

25 March 2009

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Submission to the Senate Standing Committee on Economics: Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme

Dear Senators,

Thank you for the opportunity to provide this submission on the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme.

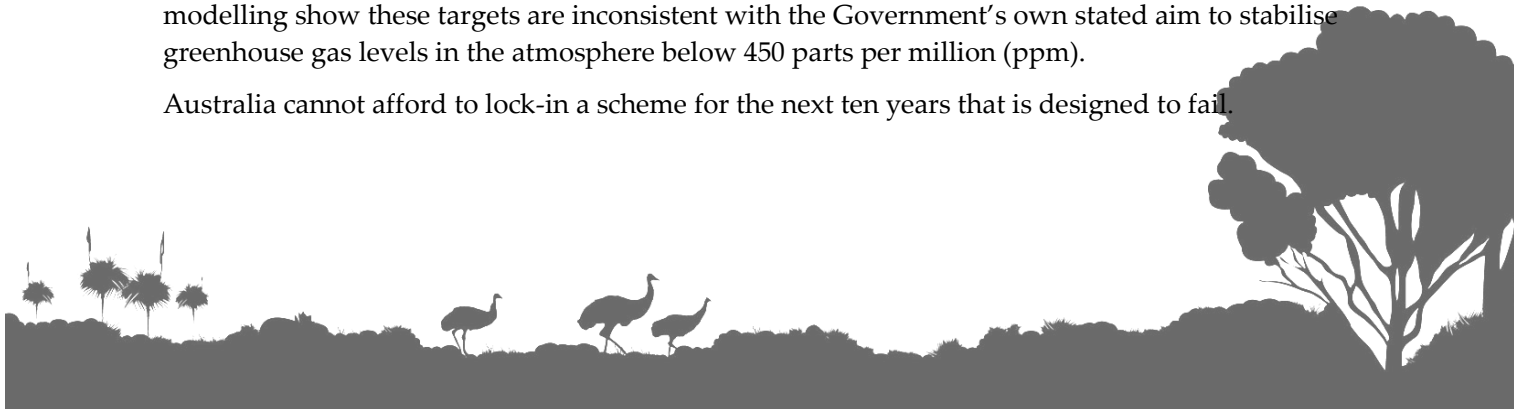
It is in Australia's national interest to act early and strongly to tackle climate change. Australia's best climate scientists warn that if effective global action to achieve deep cuts in greenhouse gas emissions does not begin in the near future, Australia will see a future of dramatically increased days of extreme bushfire and heatwave stress, more severe and regular droughts in southern Australia, more destructive cyclones and risks of mosquito-born diseases in the North and devastating damage to the Great Barrier Reef and many other natural icons.

Recent bushfire and heatwave disasters in Australia are a foretaste of a much worse future if we don't act now. Every year of inaction knowingly locks in a more devastating future. Every year of inaction knowingly locks out the opportunity for Australian jobs growth and prosperity in the rapidly emerging 'low carbon' industries of the future.

The Rudd Government's weak proposed emissions trading law threatens global progress on climate change and the legislation should not be passed by Parliament until it is fixed.

Without major changes the legislation will see Australia locked into a system that is designed to achieve emissions cuts in the weak 5–15 per cent range. The Garnaut Review and Treasury modelling show these targets are inconsistent with the Government's own stated aim to stabilise greenhouse gas levels in the atmosphere below 450 parts per million (ppm).

Australia cannot afford to lock-in a scheme for the next ten years that is designed to fail.



The legislation must be fixed this year, so Australia can go to Copenhagen in December as a champion of a strong international agreement – not a spoiler.

There are four key problems with the Carbon Pollution Reduction Scheme that we would like to raise in this submission, along with recommendations to address these. The Australian Conservation Foundation (ACF) is continuing to examine the exposure draft legislation and seek legal advice on key aspects and changes needed to implement the recommendations below. For further detail on ACF's recommendations for an environmentally effective emissions trading scheme please see our submission to the CPRS Green Paper (attached).

1 The weak proposed emission reduction targets of 5–15 per cent, if adopted globally, would condemn Australia to a future of dangerous climate change

Australia can play a leadership role in pressing for a strong global agreement on climate at the crucial Copenhagen negotiations in December 2009. But first we need a strong target to reduce emissions here. ACF advocates a national 2020 target of at least 30 per cent, moving to 40 per cent in the context of an international agreement.

The Government's proposed target of 15 per cent in the context of an international agreement is not consistent with the Prime Minister's statement that the Government "accepts the findings of the Garnaut Climate Change Review that it is in Australia's interests to pursue a fair and effective global agreement delivering deep cuts in emissions, so as to stabilise concentrations of greenhouse gases in the atmosphere at around 450 parts per million or lower by mid century" (PM Kevin Rudd, 15/12/08).

The Garnaut Review and Treasury modelling equate Australia's full and fair share of a global outcome of 450ppm or lower as an Australian target to reduce emissions by 25 per cent or more by 2020 on 2000 levels.

