

**SECURING A CLEAN ENERGY
FUTURE:
IMPLEMENTING THE AUSTRALIAN GOVERNMENT'S
CLIMATE CHANGE PLAN**

**STATEMENT BY
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MINISTER FOR CLIMATE CHANGE AND ENERGY
EFFICIENCY
8 MAY 2012**

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ISBN 978-1-922003-44-7

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Printed by CanPrint Communications Pty Ltd

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INTRODUCTION

THE PLAN FOR A CLEAN ENERGY FUTURE

Expert climate scientists from around the world - including Australia's CSIRO and Bureau of Meteorology - warn that the earth is warming and that continuing high levels of carbon pollution risk environmental and economic damage. Australia's carbon pollution levels are very high for a country with a relatively low population. This is largely due to our heavy reliance on fossil fuels, which have underpinned Australia's energy and industrial sectors for the past century.

Climate scientists advise that the worst effects of climate change can largely be avoided if we reduce carbon pollution to acceptable levels. By taking appropriate action now, Australians can look forward to long term economic prosperity, while protecting our environment for ourselves and future generations.

In November 2011, the Australian Parliament passed legislation to deliver a comprehensive plan for Australia to move to a clean energy future. This plan will cut carbon pollution and drive investment in new clean energy sources, such as solar, gas and wind.

Central to the plan is pricing carbon pollution, which will commence from 1 July 2012.

The carbon price will transform our economy by decoupling economic growth from growth in pollution. This transformation will underpin Australia's future productivity and international competitiveness in the coming decades, as clean energy and low-pollution technologies will be key to a nation's competitive advantage.

The carbon pricing mechanism will apply directly to around 500 of Australia's largest polluters, representing around 60 per cent of Australia's total carbon pollution. This will create a powerful incentive for these businesses to find the cheapest and most effective way of reducing their carbon pollution.

This price signal will encourage businesses to reduce carbon pollution and to invest in energy efficiency and low pollution technologies. Households, industry, business and community organisations are being supported through the transition to a clean energy future.

Over 50 per cent of the carbon price revenue is being used to support households. In all, nine out of ten households will benefit from assistance through tax cuts, higher family payments, and increases in pensions and allowances.

The Government is ensuring those who need help the most, particularly low- and middle income households, receive appropriate assistance for the impact of the carbon price on their cost of living.

Businesses are also being supported to make the transition to a clean energy future, including through the Jobs and Competitiveness Program, Clean Technology Programs, the Steel Transformation Plan and measures to support energy efficiency. These programs will foster investment in capital, skills and innovation to improve competitiveness and support jobs in a low carbon economy.

The Government is continuing to invest in education, skills and training to ensure the workforce, and especially young people, have the skills they need to participate fully in a low pollution economy and support industry in the transition.

The Government is investing in clean energy technologies and projects to support the transformation of the energy sector. Unprecedented levels of support for innovation and investment in renewable energy are occurring through the Australian Renewable Energy Agency, and will occur through the \$10 billion Clean Energy Finance Corporation. The *Renewable Energy Target* will continue to drive deployment of renewable energy to 2020 and beyond.

Improved land management practices can also help to reduce Australia's carbon pollution and protect the environment. The clean energy future plan therefore includes an integrated package which creates economic rewards for farmers who reduce or store carbon pollution on the land, protect biodiverse carbon stores and secure environmental outcomes from carbon farming.

IMPLEMENTING THE PLAN

Since the passage of the legislation, the Government has made significant progress in establishing the regulatory framework to underpin the carbon price and support its implementation.

A number of key milestones have already been achieved. In particular, the Clean Energy Regulator has been established to administer the carbon pricing mechanism and the Government has begun delivering assistance for key sectors of the economy.

Industry assistance, to help with the transition to a cleaner energy future, has begun rolling out, including to steel manufacturers and eligible coal-fired generators. The first round of support for innovation and investment in energy efficient equipment and low emissions technologies will flow to firms before the carbon price starts. The regulations for industry assistance programs which provide free permits are now in place, ready for the programs to open on 1 July this year. Key land measures such as the *Carbon Farming Initiative* and *Biodiversity Fund* have begun.

Assistance will start flowing to households from 16 May through June 2012. These Clean Energy Advance payments will be delivered to recipients of family payments, pensions and allowances, to allow them to prepare for the introduction of the carbon price. Through its package of energy efficiency programs, the Government is also helping households to save money on their energy bills.

From 1 July 2012, all taxpayers with incomes under \$80,000 will receive at least \$300 in tax cuts a year. Further tax cuts will follow in 2015-16. The tax cuts will be delivered through a major structural reform of the tax system, increasing the statutory tax-free threshold more than threefold in 2012-13, from \$6,000 to \$18,200. Workers earning less than the new tax-free threshold will be able to keep all of their wages in their regular pay packets, instead of waiting to receive some of it at the end of the financial year, as happens now. This will increase the rewards from work and encourage workforce participation.

A carbon price is the lowest-cost and most economically-efficient way of reducing emissions of greenhouse gases. In November 2008 the Council of Australian Governments (COAG) agreed to a number of principles upon which climate change policies can be examined to ensure they are complementary to a carbon price. With the carbon pricing mechanism starting from 1 July 2012, the Government is now working with the States and Territories through the Select Council on Climate Change (SCCC) to examine the complementarity of existing climate change policies. In April 2012, COAG asked for urgent advice in advance of the next COAG meeting on how to fast track a rationalisation of programs that are not complementary to a carbon price or are ineffective. The SCCC will assist in providing this advice and a proposed process for an expedited review of the complementarity of climate change measures.

BUDGET MEASURES

In addition to the measures announced as part of the Clean Energy Future plan, in the 2012-13 Budget the Government is continuing its support for energy efficiency and adaptation, whilst acting responsibly within the tighter fiscal environment.

In the period of the forward estimates, the Government will provide:

- \$37.1 million in funding to introduce a nationally-consistent legislative framework for Greenhouse and Energy Minimum Standards to regulate equipment energy efficiency. This framework will replace an inefficient patchwork of state and territory schemes and deliver on a 2007 election and a Council of Australian Governments' commitment;
- \$2.8 million in additional funding for a range of building energy efficiency activities, including maintenance and improvement of current building regulatory schemes; and
- \$3 million in additional funding in 2012-13 to support the development of climate change adaptation policy and risk analysis.

CONCLUSION

The Government is fully committed to tackling climate change. The Clean Energy Future plan responds to the best advice available from respected scientists and economists and delivers a comprehensive set of measures that will drive the transformation of the Australian economy. This ministerial statement includes further details on the range of support included in the plan and provides an update on the implementation of the measures announced as part of the Government's Clean Energy Future plan.

CHAPTER 1: THE CLEAN ENERGY FUTURE PLAN

The Australian Government has a comprehensive plan to move Australia to a clean energy future. The Government's plan includes:

- introducing a carbon price;
- promoting innovation and investment in renewable energy;
- encouraging energy efficiency; and
- creating opportunities in the land sector to cut pollution.

The Government's plan to move to a clean energy future will cut pollution by at least 5 per cent compared with 2000 levels by 2020. The Government's long-term target reflected in the objects of the *Clean Energy Act 2011* is to cut pollution by 80 per cent below 2000 levels by 2050. This is expected to save over 17 billion tonnes of carbon pollution being released into the atmosphere between now and 2050.

In November 2011, the Australian Parliament passed laws to put a price on carbon pollution. This is the central component of the Government's plan for a clean energy future and is a significant environmental and economic reform for Australia.

This reform will ensure that Australia plays its responsible part in global efforts to tackle climate change. It also positions Australia to take advantage of the economic and job opportunities that will come as the world takes action on climate change and shifts to a clean energy future.

All revenue from the carbon price will be used by the Government to:

- assist households;
- support jobs and competitiveness; and
- invest in clean energy and climate change programs.

This will ensure the Australian economy continues to grow at the same time as we cut pollution to reduce the risks of dangerous climate change.

ACHIEVEMENTS

- The clean energy legislative package was passed by the Australian Parliament on 8 November 2011. The package includes the *Clean Energy Act 2011*, which implements the carbon pricing mechanism for Australia, as well as the *Clean Energy*

Regulator Act 2011 and the *Climate Change Authority Act 2011*, which implement key elements of the governance arrangements for the carbon pricing mechanism.

- The *Clean Energy Regulator* commenced operations on 2 April 2012 with Ms Chloe Munro appointed as the Chair and Chief Executive Officer. The Regulator is a statutory authority responsible for implementing and administering the carbon pricing mechanism.
- In July 2011, Mr Bernie Fraser was announced as Chair of the *Climate Change Authority*. The Authority is an independent body that will provide expert advice on key aspects of climate change policy. It will be based in Melbourne, and commence operations on 1 July 2012.

ESTABLISHING THE CARBON PRICING MECHANISM

Until now there has been little incentive for businesses to reduce carbon pollution. A carbon price makes pollution more expensive to release into the atmosphere, creating an incentive across the economy to find ways to emit less carbon pollution and save money – either by becoming more efficient, or by investing in clean energy. Economic experts around the world recognise that putting a price on carbon is the most environmentally effective and cheapest way to cut pollution.

Treasury modelling indicates that, without a price on carbon, existing climate change policies would not curb the growth of our carbon pollution from 578 million tonnes per year in 2009-10 to over 1,000 million tonnes in 2050. The Government's carbon price policy is expected to result in significant emissions reductions in the sectors which it covers. For instance the Treasury modelling predicts reductions by 2050 of 90 per cent of expected waste emissions, 76 per cent of expected electricity emissions, 62 per cent of expected fugitive emissions and 53 per cent of expected industrial process emissions.

The Treasury modelling confirms that our economy can make this transition, with the Update making clear that:

Average incomes measured by gross national income (GNI) per person increase by around \$9,000 from today's level to 2020 and by more than \$30,000 to 2050. GNI per person grows by 1.1 per cent per year to 2050 with carbon pricing, compared to 1.2 per cent per year without carbon pricing. Employment continues to grow strongly, with national employment increasing by 1.6 million jobs by 2020, with or without carbon pricing. All state economies continue to grow strongly.

