

Climate policy developments in Australia and China: what role for carbon pricing?

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“There will be no carbon tax under a government I lead” (PM Gillard)





History of Australia's climate change policy



2007
Rudd
elected
PM,
Australia
ratifies
Kyoto
Protocol

2008
CPRS
Green
Paper

2008
Garnaut
Review

2008
CPRS
White
Paper

2009
CPRS draft
legislation

2009
Turnbull
replaced
by Abbott,
Coalition
stops
supporting
CPRS

2010
CPRS
abandoned
, PM
Gillard
installed
and
elected

2011
Multi-Party
Climate
Change
Committee
, Clean
Energy
Future
legislation

2012
Clean
Energy Act
comes into
force, fixed
carbon
price

2006
National
Emissions
Trading Task
Group
(Howard)

2005
States'
Emissions
Trading Task
Force

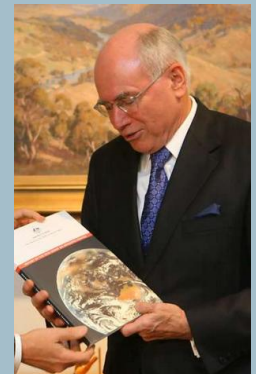
2003
Cabinet
considers
proposals for
Australian
ETS

1999
AGO
discussion
papers on
emissions
trading

1997
Australia
signs Kyoto
Protocol

1992
Australia
signs and
ratifies
UNFCCC

1980s
consideration
s of climate
policy, carbon
tax

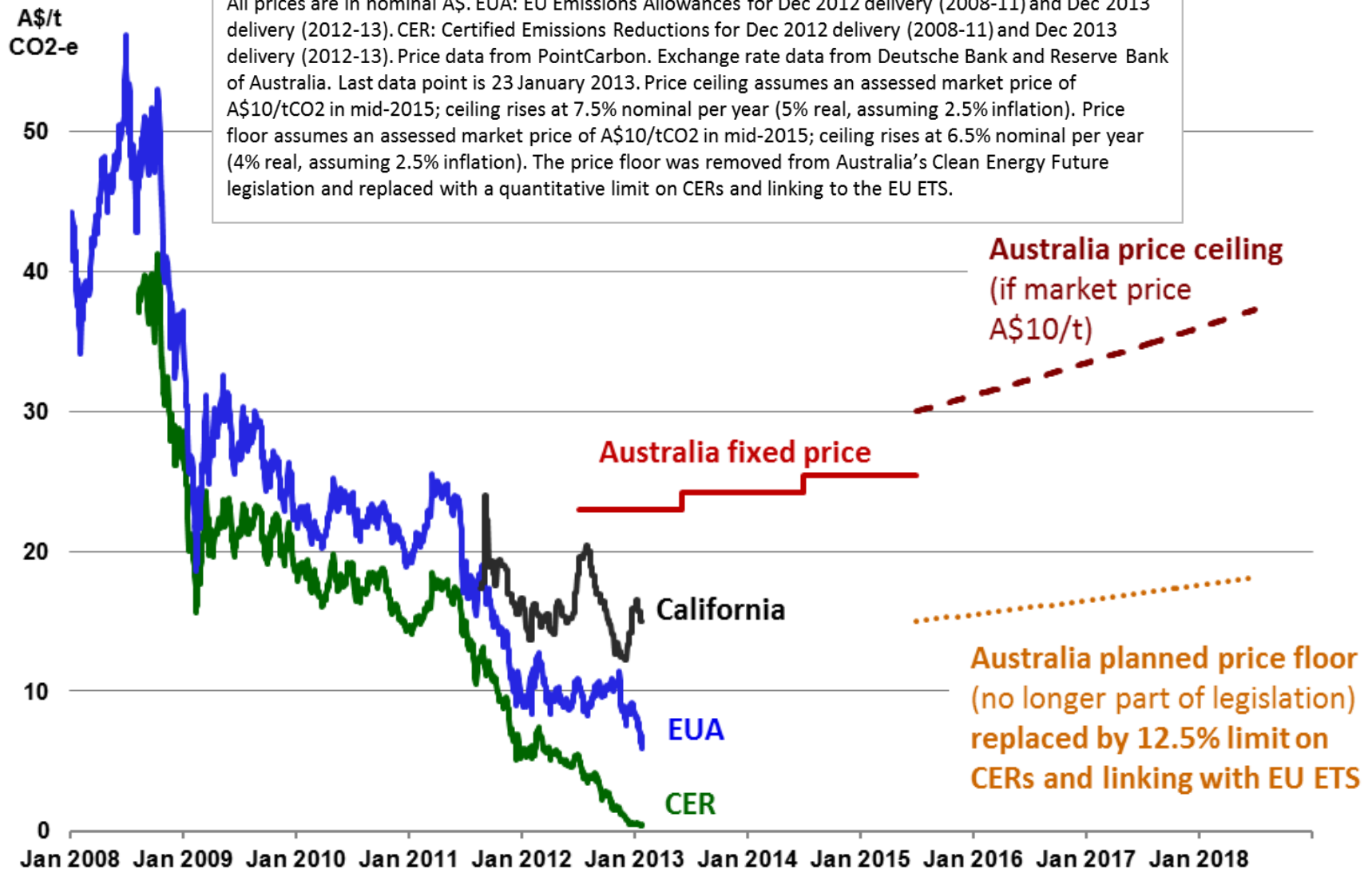


Is it a tax? Is it a trading scheme?

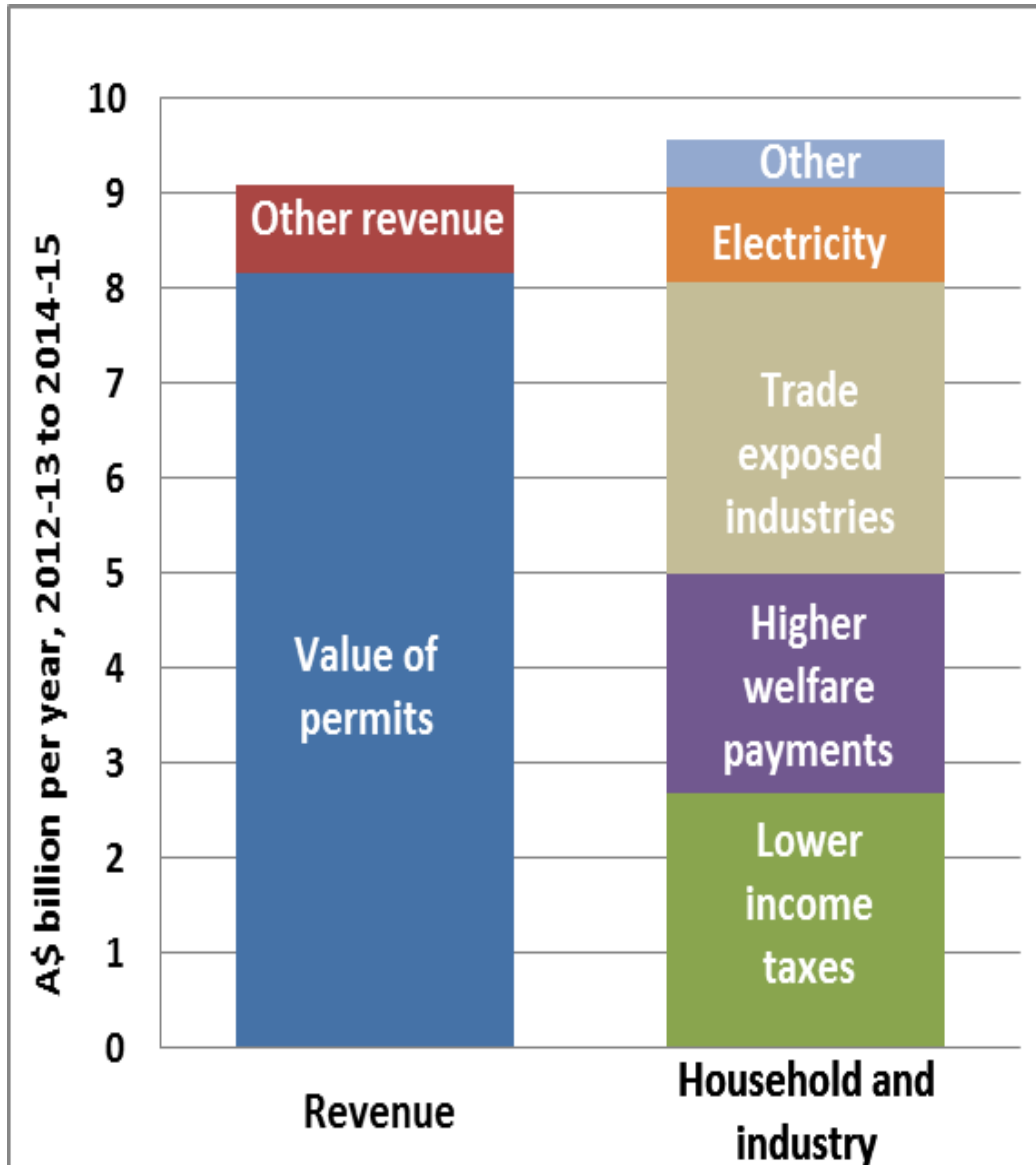
A permit scheme where for the first three years government sells permits at a predetermined price, without a cap -- *“acts like a tax”*

