Chapter 3

The Clean Energy Package and the impact of its proposed repeal

Policy background

3.1 On 27 September 2010, Prime Minister the Hon Julia Gillard announced that a Multi-Party Climate Change Committee (MPCC) would be established to explore options for implementing a carbon price and to build consensus on how Australia will tackle the challenge of climate change.[1]

3.2 The MPCC was chaired by the Prime Minister and was comprised of members of the Australian Labor Party, the Australian Greens and independent members of the House of Representatives, Mr Tony Windsor and Mr Rob Oakeshott. The committee was assisted by a panel of expert advisers including Ms Patricia Faulkner AO, Professor Ross Garnaut AO, Mr Rod Sims and Professor Will Steffen.[2]

3.3 On 10 July 2011, the MPCC released the *Clean Energy Agreement* (the Agreement) to reduce carbon pollution.[3] In the Agreement the MPCC recognised that 'cuts in global pollution are necessary to reduce the risks posed by unmitigated climate change'.[4] It noted that for Australia, 'these risks are large, threatening our economy, our natural heritage (including icons such as the World Heritage listed Great Barrier Reef), food security, and our way of life'.[5]

3.4 The Agreement recommended that a broad based carbon price be introduced into Australia commencing from 1 July 2012 with a fixed price before transitioning to

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1 Department of Environment, *Feature: Multi-Party Climate Change Committee*, http://www.climatechange.gov.au/about-us/annual-reports/annual-report-2010-11/feature-multi-party-climate-change-committee (accessed 24 February 2014).

2 Department of Environment, *Feature: Multi-Party Climate Change Committee*, http://www.climatechange.gov.au/about-us/annual-reports/annual-report-2010-11/feature-multi-party-climate-change-committee (accessed 24 February 2014).

3 Multi-Party Climate Change Committee (MPCC), *Multi-Party Climate Change Committee*, p. 1, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 21 November 2013).

4 MPCC, *Multi-Party Climate Change Committee*, p. 1, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 21 November 2013).

5 MPCC, *Multi-Party Climate Change Committee*, p. 1, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 21 November 2013).

a fully flexible cap-and-trade carbon pricing mechanism on 1 July 2015.[6] It also recommended, amongst other things, the provision of industry and household assistance to reduce energy costs and the creation of new independent bodies to provide advice to government and to administer the carbon price.[7]

3.5 On 24 February 2011, the Prime Minister announced that the Government intended to implement the MPCC's recommendations and create a carbon price mechanism to commence on 1 July 2012.[8] On 10 July 2011, the Government released the policy document *Securing a clean energy future: The Australian government's climate change plan* that detailed its plans for a price on carbon.[9] The Clean Energy Futures Plan aimed to cut 159 million tonnes a year of carbon pollution from the atmosphere by 2020.[10]

3.6 A legislative package of 18 bills (the Clean Energy Package) to implement the Government's plan was introduced into the Parliament on 13 September 2011 and passed on 8 November 2011.[11]

Clean Energy Package

3.7 The Labor Government's Clean Energy Package implemented a number of initiatives to cut carbon pollution by 2020. The initiatives included:

- introducing a carbon pricing mechanism;[12]

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6 MPCC, *Clean Energy Agreement*, July 2011, p. 1, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 25 November 2013).

7 MPCC, *Clean Energy Agreement*, July 2011, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 21 November 2013).

8 The Hon Julia Gillard, Prime Minister, 'Climate change framework announced', *Media release*, 24 February 2011, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/577310/upload_binary/577310.pdf;fileType=application/pdf#search=%22clean%20energy%20future%20%202011%2002%2024%22 (accessed 21 November 2013).

9 The Hon Julia Gillard, Prime Minister, 'Securing a clean energy future for Australia', *Media release*, 10 July 2011, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/915157/upload_binary/915157.pdf;fileType=application/pdf#search=%22clean%20energy%20%202011%2007%2010%20prime%20minister%22 (accessed 21 November 2013).

10 The Hon Julia Gillard, Prime Minister, 'Securing a clean energy future for Australia', *Media release*, 10 July 2011.

11 *Votes and Proceedings of the House of Representatives*, No. 65, 13 September 2011, pp 875–878; *Journals of the Senate*, No. 65, 8 November 2011, p. 1793.

12 The terms 'carbon pricing mechanism' and 'carbon tax' are often used interchangeably. This report uses the terminology 'carbon pricing mechanism'. For an analysis of the two terms see Parliamentary Library, 'Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 [and] True-Up Shortfall Levy (General) (Carbon Tax Repeal) Bill 2013 [and] True-up Shortfall Levy (Excise) (Carbon Tax Repeal) Bill 2013, *Bills Digest*, No. 16, 2013–14, 29 November 2013, pp 18–22.

- setting a legislated cap on carbon emissions;
- establishing industry assistance to help emissions-intensive trade-exposed industries;
- providing household assistance to help with forecast increased living costs;
- creating the Carbon Farming Initiative (CFI); and
- establishing a number of bodies to advise government and administer the carbon pricing mechanism.[13]

Carbon pricing mechanism

3.8 The *Clean Energy Act 2011* (Cth) establishes a carbon pricing mechanism that places a price tag on carbon pollution and creates a cap on carbon pollution.

3.9 Any facility that emits above an annual threshold of greenhouse gas emissions is liable to pay for each tonne of carbon pollution it emits above the threshold.[14] The current threshold is 25 000 tonnes of CO_2 equivalent emissions per year.[15] At the end of each year, the entity will surrender the number of carbon units which represents its total emissions to the Clean Energy Regulator or pay a charge. Liable entities can either buy units or acquire them through industry assistance measures.[16] Emitters may also purchase credits through the CFI, a framework within which farmers and landholders can undertake, monitor, and receive financial benefits for greenhouse gas emissions projects.[17]

3.10 The carbon pricing mechanism commenced on 1 July 2012 with a fixed price on carbon of $23 per tonne.[18] On 1 July 2015, the carbon price is to transition to a fully flexible price under an emissions trading scheme (ETS) with the price determined by the market. Annual caps will be placed on emissions covered by the carbon pricing mechanism.

3.11 Linking to credible international carbon markets and emissions trading schemes will be allowed from the commencement of the flexible price period.[19] At

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13 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2, http://pandora.nla.gov.au/pan/127961/20130809-0002/www.cleanenergyfuture.gov.au/wp-content/uploads/2012/05/CEF-overview_Apr2012.pdf (accessed 22 November 2013).

14 *Clean Energy Act 2011*, ss. 22(4).

15 Clean Energy Regulator, *Who is liable?*, http://www.cleanenergyregulator.gov.au/Carbon-Pricing-Mechanism/Liable-entities/Pages/default.aspx (accessed 11 March 2014).

16 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

17 Anita Talberg and Kai Swoboda, *Emissions trading schemes around the world*, Background Note, 6 June 2013, Parliamentary Library, Canberra, p. 11, http://parlinfo.aph.gov.au/parlInfo/download/library/prspub/2501441/upload_binary/2501441.pdf;fileType=application/pdf (accessed 22 November 2013).

18 *Clean Energy Act 2011*, s. 4.

19 Clean Energy Bill 2011, *Revised Explanatory Memorandum*, p. 12.

least half of a liable entity's compliance obligation must be met through the use of domestic units or credits.

3.12 The carbon price is applicable to a number of industry sectors, including the stationary energy sector, industrial processing sector, non-legacy waste sector and fugitive emissions sector.[20] Landfill facilities with direct emissions of 25 000 tonnes of CO_2 emissions a year or more are also liable under the carbon price mechanism.

