

An Australian carbon price from 2012

What it means for business

24 February 2011

pwc

*What would
you like to grow?*

What it means for business

- The Multi-Party Climate Change Committee (MPCCC) of the Federal Government has announced a proposed carbon price mechanism that could see a fixed carbon price as early as 1 July 2012, with the price increasing annually at a pre-determined rate. The intention is that this would then transition to a market price over a period of three to five years.
- Sectors covered by the proposed scheme appear consistent with the previous Carbon Pollution Reduction Scheme (CPRS).
- During the fixed price period of the proposed scheme, international emissions permits will not be eligible for meeting compliance obligations. A subset of Kyoto compliant units created under the Carbon Farming Initiative may be eligible for use.
- Key design attributes of any future scheme remain to be agreed. These include:
 - The carbon price path over the fixed price period
 - Levels of assistance provided to industry
 - Assistance to households and communities
 - Obligation transfer mechanisms and other scheme rules
 - Interaction with other Government schemes
- Steps to take now:
 - Establish a carbon project office/working group
 - Undertake analysis of emissions reductions opportunities
 - Consider robustness and uncertainty of emissions data that will form basis of carbon liabilities
 - Consider potential cost-pass through, working capital and asset impairment scenarios
 - Consider process and systems changes required to account for carbon
 - Consider opportunities presented under the Carbon Farming Initiative

A fixed Australian carbon price from 2012

In this briefing, we analyse the announcement made by the Multi-Party Climate Change Committee (MPCCC) of the Australian Parliament on 24th February 2011 regarding a proposed future Carbon Price Mechanism.

Getting closer but still a way to go before business certainty...

The announcement by the MPCCC represents a further step towards certainty for Australian business regarding the timeline for the introduction of a carbon price.

The range of issues that will still require negotiation and agreement remain substantial. As such the possibility still exists that agreement may not be reached between all members of the MPCCC to allow passage of any legislation during 2011.

What has been agreed between the Government and Greens?

The key points that have been agreed include the following:

Start date. The mechanism could commence as early as 1 July 2012 subject to parliamentary approval.

Fixed Price Period. During the initial three to five years unlimited emissions permits would be issued on a fixed price basis. The fixed price period would be followed by a transition to a 'cap and trade' scheme that would essentially result in a flexible market driven price.

Coverage. A carbon price mechanism would cover all six greenhouse gases counted under the Kyoto Protocol and have broad coverage of emissions sources from:

- stationary energy
- transport
- industrial processes
- fugitive emissions (other than from decommissioned coal mines)
- emissions from non-legacy waste.

Emissions from agriculture would be excluded from the scheme.

International linkages. During the initial fixed price period, liable entities would be unable to draw on international emissions units for compliance. This would be re-examined prior to transitioning to a cap and trade scheme.

Linkage to Carbon Farming Initiative. While international emissions units would not be eligible

under the scheme, it appears that selected Kyoto compliant units created within Australia under the Carbon Farming Initiative may be used by liable entities. The relative price of these units (which will be market based) with international emissions units and the fixed carbon price will therefore be closely watched.

Substantive issues remain to be negotiated.

While the mechanism through which the carbon price will be delivered appears closer to agreement, it is still too early to assess the potential financial impact to business and the general public.

Key matters that remain to be negotiated before the financial impact can be meaningfully assessed include:

The carbon price path over the fixed period. The exact price that the scheme would commence under and the annual increase in that price will be hotly debated. Factors that are expected to come into consideration include the size of Australia's 2020 emissions reduction target, developments at an international level and public reaction to the anticipated cost of living increases that would result.

Industry assistance. One of the fundamental areas of disagreement between the Government and the Greens in the design of the previous Carbon Pollution Reduction Scheme was the level of assistance that would have been provided to industry. The scale and coverage of assistance that will be provided to Emissions Intensive Trade Exposed (EITE) industries, strongly affected industries (such as coal) and small to medium businesses remains to be agreed.

Household assistance. While there appears to be agreement amongst the MPCCC members that any carbon price mechanisms should be 'budget neutral' the mechanisms to distribute assistance to households in response to the associated cost of living increases remain to be agreed.

Obligation transfer mechanisms and other scheme rules. The extent to which scheme rules that were previously canvassed under the Carbon Pollution Reduction Scheme will remain is yet to be determined. Rules surrounding the transfer of obligations between liable entities and their customers, for example, may have a significant impact on the process and systems modifications that liable entities may need to start considering in order to achieve a targeted 1 July 2012 commencement date.

Concluding remarks

While many of the details remain to be agreed, it is now clear that a carbon price is back on the agenda.

Given the short time frame before the proposed introduction of the scheme, we encourage companies that are likely to be affected to work towards understanding their potential exposure and commencing preparations.

For more information about PwC's climate change and carbon market services, contact:

Liza Maimone

Sustainability & Climate Change Leader, Melbourne
liza.maimone@au.pwc.com

John Tomac

Sustainability & Climate Change, Sydney
john.tomac@au.pwc.com

Suzi Russell

Specialist Taxes , Sydney
suzi.russell@au.pwc.com

Alternatively, visit our website <http://www.pwc.com>

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No republication or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC Australia, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.