- No int'l trading, no banking/borrowing
- Instruments and legal structure of permit trading – easy transition
- Industry assistance as free permits – like tax thresholds (NOT tax exemptions)
- From 2015, cap and variable price, linking to EU ETS planned

Australia's carbon price in comparison



Australia's revenue recycling



Industry assistance

- Fixed payments to the most emissions intensive power producers, limited to 5 years
- Production-indexed payments to emissions-intensive trade-exposed industries
- EITEs: 94.5% or 66% of process-level benchmark, reducing by 1.3%pa
- Regular assessment and review; reductions possible

Household assistance

- Income tax reductions at lower to middle incomes
- Higher welfare payments
- Large majority of households better off; but majority **think** they are worse off

Demand side effects

Perhaps very limited

Dispatch / carbon intensity of power system

Reduction in carbon intensity

Investment

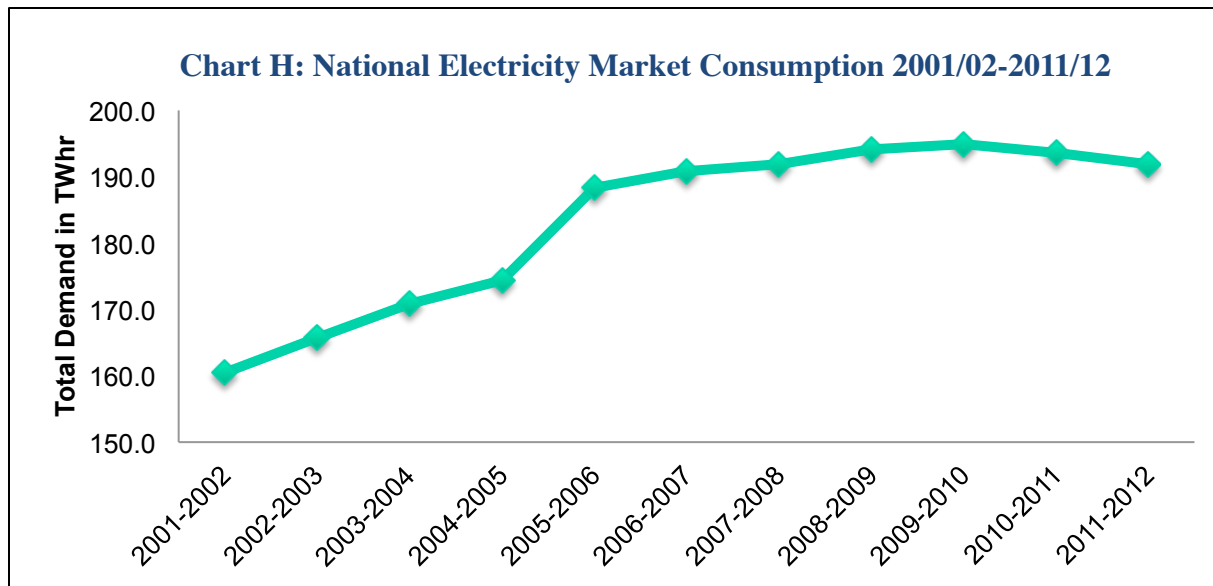
Probably very little effect because of policy uncertainty