3.13 The carbon price does not apply to household transport fuels, light vehicle business transport and off-road fuel use by the agriculture, forestry and fishing industries.[21]

3.14 The Liable Entities Public Information Database (LEPID) maintained by the Clean Energy Regulator indicates that there are 348 entities that may be liable to the carbon tax in the 2012–13 financial year.[22]

Industry assistance

3.15 The legislation created a range of targeted industry, and sector-specific, assistance programs as well as general assistance programs available to most businesses that are subject to the carbon pricing mechanism.[23] These assistance measures take a number of forms, including tax incentives, free and discounted emissions permits, matched grants programs and information and advisory services.

Jobs and Competitiveness Program

3.16 The Jobs and Competitiveness Program provides $9.2 billion over the period 2012–13 to 2014–15 in the form of free carbon permit allocations for companies primarily in emissions-intensive trade-exposed industries, such as steel, aluminium, glass and chemicals manufacturing.[24] Eligibility for the assistance is based on industry thresholds of trade exposure and emissions intensity.

3.17 The value of the permits available under the program was proposed to decline by 1.3% per year. The Productivity Commission is scheduled to undertake a review of the program in 2014–15.

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20 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

21 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

22 Clean Energy Regulator, *LEPID for 2012–13 financial year*, http://www.cleanenergyregulator.gov.au/Carbon-Pricing-Mechanism/Liable-Entities-Public-Information-Database/LEPID-for-2012-13-Financial-year/Pages/default.aspx (accessed 25 November 2013).

23 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 27, http://parlinfo.aph.gov.au/parlInfo/download/legislation/billsdgs/1185490/upload_binary/1185490.pdf;fileType=application%2Fpdf (accessed 22 November 2013).

24 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 28.

3.18 The Jobs and Competitiveness Program specifically excludes the extraction of coal as an emissions-intensive trade-exposed activity.

Energy Security Fund

3.19 The Energy Security Fund, which provides $3 billion over the period to the 2014–15 financial year, provides for the allocation of cash and/or free permits to pay for the closure of inefficient coal-fired generators.[25] The Fund also issues free carbon permits to electricity generators if they meet the requirement of a power system reliability test and submit a Clean Energy Investment Plan to the Government for publication.

Other assistance programs

3.20 The Clean Technology Program provides $1.2 billion over seven years from 2011–12 to provide support to the manufacturing industry.[26] The Program supports improvements in energy efficiency and research and development in low pollution technologies.

3.21 The Steel Transformation Plan provides $300 million over five years to encourage investment in the Australian steel manufacturing industry.[27]

3.22 The Coal Sector Jobs Package makes available $1.3 billion over six years for certain coal mines to implement carbon abatement technologies.[28]

Household assistance

3.23 To assist households with the introduction of the carbon price, the Clean Energy Package provides compensation through a mix of changes to income tax arrangements, one-off direct payments to eligible households and increases in pensions and allowances.

Carbon Farming Initiative

3.24 The CFI is a voluntary carbon offset scheme established with the purpose of creating incentives for carbon abatement or avoidance projects in land-use sectors.[29] The CFI allows approved carbon reduction projects to generate carbon units called Australian Carbon Credits Units (ACCU). These units can be sold to liable parties

25 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

26 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

27 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

28 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 28.

29 Anita Talberg, John Gardiner-Garden and Julie Tomaras, *Carbon Credits (Carbon Farming Initiative) Bill 2011*, Bills Digest No. 5, 2011–12, Parliamentary Library, Canberra, p. 4.

under the carbon pricing mechanism, or to individuals and organisations wishing to voluntarily offset their emissions.[30]

3.25 The scheme is targeted at farmers and landholders who can undertake eligible offset projects.[31] Sectors eligible for the CFI are not covered by the carbon pricing mechanism and include agriculture, forestry and landfills.

3.26 Offset projects are defined as either sequestration offsets or an emissions avoidance offset project. For offsets to be deemed genuine and credible, the abatement projects must be defined by certain rules that ensure scientific and administrative integrity. The Domestic Offset Integrity Committee is an independent expert group tasked with assessing methodologies. Approved methodologies are set in regulations by the Minister.[32]

3.27 For a project to deliver genuine carbon abatement, it must result in a reduction in atmospheric greenhouse gas that is additional to what would have occurred in the absence of the project. This is known as additionality. For the credibility of ACCUs, a sequestration project must be permanent, meaning it must be maintained on a net basis for around 100 years.[33] This is known as permanence.

3.28 Activities that have earned ACCUs under the CFI include:

- reduction of emissions from the waste sector;
- management of savannah burning in the Northern Territory; and
- capture of methane generated from manure at a piggery.[34]

3.29 Projects have differing ACCU crediting periods based on the relevant science and depending on the project type.[35] For most agricultural projects, the ACCUs generated are issued immediately after a reporting period as a lump sum. For native forest projects, the ACCUs generated are issued over a longer period (usually 20 years). All sequestration projects have a small percentage of ACCUs deducted from their total to insure against temporary carbon losses caused by natural of human-

30 Climate Change Authority, *Targets and progress review*, Draft report, October 2013, p. 72.

31 Anita Talberg, John Gardiner-Garden and Julie Tomaras, *Carbon Credits (Carbon Farming Initiative) Bill 2011*, Bills Digest No. 5, 2011–12, Parliamentary Library, Canberra, p. 9.

32 Department of the Environment, *Domestic Offset Integrity Committee*, http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/domestic-offsets-integrity-committee (accessed 12 March 2014).

33 Anita Talberg, John Gardiner-Garden and Julie Tomaras, *Carbon Credits (Carbon Farming Initiative) Bill 2011*, Bills Digest No. 5, 2011–12, Parliamentary Library, Canberra, p. 10.

34 Department of the Environment, *Methodology determinations*, http://www.climatechange.gov.au/reducing-carbon/carbon-farming-initiative/methodologies/methodology-determinations (accessed 25 March 2014).

35 Anita Talberg, John Gardiner-Garden and Julie Tomaras, *Carbon Credits (Carbon Farming Initiative) Bill 2011*, Bills Digest No. 5, 2011–12, Parliamentary Library, Canberra, p. 10.

induced events.[36] ACCU records are held in the Australian National Registry of Emissions Units.[37]

Governance

3.30 As part of the Clean Energy Package two new Commonwealth agencies were created to advise on, and regulate, the operation of the carbon price mechanism. The Clean Energy Finance Corporation (CEFC) was also established to assist in the development of renewable and low-emissions technology and infrastructure.

Climate Change Authority

3.31 The Climate Change Authority is an independent statutory agency established by the *Climate Change Authority Act 2011* (Cth). Its function is to provide expert advice on Australian climate change policy, including through a scheduled series of reviews of climate programs and legislation.[38] The Climate Change Authority is responsible for:

- providing recommendations to the Government on future pollution caps;
- making recommendations on the indicative national trajectories and long-term emissions budgets;
- providing independent advice to the Government on the progress that is being made to reduce Australia's emissions to meet national targets;
- conducting regular reviews on the carbon pricing mechanism; and
- conducting reviews of and making recommendations on the National Greenhouse and Energy Reporting System (NGERS), the Renewable Energy Target (RET) and the CFI.[39]

3.32 In the 2012–13 financial year the Climate Change Authority had a budget of $6.3 million and a staff of 32 employees.[40]

3.33 As part of its Targets and Progress Review, the Climate Change Authority released a draft report on 30 October 2014 and a final report on 27 February 2014 (see Chapter 4).[41]

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36 Anita Talberg, John Gardiner-Garden and Julie Tomaras, *Carbon Credits (Carbon Farming Initiative) Bill 2011*, Bills Digest No. 5, 2011–12, Parliamentary Library, Canberra, p. 10.