Carbon price design

The carbon price is the central element of the Government's plan for a clean energy future: it will trigger a broad transformation of the economy and ready Australian business and industry to compete in a low pollution world.

The carbon pricing mechanism requires around 500 of the biggest polluters (those that have facilities that directly emit more than 25,000 tonnes of carbon pollution into the atmosphere in a year or are natural gas suppliers) in Australia to pay for their pollution. These businesses will need to buy a permit (called a 'carbon unit') for every tonne of pollution they produce and surrender it to the Government.

Many businesses and other entities already report their carbon pollution through the *National Greenhouse and Energy Reporting Scheme*. This will be the basis on which they will work out their liabilities under the carbon pricing mechanism.

The carbon pricing mechanism will start on 1 July 2012. In the first three years, the cost of each tonne of carbon pollution emitted by liable businesses will be fixed. In 2012-13 the carbon price will be \$23 per tonne, increasing by 2.5 per cent a year in real terms during the fixed price period. At the end of each year, the liable entity will surrender the number of carbon units that represents its total emissions to the *Clean Energy Regulator* or pay a charge. Liable entities will either buy units or acquire them through the Government's industry assistance measures, like the *Jobs and Competitiveness Program*, or the *Energy Security Fund*.

From 1 July 2015, the carbon price will be set by the market under a cap-and-trade emissions trading scheme (the flexible price period). For the first three years of the flexible price period, a price ceiling and a price floor will apply to carbon units to avoid price spikes or plunges, reducing risk for businesses as they gain experience in having a market set the carbon price.

The Government will put a cap on the number of carbon units it issues in the flexible price period. This cap will take into account Australia's national emissions reduction targets, our international climate change obligations and the recommendations on pollution caps made by the *Climate Change Authority*.

There is scope in the design of the carbon pricing mechanism for linking to credible international carbon markets from the beginning of the flexible price period. International linking will allow reductions in carbon pollution to be pursued globally at lowest cost. Australian businesses will be able to use credible international permits to meet some of their domestic obligations. However, recognising the importance of taking sufficient action in Australia, at least half of a liable entity's carbon price obligation must be met through the use of domestic carbon units, including Carbon Farming Initiative credits.

Carbon price coverage

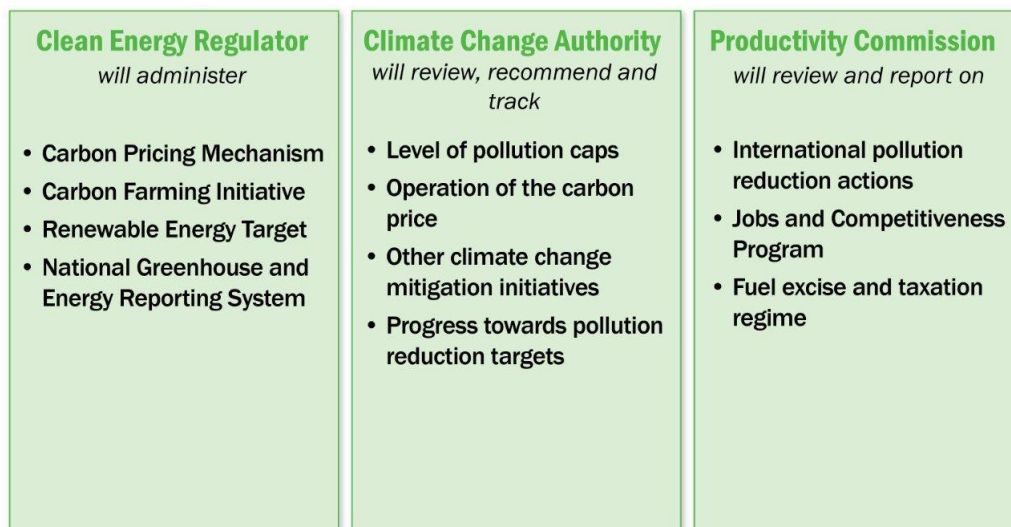
Around 60 per cent of Australia's carbon pollution will be directly covered by the carbon pricing mechanism. This will include the stationary energy sector, industrial processes, waste deposited to landfill after 1 July 2012, and fugitive emissions from the oil, gas and coal mining sectors.

The broad coverage of the carbon price will ensure that the economy as a whole starts moving towards a clean energy future. However it is important to ensure the carbon pricing mechanism is practical and minimises costs for business. For this reason, only firms that are responsible for facilities that release 25,000 tonnes or more of carbon pollution into the atmosphere in a year or natural gas suppliers will be liable under the carbon pricing mechanism.

An effective carbon price will be applied to domestic aviation, domestic shipping, rail transport, and non-transport use of fuels. This effective carbon price will be implemented through changes to fuel tax credits and fuel excise arrangements in the taxation regime. Alternatively, users of these fuels can opt-in to the carbon pricing mechanism under the *Opt-in Scheme*.

A carbon price will not apply to agricultural and land sector emissions, use of household transport fuels, light vehicle business transport and off-road fuel use within agriculture, forestry and fishing activities. Households and small businesses will have no direct obligations under the carbon pricing mechanism.

Figure 1: Carbon Pricing Mechanism Governance



Administration and review

Sound governance will ensure the carbon pricing mechanism is efficient and effective. Major decisions that need to balance environmental, economic and social factors which have far-reaching implications will continue to be made by the Government and the Parliament. Two new bodies, the *Clean Energy Regulator* and the *Climate Change Authority*, will be responsible for administering the carbon price and reviewing its operation and Australia’s progress towards meeting its carbon pollution reduction targets.

Clean Energy Regulator

The *Clean Energy Regulator* is the statutory authority responsible for administering the carbon pricing mechanism, the *National Greenhouse and Energy Reporting Scheme*, the *Renewable Energy Target*, the *Australian National Registry of Emissions Units* and the *Carbon Farming Initiative*. Ms Chloe Munro was announced as Chair and Chief Executive Officer of the Regulator on 9 February 2012, and operations commenced in Canberra on 2 April 2012.

Some of the Regulator’s key responsibilities include: educating businesses on the administrative arrangements of the carbon pricing mechanism; assessing emissions data to determine each party’s liability; publishing a database of liable or potentially liable entities; allocating carbon units; and monitoring and enforcing compliance with the carbon pricing mechanism.

Climate Change Authority

The *Climate Change Authority* is an independent statutory body which will provide Government with expert advice on key aspects of the carbon pricing mechanism and the Government's climate change mitigation initiatives. In July 2011, Mr Bernie Fraser was announced as the inaugural chair of the Authority. The board will also comprise the Chief Scientist for Australia and up to seven expert members.

From its commencement on 1 July 2012, the Authority will review pollution caps, the trajectory of Australia's pollution levels and the steps required to meet the legislated target to reduce emissions by 80 per cent below 2000 levels by 2050. The Authority will hold public consultations as part of its reviews and its reports will be made public. A first review on the operation of the carbon price will be published by the end of 2016.

The Authority will also undertake reviews of other major abatement measures. The Authority's first major review will examine the performance of the *Renewable Energy Target*, and will be undertaken in the second half of 2012.

Productivity Commission reviews

The Government has also asked the Productivity Commission to conduct reviews which will ensure that:

- the carbon pricing mechanism in Australia remains in step with actions to reduce climate change in other major economies;
- assistance offered under the *Jobs and Competitiveness Program* and the *Coal Sector Jobs Package* continues to support local jobs and production, and encourage industry to invest in cleaner technologies; and
- the merits of a fuel excise and taxation regime based on carbon and energy content of fuels is considered.

CHAPTER 2: HELPING HOUSEHOLDS

The Government's plan for a clean energy future includes support to help households adjust to the introduction of the carbon price. The Household Assistance Package is a key part of the clean energy future plan. This package will rollout as early as this month (May 2012) before the carbon price is introduced. The Household Assistance Package provides financial assistance totalling \$14.3 billion over four years from 2011-2012, delivered through tax cuts and increased Government payments. Other parts of the plan provide incentives for households to adopt their own energy and cost saving measures. By adopting such measures, households will be able to save money as well as contribute to Australia's clean energy future.

Household assistance is targeted to ensure that low and middle income households receive assistance to help with the impact of the carbon price, especially those who have less financial room in their budgets. This recognises that lower income households spend a higher proportion of their incomes on essential household expenses such as electricity and gas.

The Government has committed to ensuring:

- more than 50 per cent of the carbon price revenue will be used to assist households;
- all assistance – payments and tax cuts – will be permanent;
- all low-income households will be eligible for assistance that at least offsets their expected average price impact from the carbon price;
- middle-income households will be eligible for assistance that helps them meet their expected average price impact; and
- people covered by a Commonwealth concession card who have high home energy costs because they rely on essential medical equipment in their home, or additional heating or cooling, to manage their disability or medical condition may be eligible for assistance.

The estimated impact on consumer prices of a \$23 carbon price is 0.7 per cent in 2012-13, or around \$9.90 on average per week for households, which includes \$3.30 per week on average electricity expenditure and \$1.50 per week on average gas expenditure. Nine out of ten Australian households will benefit from assistance through tax cuts, increases in pensions, increased allowances and family payments or a combination of the above, worth an average of \$10.10 per week per household.

The Household Assistance Package starts from May this year with an initial payment to families and parents, seniors and individuals who receive a government payment. This will be followed by tax cuts in July. Ongoing household assistance will become a regular part of government payments between March next year and early 2014.

Energy efficiency programs such as the *Home Energy Saver Scheme* (described in more detail in Chapter 6) aim to provide support to low income households across Australia that experience difficulty meeting and paying for their energy needs. This Scheme can assist low income households to manage their energy bills and improve their financial capability.

Additional funding is being provided to the Australian Competition and Consumer Commission (ACCC), to investigate and take action against any business that makes false or misleading representations about the impact of the carbon price on the prices they charge customers.