Demand side effects

Carbon price added about 9% to regulated end-user electricity tariffs

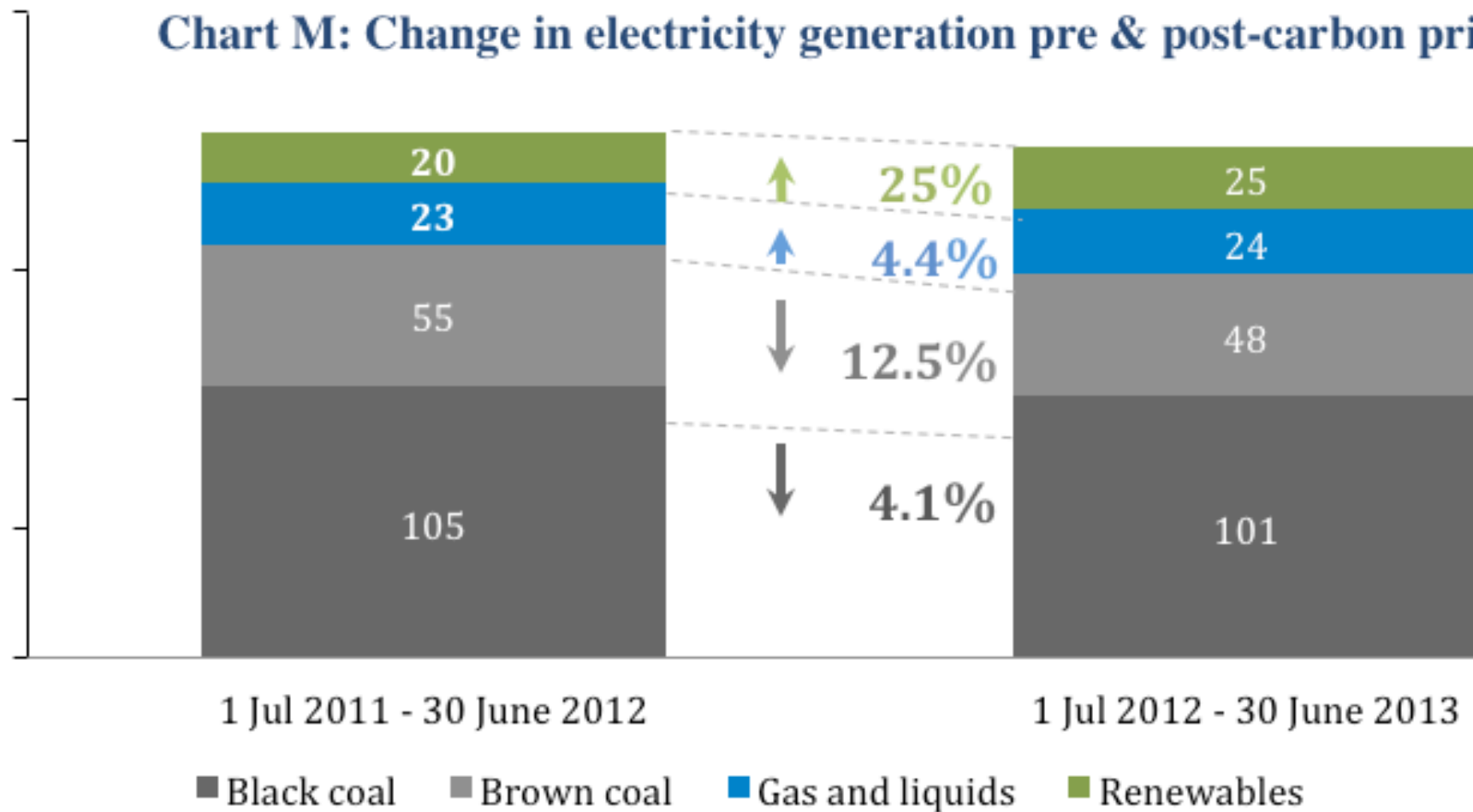
Comes on top of increases of 30-60% over the last 5 years, mainly due to higher network costs

Is it the price increase, or the **talk** about the price increase?!



