



**PRIME MINISTER
TREASURER
MINISTER FOR CLIMATE CHANGE AND WATER**

**CARBON POLLUTION REDUCTION SCHEME: SUPPORT IN MANAGING THE
IMPACT OF THE GLOBAL RECESSION**

The Rudd Government will delay the start of the Carbon Pollution Reduction Scheme by one year to help Australian companies manage the impacts of the global recession.

Australian businesses are currently dealing with the worst global recession since the great depression.

In this environment the Government has decided to act to further support jobs and assist businesses during these difficult economic times:

- A one year fixed price phase will apply between 1 July 2011 and 30 June 2012. During the fixed price phase, each carbon pollution permit will cost \$10. From 1 July 2012, businesses covered by the scheme will need to purchase permits at the prevailing market price.
- A new Global Recession Buffer will be provided as part of the assistance package for emissions-intensive trade-exposed industries.
- Eligible businesses will receive funding to undertake energy efficiency measures in 2009-10 as part of a \$200 million tranche of the Climate Change Action Fund.

CPRS start deferred to 2011 and permit price fixed at \$10 for one year

To allow the Australian economy more time to recover from the impacts of the global recession, the CPRS will commence on 1 July 2011 with a one-year fixed price phase.

During the fixed-price phase, an unlimited number of permits will be issued to liable companies at a price of \$10 per tonne.

Fixed-price permits from the first year will not be able to be banked for use in later periods.

The expanded Renewable Energy Target will be in place as planned from 2010 to drive investment in Australia's vast renewable energy resources.

To encourage carbon pollution reductions before the scheme starts, reforestation will be eligible to voluntarily generate permits for carbon stored from 1 July 2010, creating economic opportunities in regional Australia.

A price cap will apply from commencement of the Carbon Pollution Reduction Scheme, with the 5-year EITE review to look at whether the price cap should continue into the future.

A number of other changes have been made to the EITE assistance program, including to the terms of the five-yearly EITE review (see Attachment A).

Global Recession Buffer

An additional Global Recession Buffer will be provided for emissions-intensive trade-exposed (EITE) industries for the first five years of the Scheme.

This Buffer will provide an additional 5 per cent free permits for EITE activities eligible for 90 per cent assistance, giving an effective rate of assistance of almost 95 per cent to these highly emissions-intensive trade-exposed activities in the first year of the scheme.

The Buffer will provide an additional 10 per cent free permits for EITE activities eligible for 60 per cent assistance, giving an effective rate of assistance of 66 per cent to these moderately emissions-intensive trade-exposed activities in the first year of the scheme.

Rates of assistance will decline at a rate of 1.3 per cent per year, in line with the Carbon Productivity Contribution set out in the White Paper.

Support through the Climate Change Action Fund

The Government has allocated up to \$200 million to the Climate Change Action Fund in 2009-10 to support businesses and community organisations that do not receive EITE assistance, but do have significant energy costs, to take action to reduce carbon pollution through energy efficiency before the scheme starts.

The \$200 million tranche of the Climate Change Action Fund for 2009-10 will include:

- \$20 million for a business information package to provide advice to businesses on how the CPRS will work and what impacts and opportunities may arise.
- up to \$100 million for Early Action Energy Efficiency Strategies for Business, including energy audits and capital investment.

- \$80 million for capital investment grants for businesses and community organisations.

Together, these measures will help businesses cope with the global recession while making a contribution to Australia's comprehensive climate change response.

**CANBERRA
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ATTACHMENT A

EITE ASSISTANCE PROGRAM

The CPRS legislation will include an 'aims' clause which directly relates the EITE assistance program to the impact of the scheme on the international competitiveness of EITE activities.

When conducting their five-yearly EITE reviews, the Expert Advisory Committee will consider the following issues (amending and building on the position in the White Paper):

- (a) the review of eligibility assessment for activities (e.g. taking into account falls in commodity prices etc as outlined in policy position 12.8 in the White Paper);
- (b) whether modifications should be made to the EITE assistance program on the basis of whether it continues to be consistent with the rationale for assistance or is conferring windfall gains on entities conducting activities;
- (c) the extent to which the Scheme has resulted in an increase in the cost of electricity and the extent of pass through to EITEs;
- (d) the extent to which EITE firms are making progress towards world's best practice energy and emissions efficiency for their industry sector;
- (e) the future shape of the permit price cap, recognising the need to balance the development of market mechanisms and business certainty;
- (f) international developments, including the extent to which Australia has entered international agreements, tangible emissions abatement commitments have been made by countries which compete with EITE industries, and major partners or competing countries have introduced carbon constraints into their own economies; and
- (g) whether broadly comparable carbon constraints (whether imposed through an explicit carbon price or by other regulatory measures) are applying internationally, at either an industry or economy-wide level, or an international agreement involving Australia and all major emitting economies is concluded, in which case the Committee would make recommendations to Government with regard to the withdrawal of EITE assistance; this assessment will draw on analysis by an independent expert body (initially the Productivity Commission) of quantitative measures of carbon prices or shadow carbon prices in major economies.

Five years' notice will be provided for any modifications to the EITE assistance program, unless the modifications were required for compliance with Australia's international trade obligations.

The continuation of the Global Recession Buffer beyond five years will be reviewed in light of domestic and international economic conditions and other relevant factors.