The ACCC issued guidance for consumers and business in March 2012, and continues to investigate misleading claims about the carbon price.

ACHIEVEMENTS

- The Household Assistance Package legislation, including the *Clean Energy (Household Assistance Amendments) Act 2011*, *Clean Energy (Tax Laws Amendments) Act 2011*, and the *Clean Energy (Income Tax Rates Amendments) Act 2011*, was passed on 8 November 2011.
- The Household Assistance Package will commence from 16 May 2012, with an initial payment to eligible families and parents, seniors and individuals who receive a government payment.
- The ACCC released guidance for consumers and business in March 2012, and continues to conduct investigations into complaints that relate to misleading claims about the impact of the carbon price.
- Millions of Australians will receive tax-cuts from 1 July 2012 as part of the Household Assistance Package, giving them more money in their pay packets.

Figure 2: Overview of household assistance



HOUSEHOLD ASSISTANCE PACKAGE

Assistance through increased Government payments

The Household Assistance Package will commence from 16 May 2012, with an initial payment, the Clean Energy Advance, to be paid automatically to millions of Australians – including families and parents, seniors and individuals who receive a government payment.

This initial payment provides assistance prior to the introduction of the carbon price on 1 July 2012. It is an adjustment to last until the extra assistance becomes a regular part of government payments. The initial payment under the Household Assistance Package ensures that families and parents, seniors and individuals can prepare for the start of the carbon price.

Pensioners will receive an initial payment of \$250 for singles and \$190 for each eligible member of a couple. This assistance will be paid to those on the *Age Pension*, *Carer Payment*, *Disability Support Pension* (except those under 21 with no dependent children) and self-funded retirees holding a Commonwealth Seniors Health Card.

Jobseekers and other individuals in receipt of allowance payments, such as *Newstart Allowance*, will receive an initial payment of \$160 for singles and \$150 for each eligible member of a couple. Single parents receiving *Parenting Payment Single* will receive an initial payment of \$210. Students and disability support pensioners aged under 21 with no dependent children will be eligible to receive two Clean Energy Advances, the first covering the 2012–13 financial year, and the second covering the six months from 1 July 2013 to 31 December 2013.

Veterans on income support and compensation payments made under the *Veterans' Entitlements Act 1986* (including disability pensions and the war widow/ers pension) and the *Military Rehabilitation and Compensation Act 2004* (including permanent impairment payments, wholly dependent partner payments and Special Rate

Disability Pension) will also receive an initial payment under the Household Assistance Package.

Households that wish to use this assistance to adjust their spending or invest in energy efficiency may be able to save money from ongoing household budgets and at the same time reduce carbon pollution.

Between March next year and early 2014, the extra assistance under the Household Assistance Package will become a regular part of government payments through the Clean Energy Supplement. The Clean Energy Supplement will be equivalent to a 1.7 per cent increase in the relevant annual maximum payment rate for families and parents, seniors, veterans and other individuals who receive government payments.

The 1.7 per cent increase to government payments comprises an increase of 0.7 per cent from the extra indexation flowing from the higher Consumer Price Index due to the introduction of a \$23 carbon price, and a further 1.0 per cent increase in payments to provide additional assistance. To prevent the double payment of indexation, there will be an adjustment to indexation for pensions and most allowances in March 2013, for *Family Tax Benefit* in July 2013 and for *Youth Allowance*, *Austudy* and *ABSTUDY* in January 2014.

Single Income Family Supplement

As part of the Household Assistance Package, up to \$300 in *Single Income Family Supplement* will be available per year for single income families where the primary income earner has a taxable income between \$68,000 and \$150,000. This payment recognises that single income families receive less assistance through tax cuts compared with dual income families on similar incomes. This payment will be available from 1 July 2013.

Low Income Supplement

The *Low Income Supplement* of \$300 will be available to people in low-income households who can show they did not receive enough assistance through tax cuts or other household assistance payments. People may be eligible for the supplement if they have annual adjusted taxable income of less than \$30,000 for singles, \$45,000 for couples and \$60,000 for people with dependent children. To be eligible people must be able to show that in 2011-12 they were either not required to pay tax or were required to pay tax of less than \$300 and that for most of the year they did not receive another government payment. People can apply for the payment from 1 July 2012.

Essential Medical Equipment Payment

The Government will provide \$52.5 million over three years from 2012-13 for the *Essential Medical Equipment Payment* program. This is an annual support for Australians with higher than average energy costs because they rely on essential medical equipment at home. Eligible recipients include people coping with serious medical conditions at home, and their carers

The *Essential Medical Equipment Payment* will be an annual, tax-exempt payment of \$140 to people with medical needs, or their carers who:

- are covered by a Commonwealth Government concession card; or a Department of Veterans' Affairs Gold or White Card; and
- use certain essential medical equipment, or have certain medical conditions that require the use of additional heating and/or cooling in their home; and
- are responsible, either wholly or partly, for the cost of running the equipment.

People can apply for the *Essential Medical Equipment Payment* from 18 June 2012, with payments starting from 1 July 2012.

Supporting Aged Care Residents and Providers

Pensioners and Commonwealth Seniors Health Card holders in residential aged care will receive financial assistance through the new Clean Energy Advance and Clean Energy Supplement, delivered as part of the Household Assistance Package. About half of this assistance will flow through to aged care providers through an increase in the basic daily fee. This fee, payable by a resident of an aged care facility, will increase from 84 per cent to 85 per cent of the total basic *Age Pension* amount.

The increase in the basic daily fee recognises that aged care providers bear many of the costs of living for their residents, including electricity and food. Residents of aged care homes do incur incidental expenses and so will receive a fair portion of their assistance payments.

Aged care residents who are not eligible for the *Age Pension*, service pension or the Commonwealth Seniors Health Card and who are living in an aged care home on 1 July 2012 will not be disadvantaged due to the introduction of a carbon price. A new Government aged care supplement will be payable in respect of these residents. This will ensure aged care providers receive an equivalent increase in funding for these residents as they do for pensioners and Commonwealth Seniors Health Card holders.

These new arrangements will start from 1 July 2012.

Assistance through tax reform

The household assistance package reforms the structure of the personal tax system, in line with key recommendations of the 2009 Australia's Future Tax System Review. These reforms modernise the personal income tax system, making it simpler and more transparent by reducing reliance on a structural tax offset to deliver tax relief to low-income individuals. In addition, the reforms deliver targeted tax cuts that will improve the immediate rewards from work, building on other recent Government measures to lift workforce participation. This represents a further response by the Government to the Australia's Future Tax System Review's overarching goals for reforming Australia's tax and transfer system to meet the challenges of the 21st century.

The Government is investing \$8 billion over three years from 2012-13 in the tax reform package comprising:

- An increase in the statutory tax-free threshold from \$6,000 to \$18,200 from 1 July 2012, and to \$19,400 from 1 July 2015 (on transition to a floating carbon price) and related adjustments to the low income tax offset (LITO) and statutory marginal tax rates; and
- Adjustments to a number of personal income tax offsets and concessions, and increased Medicare levy exemption thresholds, to ensure that nobody pays more tax as a result of changes to the statutory rates and thresholds.

The combined effect of the LITO plus the \$18,200 tax-free threshold from 1 July 2012 means that people will be able to earn annual income of up to \$20,542 before they pay any tax. From 1 July 2015, the further increase in the statutory tax-free threshold to \$19,400 together with a reduced LITO of \$300, means that people with annual incomes of up to \$20,979 will pay no tax.

By delivering these tax cuts through raising the tax-free threshold, by 1 July 2016, over one million Australians earning less than the new tax-free thresholds will no longer need to lodge an income tax return. They will be able to keep all of their wages in their regular pay packets, instead of waiting to receive some of it at the end of the financial year, as happens now. This will help workers make ends meet, while further improving immediate rewards from work.

From 1 July 2012, every taxpayer earning up to \$80,000 a year will receive a tax cut, with most getting at least \$300 annually. The second round of tax cuts from 1 July 2015 will increase this annual saving to at least \$380 for most taxpayers earning below \$80,000 a year.

As part of the changes, the statutory marginal tax rates will be more closely aligned with the effective rates that individuals actually pay, increasing transparency in the tax system.

Ensuring consumers are not misled about the impact of the carbon price

The Government is providing \$12.8 million over four years from 2011-12 to protect Australian consumers. The Australian Competition and Consumer Commission (ACCC) investigates businesses that make false or misleading claims about the impact of a carbon price, which contravenes the Australian Consumer Law. The ACCC released guidance for businesses and consumers in March 2012 to raise awareness of their obligations and rights, respectively, under the Australian Consumer Law.

CHAPTER 3: SUPPORTING JOBS AND INDUSTRY

The Government's plan for a clean energy future is not only an economic reform which will deliver environmental benefits, it is also an industry and innovation policy which will modernise our industrial base. It will foster the investment that is needed to decouple continued economic growth in Australia from growth in pollution. This will improve Australia's competitiveness in the coming decades when clean energy and low pollution technologies will be a key to competitive advantage in a low carbon global economy.

Reducing the carbon intensity of Australia's industries is a foundation of our long-term competitiveness. The Government is committed to supporting jobs and industry competitiveness during this transition, and has implemented a range of programs to support businesses and jobs and to encourage investment in clean energy equipment, technology and innovation.

The *Jobs and Competitiveness Program* will safeguard jobs in industries which face strong international competition and produce a lot of pollution. This program will provide free carbon permits for businesses carrying on emissions-intensive, trade-exposed industrial activities. As a result of this support, an average highly emissions-intensive activity will face an effective carbon price of less than \$1.30 per tonne of pollution in the first year of the carbon pricing mechanism. The *Clean Technology Program* will provide grants to help manufacturers invest in low pollution technologies. Tailored programs will support modernisation of equipment in food processing firms and metal foundries. The *Steel Transformation Plan* will help the steel manufacturing industry to transform into a more efficient and economically sustainable industry in a low carbon economy. There are also dedicated programs to support coal mining jobs.