Source: AEMO 2012

Chart M: Change in electricity generation pre & post-carbon price

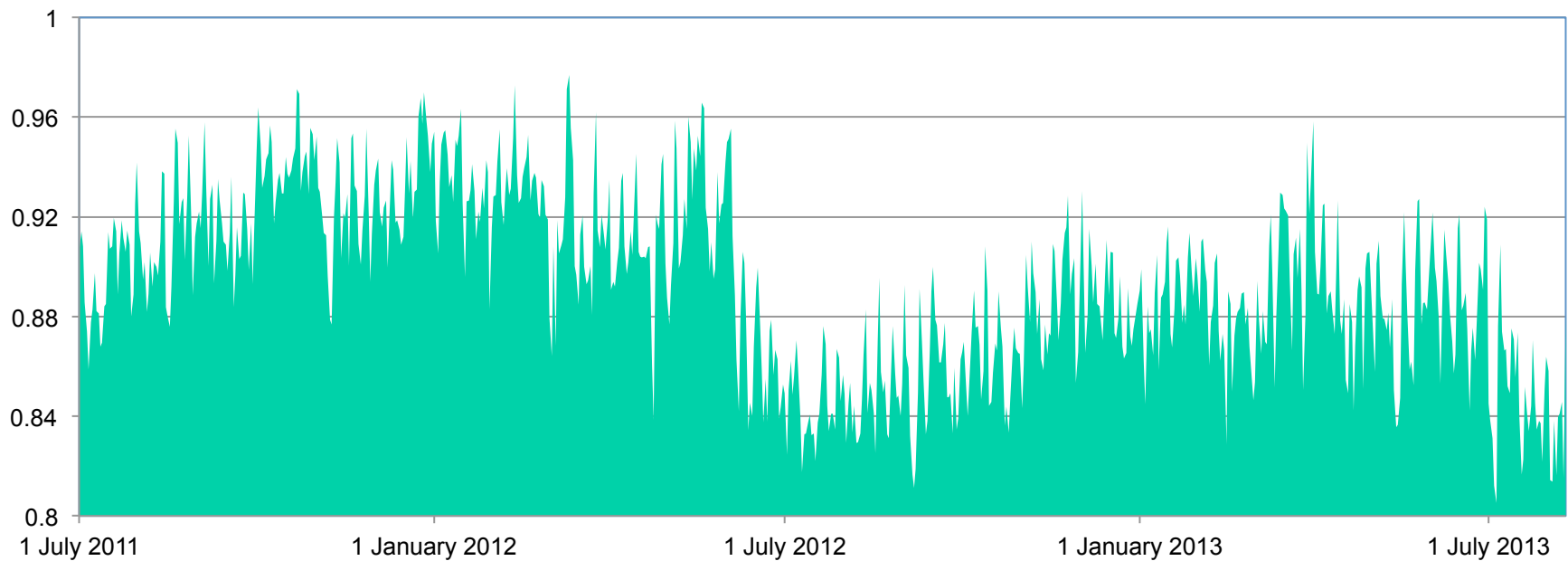




Emissions intensity of power supply

**Chart N: Emission intensity of the NEM
pre & post carbon price**

Average emissions p/Mwh



Source: AEMO 2013

What next in Australia?



Carbon pricing repeal likely

Deal with minor party Senators could be done after 1 July 2014

... but repeat of Western Australian Senate election creates uncertainty

Until then, carbon pricing repeal will not pass Senate

Retrospective repeal?

Budget shortfall

Policy uncertainty an obstacle to investment?

Climate Commission

Disbanded as first act of incoming Environment Minister
(now private “Climate Council”)

Clean Energy Finance Corporation

Shutdown requires legislative change

Climate Change Authority

Shutdown requires legislative change

Draft “targets” report released

Government departments

Department of Climate Change abolished, former heads sacked





“Emissions reduction fund”

A domestic baseline-and-credit scheme

...government buying the emissions credits (using general tax revenue)

Emphasis on land-based measures incl soil carbon?

Planned size of fund (\$3.2b over 4 years)

... likely far too small to achieve required reductions

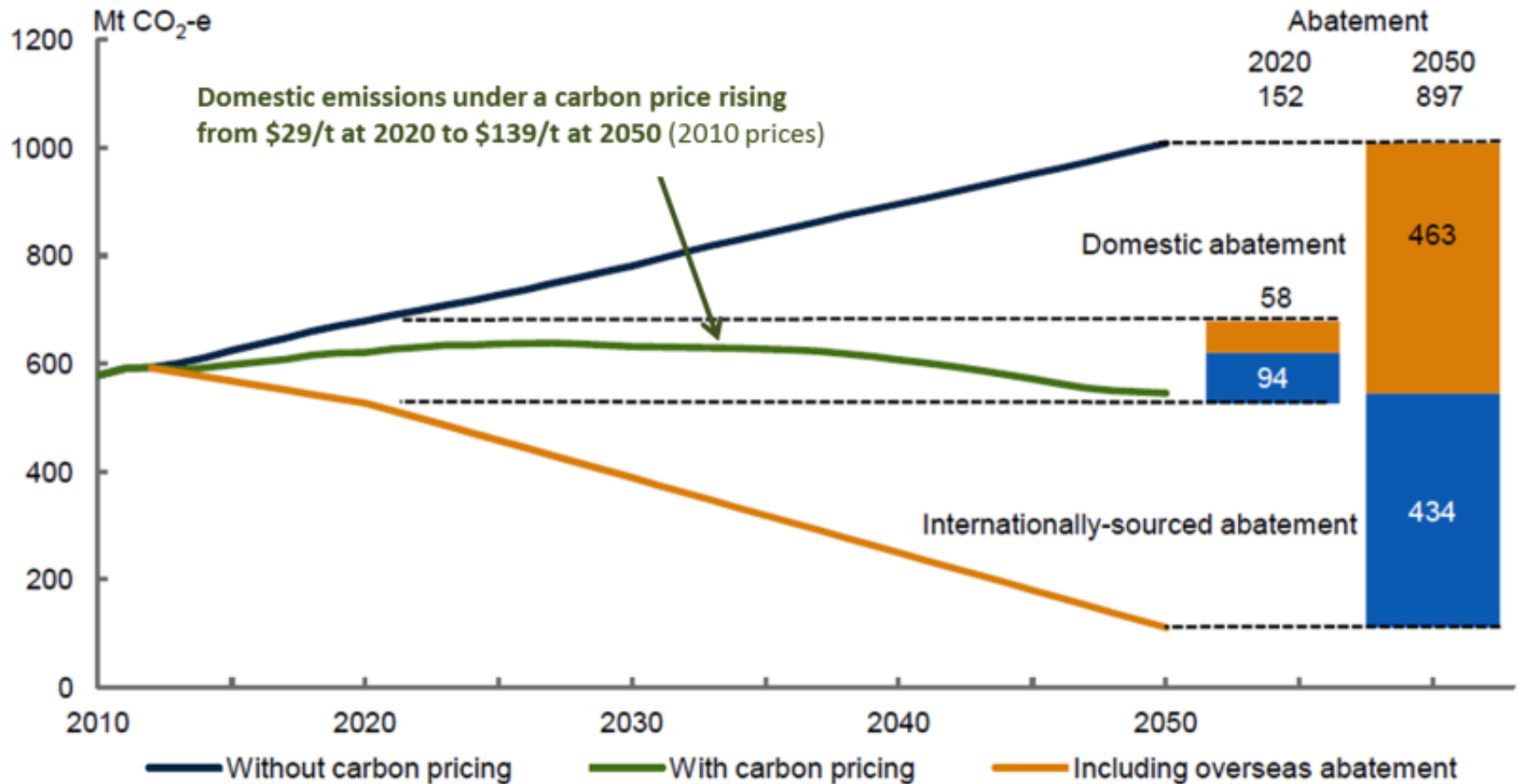
No international purchases to meet 2020 target

