# TREASURY EXECUTIVE MINUTE

Minute No. 10/3460

16 December 2010

Deputy Prime Minister and Treasurer

## THIRD MEETING OF THE MULTI-PARTY CLIMATE CHANGE COMMITTEE

**Timing:** The Multi-Party Climate Change Committee (MPCCC) is holding its third meeting on 21 December 2010.

**Recommendation/Issue:**

- That you note this briefing.

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**Noted** Signature: ...../...../2010

17/12/2010.

**KEY POINTS**

- This meeting will discuss a number of papers, which are proposed to be released to the public, which summarise:
  - the key features and pros and cons of different carbon pricing mechanisms;
  - issues regarding coverage and international linking; and
  - key architecture and design features of the Carbon Pollution Reduction Scheme.
- We understand that the principles against which varying carbon price options will be assessed will also be discussed at the meeting (EM 10/2869 refers).
  - The MPCCC has been negotiating out of session but has not yet agreed on policy principles to provide a consistent basis for the assessment of carbon price options.
- You may be asked about the fiscal impact of various carbon price options. Suggested talking points are at Additional Information.
  - More detailed briefing on these matters is in B10/896 (joint briefing with the Department of Climate Change and Energy Efficiency).

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# ADDITIONAL INFORMATION

## Question and answers

*What are the budget impacts of the various carbon pricing options (cap-and-trade, carbon tax, baseline and credit etc.)?*

- This will ultimately depend on the final design of any carbon pricing option.
- It is much too early to have a meaningful discussion on the fiscal impacts of various carbon price options at this stage.
- A number of major design issues, in particular the household and industry assistance package, would need to be clarified before any sensible estimates could be discussed.

*In terms of meeting our emissions reduction targets, are some options riskier than others?*

- All carbon pricing options have some fiscal risk associated with them.
- However, all existing international climate change architecture is framed in terms of quantity targets.
- Consistent with this, a cap-and-trade emission trading scheme is able to directly set quantitative limits for emissions consistent with our international targets.
- In contrast, other options (like a carbon tax, baseline and credit schemes etc.) do not directly limit emissions, making it more difficult to achieve a certain emissions reduction target.
  - This may increase the risk of the Government having to purchase international abatement to meet our targets (if we undershoot our target), or the risk of imposing unnecessarily high costs on the economy (if we overshoot our target).

*What impacts does an extended fixed period have on the Budget?*

- An extended fixed price period, whether at a very high or very low price, will have associated costs.
  - With a very low price, domestic emissions reductions will not be sufficient to meet our international targets. The Government may then be obliged to purchase a significant amount of international units in order to meet our targets.
  - With a very high price, domestic emissions reductions will exceed those required to meet our international targets. This will impose unnecessarily high costs on the economy as companies will be charged a higher price for emitting than the prevailing international price.