The package of measures will support jobs and keep Australian industry strong while creating incentives for business to invest in clean energy and energy efficiency. This will ensure the Australian economy remains competitive as the world moves to reduce carbon pollution.

ACHIEVEMENTS

- Regulations to implement the *Jobs and Competitiveness Program* are in place. The Regulations contain the rules governing the program, how it will operate, who may be an eligible applicant, and what the eligible activities and allocative baselines are.
- In March 2012 the Australian Parliament passed legislation to increase the small business instant asset write-off threshold to \$6,500, as part of the mineral resource rent tax package and the clean energy future plan. This measure will take effect from 1 July 2012 and provides \$2.3 billion savings for small business up to 2014-15.

- Applications for competitiveness assistance advance payments under the *Steel Transformation Plan Act 2011* opened in December 2011. A \$100 million payment was made to BlueScope Steel on 18 January 2012, and a \$64 million payment was made to OneSteel on 6 February 2012.
- Applications for funding under the *Coal Sector Jobs Package* closed on 29 February 2012.
- The *Clean Technology Investment Program* and the *Clean Technology Food and Foundries Investment Program* applications opened on 16 February 2012 to significant interest. The first payments to successful applicants will be made by 30 June 2012.

Figure 3: Overview of measures to support jobs



PROGRAMS SUPPORTING JOBS AND INDUSTRY

Jobs and Competitiveness Program

The *Jobs and Competitiveness Program* will support local jobs and production, and encourage industry to invest in cleaner technologies. The ongoing program will provide an estimated \$8.6 billion of assistance over the first three years of the carbon pricing mechanism. This support will be targeted at companies that produce a lot of carbon pollution but are constrained in their capacity to pass through costs in global markets.

The most emissions-intensive trade-exposed activities will receive assistance to cover 94.5 per cent of industry average carbon costs in the first year of the carbon price. Less emissions-intensive trade-exposed activities will receive assistance to cover 66 per cent of industry average carbon costs. Assistance will be reduced by 1.3 per cent each year to encourage industry to cut pollution.

Regular reviews will ensure that the *Jobs and Competitiveness Program* remains in step with international action on climate change and continues to support jobs and competitiveness.

Regulations to establish the rules for the *Jobs and Competitiveness Program* were made on 22 February 2012. Applications for the *Jobs and Competitiveness Program* will open on 1 July 2012.

Coal Sector Assistance Package

The Government recognises that a small number of existing coal mines are highly emissions-intensive and will face significant costs with the implementation of a carbon price. In response, the Government has developed a transitional assistance package for the Australian coal industry that recognises the adjustment challenges faced by the industry. The *Coal Sector Assistance Package* comprises two programs: the *Coal Sector Jobs Package* and the *Coal Mining Abatement Technology Support Package*.

Coal Sector Jobs Package

The *Coal Sector Jobs Package* is providing up to \$1.3 billion over six years from 2011-12 (five years of funding) for targeted transitional assistance to the most fugitive emissions-intensive mines to ease their transition to the introduction of a carbon price. Payments will be up to a maximum of 80 per cent of the extent to which the fugitive emission intensity is above the 0.1 tonne of CO₂-e per tonne of saleable coal production threshold in 2008-09.

To the extent that a mine reduces its fugitive emissions, it would stand to benefit as it would still be eligible for the same rate of assistance based on historical fugitive emissions intensity.

Program guidelines were published on 19 December 2011 and applications closed on 29 February 2012. First payments to eligible mines will be made by 30 June 2012.

Coal Mining Abatement Technology Support Package

The *Coal Mining Abatement Technology Support Package* will provide \$70 million over five years commencing 1 July 2012 to supplement and support the coal industry's own research activities aimed at developing technologies and processes that will reduce carbon pollution safely. This funding will be directed at three program elements, namely:

- research, development and pilot deployment of abatement and avoidance measures, and measurement and verification technologies in the coal sector;
- safety and regulatory issues associated with the introduction of coal sector abatement technologies, including work with state and territory governments on safety requirements associated with the development and deployment of new abatement related technologies, equipment and processes; and
- assistance to small and medium coal sector participants to develop abatement plans or undertake feasibility studies to reduce emissions from current and proposed mines.

A Technical Advisory Committee has been established to provide advice and guidance to the Minister for Resources and Energy on the development and implementation of the *Coal Mining Abatement Technology Support Package*. The Technical Advisory Committee draws on representatives from the coal sector with a working knowledge and understanding of coal mining greenhouse gas emission abatement and safety issues.

Steel Transformation Plan

The *Steel Transformation Plan (STP)* is a \$300 million program operating over six years from 2011-12. The STP is already supporting the transformation of the Australian steel manufacturing industry into an economically sustainable industry in a low-carbon economy, by encouraging investment, innovation and competitiveness.

The STP contains two elements: competitiveness assistance advance payments of \$164 million (draw down advances of eligible participants' future entitlements) made in 2011-12; and a self-assessment scheme that will operate over five years from 2012-13.

Applications for competitiveness assistance advance payments opened on 9 December 2011. A \$100 million payment to BlueScope Steel was made on 18 January 2012, and a \$64 million payment was made to OneSteel on 6 February 2012. The registration period for the self-assessment scheme is scheduled to commence on 1 July 2012.

Clean Technology Program

The \$1.2 billion *Clean Technology Program* has three components helping manufacturing businesses identify and implement technologies that will improve their energy efficiency and reduce their exposure to the impact of changing electricity prices from the carbon price:

- the *Clean Technology Investment Program*;
- the *Clean Technology Food and Foundries Investment Program*; and
- the *Clean Technology Innovation Program* (covered in *Chapter 4: Innovation in Renewable Energy*).

Clean Technology Investment Program

The *Clean Technology Investment Program* is providing \$800 million over seven years from 2011-12 in competitive grants. The grants will help manufacturers invest in new plant and equipment which cuts their energy costs or reduces carbon pollution. These grants will support jobs and add to the incentive created by the carbon price for manufacturers to become more efficient, more competitive and more sustainable. Projects that can be supported include switching to less carbon intensive energy

sources or installing new manufacturing equipment, processes and facilities to reduce energy consumption and carbon emissions.

The funding will be provided on a co-investment basis with the co-investment ratios designed to make the grants attractive and affordable for smaller manufacturers. Manufacturers with turnovers of less than \$100 million a year requesting funding under \$500,000 will be required to match the grants on a dollar for dollar basis. For all other grants under \$10 million, applicants will be required to contribute two dollars for every dollar from the Government, while for grants of \$10 million or more applicants will be expected to make a co-investment of at least three dollars for every dollar of government support. This means the Program will leverage significant additional private investment. This investment will help modernize sections of Australian industry which will help manufacturers compete at a time of significant pressures on manufacturing.

Applications for the program opened on 16 February 2012, and interest in the program to date is high. More than 1900 people attended information sessions for the *Clean Technology Investment Programs* held in capital cities and regional areas around Australia. The first payments for successful applicants will be made by 30 June 2012.

Clean Technology Food and Foundries Investment Program

Special assistance will be provided to the food and foundry manufacturing businesses, which are trade-exposed and have a higher exposure to energy costs than general manufacturing businesses. \$150 million in grants over six years are available to the food and beverage industry, and up to \$50 million over six years to the metal forging and foundry industries.

The grants will help these industries invest in energy-efficient equipment and low-pollution technologies, processes and products. Funding will be provided on a co-investment basis. The first payment for successful grants will be awarded by 30 June 2012.

Clean Technology Focus for Supply Chains

Clean Technology Focus for Supply Chains provides \$5 million over four years from 2011-12 to enhance the clean technology focus of industry supply chains. This is being done through existing business development and facilitation programs, including Supplier Advocates and Enterprise Connect. The program targets small to medium enterprises wishing to improve competitiveness in the clean technology sector, developing capabilities and linking suppliers with clean technology projects.

On 20 December 2011, Dr Marc Newson was appointed as the Government's Clean Technologies Supplier Advocate, to work with local manufacturers to develop and showcase their clean technology capabilities.

Small business instant asset write-off threshold increase

The Government has legislated an increase in the small business instant asset write-off threshold to \$6,500, to support small businesses with an aggregated turnover of less than \$2 million a year. This increase has two components:

- an increase from \$1,000 to \$5,000 as part of the mineral resource rent tax package; and
- a further increase from \$5,000 to \$6,500 as part of the clean energy future plan.

The existing instant asset write-off improves business cash flow by providing an immediate income tax deduction for the cost of eligible assets, with no annual limit to the number of times the deduction is claimed. Increasing the amount businesses can write off will increase cash flow and assist small business to grow and invest in new equipment. The increase comes into effect from the 2012-13 income year. The clean energy future reforms to increase the threshold from \$5,000 to \$6,500 will deliver a benefit to small businesses of \$200 million to 2014-15.

Clean Energy and Other Skills Package

The Government is investing up to \$32 million over four years from 2011-12 in the *Clean Energy and Other Skills Package*. Funding is being provided to help educational institutions and industry develop the materials and expertise needed to promote and build clean energy skills and workforce capability.

The package will enable tradespeople and professionals in key industries to develop the skills needed to deliver clean energy services, products and advice to Australian communities and businesses. This will help transition workers of all types to a low carbon economy by providing them with the skills that will become increasingly important as businesses adapt to a clean energy future. Key occupations include builders and workers in:

- electrocomms (to promote low-cost energy efficiency design);
- facility managers (to support better management of existing buildings to ensure maximum performance);
- engineers (to support whole-process redesign of industrial applications); and
- financial managers (to ensure good understanding of the business advantages of energy efficiency investments).

To date in 2011-12, the Government has invested more than \$8.5 million in 19 clean energy and energy efficiency skills and workforce development projects under the package.

Productivity Commission reviews

The Government is providing \$18 million over four years from 2011-12 to the Productivity Commission to undertake reviews relating to industry assistance and fuel tax arrangements, and to undertake ongoing work to quantify mitigation policies in other major economies. The Productivity Commission will also review industry assistance under the *Jobs and Competitiveness Program* and the *Coal Sector Jobs Package*.