No impact on market prices

“a short term policy”

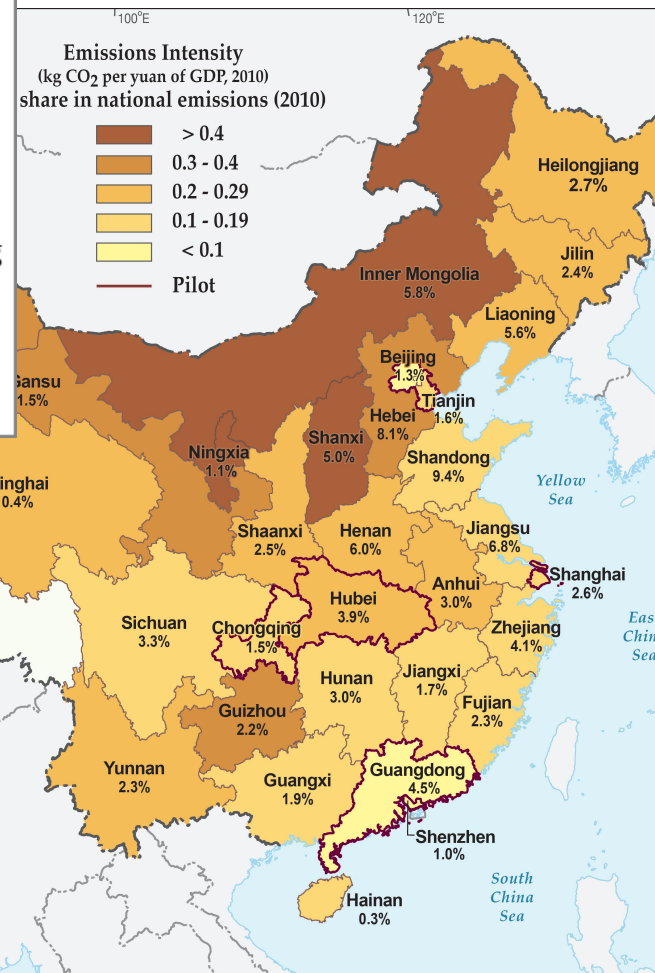
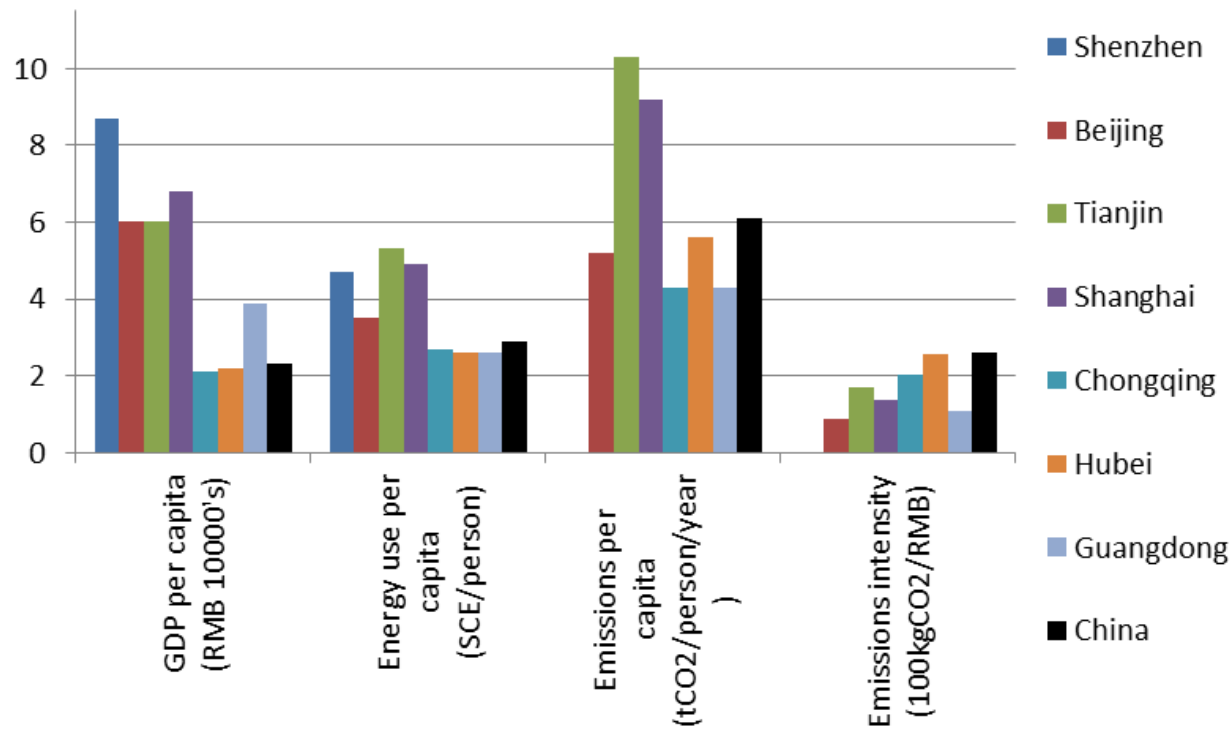
Australia's long term emissions goal and projected emissions trajectory