37 Clean Energy Regulator, *Australian National Registry of Emissions Units*, http://www.cleanenergyregulator.gov.au/ANREU/Pages/default.aspx (12 March 2014).

38 Climate Change Authority, *Targets and progress review*, Draft report, October 2013, p. 19.

39 *Climate Change Authority Act 2011*, s. 11.

40 Climate Change Authority, *Annual Report 2012–13*, pp 20 and 22.

41 Climate Change Authority, *Targets and Progress Review*, http://climatechangeauthority.gov.au/caps (accessed 26 February 2014).

Clean Energy Regulator

3.34 The Clean Energy Regulator is established by the *Clean Energy Regulator Act 2011* (Cth) and is responsible for administering the carbon pricing mechanism, the NGERS, the RET and the CFI.[42] The Clean Energy Regulator is required to:

- provide education on the carbon pricing mechanism;
- assess emissions data to determine an entity's carbon liability;
- operate the emissions registry for emissions units;
- monitor, facilitate and enforce compliance with the carbon pricing mechanism;
- allocate permits;
- determine whether an entity is eligible for assistance in the form of permits to be allocated administratively; and
- accredit auditors for the CFI and the NGERS.

3.35 In 2012–13, the Clean Energy Regulator received revenue from government totalling $78.99 million and recognised own-source income of $1.610 million.[43] It had a total staff of 372.[44]

Clean Energy Finance Corporation

3.36 The *Clean Energy Finance Corporation Act 2012* (Cth), part of the Clean Energy Package, established the CEFC. The CEFC has the power to invest in financial assets for the development of Australian-based renewable energy technologies, low-emission technologies and energy efficiency projects. The Corporation has the power to enter into investment agreements itself, and make investments through subsidiaries.

3.37 The CEFC operates with a $10 billion fund, with $2 billion provided per annum for five years. The first instalment was paid on 1 July 2013.

3.38 As at 20 August 2013, the CEFC portfolio of investments consists of 12 transactions to a value of $482 million and $54 million worth of investments transferred from Low Carbon Australia.[45] Of the combined $536 million investment, 56% has been spent on renewables, 30% has been spent on energy efficiency and 14% has been spent on low emission technology.[46] The fund has attracted $1.55 billion in

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42 *Clean Energy Regulator Act 2011*, s. 12.

43 Clean Energy Regulator, *Annual Report 2012–13*, p. 80.

44 Clean Energy Regulator, *Annual Report 2012–13*, p. 70.

45 Low Carbon Australia was a Government-owned corporation tasked with managing a small pilot energy investment fund since 2010. Low Carbon Australia's investment function was transferred to the Clean Energy Finance Corporation (CEFC) on its establishment. See CEFC, *Annual Report 2013–13*, p. 60.

46 CEFC, *Annual Report 2012–13*, p. 14.

private sector co-financing and facilitated over $2.2 billion in projects delivering approximately 4 million tonnes of abatement.[47]

3.39 The CEFC received operational funding of $18.3 million in the 2012–13 financial year and had a staff of 45 employees.[48]

Repeal of the Clean Energy Package

3.40 A key policy of the Coalition during the 2013 Federal election was to repeal the carbon tax if elected.[49] The Coalition's *Policy to scrap the carbon tax and reduce the cost of living* stated:

> The Coalition will abolish the carbon tax.
>
> The carbon tax indisputably adds to the cost of living, it makes households and families pay more for electricity and gas, it costs business more to operate, and it makes everything in our economy more expensive.[50]

3.41 The policy indicated that once the carbon tax has been repealed, the Coalition would implement its Direct Action Plan on climate change and carbon emissions (see Chapters 5–7).

3.42 On 13 November 2013, Prime Minister the Hon Tony Abbott introduced a suite of bills into the House of Representatives to repeal elements of the Clean Energy Package.[51] The Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and seven related bills were introduced to repeal the carbon pricing mechanism and associated industry assistance. Separate bills to abolish the Climate Change Authority and the CEFC were also introduced. The bills passed the House of Representatives on 21 November 2013 without amendment.[52]

3.43 The bills were introduced into the Senate on 2 December 2013.[53] On 10 December 2013 the Senate voted against the Clean Energy Finance Corporation (Abolition) Bill 2013.[54] On 3 March 2014 the Senate voted against the Climate Change Authority (Abolition) Bill 2013.[55] All other bills from the Carbon Tax Repeal Package were defeated in the Senate on 20 March 2014.[56]

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47 CEFC, *Submission 75*, p. 7.

48 CEFC, *Annual Report 2012–13*, pp 24 and 82.

49 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, p. 2.

50 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, p. 2.

51 *Votes and Proceedings of the House of Representatives*, No. 2, 13 November 2013, pp 44–46.

52 *Votes and Proceedings of the House of Representatives*, No. 7, 21 November 2013, p. 138.

53 *Journals of the Senate*, No. 4, 2 December 2013, p. 171.

54 *Journals of the Senate*, No. 9, 10 December 2013, p. 296.

55 *Journals of the Senate*, No. 15, 3 March 2014, p. 498.

56 *Journals of the Senate*, No. 22, 20 March 2014, p. 678.

3.44 On 20 March 2014 the Government reintroduced the Clean Energy Finance Corporation (Abolition) Bill 2013 [No. 2] into the House of Representatives for debate.[57]

Effectiveness of the Clean Energy Package

3.45 A substantial number of submitters to the inquiry advised that a carbon pollution cap combined with some form of carbon pricing mechanism is the most effective way of reducing Australia's greenhouse gas emissions.[58]

3.46 Australia's system of carbon pollution reduction enacted through the Clean Energy Package—a carbon pricing mechanism with a legislated transition to an emissions trading scheme in 2015—was considered by many submitters to be the most efficient and cost effective way for Australia to meet its international commitments to reduce carbon pollution.[59]

Benefits of a market mechanism to reduce carbon pollution

3.47 The committee received evidence from economic and environmental experts indicating that a market mechanism is the most cost effective and efficient way of reducing carbon emissions.[60] It was argued that a market mechanism, such as that created by the Clean Energy Package, provides economy-wide incentives to reduce emissions with minimal intervention.

3.48 The Grattan Institute, an independent research organisation, outlined that of all the measures it has analysed, market mechanisms have delivered the greatest emissions reductions and have met targets ahead of time.[61] This was primarily the case because market mechanisms minimise the need for government to predict the future, provide long-term predictability enabling business to invest with greater confidence and provide flexibility by devolving decision making to businesses and individuals.[62] Furthermore, the Grattan Institute noted that market mechanisms work best where they include the broadest range of abatement options and stay administratively simple.[63]

3.49 The Grattan Institute submitted to the committee that:

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57 *Votes and Proceedings of the House of Representatives*, No. 30, 20 March 2014, p. 399.

58 See, for example, Dr Justin Wood, *Submission 28*, p. 1; AMWU, *Submission 50*, p. 3; WWF-Australia, *Submission 67*, p. 3; and Mr David Rossiter, *Submission 70*, p. 3.