The Productivity Commission released a consultation paper in December 2011 setting out the nature of each of the tasks. This was a first step in consulting with stakeholders. It is anticipated that further consultation papers will be released in 2012, with particular focus on the Commission's approach to undertaking this work.

CHAPTER 4: INNOVATION IN CLEAN TECHNOLOGY AND RENEWABLE ENERGY

Innovation and investment in renewable energy and low-emissions technologies are essential to meet the environmental and economic challenges of competing in a low-pollution world. Australia is well placed to seize these opportunities, with a wealth of untapped clean and renewable energy sources, including some of the world's best wind resources and the highest average solar radiation per square metre of any continent.

The Government's 20 per cent Renewable Energy Target (RET) was always designed to complement the carbon price in supporting renewable energy investment in Australia. The combination of the RET and pricing carbon pollution will encourage a move away from traditional, emissions-intensive, energy generation to alternative energy sources, such as hydro, solar, geothermal, wind and biomass energy, and to more efficient use of energy. While this will motivate industry to find ways of reducing pollution when energy is used or produced, the scale of the transformation required and the barriers to change are high.

As a central element of its plan for a clean energy future, the Government is encouraging innovation by significantly boosting funding and support for targeted early-stage investment in renewable energy, clean energy and other low-pollution technology innovation.

- A new \$10 billion *Clean Energy Finance Corporation* will invest in renewable energy, low emissions technologies and energy efficiency.
- A new *Australian Renewable Energy Agency* will administer \$3.2 billion in Government support for research and development, demonstration, commercialisation and deployment of renewable energy.
- The \$200 million *Clean Technology Innovation Program* will support business investment in research and development, proof of concept and early stage of commercialisation of clean technologies. The program will operate for five years from 2012-13.

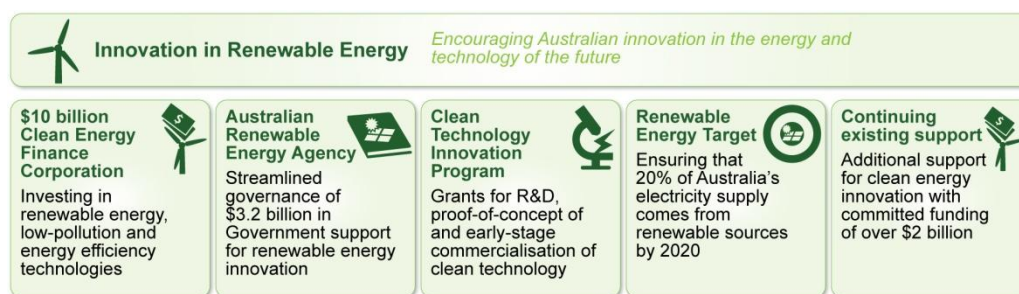
Together, these measures provide a robust framework to support new clean energy technologies and to build a critical mass of renewable energy, energy efficiency and low-pollution energy generation projects across Australia.

ACHIEVEMENTS

- The Expert Review Panel, appointed to advise on the Clean Energy Finance Corporation's design, submitted their report and recommendations to Government in March 2012. The Government accepted all recommendations and released the report on 17 April 2012.

- Sydney announced as the future location of the Clean Energy Finance Corporation on 7 March 2012.
- Legislation enacted to establish the Australian Renewable Energy Agency.
- The administration of the 20 percent Renewable Energy Target, legislated in 2009, was transferred to the Clean Energy Regulator on 2 April 2012.

Figure 4: Overview of innovation measures



INNOVATION AND RENEWABLES PROGRAMS AND INITIATIVES

Renewable Energy Target

The Renewable Energy Target is a key part of the Government's Clean Energy Future plan. In August 2009, the Government implemented the *Renewable Energy Target (RET)*, designed to deliver on the Government's commitment to ensure that the equivalent of 20 per cent of Australia's electricity supply will come from renewable sources by 2020.

With a carbon price, the RET is expected to drive around \$20 billion in private sector investment by 2020. The RET is supporting both large-scale renewable energy projects, such as wind farms and solar plants, and small-scale installations for households, small business and community groups. The RET brings forward significant renewable energy investment by both households and electricity generators, helping us prepare our economy for our targeted emissions reductions and diversify our energy mix.

The Clean Energy Regulator took over the administration of the RET from the Renewable Energy Regulator on 2 April 2012. In November 2011 RET regulations were amended to exclude biomass from native forests as an eligible renewable energy resource, as part of the plan for a clean energy future.

The RET is scheduled to be reviewed by the Climate Change Authority from July this year with a final report by 31 December 2012. The *Renewable Energy (Electricity) Act 2000* sets out the framework for these reviews, including a requirement that any recommendations are not inconsistent with the objects of that legislation.

Clean Energy Finance Corporation

The Government will establish a \$10 billion Clean Energy Finance Corporation (CEFC) to invest in clean energy, with \$2 billion funding per year for five years starting in 2013-14. These investments will deliver the financial capital needed to help our economy transition to cleaner energy sources.

In October 2011, the Government appointed Ms Jillian Broadbent AO, a member of the Reserve Bank Board, to chair an expert review to advise on the design of the CEFC. The Panel, whose other members are Mr David Paradice and Mr Ian Moore, has presented its report to the Government in March this year.

The CEFC will seek to co-finance clean energy projects with the private sector, working with the market to build industry capacity. The CEFC will use a commercial filter to invest in renewable energy, low-emissions and energy efficiency projects and will focus on the later stages of development. It will also invest in manufacturing businesses that produce the required later stage inputs.

The CEFC will aim to invest its capital in two streams: 50 per cent or more will be invested in the renewable energy stream and up to 50 per cent will be allocated to the low-emissions and energy efficiency stream.

The CEFC will use the disciplines of a commercial organisation in assessing investments while operating to achieve a public policy outcome. Where appropriate, the CEFC can tailor a financial package using a variety of financial products and structures, including providing funds, changing the allocation of risk, lengthening available tenor for loans and concessional cost of funds. To ensure that the CEFC has ongoing and stable funding, capital returned from its investments will be reinvested. The fund, once mature, is expected to be self-sufficient. Financial self-sufficiency provides the capacity for the CEFC to operate without requiring ongoing Government budgetary assistance beyond the announced support for the Corporation's establishment and operating costs.

The CEFC will be independent of Government and be run by a board of up to seven members, including the Chair. The Government will articulate its broad expectations on how the CEFC invests and is managed by the Board through an investment mandate. The Board will have overall responsibility to make investment decisions. The Board should comprise of members with skills and experience in banking, investment management, venture capital and private equity, clean energy sector technologies, engineering and/or the environmental sector.

Recommendations from the Expert Review Panel will inform the legislation establishing the CEFC. This legislation will be introduced into Parliament in the 2012 Winter sitting period to allow the CEFC to commence lending operations from 1 July 2013.

On 7 March 2012, the Prime Minister announced that Sydney would be home to the CEFC. Sydney was selected for its strong clean energy sector and network of financial, legal and professional services that support the CEFC's establishment and operation.

Australian Renewable Energy Agency

The Government provides substantial grant-based support for renewable energy across multiple programs. The creation of a new independent statutory body, the *Australian Renewable Energy Agency* (ARENA), will reform the management of these initiatives by providing more independent, efficient and streamlined administration of existing funding.

ARENA will administer \$3.2 billion in Government funding previously administered through the Australian Centre for Renewable Energy (ACRE), the Australian Solar Institute (ASI) and the Department of Resources, Energy and Tourism.

ARENA will commence operations on 1 July 2012, with the objectives of improving the competitiveness of renewable energy technologies and increasing the supply of renewable energy.

ARENA will have an independent decision making board consisting of the Secretary of the Department of Resources, Energy and Tourism and six members appointed by the Minister for Resources and Energy. Members of the Board will have skills in renewable energy technology, commercialisation, business investment and corporate governance.

ARENA will also have an independent CEO appointed by the Minister for Resources and Energy on the recommendation of the Board.

Around \$1.7 billion in uncommitted funding from the range of consolidated programs will be available to ARENA to invest in accordance with a funding strategy to be developed by the Board.

ARENA's funding is guaranteed in legislation to 2020 and can be supplemented by future dividends from the CEFC providing improved long-term funding and policy certainty for industry.

Clean Technology Innovation Program

The Government is providing \$200 million over five years from 2012-13 through the *Clean Technology Innovation Program* (CTINNP) to support targeted business investment in research and development, proof of concept and early stage commercialisation activities. Businesses will be assisted to develop new products, processes and services in the areas of clean energy, low-emissions technology and other energy-efficient technologies. In this way, the CTINNP will support innovative solutions to the challenges associated with the transition to a low carbon economy.

CTINNP is part of the \$1.2 billion Clean Technology Program (discussed in Chapter 3), which also includes the *Clean Technology Investment Program* and the *Clean Technology Food and Foundries Investment Program*.

CTINNP will offer competitive grants of between \$50,000 and \$5 million, contributing one dollar for every one dollar contributed by grantees (a Government contribution rate of up to 50 per cent of eligible expenditure). Companies will continue to have access to the broader R&D Tax incentives.

Successful program applicants will need to demonstrate the extent of their project's contribution to a reduction in carbon emissions or energy consumption, and to the sustainability of a business or industry. Projects involving collaboration will also be encouraged.

CTINNP will be administered and delivered by AusIndustry, with the support of Innovation Australia. Engagement with the public and key stakeholders on the design of the Program commenced in late 2011 and consultation on themes arising from this consultation is ongoing. The Program will open to applications in mid July 2012.

CHAPTER 5: SUPPORTING ENERGY MARKETS

With its ready access to low-cost coal, Australia relies more heavily on coal-fired electricity generation than most other countries. Coal-fired generation accounted for around 75 per cent of Australia's electricity in 2009-10. However, burning coal puts large amounts of carbon pollution into the atmosphere.

Generating electricity from renewable resources like wind or solar power puts no carbon pollution into the atmosphere. If we further develop Australia's solar, wind and other renewable energy resources, and combine coal-fired generation with new technologies such as carbon capture and storage, then our reserves of coal can continue to underpin cleaner electricity generation.