Chart 5.2: Australian emissions in the core policy scenario



Bending Australia's emissions trajectory will require strong policy interventions: carbon pricing and/or regulation

China: 7 pilot emissions trading schemes



ETS caps/prices may need to be actively managed

- EU ETS reform?, Australia fixed price, California price floor

Carbon pricing creates fiscal opportunities

- Don't give all permits away for free

Policy interactions matter

- Power sector: effects of non-pricing policies, market reform

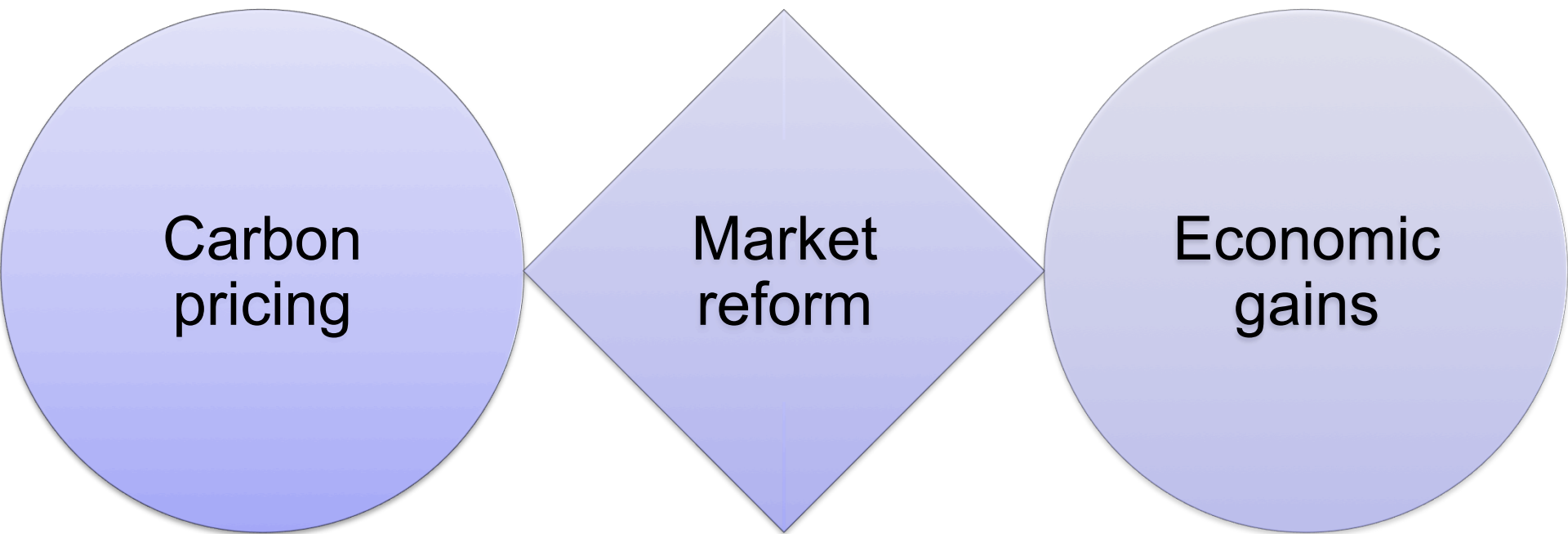
Policy needs to be predictable and reliable