59 See, for example, UnitingCare Australia, *Submission 10*, p. 1; Grattan Institute, *Submission 22*, p. 1; Sustainable Energy Now, *Submission 34*, p. 5; The Australia Institute, *Submission 38*, p. 5; Greenbank Environmental, *Submission 63*, p. 2; and Professor Frank Jotzo, *Submission 86*, p. 1.

60 See, for example, The Australia Institute, *Submission 38*, p. 5; and Greenbank Environment, *Submission 63*, p. 2.

61 Grattan Institute, *Submission 22*, p. 1.

62 Grattan Institute, *Submission 22*, p. 1.

63 Grattan Institute, *Submission 22*, p. 1.

> Based on experience, only an economy-wide carbon price (a type of market mechanism) can achieve the scale and speed of reductions required for Australia to meet its 2020 commitments without excessive cost to the economy or taxpayer.[64]

3.50 Professor Frank Jotzo similarly highlighted that market mechanisms are the least interventionist form of regulation and allow market players to decide the most cost effective form of action.[65] According to Professor Jotzo, the benefits of such a system are that it is cost effective and creates a fiscal revenue stream:

> Carbon pricing provides a consistent framework of price-based incentives for greenhouse gas emitters as well as the businesses and consumers who use their products to reduce emissions up to the same marginal cost. It also can create significant amounts of fiscal revenue, available to assist households with higher energy costs. Carbon pricing can become a source of net fiscal revenue, replacing other—and potentially more economically distortionary—forms of taxation.[66]

3.51 Sustainable Energy Now, a not-for-profit body promoting the use of renewable technologies, identified that a market mechanisms provides industry with 'incentives to reduce emissions and switch to renewable energy'.[67] UnitingCare Australia similarly argued that a market mechanism is 'an important tool for the necessary transformation towards a sustainable economy and is an essential component of effective action to address climate change'.[68]

3.52 The Environmental Farmers Network, an organisation representing farmers in south-east Australia, argued that 'the most efficient way to achieve greenhouse gas emission reductions is with a market system paid for by users—not the general taxpayer'.[69] The Conservation Council of Western Australia (CCWA) likewise submitted that a market mechanism 'is the cheapest form of emissions abatement'.[70]

3.53 It was also emphasised by a number of submitters that economic analysis unambiguously shows that a market mechanism in the form of a carbon price or emissions trading scheme is the most efficient and cost effective climate change mitigation policy.[71] For example, Professor Jotzo outlined that the desirable features

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64 Grattan Institute, *Submission 22*, p. 1.

65 Professor Frank Jotzo, *Submission 86*, p. 1.

66 Professor Frank Jotzo, *Submission 86*, p. 4.

67 Sustainable Energy Now, *Submission 34*, p. 5.

68 UnitingCare Australia, *Submission 10*, p. 1.

69 Environmental Farmers Network, *Submission 9*, p. 1.

70 Conservation Council Western Australia (CCWA), *Submission 29*, p. 1.

71 For example see Professor Ray Wills, *Submission 41*, p. 2; and Professor Frank Jotzo, *Submission 86*, p. 1.

of carbon pricing have 'led the OECD, IMF and World Bank to recommend carbon pricing to the world's governments'.[72]

3.54 Professor Ray Wills similarly highlighted that world economists have repeatedly contended that market-based mechanisms are 'the most effective and efficient means to create change, and that an emissions trading scheme is the best tool for dealing with emissions'.[73]

The carbon pricing mechanism

3.55 The carbon pricing mechanism put in place by the Clean Energy Package was recognised by submitters as being a sound embodiment of the market mechanism principle.[74]

3.56 WFF-Australia identified that the core elements of the current carbon price mechanism:

- deliver lease cost abatement in sectors covered by the scheme, providing a financial incentive to find the lowest cost forms of abatement;
- enable the market to determine where pollution reduction will occur to drive innovation and efficiency throughout the economy;
- enable Australia to confidently increases its unconditional 2020 emissions reduction target;
- provide a revenue flow that can be reinvested in the economy to support the demonstration and commercialisation of clean technology;
- provide international finance for clean technology to developing countries; and
- provide targeted assistance to households and energy intensive trade exposed industries.[75]

3.57 350 Australia argued that the threat of climate change is an audacious task and 'only our current Clean Energy Package places us on the front foot in addressing this task'.[76] 350 Australia further informed the committee that:

> …it is really clear at the moment that, since the change of government, there is quite a lot of disrespect internationally for the stand that we are taking on climate. I know that the clean energy package, and the

72 Professor Frank Jotzo, *Submission 86*, p. 4.

73 Professor Ray Wills, *Submission 41*, p. 2.

74 See, for example, UnitingCare Australia, *Submission 10*, p. 1; Grattan Institute, *Submission 22*, p. 1; Sustainable Energy Now, *Submission 34*, p. 5; The Australia Institute, *Submission 38*, p. 5; Greenbank Environmental, *Submission 63*, p. 2.

75 WWF-Australia, *Submission 67*, p. 4.

76 350 Australia, *Submission 33*, p. 4.

> tremendous amount of work that was done in that, is actually seen as world leading.[77]

3.58 Sustainable Energy Now argued that the existing carbon pricing mechanism is simple and easily applied to a range of emissions intensive operations.[78] The Tasmanian Government also gave its support to the Clean Energy Package as 'the most effective and efficient way to reduce Australia's greenhouse gas emissions'.[79]

Emissions reductions under the Clean Energy Package

3.59 Submitters indicated that the Clean Energy Package has been effective in reducing Australia's carbon pollution and transitioning towards a clean technology economy.[80] It was noted that Australia's emissions trajectory has declined since the implementation of the Clean Energy Package.[81]

3.60 The Climate Institute, using a modelling analysis undertaken by SKM-MMA and Monash University's Centre of Policy Studies, found that the current Clean Energy Package 'drives substantially more domestic emission reductions than the Government's [Direct Action] policy scenarios'.[82] Specifically their modelling showed that:

> …to 2020, the domestic emission reductions achieved under the current carbon and clean energy laws are around 40 per cent greater than those achieved under the Government's scenarios. The Government's policy achieves around 200 million tonnes of domestic emission reductions. This compares to around 290 million tonnes under the current legislation.[83]

3.61 Likewise ClimateWorks Australia, an independent, non-profit research-based organisation, claimed that their analysis has shown that 'if optimally implemented, the Clean Energy Package, had the potential to unlock a significant amount of Australia's carbon emissions:

> …the Clean Energy Future package, if optimally implemented, had the potential to unlock over three quarters of the additional emissions reductions (above business-as-usual) required to meet the bipartisan minimum 5 per cent national emissions reduction target annually by 2020

77 Ms Jamie Yallup Farrant, Perth Coordinator, 350 Australia, *Committee Hansard*, 31 January 2014, p. 37.

78 Sustainable Energy Now, *Submission 34*, p. 4.

79 Tasmanian Climate Change Office, *Submission 46*, p. 1.

80 See, for example, The Climate Institute, *Submission 2*, p. 6; Australian Religious Response to Climate Change (ARRCC), *Submission 21*, p. 1; and ClimateWorks Australia, *Submission 24*, p. 3.