The Government's plan for a clean energy future encourages a smooth and orderly transformation of Australia's energy sector from a high-pollution mix towards a greater share of generation from renewable sources. It is designed to facilitate a transition to lower emissions generation without compromising the secure supply of energy essential to economic growth, jobs, and the prosperity and wellbeing of all Australians.

The key measures for maintaining a secure energy supply and ensuring a stable energy market during this transition are:

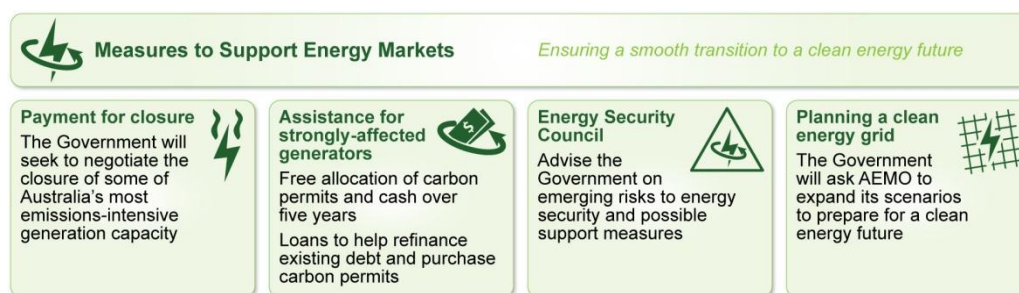
- an *Energy Security Fund* that provides around \$5.5 billion in assistance for generators significantly affected by the introduction of a price on carbon pollution; and
- an *Energy Security Council* to advise the Government on emerging risks to energy security.

ACHIEVEMENTS

- The *Energy Security Council* has been established, board members appointed and Dr Michael Vertigan AC appointed as Chair.
- Applications from eligible electricity generators for cash payments under the *Energy Security Fund* opened on 1 December 2011, and outcomes were announced on 30 March 2012.
- A Cooperative Agreement was signed with the Victorian Government supporting the transition of the Latrobe Valley economy.

- *Key Principles and Operational Guidance for the Energy Security Council Category A Loan Scheme* were released on 22 February 2012, providing emissions-intensive generators with information on how to apply for refinancing loan assistance.

Figure 5: Overview of measures to support energy markets



ENERGY SECURITY PROGRAMS

Energy Security Fund

The *Energy Security Fund* will help smooth the transition to a clean energy economy and maintain energy security through two key initiatives: seeking to negotiate payment for the closure of up to 2000 megawatts (MW) of very highly emissions-intensive coal-fired generation capacity by 2020; and the provision of transitional assistance to highly emissions-intensive coal-fired power stations in Australia in the form of both cash payments and free carbon units.

Both measures require that energy security and market stability outcomes be delivered before any electricity generation capacity can be withdrawn, and structural adjustment impacts carefully managed.

To ease the impact of structural change on those regions most likely to be affected, funding will be available under the *Regional Structural Adjustment Assistance* package for initiatives such as support for displaced workers and their families, and for community development and economic diversification programs.

Contract for closure

The Government is seeking to negotiate the orderly closure of up to 2000 MW of emissions-intensive generation capacity by 2020 to make room for investment in lower-pollution plants. The *Contract for Closure* program promotes energy security by providing new investors with a degree of certainty about the closure of old capacity, and minimises the risks to energy security that may arise from an unplanned exit of electricity generation capacity from the market.

An essential security element of the program is that the timeframe for closure allows enough time for replacement capacity to be built. The Australian Energy Market

Operator (AEMO) will advise the Government on the proposed closure timetable to ensure it is consistent with maintaining secure energy supplies.

Detailed closure proposals were submitted by generators and five generators have been invited to proceed to the negotiation phase:

- Playford B Power Station (Alinta Energy);
- Energy Brix (HRL);
- Hazelwood Power Station (Hazelwood Power Partnership, 91.8 per cent owned by International Power GDF Suez Australia);
- Collinsville Power Station (RATCH); and
- Yallourn Power Station (TRUenergy).

This negotiation process is expected to conclude by 30 June 2012. The Government has indicated the preferred closure timeframe for eligible generators is between 1 July 2016 and 30 June 2020.

The Government is committed to ensuring that measures are put in place to assist workers and communities affected by any *Contract for Closure*.

Transitional assistance for strongly affected generators

The Government will help highly emissions-intensive coal-fired electricity generators facing asset value losses adjust to the introduction of a carbon price by providing transitional assistance in the form of a limited free allocation of cash payments and free carbon units until 2016-17. This assistance is valued at \$5.5 billion (in nominal terms), amounting to around 23 per cent of the coal-fired power stations' expected liability over this time.

Applications for *Energy Security Fund Cash Payments* closed on 31 January 2012 and the assessment outcomes were announced on 30 March 2012.

A combined application for cash payment and free carbon units was made available for convenience, so that applicants did not have to lodge two separate applications. All applications for cash payments submitted on 31 January 2012 that used the combined application option for free carbon units have been passed to the *Clean Energy Regulator*.

Cash payments will be made by 30 June 2012 and the first allocation of free units will be issued by the Clean Energy Regulator on 1 September 2013.

Energy Security Council

An *Energy Security Council* has been established to advise the Government on emerging risks to energy security and on possible support measures to avert those risks. It will

advise on risks emerging from financial impairment from any source, not just from carbon pricing. The Council is able to recommend a range of support measures and will advise on the provision of loans to electricity generators for the refinancing of existing debt.

Dr Michael Vertigan AC, chairs the Council, which also includes energy and financial market experts, and the chairs of the Australian Energy Market Commission (AEMC), the Australian Energy Regulator (AER) and the Australian Securities and Investments Commission (ASIC).

The Council is now meeting regularly and Dr Vertigan has commenced discussions with State and Territory energy ministers on ways to identify and manage potential energy security issues.

Loan assistance

Recognising the difficult borrowing conditions faced by many highly emissions-intensive generators and the amount of refinancing to be undertaken in the industry in the near future, the Government may offer loans to support the refinancing of existing debt. Loans will be offered on terms that encourage generators to seek private finance in the first instance.

The *Energy Security Council* assesses applications for assistance and provides advice to the Government on whether financial assistance should be provided in response to those applications. Applications may be made for:

- **Category A** loans for generator owners which need to refinance their debt if finance on reasonable commercial terms is not otherwise available in line with conditions in the documents referred to below; and
- **Category B** loans or other assistance to seek to address systemic risk to energy security in light of the financial distress of an energy market participant.

Key Principles and Operational Guidance for the Energy Security Council Category A Loan Scheme (for refinancing) were posted online (www.energysecuritycouncil.gov.au) on 22 February 2012, and the Program Administrative Guidelines and application form are available to generators upon request.

Loans may also be offered to support the acquisition of future year carbon permits at early auctions. Provisions for *Loans for the Purchase of Future Vintage Permits* have been included in the *Clean Energy Act 2011*.

Regional structural adjustment assistance

Under the Government's plan for a clean energy future up to \$200 million will be made available for workers, regions and communities that remain strongly affected by the carbon price after other forms of assistance have been provided.

The potential impact of carbon pricing on regions will be closely monitored to identify any communities that require help to ease the transition. Where required, the Government will work in close consultation with communities to develop and deliver structural adjustment assistance. This may include support for displaced workers and their families and affected small businesses, community development and economic diversification. Funding for any region under the program will be determined on a case-by-case basis, and will be available from 2012-13.

On 13 December 2011, the Australian and Victorian governments signed an *Agreement for Cooperative Arrangements for the Gippsland Region* to support the transition of the Latrobe Valley economy, positioning this key energy region to transition to a more diversified and low-carbon economy.

Planning a clean energy grid

The Australian Energy Market Operator (AEMO) plays a key role in planning the national electricity transmission grid, centering on the annual National Transmission Network Development Plan. The Government has asked AEMO to expand its planning scenarios to prepare for greater use of renewable energy. This will include further consideration of energy market and transmission planning implications of moving towards 100 per cent renewable energy.

CHAPTER 6: ENERGY EFFICIENCY

Using energy more efficiently can lower carbon pollution and save money for households, business and community organisations. Small actions can make a big difference and there is considerable scope to improve energy efficiency throughout our economy. That is why promoting energy efficiency is a key part of the Government's plan for a clean energy future.

Through its package of energy efficiency programs, the Government is helping households to use energy more wisely and save money on their energy bills. The Government is also helping businesses become more energy efficient. These programs will not only drive smarter energy use in business, local government, households and communities, but will create new job opportunities and stronger local economies.

Many steps can be taken in households to improve energy efficiency and reduce the impact of the carbon price. These start with the design and construction of homes and move on to the way people live in them, how much energy they use and the decisions they make when selecting and using household appliances. Businesses across all industry sectors can also implement more energy efficient technologies and production systems, and become more competitive through the adoption of cleaner technology and by moving to less emission-intensive production of goods and services.

ACHIEVEMENTS

- Community consultations on the *Community Energy Efficiency Program*, *Low Income Energy Efficiency Program* and *Energy Efficiency Information Grants Program* attracted strong interest. More than 700 people from an array of government, community and private sector organisations attended a series of information sessions around the country to explain the programs.
- Assessments of over 663 applications and expressions of interest are now underway for funding under the *Energy Efficiency Information Grants Program*, the *Community Energy Efficiency Program*, the *Low Income Energy Efficiency Program* and the *Home Energy Saver Scheme*.
- Full disclosure arrangements for large commercial office buildings under the Building Energy Efficiency Disclosure Act commenced on 1 November, 2011. This is a national program designed to improve the energy efficiency of Australia's large office buildings through the disclosure of up to date energy efficiency ratings.
- Low Carbon Australia Ltd continues to invest in a range of innovative financing deals, principally directed at energy efficiency retrofits in buildings.
- Further work on investigating a potential national *Energy Savings Initiative* is progressing, following a series of stakeholder workshops and consultation on an

issues paper outlining possible design options. The feedback received is providing valuable input to the ongoing investigation, which will underpin the Government's consideration of whether or not to implement a national scheme.