- Uncertainty harms investment response

Market reform is the key

Effective carbon pricing requires market reform in energy sector

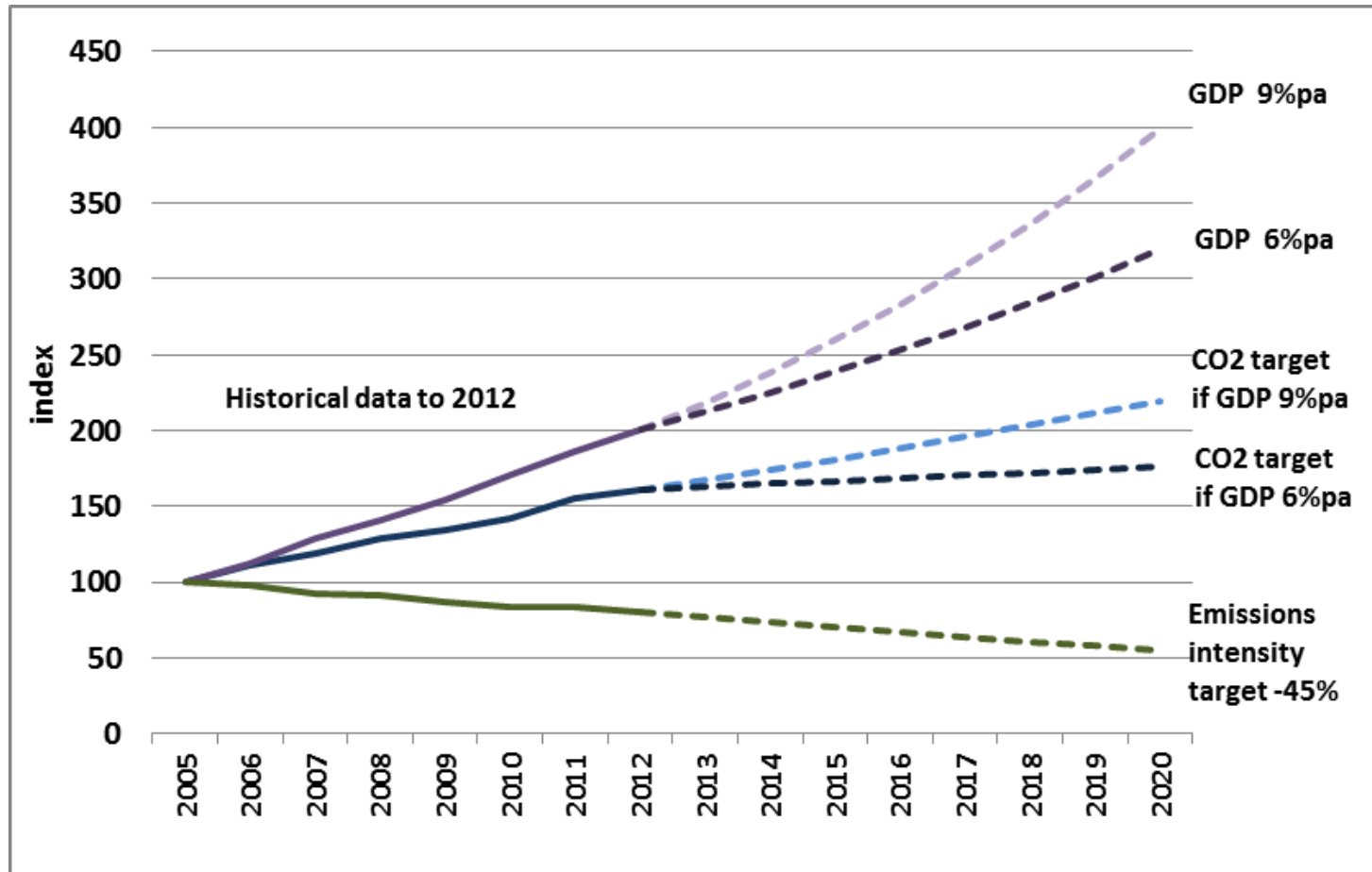
**Carbon pricing may promote market reform
... which yields its own economic gains**



China's emissions intensity target

What does China's emissions intensity target imply for absolute emissions?

Illustrative trajectories for GDP and emissions to meet a 45% reduction in emissions intensity from 2005 to 2020



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