81 The Climate Institute, *Submission 2*, p. 6.

82 The Climate Institute, *Submission 2*, p. 6.

83 The Climate Institute, *Submission 2*, p. 6.

> in Australia, and almost half what was required to meet the 25 per cent target.[84]

3.62 The ARRCC outlined that the Clean Energy Package has 'been proven to be modestly effective and includes mechanisms which can be strengthened to achieve deeper emissions reductions'.[85] The ARRCC also noted that 'the legislation currently in place has been reducing emissions from those sectors that have been covered'.[86] The ARRCC therefore strongly recommended that 'the current system be retained'.[87]

Australian National Greenhouse Accounts update

3.63 Figures released under the Australian National Greenhouse Accounts updates show that Australia's total emissions increased by 1.5% between 2012 and 2013, with the economy growing 2.7% over the same period.[88] Excluding land use, land-use change and forestry (LULUCF), emissions decreased 0.1% over the period.[89]

3.64 In aggregate, electricity, direct combustion, fugitive and industrial process emissions (sectors covered by the carbon pricing mechanism) fell by 1.5% in 2013, mostly due to a 6% fall in electricity emissions.[90] Emissions from transport, agriculture, waste and LULUFC rose by 6.5%.[91]

3.65 The Climate Change Authority, in the final report of its targets and progress review, noted that:

> Australia's emissions were broadly the same in 2012 as in 1990, despite a doubling in the size of the economy over this period. This means that the emissions intensity of the economy (emissions per dollar of GDP) has halved.[92]

3.66 In analysing the reductions in emissions made under the Clean Energy Package, the Climate Change Authority also stressed that 'the effect of the carbon pricing mechanism must be calculated relative to a counterfactual scenario, rather than

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84 ClimateWorks Australia, *Submission 24*, p. 3.

85 ARRCC, *Submission 21*, p. 1.

86 ARRCC, *Submission 21*, p. 3.

87 ARRCC, *Submission 21*, p. 4.

88 Department of the Environment, *Australian National Greenhouse Accounts: Quarterly update of Australia's greenhouse gas inventory*, June Quarter 2013, Canberra, p. 2, http://www.environment.gov.au/system/files/resources/ef4a14b1-9ec8-48d5-b776-70a3795c7bfc/files/quartlery-update-june-2013.pdf (accessed 11 March 2014). See also Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 92.

89 Department of the Environment, *Australian National Greenhouse Accounts: Quarterly update of Australia's greenhouse gas inventory*, June Quarter 2013, Canberra, p. 2.

90 Department of the Environment, *Australian National Greenhouse Accounts: Quarterly update of Australia's greenhouse gas inventory*, June Quarter 2013, Canberra, p. 2

91 Department of the Environment, *Australian National Greenhouse Accounts: Quarterly update of Australia's greenhouse gas inventory*, June Quarter 2013, Canberra, p. 2

92 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 85.

year-on-year change'.[93] The Climate Change Authority noted that Government modelling projected that Australia's emissions in 2012–13 would have been 2.8% higher in the absence of the carbon pricing mechanism.[94]

Difficulty in evaluating effectiveness

3.67 The Climate Change Authority emphasised the difficulty in assessing the effectiveness of the carbon pricing mechanism on emissions reductions after only 12 months.[95] In interpreting the emissions reduction figures, the Climate Change Authority outlined a number of issues that must be taking into consideration:

- Comparing emissions over time can identify trends and, in doing so, allow the effect of measures such as the carbon pricing mechanism to be assessed. A single year's emissions data cannot establish a trend.
- Preparation by parties affected by the carbon pricing mechanism may have influenced emissions prior to its start.
- Uncertainty over the longevity of the carbon pricing mechanism may have influenced investment decisions.[96]

3.68 The Sustainable Energy Association similarly lamented the short period of time within which an evaluation of the effectiveness of the Clean Energy Package can be made:

> …the carbon price was only just beginning to become effective. It has helped reduce our emissions intensity, and it is the beginning of what was going to be a much longer program that would absolutely bring that cost down over time.[97]

Limited success of the Clean Energy Package

3.69 Mr Anthony Wood from the Grattan Institute informed the committee that his analysis of the carbon pricing mechanism was that it 'has not had much effect on Australia at all'. He explained that:

> I do not think the carbon tax has had much effect at all on Australia because there was so much uncertainty about (a) whether it was going to be around, (b) where the price would be after 2014 or 2015 and (c), with a fixed price, what you can get for the $23. There were many projects that simply would not have been viable when you knew you were only going to get a fixed

93 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 96.

94 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 96.

95 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 95.

96 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 96.

97 Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 2.

> price for one or two years. My suspicion is that, so far, the carbon tax has done very little in terms of reducing emissions.[98]

Impact of the repeal of the Clean Energy Package

3.70 A number of submitters to the inquiry advised against the repeal of the Clean Energy Package without there being an equally effective method to reduce greenhouse gas emissions in place.[99] In particular, submitters were concerned that the Direct Action Plan was an inadequate substitute for the carbon pricing mechanism and future emissions trading scheme (see Chapters 5–7).[100]

3.71 Submitters warned that the repeal of the Clean Energy Package will be the first time in the world a country has dismantled a fully functioning carbon pricing scheme.[101] It was warned that the repeal of the legislation, and with it a cap on carbon pollution, would impact on Australia's ability to systemically address climate change and affect Australia's international obligations to reduce carbon emissions.[102]

3.72 Concerns were also raised over the impact that repeal of the Clean Energy Package would have on policy certainty and investor confidence.[103] The lack of bipartisan support for a national climate change strategy was also seen to be undermining Australia's efforts to reduce carbon emissions and investment in clean technology industries.[104]

3.73 There were a number of submitters who were supportive of the repeal of the Clean Energy Package in favour of the Direct Action Plan.[105] Industry groups with

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98 Mr Anthony Wood, Program Director—Energy, Grattan Institute, *Committee Hansard*, 5 February 2014.

99 See, for example, CCWA, *Submission 29*, p. 1; The Australia Institute, *Submission 38*¸p. 5; South East Councils Climate Change Alliance, *Submission 39*, p. 2; Anglican EcoCare Commission, *Submission 40*, p. 2; Conservation Council South Australia (CCSA), *Submission 44*, p. 9; and WWF-Australia, *Submission 67*, p. 4.

100 See, for example, Anglican EcoCare Commission, *Submission 40*, p. 2; CCSA, *Submission 44*, p. 9.

101 See, for example, Friends of the Earth, *Submission 66*, p. 5; and Professor Frank Jotzo, *Submission 86*¸p. 5.

102 See, for example, WWF-Australia, *Submission 67*, p. 20; and ACF, *Submission 14*, p. 4.

103 See, for example, Mr Tim Buckley, *Committee Hansard*, 7 March 2014, p. 12; ACF, *Submission 14*, p. 8; Grattan Institute, *Submission 22*, p. 4; ACTU, *Submission 30*, p. 5; Australian Solar Thermal Energy Association (AUSTELA), *Submission 76*, p. 1;The Australian Industry Group, *Submission 92*, p. 6; and Investor Group on Climate Change, *Submission 93*, p. 1.

104 See, for example, ACF, *Submission 14*, p. 3; Energetics, *Submission 59*, p. 6; and Mr Tennant Reed, Principal National Adviser, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, pp 52–53.

105 See, for example, Australian Forest Products Association (AFPA), *Submission 15*, p. 1; Cement Industry Federation, *Submission 49*, p. 2; and Association of Mining and Exploration Companies (AMEC), *Submission 74*, p. 2.

trade exposed businesses argued that the carbon pricing mechanism impacts significantly on their operations.

