

**MINERALS COUNCIL OF AUSTRALIA: BACKGROUNDER ON EMISSIONS TRADING
GLOBAL TREND FAVOURS *PHASED* APPROACH TO AUCTIONING OF PERMITS**

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Australia's proposed emissions trading scheme is **out of step** with schemes being developed around the world.

The centrepiece of the Government's proposed emission trading scheme is the **commencement of full auctioning of permits from the outset of the scheme**. All entities that emit more than 25,000 tonnes of CO₂e annually will have to buy permits for every tonne of CO₂ emitted. The only exception will be entities whose activities or industrial processes are classified as emissions intensive and trade exposed (EITE). The Government proposes that 20 per cent of permits will be allocated to firms in the non-farm sector conducting EITE activities. Media reports suggest that this limit may be raised to 25 per cent in the White Paper due to be released on 15 December.

In contrast, **all** of the emissions trading schemes in operation or being developed adopt a **phased approach to auctioning**. These include the following:

- **the European Union ETS.** For the first 8 years of the EU ETS (2005-2013), EU firms covered by the scheme will receive all of their permits free. From 2013 onwards, non-power sector firms will buy 15 per cent of their permits, with emissions-intensive trade-exposed firms receiving their permits free until 2020.
- **The (US) Western Climate Initiative:** (A cap and trade scheme involving 7 US states and 4 Canadian provinces) will adopt a phased approach to auctioning, commencing with 10 per cent auctioning (including for the power sector) in 2012.
- **US Congress.** Virtually all of the various cap and trade proposals recently considered by the US Congress (and likely to form the basis for 2009 legislation) embrace a phased approach to auctioning.
 - The Dingell-Boucher Bill (discussion draft circulated on 7 October 2008) includes 4 different options for phase-in of full auctioning. Under this bill, there would be no full auctioning before 2026.
 - the Boxer-Lieberman-Warner Bill, defeated in the Senate in June 2008, only 24.5 per cent of permits would be auctioned in 2012. This share would rise gradually to reach 58.75 per cent by 2032, and then stay at that level until 2050.
- **New Zealand.** The New Zealand emissions trading scheme will issue free permits until 2019, after which free allocation will be phased out over a 10 year period until 2029.

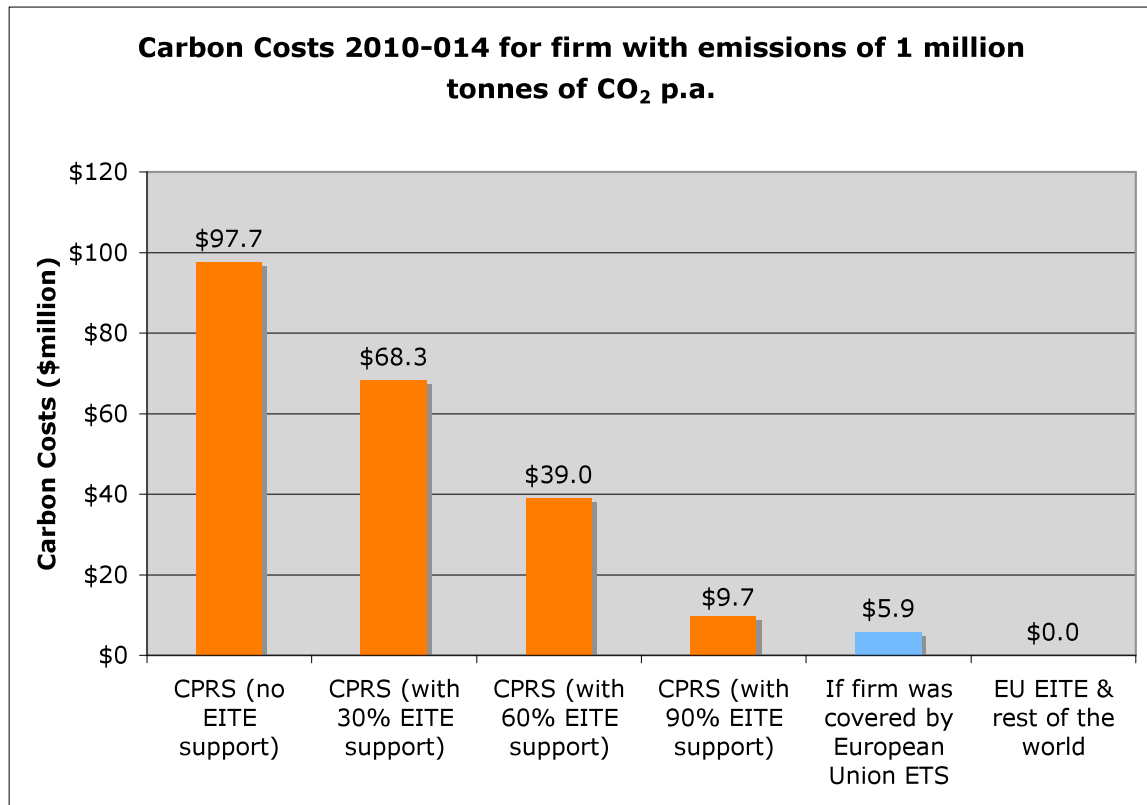
The embrace of full auctioning will mean Australian firms face the world's highest carbon costs...

