

## **Additional Comments by Senator Nick Xenophon**

I have long supported that Australia must act on climate change; that the risks involved in doing nothing are too great.

However, it is crucial that the scheme is credibly internationally and sustainable domestically.

Therefore, the question should not be whether Australian should take action on climate change, but what model should Australia adopt and which scheme will best ensure that true environmental benefits are achieved without damaging Australia's economy or disadvantaging local industries.

After all, imposing large adjustment costs on the economy with no prospect of incremental global abatement gain is simply not an efficient economic proposition.

I have long advocated for an intensity-based scheme, as proposed by Frontier Economics, whereby emitters are penalised for emissions above a set standard and rewarded if their emissions intensity is below the set standard.

This approach preserves the same intention the Government has to reduce Australia's emissions but would not unnecessarily raise tax revenue (or prices to consumers) in the same way the proposed carbon tax will or the proposed emissions trading scheme that will follow it.

Indeed, pre-existing taxes already create economic distortions that discourage investment, consumption and labour. When a carbon price/tax is imposed in addition to these existing taxes, the resulting economic costs are multiplicative, not additive.

The Government's current proposal will result in projected domestic emissions 18% above 2000 levels by 2020, rather than the 5 percent below 2000 levels as advocated for in the Government's previous CPRS legislation which was twice rejected by the Senate.

Furthermore, I believe an even higher abatement target can be pursued under an intensity based scheme due to the economic cost savings and because the scheme will result in lower energy price rises, which will make the low carbon transition more acceptable to consumers.

Under an intensity-based approach, baselines across sectors and activities in an economy would be set at the level that achieves the desired emissions level; any producer emitting more than the baseline has to acquire permits in excess of the baseline, and any producer emitting below the baseline is allowed to create and sell permits to those who need to buy permits.

The scheme works by simultaneously penalising higher emitters (just as occurs under a 'cap and trade' scheme) and rewarding lower emitters. In simple terms, the scheme is a 'carrots' and 'sticks' approach.

Importantly, through such a scheme, the overall price impact is reduced because the costs are confined to the proportion of emissions about the set baselines.

In line with this, I proposed the following amendments to the Exposure Draft of the Clean Energy Legislation which I believe would achieve a higher abatement target and reduce the amount of revenue churn within Australia's economy.

### **Proposed amendments**

- \* Increase target reduction emissions to 10 percent less than 2000 levels by 2020.

This target is achievable, based on modelling by Frontier Economics in August 2009, commissioned by myself and The Hon Malcolm Turnbull MP. Australia should be aiming for real reductions and this can be achieved through some of the following proposals.

- \* Establish a Clean Energy Standard

Under such a scheme, the electricity generation sector will be incentivised to reduce emissions. By allocating a number of free units each year, and using a formula to reduce the number of permits issued under a benchmark for each year until 2030, this will encourage the electricity sector to reduce their emissions without substantially increasing energy prices to consumers.

- \* Establish a National Energy Efficiency Scheme

White certificates schemes are successfully operating in Australia and are also common in Europe. The inclusion of a national white certificates scheme as part of the Government's proposal would promote and recognise those who are introducing commercial and domestic efficiency measures. This would lower compliance costs for electricity retailers already facing multiple energy efficiency schemes across different states and would further support an increased emissions reduction target.

- \* Recognise voluntary action

It is important that the Government recognise and provide incentives for voluntary action, without reducing the obligations of emitters. Voluntary action by the Commonwealth, States and Territories, by local government bodies, other entities or individuals to reduce or offset greenhouse gas emissions, which is not otherwise accounted for under the scheme, should be rewarded.

\* Require greater compliance by EITE businesses

EITE businesses should be required to demonstrate that they are both economically viable and environmentally responsible so to be eligible to continue to receive assistance.

However, I ultimately cannot support the Government's Clean Energy Legislative package as I do not believe it is an effective or economically responsible approach to reducing carbon pollution.

An intensity-based scheme would achieve a more ambitious carbon emissions reduction target and would be more attractive in managing adjustment concerns because the scheme has lower cost properties.

This would be desirable from an environmental perspective and in terms of sending a more credible signal internationally.

Further, while I believe that it is important that this Parliament debate ways to reduce Australia's carbon emissions, and it seems inevitable that the Clean Energy Legislative package will be passed with the support of the Greens, I do not believe the legislation should be implemented until a Federal Election has been called and a mandate obtained for the introduction of such policies.

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