Opposition to the repeal of the Clean Energy Package

3.74 It was argued by submitters that repeal of the Clean Energy Package would limit Australia's ability to responsibly address climate change.[106]

3.75 The Conservation Council of South Australia (CCSA) considered that 'repealing all elements of the Clean Energy Package, particularly the carbon pricing mechanism, will absolutely extinguish Australia's ability to systemically address climate change'.[107] The Conservation Council stated:

> The repeal of the Clean Energy Package eliminates the continuous funding mechanism that would be necessary to fund low carbon projects at the necessary scale. The Conservation Council SA considers that this decision is based on political motives rather than good policy.[108]

3.76 Similarly Sustainable Energy Now was concerned that repeal of the legislation would limit Australia's attempts to limit carbon emissions in the future. [109] The organisation argued that the Clean Energy Package 'currently applies a carbon price to the largest polluting industries accounting for more than 50 per cent of Australia's emissions' and removing their obligations reduces Australia's ability to address climate action.[110] Sustainable Energy Now went on to state that a carbon price 'can raise the cost of polluting activities…thus making cleaner alternatives relatively more cost effective'.[111]

3.77 ClimateWorks Australia argued that:

> …repealing the Clean Energy Package would 'delay implementation of emissions reductions, and thus increase the cost of achieving national emissions reduction targets.[112]

3.78 Furthermore they noted that the package created an extensive framework to help transition the Australian economy towards a clean energy future. ClimateWorks remarked that:

> …the Clean Energy Future package led to the creation of architecture and institutions of the kind that will be required to achieve a cost-effective

106 See, for example, CCWA, *Submission 29*, p. 1; The Australia Institute, *Submission 38*¸p. 5; South East Councils Climate Change Alliance, *Submission 39*, p. 2; Anglican EcoCare Commission, *Submission 40*, p. 2; CCSA, *Submission 44*, p. 9; and WWF-Australia, *Submission 67*, p. 4.

107 CCSA, *Submission 44*, p. 9.

108 CCSA, *Submission 44*, p. 9.

109 Sustainable Energy Now, *Submission 34*, p. 4.

110 Sustainable Energy Now, *Submission 34*, p. 4.

111 Sustainable Energy Now, *Submission 34*, p. 4.

112 ClimateWorks Australia, *Submission 24*, p. 3.

> transition to a low carbon economy—removing and remaking these institutions will add unnecessary cost to the task.[113]

3.79 The ACTU made a similar argument, describing the repeal of the Clean Energy Package as 'irresponsible policy making'.[114] The ACTU stated:

> Abandoning a carbon pricing mechanism also relinquishes an opportunity to provide incentives for the adoption of low carbon and energy efficient technologies.[115]

3.80 The ACTU explained that repealing the package 'discards a fair and inclusive approach to tackling climate change that protects jobs through the provision of assistance to households and communities while driving emissions reductions'.[116] The peak union body considered that removing the carbon pricing mechanism would remove industry support, 'resulting in little assistance to industry to remain competitive in the current global shift towards a low carbon economy'.[117]

3.81 The Australian Solar Thermal Energy Association (AUSTELA), the peak body for Australia's solar thermal energy industry, highlighted that the impacts of repeal of the Clean Energy Package could make the task of risk assessment and investment decision-making more difficult and would reinforce perceptions in the investment community that Australia's energy sector is exposed to greater sovereign risk.[118]

No repeal without an equally effective scheme in place

3.82 It was argued that the Clean Energy Package should not be repealed unless there is an equally effective carbon reduction scheme in place.

3.83 WWF-Australia strongly urged that the wholesale repeal of the Clean Energy Act be delayed until there is an effective alternative mechanism—that includes a price and limit on pollution—in place to reduce greenhouse gas emissions:

> WWF Australia is also strongly urging the government to delay wholesale repeal of the Clean Energy Act until there is an effective alternative mechanism that includes a price and a limit on pollution in place to reduce greenhouse gas emissions. This is important for good governance, sound economic management, business certainty and, most importantly, to ensure Australia is not left without a climate mechanism to meet our international obligations of cutting carbon pollution by between five and 25 per cent by 2020.[119]

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113 ClimateWorks Australia, *Submission 24*, p. 3.

114 ACTU, *Submission 30*, p. 5.

115 ACTU, *Submission 30*, p. 6.

116 ACTU, *Submission 30*, p. 6.

117 ACTU, *Submission 30*, p. 6.

118 AUSTELA, *Submission 76*, p. 8.

119 Ms Kellie Caught, National Manager, Climate Change, WWF-Australia, *Committee Hansard*, 5 February 2014, p. 60.

3.84 UnitingCare Australia declared that it 'does not support the repeal of the Clean Energy Legislative Package, particularly in the absence of a replacement mechanism for pricing emissions and other matters'.[120] Likewise the South East Councils Climate Change Alliance indicated that it would support the abolition of the carbon pricing mechanism if there was confidence that a more effective mechanism to drive emission reductions was available.[121]

3.85 The view of the Anglican EcoCare Commission was that the existing carbon pollution legislation should 'be retained until a credible alternative can be presented that will transition the economy from carbon-intensive energy sources to low or no-carbon renewable sources'.[122]

3.86 It was also suggested by the CCSA that both the carbon pricing mechanism and the proposed Direct Action Plan could work together.[123] The Conservation Council stated:

> The rate of the carbon price could instead simply be set at zero dollars whilst the $2.6 billion carbon reduction fund is administered. If the fund proves to be inadequate to achieve between 5 and 20% reductions by 2020 (as most credible scientists and economists believe that it will be inadequate), then the fall back mechanism of carbon pricing will be in place.[124]

3.87 This view was held by a number of organisations including the Australia Institute who believed that 'the ERF could be effectively used to fund abatement in areas not covered by the carbon price or in areas where a carbon price is not able to tap into low cast abatement or where transaction costs are low'.[125]

3.88 The CCWA informed the committee that it is 'not opposed to direct action per se, however this instrument must be deployed in concert with other policy instruments which must include an economy-wide pricing mechanism as well as a cap on total carbon pollution'.[126]

Carbon pollution cap

3.89 Under the *Clean Energy Act 2011* (Cth) the carbon pollution cap is a specified number of tonnes of greenhouse gas emissions permitted each year.[127] In effect the carbon pollution cap sets the sum total of annually auctioned carbon units, plus the

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120 UnitingCare Australia, *Submission 10*, p. 1.

121 South East Councils Climate Change Alliance, *Submission 39*, p. 2.

122 Anglican EcoCare Commission, *Submission 40*, p. 2.

123 CCSA, *Submission 44*, p. 9.

124 CCSA, *Submission 44*, p. 9.

125 The Australia Institute, *Submission 38*¸ p. 5.

126 CCWA, *Submission 29*, p. 1. See also the discussion in Chapter 5 on complementary measures to the Emissions Reduction Fund.