The Green Paper proposes full auctioning for all firms (trade-exposed and non-traded), then seeks to 'carve-out' 20 per cent of 'emissions-intensive trade-exposed' firms for partial free allocation of permits. Reports suggest that the White Paper will include 3 categories of support for EITE firms – depending on their emissions intensity, they will receive either 90 per cent, 60 per cent or 30 per cent of their permits free. Those firms who do not qualify – expected to be about 840 to 850 firms (of the 900) will purchase all of their permits.

Expected carbon costs...

An Australian firm emitting 1 million tonnes of CO₂ per annum will face carbon costs of nearly **\$100 million over the 4 years 2010-14**. Over the same period, **an EU firm with the same emissions profile will pay less than \$6 million**. Identical firms located anywhere else in the world – in both developed and developing nations - are likely to face **no carbon constraint** over this period.

Even if an Australia firm is classified as emissions intensive trade exposed, its carbon costs will be much higher than its international competitors. If the firm receives 60 per cent free permits, it will still pay carbon costs of nearly \$40 million over the 2010-2104. In contrast, EU firms classified as EITE will pay **no** carbon costs until 2020 at the earliest.



Australian carbon price based on Treasury's projection of \$23 in 2010-11 increasing by 4 per cent per annum. EU carbon price based on projected 2012 EU ETS carbon price futures converted at an exchange rate of 1.88 AUD to the euro. Price projection as traded taken from *Carbon Market Daily*, Volume 4, Issue 221 published by Point Carbon on 11 November 2008. Under current proposals, non-power sector firms in the EU will buy 15 per cent of their permits in 2013-14. Under the EU ETS, firms classified as EITE will be given 100 per cent free permits until 2020.

Emissions Trading Schemes around the World

Country/Scheme	Share of auctioned permits
US Acid Rain Scheme	Virtually all (98.75 per cent) of permits issued free.
European Union ETS (2005-2013)	About 98 per cent of permits issued free . ¹
European Union (2013-2020)	More limited coverage than Australian scheme, and at least 85 per cent of permits issued free to the non-power sector. EITE firms will receive 100 per cent of permits free at least until 2020.
Australia	20 per cent of permits issued free to selected non farm EITE industries.
New Zealand	100 per cent of permits issued free until 2018-19.
United States	<p>Numerous legislative proposals – virtually all propose phased approach to auctioning.</p> <p>The failed Boxer Lieberman Warner Bill proposed 75.5 per cent of permits issued free, with reduction of free permits to 40 per cent by 2032. From 2032 to 2050, 40 per cent of permits would have been issued free.</p> <p>S.1766, sponsored by Chairman of the Senate Energy and Natural Resources Committee Senator Jeff Bingaman, proposed that auctioning be phased in from 24 per cent from 2012-17, rising to 53 per cent in 2030.</p>
United States (regional initiatives)	<p>Western Climate Initiative (7 US states and 4 Canadian provinces) will adopt a phased approach to auctioning. It will commence in 2012 with 10 per cent auctioning or 90 per cent of permits issued free (including for the power sector).</p> <p>Regional Greenhouse Gas Initiative (RGGI) covering 10 North Eastern states of the USA involves full auctioning, but it covers electricity plants with a loose cap and carbon price at around \$3 to \$5. Covers only 2.6 per cent of US emissions.</p>

