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Submission to the Senate Economics Committee:

Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme

25 March 2009

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

Dear Senators,

Total Environment Centre (TEC) welcomes the opportunity to provide comment on the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme.

Please find our submission below.

Yours sincerely,

Jeff Angel
Executive Director

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Summary

The Government's proposed Carbon Pollution Reduction Scheme (CPRS) is a threat to Australia's environment and economy and will weaken global attempts to secure a meaningful climate agreement to avoid the devastating effects of climate change. The legislation should not be passed by Parliament in its current form.

We are particularly concerned at the failure of the CPRS to ensure that voluntary actions by Australians to reduce greenhouse emissions are not protected. Under the current proposal, voluntary actions are not guaranteed to be additional to mandatory targets and merely allow polluters to pollute more, and more cheaply, without reducing Australia's total emissions.

1 Low targets will lock in devastating climate change for Australia

The current CPRS legislation locks Australia into weak 5% -15% targets. As the Garnaut Review and Treasury modelling show, these targets are inconsistent with the Government's own goal: to stabilise greenhouse gas levels below 450 parts per million (ppm). Combined with the failure to limit the purchase of off-shore permits, this damages the first of the 'three pillars' of the Government's climate change strategy, 'reducing carbon pollution'[1].

With a weak target and no limit on the purchase of off-shore permits, it is possible that Australia's emissions could rise. This is borne out by Treasury modelling that shows that with a 5% target and unlimited off-shore permits, Australia's emissions do not reduce until 2035. There should be quantitative limits on the use of international permits to ensure that most greenhouse emissions reductions occur in Australia.

2 Low targets will scuttle international negotiations

If this legislation is passed, the third of the 'three pillars' of the Government's climate change strategy, 'helping to shape a global solution'[2] will be destroyed. Such low targets would scuttle global attempts to secure a meaningful climate agreement.

Australia supported the Bali Road Map which called for industrialised nations to reduce emissions by 25-40% on 1990 levels by 2020. Anything less than these targets will greatly complicate negotiations between the developed nation bloc and

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[1] Commonwealth of Australia, *Exposure Draft Carbon Pollution Reduction Scheme Bill 2009 Commentary*, p. 8.
[2] Commonwealth of Australia, *Exposure Draft Carbon Pollution Reduction Scheme Bill 2009 Commentary*, p. 8.

could give major developing nations like India, China, Brazil, Mexico and Indonesia a 'get out of jail free' card.[3]

If passed, this legislation invites a proportionate response from developing countries to these proposed weak targets. This will kill off the prospect of a meaningful climate agreement and result in warming of at least 3.2 degrees by the end of the century: well past the 2 degree threshold for runaway climate change.

3 Emissions units as property rights will legalise inequity for Australians

The legislation should not be passed while Australian emission units are deemed property rights (section 94) instead of temporary licences. The right to pollute the commons should not be transformed into a property right and represents a massive wealth transfer from the community to the private sector.

4 Excessive handouts will entrench polluters

The legislation should not be passed while it locks in emissions-intensive trade-exposed (EITE) assistance program, which proposes more than $9 billion in handouts to emissions-intensive industries to 2012. As currently proposed, the program encourages the growth of EITE industries by allocating them 25% of permits free of charge, which rises to 45% by 2020. This equates to windfall profits for polluters. Further, assistance for polluting coal-fired power stations directly funds shareholders in dirty coal-fired generators, which will keep them going for longer. The EITE and coal-fired power assistance programs transfer the burden of the carbon price from the dirtiest polluters to households and small businesses.

This assistance will benefit the aluminium smelting sector, alumina refiners, mining companies and coal-fired generators at the expense of the Australian community, with little public policy benefit. The stripping of this value from future budgets allows no room for targets to be increased beyond 5% without requiring cuts to support for households.

The legislation should not be passed without the proportion of EITE assistance reduced to 10% and no assistance for coal-fired generators. In addition, carbon productivity requirements should be increased to 4% (from the current 1.3%), as proposed in the Green Paper.

5 Voluntary actions will become a gift to the biggest polluters

The CPRS legislation must not be passed without a mechanism that guarantees the extinguishment of equivalent Australian emission units and Kyoto units for every tonne

[3] Total Environment Centre, *The International Climate Negotiations Structure, issues, and competing positions*, December 2008.

of greenhouse emissions abated voluntarily. This must include reductions in sectors covered by the CPRS and units must be extinguished at no extra cost.

Without guaranteeing that voluntary reductions will be additional to mandatory targets, voluntary action will merely allow polluters covered under the CPRS to pollute more, and more cheaply, and will not have any impact on Australia's total emissions. This is equally important regardless of when or if the CPRS is implemented.

In its current form the legislation fails the many hundreds of thousands of individuals and businesses, as well as local and state governments that have engaged with the carbon offset, GreenPower and energy efficiency markets. It also fails the Federal Government's own Mandatory Renewable Energy Target by rendering a mere exercise in the allocation of generation sources rather than a program to reduce greenhouse emissions.