The objects of the draft legislation set out in section three clearly articulate that the CPRS is not designed to move beyond the weak 5-15 per cent target range for 2020. Further ACF is advised by the Department of Climate Change that the legislation is not intended to provide flexibility for the Minister to consider targets more aligned with the most recent climate science.

Recommendations:

- Australia should champion an international agreement to stabilise atmospheric concentrations of greenhouse gases at 450ppm or lower, maintain flexibility for stronger global targets later and lift the top end of the 2020 target range to 40 per cent in the context of a global agreement.
- Reference to weak targets for 2020 and 2050 should not be included in the objects of the Act to avoid constraining Australia's emissions reductions. Section 3 (4) should be replaced with a reference to "the principle that the stabilisation of atmospheric concentrations of greenhouse gases at around 450 parts per million of carbon dioxide equivalence or lower is in Australia's national interest" as stated in section 15 (c)(i).
- Every reduction in emissions by a further 10 per cent by 2020 would require an additional 55 million tonnes of abatement. This could be easily achieved through additional measures and

household voluntary actions above and beyond the CPRS targets. A number of examples are given below with some indicative estimates of their abatement potential¹:

- The Renewable Energy Target – the Federal Government’s *Tracking to Kyoto 2007* document estimates the 20 per cent renewable energy target could reduce 20 million tonnes of carbon pollution by 2020.
 - The \$3.7 billion insulation package – Prime Minister Rudd noted in Parliament that in aggregate “Once fully implemented, the initiative could result in reductions of greenhouse gas emissions by 49.9 million tonnes by 2020, or the equivalent of taking one million cars off the road” (3/2/09).
 - A national energy efficiency strategy for households, commercial buildings and industry.
 - Household actions, including purchase of GreenPower – there are more than 850,000 GreenPower customers in Australia who have saved over 5.7 million tonnes of carbon pollution through their actions.
 - Commitments by companies to go carbon neutral or reduce emissions.
 - Transport efficiency improvements and public transport investment. Improvements to transport efficiency could achieve 37.8 million tonnes of abatement by 2020 according to the Bus Association of Victoria.²
 - Mandatory fuel efficiency standards for cars.
 - Action on land management, agriculture, reforestation and rehabilitation in Australia.
 - Additional ‘above target’ reductions from reducing emissions from deforestation and forest degradation (REDD) in developing countries. The Government would need to make a substantial *additional* financial contribution to REDD initiatives beyond commitments to assist developing countries.
 - State-based programs (eg. white certificate schemes and solar feed-in tariffs).
 - Commitments by local governments to go carbon neutral or reduce emissions.
- To encourage a strong global agreement Australia should allocate at least \$1 billion per year from CPRS permit revenue to help developing countries reduce emissions and to prepare for climate change impacts that cannot be avoided.

2 The proposed scheme locks in ‘pollution overallocation’

The proposed CPRS locks in the overallocation of carbon pollution for a decade. Just as overallocation of water has crippled the Murray-Darling river system and cost taxpayers dearly, many tens of billions of taxpayers’ dollars would need to be spent to move from weak targets to environmentally effective targets.

¹ More accurate abatement potentials would need to be recalculated to take into account interactions with the CPRS and other measures.

² See BusVic Presentation 20 August 2008:

[http://www.mav.asn.au/CA256C320013CB4B/Lookup/transport08stanley/\\$file/Stanley.pdf](http://www.mav.asn.au/CA256C320013CB4B/Lookup/transport08stanley/$file/Stanley.pdf)

Under the White Paper, gateways will be set in early 2010 that will be binding out to 2025. There will be no opportunity to increase targets beyond the gateway. The only way the Government could take on stronger action before 2020 would be by purchasing international permits with money from the budget.

To move from a 15 per cent to a 25 per cent target would cost around \$3 billion in the year 2020 alone. There is a very high risk this would be politically difficult to achieve in annual budgets, effectively locking in 'pollution overallocation'.

Recommendation:

- Strengthen national targets and remove the burden for future strengthening from the tax payer.

3 Excessive handouts will entrench a 'high' carbon economy and weaken the transition to a 'low carbon economy'

The White Paper fails to invest in energy efficiency across the economy, with a high risk of entrenching a 'high' carbon pollution economy in Australia to the detriment of future jobs growth. The White Paper proposes more than \$9 billion in handouts to emissions-intensive industries to 2012.

This assistance is the equivalent of every Australian household paying an average of \$558 by 2015 to fund the activities of the companies that are fuelling climate change.

Analysis by financial advisors Innovest (attached) found that in just the first year of the CPRS companies in the aluminium smelting sector are set to receive \$939 million per year while alumina refiners will receive \$251 million. Rio Tinto alone would receive \$462 million, Alcoa \$170 million, Norsk Hydro \$116 million and Alumina Ltd \$113 million. All these figures are expected to grow year on year and in 2015 the aluminium industry will be receiving \$1.6 billion in free permits. This represents a massive transfer of wealth to private interests with little public policy benefit. The value of free permits going to Rio Tinto alone in the first two years of the CPRS is greater than the Governments entire renewable energy fund.

