International Commerce

September 2011

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## Introduction of carbon tax and emissions trading scheme

Australia's Prime Minister, Julia Gillard, has announced a package of economic reforms designed to tackle climate change in Australia. The central feature of the plan is the introduction of a carbon pricing mechanism in the form of a carbon tax and emissions trading scheme (ETS). From 1 July 2012, a carbon tax of A$23 (USD24 or GBP15) per tonne of emissions will be imposed on 500 of Australia's biggest polluters[1]. However, many of Australia's most emissions-intensive industries will receive substantial compensation under a transitional support package designed to facilitate the adjustment to the new scheme. The tax will rise by 2.5 per cent per year until 2015 when it will be replaced by a market-based, 'cap and trade' emissions trading scheme. Under the ETS, the carbon price will be set by the market.

1 Initially, the carbon price mechanism will encompass the stationary energy sector, transport, industrial processes, non-legacy waste and producers of fugitive emissions (those released in the process of extracting coal from the earth). Households, small businesses, agriculture and petrol will not be subject to the carbon price mechanism.

The proposed reforms also include the establishment of a A$10 billion Clean Energy Finance Corporation that will invest in renewable energy, low pollution and energy efficiency technologies. The Australian government has also announced a commitment to reduce Australia's emissions by 80% compared to 2000 levels by 2050. To help achieve this target, the government will aim to negotiate the closure of approximately 2000 megawatts of highly polluting electricity generation capacity by 2020.

The proposed reforms will result in increased costs to consumers as businesses subject to the carbon price pass on the cost to consumers via increased prices. To ease the burden of these increased consumer costs, the proposed economic reforms include two rounds of tax cuts as well as increases in pensions, allowances and benefits. Further, the government has committed to spending over 50 per cent of the carbon tax revenue on households and household transport fuel consumption will not be subject to the tax.

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## Proposed emissions trading scheme

The structure of Australia's proposed ETS is very similar to systems used in the European Union and New Zealand. Each year compliance buyers[2] will be required to buy and surrender to the government a carbon permit for every tonne of emissions they produce. The government will issue a certain number of permits each year equal to an annual cap on emissions set by the government[3]. These permits will be sold to compliance buyers at auction as well as issued through a process of free allocation.

If a compliance buyer does not have enough permits to cover its annual emissions, it must purchase the permits elsewhere. The market will determine the price of the permits as compliance buyers compete to buy the permits needed to meet their obligations. Alternatively, compliance buyers can take measures to reduce their overall emissions, thereby reducing the number of permits they must surrender each year.

Compliance buyers will be required to use domestic permits to meet at least half of their emissions obligations. However, Australia's ETS will "link" with credible international carbon markets and emissions trading schemes (such as the EU and New Zealand Emission Trading Schemes) and compliance buyers will be permitted to meet half of their compliance obligations through the use of foreign permits. The foreign permits must represent credible reductions in carbon pollution in order to be accepted under Australia's system.

A price ceiling and floor will apply to the ETS for the first three years. The price ceiling will be set at AUD20 above the anticipated international price and will rise by 5 per cent each year. The price floor will be set at AUD15 and will rise by 4 per cent each year.

## Industry reaction

The Federal Government's proposed reforms have received mixed initial feedback. Representatives of Australia's heavy-polluting industries, including groups in the mining, steel and LNG industries, have strongly criticised the proposals, despite provisions for these industries to receive substantial compensation to help adjust to the impact of the carbon tax. For example, oil refiner Caltex claims it must receive 100 per cent compensation under the scheme, rather than the proposed 94.5 per cent, in order to remain competitive internationally. Similarly, the Australian Industry Group, whose members include large manufacturers, have argued that the price of A$23 per-tonne is too high and that trade-exposed industries will not receive adequate compensation.

Whilst there has been substantial opposition to the proposed reforms, the Federal Government's proposals have garnered some political support. Christine Milne, a Green parliamentarian in Australia, believes the plan will offer some incentive to other countries which are currently exploring market-based mechanisms for tackling carbon emissions, including China and South Korea.

The Federal Government has also found some support amongst industrial groups. For example, steel makers OneSteel and BlueScope have welcomed the proposed carbon price scheme as an improvement on the Carbon Pollution Reduction Scheme ("CPRS") proposed previously under the leadership of the Federal Government's predecessor, Kevin Rudd. The CPRS included a cap-and-trade system for emissions trading, however it did not contain many of the provisions for transitional compensation and tax breaks that are found in the Federal Government's proposed reforms.

## Comment

With the announcement of the Federal Government's proposed carbon price scheme, the issues of climate change, and how best to reduce Australia's emissions, have once again become a major point of debate in Australia. The government appears committed to the development of a market-based cap-and-trade scheme similar to the emissions trading schemes already in operation in the EU and New Zealand.

The government estimates that it will spend approximately A$4 billion more to implement the reforms than the scheme will generate. There are concerns in some quarters that the proposed tax and subsequent ETS will hamper future growth and expansion in affected industries as investors look to unencumbered markets outside of Australia.

The Federal Government's commitment to reduce Australia's contribution to global emissions is based on the fact that Australia

2 Compliance buyers are the businesses and other commercial entities with obligations under the carbon price mechanism.
3 The annual cap will be for Australia's aggregate emissions. There will be no caps on individual industries.

has the highest per capita carbon footprint of any developed country. The country's emissions are said to increase dramatically in the coming years if action is not taken.

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