- A discussion paper has been released for consultation on the design of *Charities Maritime and Aviation Support Program*.

ENERGY EFFICIENCY PROGRAMS

Energy efficiency at home

Greenhouse and Energy Minimum Standards

The Australian Government is announcing \$37.1 million in funding in the 2012-13 Budget over four years to introduce a nationally-consistent legislative framework to regulate the energy efficiency of equipment and appliances. This measure addresses two important policy objectives of improving energy efficiency and reducing greenhouse gas emissions by consolidating seven state and territory legal frameworks into a single piece of Commonwealth legislation.

The Greenhouse and Energy Minimum Standards legislation will improve Australia's Equipment Energy Efficiency Program, which is forecast to deliver economic benefits of over \$5 billion to households and businesses in 2020.

Low Carbon Communities: Low Income Energy Efficiency Program

The *Low Income Energy Efficiency Program* will provide grants to consortia of government, business and community organisations to trial approaches to improve the energy efficiency of low income households and enable them to better manage their energy use. \$100 million will be provided over four years from 2012-13.

Expressions of interest for the first round of the program closed on 16 March 2012. Initial assessments are underway and it is anticipated that successful consortia will be announced later this year.

Low Carbon Communities: Home Energy Saver Scheme

The *Home Energy Saver Scheme* (\$29.9 million over four years from 2011-12) will help around 100,000 low-income households improve their energy efficiency and financial sustainability. The package of assistance to low-income households will include: tailored in-depth assistance through home visits by trained workers, general energy efficiency and financial management information and advice; and access to the *No Interest Loans Scheme* to assist with the purchase of more energy efficient appliances.

LivingGreener

The Government is providing \$5.5 million over four years from 2011-12 to further expand and enhance the *LivingGreener* website to include more information about

energy efficiency and managing energy costs. The website is supplemented by a household information and advice telephone service.

New content continues to be added to the *LivingGreener* website, including a range of new material on managing household energy costs. New guides on the site include: 'Reduce your energy bills' and 'LivingGreener with Home Entertainment and Technology'. A social media strategy is being implemented, with *LivingGreener* now on Twitter @Living_Greener and developing its Facebook presence.

Household Energy Survey

The Australian Bureau of Statistics is currently conducting a survey to gather and communicate data on household energy consumption (including behaviours that affect consumption) and expenditure. The survey is collecting data to support innovative solutions to improve household energy efficiency and the design of new energy efficiency policies. The final survey results are expected to be released in September 2013.

Helping communities save energy

Low Carbon Communities: Community Energy Efficiency Program

The *Community Energy Efficiency Program* (\$200 million over four years from 2011-12) will provide matched funding to local councils and not-for-profit community organisations to undertake energy efficiency upgrades and retrofits to council and community-use buildings, facilities and lighting. The program will demonstrate and encourage smarter energy use.

Applications for round one funding closed on 23 March 2012. Assessments are underway and it is anticipated that applicants will be notified of the outcomes in May 2012.

Low Carbon Communities: Charities Maritime and Aviation Support Program

The *Charities Maritime and Aviation Support Program* (\$23 million over five years from 2012-13) will offer a rebate for the carbon price impact on essential maritime and aviation fuels used by organisations such as air and sea rescue services. This recognises the important role that charitable organisations play in providing essential services to communities, in particular aero-medical and search and rescue services.

Submissions on a discussion paper seeking feedback on the proposed design of the program closed on 13 April 2012. Program guidelines are expected to be released in May 2012 with rebate applications likely to be accepted from June 2012 for the period commencing 1 July 2012.

Remote Indigenous Energy Program

The *Remote Indigenous Energy Program* (\$40 million over five years from 2011-12) will help smaller remote Indigenous communities access affordable and reliable 24-hour

power supplies. This will improve the reliability of the energy supply for these communities and contribute to improvements in health, education and long-term economic viability.

The Program will support the installation of renewable energy generation systems in up to 50 smaller remote Indigenous communities across Australia. It will also include training in basic system maintenance and the provision of energy efficiency education to community householders to encourage ongoing energy management. This will make a significant impact on those communities which currently rely on diesel generators for their power supplies. In 2012-13, five systems will be installed, followed by approximately 15 installations a year for the next three years, to 2015-16.

More fuel efficient cars

The Government will introduce mandatory carbon dioxide (CO₂) emissions standards for new light vehicles, starting in 2015. The standards will complement the Government's carbon price and help to reduce carbon emissions from light vehicles. Mandatory CO₂ standards are internationally recognised as one of the most cost effective strategies to reduce transport emissions.

Comments on a public discussion paper closed on 9 December 2011. Key issues discussed in the paper were the emissions target(s) to be established under the standards and the most appropriate regulatory framework for implementing the standards.

The views received in response to the discussion paper are helping the Government to develop an implementation Regulation Impact Statement, which will set out options to implement the new standards. The Regulation Impact Statement will also include a benefit-cost analysis and will be formally released for public comment in the second half of 2012.

Energy efficiency in business

Continuation and expansion of Energy Efficiency Opportunities

The Government's *Energy Efficiency Opportunities* (EEO) program encourages large energy-using businesses to improve their energy efficiency. It does this by requiring businesses to identify, evaluate and report publicly on cost effective energy savings opportunities. Under its plan for a clean energy future, the Government is expanding the EEO program to include energy generators, transmitters and distributors.

Submissions on options papers for extensions to both the greenfield and major expansion projects, and electricity and gas networks closed in March 2012. Comments received are informing the development of a Regulation Impact Statement and proposed changes to the EEO regulations. The Government aims to have the relevant EEO regulations in place by 1 July 2012.

Energy Efficiency Information Grants Program

Clear information from trusted sources will be vital in helping small and medium enterprises and community organisations improve their energy efficiency. The Government is providing \$40 million over four years from 2011-12 for the *Energy Efficiency Information Grants Program*. Grants will be provided to assist industry associations and non profits provide practical, tailored energy efficiency information to small and medium enterprises and community organisations.

Applications for round one funding closed on 16 March 2012. Applications are being assessed and it is anticipated that successful applicants will be announced in May 2012.

Energy Efficiency in Buildings

The Government's 2012-13 Budget includes an additional \$2.8 million over the forward estimates in funding for a range of building energy efficiency activities, including the maintenance and improvement of building related regulatory and information disclosure schemes.

This funding supports a package of programs that deliver cost-effective abatement in the building sector. These include administering the *Nationwide House Energy Rating Scheme (NatHERS)*, maintaining the implementation, monitoring and compliance of the *Building Energy Efficiency Disclosure (BEED) Act* and contributing to measures in the *National Strategy on Energy Efficiency*.

The Government is also implementing the *Energy Efficiency in Government Operations* program. This program aims to reduce the energy consumption of Australian Government operations with particular emphasis on building energy efficiency. It includes energy efficiency targets for Government agency office buildings and a requirement for a Green Lease Schedule to be included as part of the lease agreement for a new Australian Government office building. Green Lease Schedules help landlords and tenants agree on steps to improve and maintain energy performance.

Working towards a national Energy Savings Initiative

The Government is expediting the development of a potential national *Energy Savings Initiative* (ESI). An ESI is a market-based tool for driving economy-wide improvements in energy efficiency. It could help business and household consumers reduce their power bills by encouraging the take-up of energy efficient technologies.

The Government established a working group to report on possible design options for a national ESI. Public comment on an issues paper released by the working group closed on 27 February 2012 and the feedback is providing valuable input to the ongoing investigation. The working group has commissioned economic and energy market modelling to inform a Regulation Impact Statement, to be released for public consultation in the second half of 2012.

The Government's decision on whether to implement a national ESI will be based on the outcomes of this work, including a benefit-cost analysis, the Regulation Impact Statement and consultation processes.

CHAPTER 7: CREATING OPPORTUNITIES ON THE LAND

Creating opportunities in the land sector to cut pollution, while maintaining productivity and improving sustainability and resilience, is a key component of the Government's plan for a clean energy future.

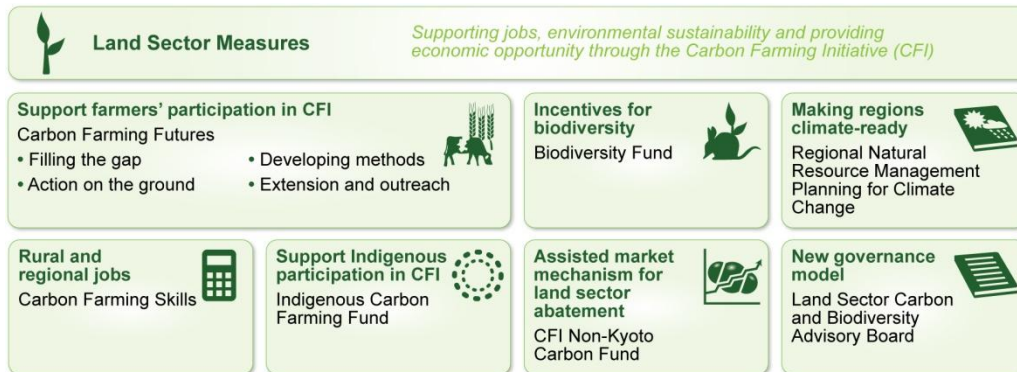
The carbon price will not apply to agricultural and land sector emissions. This means that farmers will not have to pay for greenhouse gas emissions from agricultural activities, and the fuel they use for farm equipment and personal vehicles will not be covered by the carbon price. Further, over \$1.7 billion of carbon price revenues will be invested in the land sector, through new funding programs to help farmers and land managers pursue climate change action and promote biodiversity.

This integrated land sector package creates economic rewards for farmers who reduce pollution or store carbon and will protect biodiverse carbon stores and secure environmental outcomes from carbon farming.