127 *Clean Energy Act 2011*, s. 13.

total annual number of free carbon units issued in accordance with the Jobs and Competitiveness Program plus the total annual number of free carbon units issued to coal-fired electricity generators.[128]

3.90 The carbon pollution cap is made through government regulations. In deciding on a carbon pollution cap, the Minster must have regard to, amongst other things, Australia's international obligations under international climate change agreements and advice from the Climate Change Authority.[129] It the Minister fails to set a cap through regulations, or the regulations are disallowed, the legislation provides for a default cap which would decline annually by 12 Mt less than the previous compliance year.[130]

3.91 In the final report of its targets and progress review, the Climate Change Authority explained how the cap fits within Australia's broader carbon reduction policy:

> Under the existing legislation, the carbon pricing mechanism has a three-year fixed-price period from 1 July 2012 to 30 June 2015. When the fixed-price period ends, the legislation provides for annual caps on emissions covered by the carbon pricing mechanism ('covered emissions'). The gap between the national emissions trajectory and cap allows room in the national emissions budget for emissions from sources outside the carbon pricing mechanism ('uncovered emissions'). The cap determines the total number of Australian carbon units for a particular year to be issued by the government. These units would be provided to entities as a free allocation or sold at auction, generating government revenue.
>
> If covered emissions exceed the caps, liable entities can purchase international units or domestic offsets to make up the difference. Approved international units can be surrendered to meet up to 50 per cent of an entity's carbon liability; these units include EUAs [European Union Emission Allowances] and Kyoto units (units generated under the Kyoto Protocol). A sub-limit of 12.5 per cent applies to Kyoto units. Domestic offsets or ACCUs are generated under the CFI.[131]

3.92 Repeal of the Clean Energy Package, including the *Clean Energy Act 2011*, would remove Australia's carbon pollution cap. It was argued by some submitters that the removal of the cap would undermine action to reduce carbon emissions.[132]

3.93 WWF-Australia outlined that a cap-and-trade ETS puts an annual cap on pollution and restricts the number of pollution permits in the system and that can be

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128 *Clean Energy Act 2011*, s. 13.

129 *Clean Energy Act 2011*, s. 13.

130 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 191.

131 Climate Change Authority, *Targets and progress review*, Final report, February 2014, pp 190–191.

132 See, for example, Anglican EcoCare Commission, *Submission 40*, p. 2.; CCSA, *Submission 44*, p. 11; GetUp, *Submission 47*, p. 7.

traded. This way the Government can be confident that they can meet their desired and/or internationally agreed targets.[133] The ACF likewise recognised that if the repeal of the Clean Energy Package occurs, it 'will remove Australia's legislated cap on pollution'.[134]

3.94 The AYCC explained that by removing the cap, the Government would not be able to ensure that Australia's overall emissions are reducing.[135] The AYCC expressed concern that removal of the Clean Energy Package means 'that there is no clear legal mechanism' to ensure that Australia achieves its stated emissions reduction target.[136]

3.95 Sustainable Energy Now similarly argued for a carbon limitation scheme to have any effectiveness it 'must include downward-moving caps and penalties for exceeding caps that are sufficiently high to ensure that industries will abide by them'.[137]

3.96 Energetics argued that Australia's climate change response must consist of several complementary measures, including a carbon pollution cap.[138] According to Energetics, such a cap on pollution would enable flexibility to ensure that Australia can meet its current and future obligations cost effectively.[139] Energetics further remarked that 'the existence of a carbon pollution cap is the most simple approach to meeting Australia's 5% emissions reduction target'.[140]

3.97 Friends of the Earth Australia were also critical of the intended repeal of the pollution cap put in place by the Clean Energy Package, noting that 'it will be impossible to move towards consuming only a fair share of the global carbon budget if the cap is removed'.[141]

3.98 In the final report of its targets and progress review, the Climate Change Authority made recommendations for Australia's future pollution caps. In analysing Australia's available emissions budget, the Climate Change Authority recommended that Australia adopted the following carbon pollution caps:

133 WWF-Australia, *Submission 67*, p. 20.

134 ACF, *Submission 14*, p. 4.

135 AYCC, *Submission 32*, p. 4.

136 AYCC, *Submission 32*, p. 4.

137 Sustainable Energy Now, *Submission 34*, p. 5.

138 Energetics, *Submission 59*, p. 2.

139 Energetics, *Submission 59*, p. 2.

140 Energetics, *Submission 59*, p. 6.

141 Friends of the Earth, *Submission 66*, p. 5.

Table 3.1: Climate Change Authority recommended carbon pollution caps for the first five years of the flexible price period of the carbon pricing mechanism[142]

Year	Cap (Mt CO_2-e)
2015–16	234
2016–17	228
2017–18	222
2018–19	215
2019–20	209

Damage to Australia's international reputation

3.99 Evidence was presented to the committee indicating that repeal of the Clean Energy Package would have a significant impact on Australia's international standing on climate action.

3.100 Professor Jotzo warned that Australia's policymakers need to 'be mindful of the signalling effect that Australian policy choices have internationally'.[143] Professor Jotzo explained that:

> Major countries have carbon pricing in place or are introducing it. If Australia were to replace carbon pricing with a subsidy approach, this would be against global trends and waste an opportunity for positive influence on international policy making.[144]

3.101 Professor Jotzo observed that as a significant contributor to global emissions, Australia has an opportunity to lead by example on climate action:

> The development of climate policy over recent years has been keenly observed by governments all over the world. The Carbon Pricing Mechanism—along with related policies and institutions such as the Clean Energy Finance Corporation and Climate Change Authority—are well known internationally. Elements of these have been seen as possible models for new policy in many other countries. Australia has the opportunity to positively influence other countries by setting an example of sound economic policy for emissions reductions, just as Australia has done in other areas, such as trade liberalisation. The proposed rollback of carbon pricing and introduction of a subsidy scheme however would serve as a negative example.[145]

142 Climate Change Authority, *Targets and progress review*, Final report, February 2014, p. 199.

143 Professor Frank Jotzo, *Submission 86*, p. 5.

144 Professor Frank Jotzo, *Submission 86*, p. 1.

145 Professor Frank Jotzo, *Submission 86*, p. 5.

3.102 Professor Frank Jotzo further stated that:

> I have spent a lot of time over the last six months talking to colleagues in Europe as well as in China, and the overriding reaction that we get to recent policy developments around the carbon pricing mechanism in Australia is people being perplexed as to why Australia, with a relatively well designed carbon pricing scheme and having gone through a lot of pain in developing this scheme and finally implementing it, would now go completely the other way and get rid of the whole thing again. So the question that I am often being asked in that respect is: what is wrong with the scheme? My answer usually is that there is nothing much intrinsically wrong with the scheme; it is an issue of politics.[146]

3.103 Sustainable Energy Now remarked that after making progress in addressing the causes of climate change, Australia is in danger of being seen as a barrier to effective global action.[147] The organisation stated:

> Australia has been criticised at the COP talks in Poland as being the first nation to repeal its legislated price on carbon, in the face of other developed sates such as Korea, California and some Chinese provinces introducing carbon pricing schemes'.[148] It can only hinder international efforts if Australia, in the top 3 of the world's per capita emitters, repeals a carbon pricing scheme that has proven efficient in reducing electricity and industrial emissions with negligible negative effect on the economy or industry competitiveness'.[149]

3.104 The Climate Institute similarly argued that 'the credibility and ambition of Australia's domestic policy settings will become more important' as the world negotiates new agreements from 2014 onwards.[150] The Climate Institute stated:

> Our credibility comes into sharp relief in 2014 as international processes − including a world leader gathering − will focus on building the pre-2020 emission reduction ambitions of all major emitters. A policy that can meet stated international targets is central to strengthening the emerging architecture, building global ambition, and avoiding negative responses from other major economies. Policies that cannot demonstrably meet such goals risk institutionalising a return to an obstructionist or unhelpful climate diplomacy.[151]