¹ In Phase 1 of the EU ETS, only 4 of 25 EU nations auctioned *any* permits, and only Denmark auctioned 5 per cent of its permits.

FREQUENTLY ASKED QUESTIONS

The Federal Government and environmental groups point to emissions trading schemes in the US as evidence that the US will soon adopt an emissions trading scheme. Are these schemes comparable to the proposed Australian ETS?

There are a number of ETS proposals in the US at various stages of development. They are, however, much less ambitious in scale, and at a much earlier stage of development than the proposed Australian ETS. None can yet be regarded as comparable to the proposed Australian ETS.

A pilot ETS known as the **Regional Greenhouse Gas Initiative (RGGI)** is underway in 10 North Eastern states of the USA.² The scope, scale and ambition of the scheme are very different from that proposed in Australia.

First, the RGGI only covers electricity plants. Second, number of permits issued (e.g. the cap) is actually 9 per cent *higher* than estimated emissions levels in 2007. Third, the **carbon price is very low – currently about \$US3, with a floor price of \$1.86**. Fourth, the RGGI covers **only 2.6 per cent of US CO_{2e} emissions - 188 million tonnes**.

The other US initiative frequently cited is the **Western Climate Initiative**. That proposal covers 7 US states and 4 Canadian provinces.³ The first phase of the scheme does not commence until 2012, and will initially cover electricity plants, industrial combustion, and industrial process emissions. The WCI will **adopt a phased approach to auctioning, commencing with 10 per cent auctioning**. The second phase begins in 2015, when the program expands to include transportation fuels and residential, commercial and industrial fuels not otherwise covered.

What form of cap and trade approach is an Obama administration likely to favour?

Any emissions trading scheme will need the support of the US Congress. To date, all of the leading cap and trade proposals considered by the US Congress (and likely to form the basis for 2009 legislation) have embraced a **phased approach to auctioning**.

On 7 October, the Chair of the US House of Representatives Committee on Energy and Commerce, John Dingell and the Chair of the House Sub-Committee on Energy and Air Quality, Rick Boucher released a discussion draft on new cap and trade legislation. The Committee was unable to agree on the proportion of permits to be auctioned and instead canvasses 4 options. Option 1 is full free allocation of permits. Options 2,3 and 4 envisage the progressive introduction of higher shares of auctioned permits. The Committee does **not propose full auctioning of permits until 2026**.

Leading cap and trade legislation tabled in the US Senate in the 110th Congress also proposed a **phase in of auctioning**.

- S.1766, sponsored by Chairman of the Senate Energy and Natural Resources Committee Senator Jeff Bingaman, proposed that auctioning be phased in from **24 per cent from 2012-17, rising to 53 per cent in 2030**.
- S.3036 (an amendment to S.2191) sponsored by Senators Boxer, Lieberman and Warner proposed **the phase-in of auctioning from 24.5 per cent in 2012, rising to 58.75 per cent from 2032 to 2050**.

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² New York, New Jersey, Delaware, Maryland and all six New England states — Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

³ Arizona, California, New Mexico, Oregon, and Washington, Montana and Utah and the Canadian provinces of British Columbia, Manitoba, Ontario, and Quebec.