If adopted, the proposed approach will:

- foreclose on millions of tonnes of carbon abatement;
- disengage the Australian community, including almost 1 million GreenPower consumers (10% of Australian homes);
- dampen efforts of local and State governments;
- neuter the Mandatory Renewable Energy Target;
- neuter State government Energy Efficiency Target Schemes;
- weaken innovation, capacity building and leadership in carbon abatement;
- risk the multitude of businesses that have established themselves as leaders in voluntary greenhouse emissions abatement.

The local voluntary market plays an entirely different role to the regulated carbon market: it can directly engage the 7.6 million businesses and 20 million individuals that are not directly impacted by the CPRS. The voluntary market supports the smaller and more innovative projects that may not be able to compete with the costs of participating in the regulatory market. It also provides for projects that, unlike strictly carbon abatement projects, can contribute to broader sustainability goals.

The voluntary offset market is currently worth around $44 million[4]. The value of the GreenPower market has not been accounted for, but over 911,000 homes (10% of Australian households) and businesses now purchase accredited GreenPower. GreenPower products are purchased in addition to the implicit cost of Australia's

[4] http://www.epa.vic.gov.au/publications/epanews/carbon_offsets.asp

Renewable Energy Target. The sector currently comprises of 27 providers that have developed a multitude of products. Demand for these is spiraling, with the total number of GreenPower customers rising by 89.3% between 2006 and 2007.[5]

Many businesses (eg, NAB) have made significant promises to go 'carbon neutral' to their customers, in responding to consumer needs. Without offsets that guarantee the reduction of Australia's emissions beyond its target, they will be required to purchase these off-shore, losing even more jobs in Australia.

It is likely that the narrow economic view of this proposal would advance the position that ensuring additionalilty for voluntary offsets in 'covered' sectors contaminates the purity of the CPRS and that it creates 'double-dipping'. In other words, all Australians are covered once by the CPRS, and the retirement of an AAU to recognise the additionality of a voluntary reduction creates a 'second hit' on consumers. However, this view excludes several key factors:

- the deficiencies of the CPRS (weak targets) need to be compensated for by strong, local voluntary actions
- such actions create important technological and intellectual capital to support stronger future targets
- such actions raise awareness and create buy-in by individuals and businesses
- directly engages households and small businesses not directly affected by the CPRS
- such actions are likely to be highly cost-effective and more rapidly delivered

6 All emissions from legacy waste should be included in the CPRS, including those from closed sites

By limiting the inclusion of legacy emissions to only those released after 2018, the CPRS legislation lets landfills off the hook for between 30-60% of their emissions (number as stated in the White Paper). The legislation should not be passed with this exclusion. The waste sector accounts for around 3% of Australia's total GHG emissions. Exclusion of up to 60% of legacy emissions means that 18% of emissions from the waste sector will have no liability under the scheme.

The White Paper, which justifies this position, is mistaken in its assumption that the Renewable Energy Target (RET) will "continue to provide incentives to capture landfill gas, including at sites that are already closed". Even with multiple schemes, including the ability to generate carbon offsets (now at risk under the current proposal) and the

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[5] NSW Department of Water and Energy, N*ational GreenPower Accreditation Program Annual Compliance Audit 2007*, December 2008, p.11 at: http://www.greenpower.gov.au/admin/file/content9/c14/greenpower_compliance_audit_report_2007.pdf

potential to generate energy for use onsite, only 26% of Australia's landfill gas is currently captured.

A more likely outcome is that the national capture rate will decrease if the CPRS continues to fail to ensure additionality for voluntary offsets market.

If the Federal Government does not include legacy emissions in the scheme, then it is essential that regulation to mandate the capture of these emissions will have to be enforced.

Whether emissions are covered under the CPRS or regulation is introduced to mandate capture, state and federal governments should help to fund this capture as part of the transition into a low carbon economy for an industry that is unique in being targeted for emissions resulting from activity prior to commencement of the scheme.

7 Measurement of emissions from landfill sites should be carried out using waste weight and composition as proxy for C02

Accurate, site specific measurement of landfill emissions will be the greatest challenge for the waste sector, where emissions can vary significantly across a site and can occur at distance from the site. The absence of a currently available method for the accurate, site specific measurement of emissions can be overcome, however, by the adoption of IPCC Method One, with a default measure specified. For example, one tonne of MSW waste into landfill would represent X tonnes of $C0_2$-e. This method does not have the same 'fudge factor' that the proposed NGERS methods 1-3 allow.

8 EITE handouts create perverse outcome for recyclers

As it stands, the EITE policy will disadvantage recyclers that compete with virgin manufacturers in paper, metal, glass and plastics industries. This is a perverse outcome for a sector that has long been the back bone of carbon reduction in Australia and further to this, delivers additional resource savings, none of which are given credit under the proposed scheme.

Given that the Australian recycling Industry competes in an international market, the industry should be considered trade exposed.