ACHIEVEMENTS

- The Carbon Farming Initiative (CFI) Administrator and the Australian National Registry of Emissions Units were established in December 2011. The Registry is a secure electronic system that tracks the location and ownership of carbon credits created through approved CFI projects and, in the future, carbon credit units issued under the carbon pricing mechanism.
- The Land Sector Carbon and Biodiversity Board, which provides advice on the implementation of the land sector package, was established in November 2011 and is meeting regularly.
- Applications were invited for round one of the Biodiversity Fund and over 1500 applications for funding were received.
- Up to \$63.8 million has been approved under round one of the Carbon Farming Futures program.
- The Domestic Offsets Integrity Committee, an independent expert committee supporting the environmental integrity of carbon offsets generated under the CFI, was established in March 2012 and has held its first meeting. An interim committee operated in 2011.

Figure 6: Overview of land sector measures



LAND SECTOR PROGRAMS

Land Sector Carbon and Biodiversity Board

The independent Land Sector Carbon and Biodiversity Board, established under the *Climate Change Authority Act 2011*, is responsible for providing advice on the implementation of the land sector measures. The Board members are the Hon Bob Debus AM (Chair), Ms Anna Skarbek, Mr David Crombie, Mr Joe Ross and Professor Lesley Hughes. Key functions of the Board are to:

- report annually to Parliament about the progress of land sector and biodiversity measures;
- advise the relevant ministers on the implementation of the land sector measures;
- advise on the coordination of research to reduce duplication across the research community; and
- advise on key performance indicators for the land sector measures.

The Board also advises on guidelines for the priorities, streaming of funding and criteria for the Biodiversity Fund. The Board plays a key role in ensuring the Biodiversity Fund is well targeted and maximises the opportunities available.

The Board has met twice and has provided advice to the Government on a range of land sector matters, including round one applications under the Biodiversity Fund, delivery options for the Regional Natural Resource Management Planning for Climate Change Fund, and the design and operation of the Indigenous Carbon Farming Fund.

Carbon Farming Initiative

The Government's Carbon Farming Initiative (CFI) is a key program that provides economic rewards for farmers and landholders who take steps to reduce carbon

pollution or store carbon on the land. Participation in the CFI is voluntary; farmers and landholders can choose whether or not to be involved. Those that do participate in the CFI may be eligible to receive carbon credits for the carbon pollution which can be reduced or stored on the land.

The CFI creates a new income stream for farmers, new jobs for rural and regional Australia and provides incentives to identify and implement low-cost methods of pollution reduction. Credits earned by farmers and land managers under the CFI can be sold to people and businesses to offset their emissions. The CFI also helps the environment by encouraging sustainable farming and providing a source of funding for landscape restoration projects. Legislation to underpin the CFI was passed by the Parliament on 23 August 2011. On 15 September 2011 the *Carbon Credits (Carbon Farming Initiative) Act 2011* received royal assent. The CFI Administrator was established in December 2012 and is now operational. On 2 April 2012 the CFI Administrator was integrated with the Clean Energy Regulator.

The *CFI Handbook*, a practical guide to understanding and participating in the CFI, was released on 29 March 2012.

Biodiversity Fund

The *Biodiversity Fund* will invest \$946.2 million over six years from 2011-12 to help land managers store carbon, enhance biodiversity and build greater environmental resilience across the Australian landscape. To do this, it will fund eligible land managers for activities which restore, manage and better protect biodiversity on public and private land. It will also provide further support to land managers who wish to take advantage of emerging opportunities in the new carbon market. The Biodiversity Fund will provide support to establish new carbon stores or better manage carbon stores of existing native habitat.

The *Biodiversity Fund* will invest in three main areas:

- biodiverse plantings - funding will help land managers expand native habitat on their property through planting mixed vegetation species appropriate to the region. This will help build landscape resilience and connectivity;
- protecting and enhancing existing native vegetation - funding will support land managers to protect, manage and enhance existing native vegetation in high conservation areas on their land for its carbon storage and biodiversity benefits; and
- managing threats to biodiversity - funding will control the threat of invasive pests and weeds in a connected landscape.

Applications for round one of the *Biodiversity Fund* opened on 9 December 2011 and closed on 31 January 2012. 1530 applications were received and successful projects are expected to commence by 30 June 2012.

Carbon Farming Futures

The *Carbon Farming Futures* program will provide \$430 million over six years from 2011-12 to reduce emissions from, and maintain the productivity of, the land sector through improved management practices and on-farm application of abatement technologies.

These advances will allow farmers and other landholders to benefit from the economic opportunities of the CFI while assisting Australia in achieving its long term emissions reduction targets.

Farmers will be provided with the tools to generate carbon credits and benefit from carbon farming. Funding will be provided through five components.

Filling the Research Gap

This program will invest \$201.3 million to support research into emerging abatement technologies, strategies and innovative management practices that reduce greenhouse gas emissions from the land sector, sequester carbon and improve sustainable agricultural practices.

Filling the Research Gap is building on research undertaken through the *Climate Change Research Program*. Projects will target current research gaps around abatement technologies and practices. Current research priorities are: reducing methane emissions; reducing nitrous oxide emissions; sequestering carbon in soil; and improving modelling capability. Research outcomes will underpin the development of new abatement methodologies that land managers can use to participate in the CFI.

Up to \$46.5 million has been approved under round one of the Filling the Research Gap Program.

Methodology Development

The \$20 million *Methodology Development* program will convert research, including outcomes from *Filling the Research Gap* and the *Climate Change Research Program*, into estimation methodologies to use in the CFI.

To ensure the integrity of the CFI and the ongoing value of credits generated, abatement projects need to meet scheme eligibility criteria and use an approved methodology. This program will expand abatement opportunities under the CFI by facilitating the development of methodologies that comply with CFI requirements, meet the needs of agricultural industries and rural and indigenous communities, and are supported by scientific evidence.

The Domestic Offsets Integrity Committee is responsible for assessing and providing advice to the Government on methodology proposals for use under the CFI.

Action on the Ground

Action on the Ground will invest up to \$99.3 million of competitive grant funding in on-farm projects. It is designed to enable on-farm trial and demonstration of practices and abatement technologies to reduce agricultural greenhouse gas emissions and increase carbon sequestered in soil.

Action on the Ground projects will create new opportunities for landholders and farmers to participate in the CFI by trialling and demonstrating outcomes from research programs, including the *Climate Change Research Program* and the *Filling the Research Gap* program. Projects under *Action on the Ground* will ensure that research results can be practically applied on the ground in real farming situations.

Up to \$17.3 million has been approved under round one of the Action on the Ground Program.

The *Action on the Ground* program also includes a refundable tax offset to encourage primary producers to adopt conservation tillage practices.

Primary producers will be able to claim a 15 per cent refundable tax offset for new eligible conservation tillage equipment installed and ready for use between 1 July 2012 and 30 June 2015. In order to apply for the offset primary producers must first complete a conservation tillage survey with the Department of Agriculture, Fisheries and Forestry. Legislation to implement the refundable tax offset was passed as part of the *Clean Energy (Consequential Amendments) Act 2011*.

Extension and Outreach

The \$64.4 million *Extension and Outreach* program will invest in coordinated communication activities to provide technical information and support for farmers and other land managers so they can benefit from carbon farming.

Extension and Outreach activities will motivate landholders to explore opportunities to participate in the CFI. Extension officers will provide technical information and support to landholders about: integrating carbon management into farm planning; new research and farm techniques suitable for the property and farm business; and the productivity and environmental benefits of carbon farming.

This program builds on the \$4 million the Government is investing in the *CFI Communications Program* which is providing farmers and land managers with credible, clear and consistent information on the CFI.

Carbon Farming Initiative (Non-Kyoto Fund)

Under the non-Kyoto fund, the Government will purchase non-Kyoto compliant CFI credits that cannot be purchased by companies to offset liabilities they may have under the carbon pricing mechanism. This program will increase incentives for activities that are not counted towards Australia's emissions target under current international carbon accounting rules. Such activities include the storing of soil carbon, revegetation and forest conservation projects.

The Fund will commence on 1 July 2013, with funding of \$250 million over six years.

Regional Natural Resource Management Planning for Climate Change Fund

The Government is providing \$44 million over five years from 2011-12 to help regional natural resource management (NRM) organisations incorporate the impact of climate change on the land in their regional NRM plans and develop scenarios of climate change impacts at a regional level.

The updated regional plans will provide a guide for finding the most appropriate locations for new projects to store carbon or to build connectivity in the landscape. This will help to maximise the benefits from carbon farming and biodiversity projects. The fund is divided into two streams:

- Stream 1 will provide \$28.9 million over five years to support the 56 regional NRM organisations revise existing regional NRM plans to help identify where, in the landscape, carbon plantings, revegetation, restoration and other CFI mitigation activities should be undertaken.
- Stream 2 will provide \$15 million over four years to support information delivery, research and analysis to develop scenarios on regional climate change impacts which can be used for natural resource management and land use planning.

Indigenous Carbon Farming Fund

The *Indigenous Carbon Farming Fund* (\$22.3 million over five years from 2012-13) will provide support to Indigenous Australians to participate in the CFI. The *Indigenous Carbon Farming Fund* comprises two streams:

- a research and development stream (\$5.2 million over five years from 2012-13) will provide funding for research and reporting tools for CFI methodologies. This funding will be directed towards low-cost methodologies likely to have high Indigenous participation to help create real and lasting opportunities for Indigenous Australians; and
- a capacity building and business support stream (\$17.1 million over five years from 2012-13) will help Indigenous communities establish or participate in carbon farming projects.

The *Indigenous Carbon Farming Fund* will assist Indigenous landholders and land managers to earn credits under the CFI by undertaking projects to reduce emissions or store carbon.

Carbon Farming Skills

The *Carbon Farming Skills* program (\$4.2 million over five years from 2011-12) will ensure that landholders have access to credible, high quality advice and carbon services. This measure will fund:

- development of a new nationally accredited qualification for carbon service providers; and
- an accreditation scheme for carbon service providers operating under the CFI.