

# Presentation to the Climate Change Leadership Forum

1. Proposal for an Australian ETS
2. Update on USA, Japan & EU ETS

6 August 2008

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# Presentation outline:

## This presentation outlines:

- The key design features of the Carbon Pollution Reduction Scheme (CPRS)
- Key similarities and difference to the NZ ETS
- Process and timeline for decisions
- Implications for NZ
- Updates on:
  - Japan
  - USA
  - EU ETS

# Overall objective of the CPRS

“to meet Australia’s emissions reductions targets in the most flexible and cost-effective way; to support an effective global response to climate change; and to provide for transitional assistance for the most affected households and firms”

# Key design features

- Core coverage begins in 2010 – covers 75% of Australia's emissions
- The scheme is an absolute, rather than an intensity-based approach
- Includes all 6 Kyoto Protocol gases from commencement
- Includes emissions from transport, stationary energy industrial processes, waste and fugitive emissions from oil, gas and coal production

## Key design features continued

- Afforestation is included on a voluntary basis
- Deforestation is excluded
- Deferral of a decision on agricultural emissions until 2013, with any coverage starting no earlier than 2015
- Earlier liabilities for the transport, waste and synthetic gas sectors relative to NZ

# Similarities to the NZ ETS

- Allocations set
- Points of obligation
- Banking and borrowing
- Governance, verification, reporting and compliance

# Allocation under the CPRS

## Similarities

- Assistance would be provided in the form of free allocation of permits.
- Assistance would be focused on Emissions-Intensive Trade-Exposed (EITE) industry
- Limited one-off assistance to strongly affected industry that is not trade exposed
- The initial level of assistance for EITE activities set at not more than 90% of baseline emissions
- Clear intention (like NZ ETS) to phase out assistance over time

# Allocation under the CPRS

## Differences

- The CPRS is more prescriptive in defining how to calculate the level of assistance provided to individual firms, whereas the NZETS enables a range of approaches to be developed through allocation plans
- Total number of permits allocated under the NZ ETS is subject to a binding limit, whereas under the CPRS it is subject to a 'soft cap'
- Speed and timing of the phaseout of free allocation under the New Zealand scheme is fixed, but subject to a review mechanism.
- CPRS phaseout can be slowed down or sped up – in line with target and caps

