government's CPRS and Greens Interim Carbon Price 2010-2012

	Government - MYEFO			Greens Proposal		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
Revenue from the sale of permits			4,450		10,337	10,900
Price of permits			10		23	24
Assistance measures						
Assistance for low- and middle-income households			-1,496		-4,935	-5,204
Fuel tax offsets			-1,010		0	0
Assistance to Emission Intensive Trade Exposed industries			-1,200		-2,067	-2,180
Electricity Sector Adjustment Scheme			-260			
Climate Change Action Fund(a)	-203	-300	-700	-203	-300	-700
Transitional assistance for GHG Reduction Scheme		-130			-130	
Financing for tackling climate change in poor countries					-1,272	-1,272
Total assistance measures	-203	-430	-4,666	-203	-8,705	-9,356
Net Impact	-203	-430	-216	-203	1,632	1,544
Cumulative Impact	-203	-633	-849	-203	1,429	2,973

Note: the Greens proposals are compared to the Government's CPRS proposal (4 May 2009) prior to the deal made with the Coalition on 24 November 2009. Not enough information was provided on 24 November to make a meaningful comparison for the years 2010-11 and 2011-12. The main new assistance measures announced for the relevant years were new payments to the coal mining sector and the extension of CPRS fuel tax credits to forestry. The exact number of permits sold, and hence total permit revenue, depends on the market response and these figures are an indicative estimate only. Here the assumption is that the number of permits sold is consistent with the Government's announced emission targets for the relevant years.

Summary of the Greens Transitional Carbon Pricing Proposal

- Resumes original start date – July 2010
- Introduces fixed permit prices starting at \$23 (equivalent to \$20 in 2005 prices), increasing by 4% + CPI per year (as recommended by the Garnaut Review)
- Adopts the CPRS administrative framework
- Results in a surplus of \$2.97 billion rather than a deficit of \$849 million, which could be directed towards climate mitigation and adaptation infrastructure
- Returns a \$5 billion dividend to households as CPRS
- The amount in the Climate Change Action Fund remains the same with the funds directed towards small business and the community sector
- Removes the fuel tax offset which shifts the scheme impact on fuel prices from the bowser to the other taxes. The Government only excluded fuel from the scheme originally because of the record high petrol prices at the time. Fuel prices have dropped substantially since then.
- Caps assistance to the Emission Intensive Trade Exposed industries at 20%, consistent with the Garnaut Review modelling
- Provides no compensation to the electricity sector as the Greens believe (as does the Garnaut Review) that this is counterproductive
- Makes allowance for financing for tackling climate change in poor countries – a key sticking point in the international climate negotiations \$1.3b is a fair contribution (2.29%) by Australia to 'Fast Start' funding from industrialised nations of US\$50b