Further, the rising proportion of free permits dedicated to supporting emissions-intensive, trade-exposed (EITE) industries may place significant pressure on future budgets. The proportion is expected to rise from 25 per cent in 2010 to 45 per cent in 2020. As noted by Professor Garnaut³, there is no room to allow targets to be increased beyond 5 per cent, or for industry to grow faster than expected, without requiring either cuts to household support or dipping into consolidate revenue. The White Paper proposes a high and increasing level of 'polluter protection' that will disadvantage Australia in the future.

The potential for so called 'carbon leakage' has been overstated. As reported in The Economist, the evidence on how much industries may suffer under emissions trading does not support the "shrill

³ Garnaut, R., *Oiling the squeaks*, 20 Dec 08: <http://www.smh.com.au/news/environment/oiling-the-squeaks/2008/12/19/1229189886229.html?page=fullpage#contentSwap1>

protectionist rhetoric" calling for compensation.^{4 5} Competitor nations are already acting with substantial climate change policies in the EU, China, the USA and many other nations. The Green Paper notes that those industries that would face significant (greater than 4% of revenue) cost increases under a \$20 a tonne carbon price represent only around 2% of national production and 2% of employment.

Additionally, the White Paper removed the Green Paper proposal for quantitative restrictions on the use of international permits. Treasury modelling shows with the proposed 5 per cent domestic target, emissions do not reduce from the Australian economy until 2035, because of unlimited access to purchase of permits overseas.⁶ There is little incentive for Australian industry to improve its carbon productivity and to prepare for a low carbon future.

Recommendations:

- Reduce the proposed portion of permit revenue allocated to EITE activities assistance to 10 per cent, and abandon compensation to electricity generators.
- Ensure EITE assistance is reviewed every two years by an independent authority with the goals of environmental effectiveness and economic efficiency.
- Increase the default carbon productivity improvements for EITE assistance from the proposed 1.3 per cent to 4 per cent to return to levels consistent with the Green Paper.
- Implement 'world's best practice' complementary energy efficiency regulations.
- Reinstate quantitative limits on use of international permits to ensure most abatement occurs in Australia.

4 Lack of support for renewable energy, energy efficiency, healthy ecosystems and additional action

The White Paper provides little financial support for the energy sources and efficiencies of the future. The major potential for energy efficiency, and thus productivity increases, will be unlocked very slowly, placing the whole Australian economy at a competitive disadvantage to the rapidly growing 'low carbon' economies.

If the CPRS was passed as proposed no action by any level of government, business or households will reduce emissions further than the national target.

Healthy ecosystems are essential for a low carbon economy and to continue jobs growth in areas such as tourism and sustainable land management, however the CPRS provides no support or funding for these areas.

⁴ The Economist, 2008, 'Emissions suspicions', accessed at http://www.economist.com/finance/displaystory.cfm?story_id=11581408, August 2008.

⁵ See also pages 65-72 of ACF's Green Paper submission (attached).

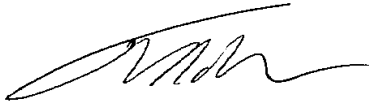
⁶ Australian Government, 2008, 'Australia's low pollution future: The economics of climate change mitigation', p. 155.

Recommendations:

- Introduce a national energy efficiency strategy.⁷
- Free-up 10 per cent of CPRS permit revenue to invest in low emissions technology research and development by reducing handouts to emissions intensive industries.
- Adjust targets for voluntary action by businesses and households to reduce emissions.
- Allocate at least \$1 billion per year from CPRS permit revenue to build resilience to climate change, for people and ecosystems, and provide stewardship payments to land managers in rural Australia to reward carbon pollution abatement.⁸

For further information on ACF's response to the CPRS exposure draft legislation please contact Owen Pascoe, Climate Change Campaigner, on 02 8270 9907 or 0437 242 950.

Sincerely,



Tony Mohr
Manager Climate Change Program

Attached:

1. ACF's Submission to the Carbon Pollution Reduction Scheme Green Paper
2. Innovest Strategic Value Advisors Research Note: The impact of industry assistance measures under the Carbon Pollution Reduction Scheme - White Paper update.

⁷ For more information see the ACF supported Policy Paper by The Climate Institute 'Australia's National Strategy for Energy Efficiency', November 2008. Available at:

<http://www.climateinstitute.org.au/images/energy%20efficiency%20policy%20paper%20final.pdf>

⁸ Abatement activities in uncovered sectors are more appropriately supported through this use of permit revenue. Reforestation and land use changes should not gain credit under the CPRS on a voluntary basis. Inclusion in the scheme should be delayed at least until full accounting of emissions and sinks is applied to ensure accounting is accurate and abatement is additional.