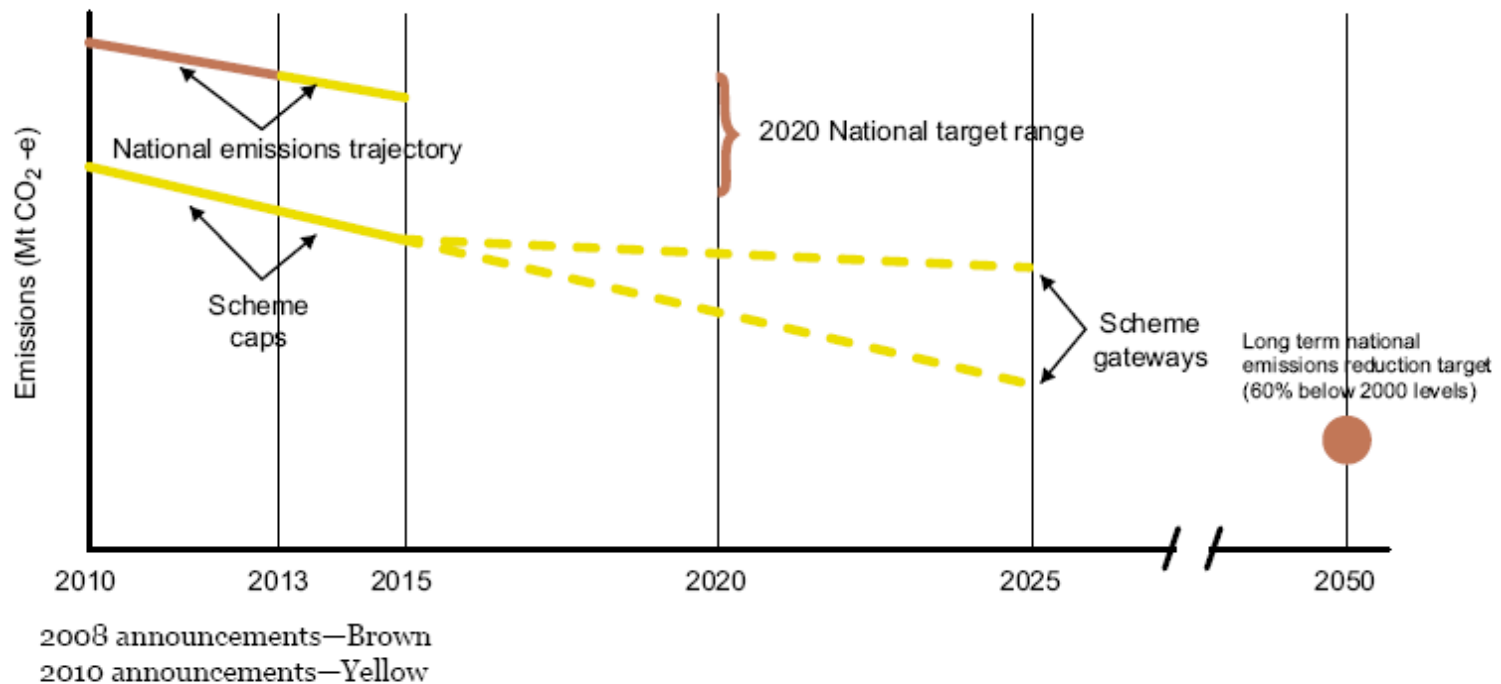


# Similarities to the NZ ETS continued

- Linking to international schemes/markets
- Free allocation
- Transitional assistance and complementary measures

# Differences to the NZ ETS - Targets

**Figure 4.5 2008–2010 Guidance over scheme caps and indicative national emissions trajectory**



# Differences to the NZ ETS cont.

- Sectoral coverage
- Points of obligation
- Price cap

# Differences to the NZ ETS cont.

- Independent regulator
- Linking to international schemes / markets
- Transitional assistance and complementary measures

# Process and timeline for decisions

- Phase 1: March – June



**Development of Green Paper**

- Phase 2: June – Sept



**Consultation**

- Phase 3: December



**Consultation on exposure draft of the legislation**

- Phase 4: March 09



**Bill to be introduced into parliament. Act would enter into force in the 3<sup>rd</sup> quarter of 2009, enabling commencement in 2010**

# Key messages for NZ

- The two schemes are very similar
- The differences relate to more detailed elements of the design
- These differences may generate additional pressures for similar measures here
- The introduction of the Australian scheme should help reduce some of the competitiveness concerns of New Zealand businesses

# ETS developments in other countries

- NZ and Australia part of a leading group of countries developing ETSs:
  - European Union (27 countries)
  - Switzerland
  - Norway
  - USA
  - Japan

# Japanese ETS

- Kyoto commitment is to reduce emissions to 6% below 1990 levels in CP1
- The policy includes government purchasing, industry efficiency, industry purchasing and forest management.
- The federal government released a proposal for an ETS; it is likely that any scheme would come into force in 2010 or 2011
- The Tokyo Metropolitan Government announced their intention for an ETS from 2010.
- Japanese industry have chosen to enter the international carbon market already



# US Federal Cap and Trade Legislation

- Both Presidential candidates have been promising an ETS
- The Lieberman – Warner Bill failed to progress to pass a vote in the Senate
- The Democrats have announced that the legislation will be reintroduced in 2009

# USA State Level ETS development

- Regional Greenhouse Gas Initiative; includes 10 North-Eastern and Mid-Atlantic states
  - Commences 1 Jan 2009
- Western Climate Initiative: includes western states of the USA and 4 Canadian provinces and numerous observers
  - Commences 1 Jan 2012

# EU ETS description

- The EU ETS is a classic cap-and-trade system but with a decentralised structure
- It has only partial coverage: CO<sub>2</sub> only for power and industrial sectors (recently expanded to include aviation and will include additional GHGs in phase 3)
- Sequential trading periods out to 2020
- CDM / JI Units allowed up to a limit

# EU ETS Pew Center Review

- Not all the details of the scheme were perfect from the beginning and this did not hamper its effectiveness
- Emergence of a transparent and widely accepted price for CO<sub>2</sub> in Europe
- A price of CO<sub>2</sub> affects business decisions
- No evidence of leakage
- A mechanism for long-term control of GHG emissions
- Abatement in line with modest initial ambition

**Conclusion – everybody's doing it!**

Any questions?