146 Professor Frank Jotzo, *Proof Committee Hansard*, 28 February 2014, p. 34.

147 Sustainable Energy Now, *Submission 34*, p. 4.

148 Sustainable Energy Now, *Submission 34*, p. 4.

149 Sustainable Energy Now, *Submission 34*, p. 4.

150 The Climate Institute, *Submission 2*, p. 6.

151 The Climate Institute, *Submission 2*, pp 6–7.

3.105 Greenbank Environmental noted that Australia is not a first mover on climate action and that 'many countries have market based emissions trading schemes, with "cap and trade" being by far the most used'.[152]

3.106 Mr Tim Buckley, a financial analyst with the Institute for Energy Economics and Financial Analysis also indicated that 'Australia's policy threatens to make us a laggard on the global platform'.[153]

Policy uncertainty

3.107 One of the major issues raised by submitters concerning the repeal of the Clean Energy Package was the policy uncertainty that is created.[154] Businesses and investment organisations expressed concern that the change in direction by the Government undermines investment in the clean energy industry. A lack of bipartisan political support of climate action was also concerning to submitters.[155]

3.108 The Grattan Institute asserted that 'the absence of long-term policy certainty is a central challenge of climate change policy across the world'.[156] The Grattan Institute explained that:

> A conclusion that applies across all governments is that policy on climate change and energy is inherently not reliable and continues to shift. Regardless of the relative strengths and weaknesses of the existing Australian policy and its proposed replacement, the very decision to make a change adds to this challenge.[157]

3.109 According to the Grattan Institute, governments have a responsibility for creating the right conditions to allow for long-term investment to encourage a low-emissions economy:

> Demand for low-emissions technology is created by government policy in order to price the environmental impact of carbon emissions. But there is significant uncertainty about the long-term credibility of the policy commitment, when energy infrastructure investment needs a high level of predictability.
>
> Electricity sector investments are subject to many risks and uncertainties, including over climate change policy. This uncertainty encourages firms to delay investment to keep options open in the short term in the expectation

152 Greenbank Environmental, *Submission 63*, p. 2.

153 Mr Tim Buckley, *Committee Hansard*, 7 March 2014, p. 11.

154 See, for example, ClimateWorks, *Submission 24*, p. 3 and Mr Andrew Dillon, General Manager, Corporate Affairs, Energy Supply Association of Australia, *Committee Hansard*, 5 February 2014, p. 40.

155 See, for example, ACF, *Submission 14*, p. 3; Energetics, *Submission 59*, p. 6; and Mr Tennant Reed, Principal National Adviser, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, pp 52–53.

156 Grattan Institute, *Submission 22*, p. 4.

157 Grattan Institute, *Submission 22*, p. 4.

> that they can make better informed decisions later. As a result there is less investment in the technologies needed than is socially desirable.[158]

3.110 The Grattan Institute described that 'in an ideal world government would legislate emissions constraints over several decades'.[159] This would allow the private sector to confidently form a view about the likely path of the carbon price over time and allow speculators to emerge to carry the investment risk between carbon prices today and those likely in the future.[160]

3.111 Mr Buckley informed the committee that investment in clean technology in Australia is stalling due to policy uncertainty:

> …Australian industry is actually regressing domestically because of the lack of clarity on policy. We are worse than stalling; we are actually investing in assets that I think will become stranded as a result. Internationally, companies and economies are building industry capacity to transition for the long term.[161]

3.112 Mr Buckley argued that the energy sector, in particular, needs policy certainty to meet the challenges of climate change:

> Australia…needs a clear, long-term carbon policy commitment. It needs to encourage and build a sustained transition to a low-carbon economy. Our energy policy needs transparency, longevity and certainty. When you are looking at the energy policy, you are talking about a sector that has very long-life assets—on general, 20-, 30-, 40-, 50-year life assets. We need a policy that matches the time frame. Energy policy needs to recognise the issue of the scale of the investment going in. It is a very significant sector. There is no doubt in my mind that Australia has the financial resources to deal with climate change and to transition to a low-carbon economy if we have the right policy.[162]

3.113 The Investor Group on Climate Change (IGCC), an organisation representing institutional investors, identified that reducing Australia's emissions is a long-term project that 'requires a policy framework that is stable and that is capable of being scaled up to deliver more ambitious reductions over time'.[163] The IGCC informed the committee that:

> Without a central, long-term policy framework, there is significant uncertainty for investors in all assets—emissions-intensive, emissions-reducing technologies and low-carbon activities alike. The consequences of this is that the cost of private capital for achieving emissions reductions

158 Grattan Institute, *Submission 22*, p. 4.

159 Grattan Institute, *Submission 22*, p. 4.

160 Grattan Institute, *Submission 22*, p. 4.

161 Mr Tim Buckley, *Committee Hansard*, 7 March 2014, p. 12.

162 Mr Tim Buckley, *Committee Hansard*, 7 March 2014, p. 11. See also Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 5.

163 Investor Group on Climate Change (IGCC), *Submission 93*, p. 1.

> would increase and the cost of achieving those reductions would also increase.[164]

3.114 The ACTU advised that with policy uncertainty around climate action, 'the shift to a low carbon economy will be delayed'.[165] The ACTU argued that the absence of a strong climate policy will ultimately affect in lost investment and lost jobs. The ACTU stated that a delayed move to a low carbon economy:

> …will increase the cost and create greater uncertainty for industry and workers as the economy responds to the global carbon constrained environment. Finally it will result in missed opportunities. Innovation in low carbon and energy efficiency technologies presents new opportunities for industry, creating jobs for the future. Without a credible policy we will miss the opportunity to develop domestic industry capabilities.[166]

3.115 The Australian Industry Group, recognised that 'supporting efficient long-term investment is an important principle for climate policy'.[167] The group remarked that 'while industry is used to dealing with risk and change, a clear, stable policy framework with broad political support would make sound investment much easier'.[168]

3.116 AUSTELA informed the committee that a lack of regulatory structures around climate action will 'not provide long term clarity in the energy sector' and are 'likely, in the medium and longer term, to increase energy costs in the economy, and in so doing to undermine national efficiency and productivity'.[169] AUSTELA outlined that:

> In the absence of clarity as to long term institutional arrangements and market structures affecting carbon emission regulation in Australia's energy sector, risk premiums are applied to energy investments and business operations, and energy investments are deferred in the hope that such clarity will emerge, adversely affecting productivity and further exacerbating risk. the resulting high costs are either passed on to consumers, or reduce earnings available for shareholder distributions. This impact negatively on the returns of investors such as superannuation funds over the medium and long term.[170]

3.117 AUSTELA was also concerned that 'repeal of a major suite of economic reforms must, of its nature cause significant uncertainty in affected markets'.[171] AUSTELA argued that investors and market participants will be unsettled and will take time to reconfigure their decision-making and risk assessment processes 'to

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164 Mr Nathan Fabian, Chief Executive Officer, IGCC, *Committee Hansard*, 7 March 2014, p. 11.

165 ACTU, *Submission 30*, p. 5.

166 ACTU, *Submission 30*, p. 5.

167 The Australian Industry Group, *Submission 92, p. 6.*

168 The Australian Industry Group, *Submission 92, p. 6.*

169 AUSTELA, *Submission 76*, p. 1.

170 AUSTELA, *Submission 76*, p. 1.

171 AUSTELA, *Submission 76*, p. 1.

reflect the changes resulting from the repeal, and this process of reassessment will retard investment and confidence and activity'.[172]

3.118 Greenbank Environmental noted that:

> As a developer and financier of CFI projects, we require policy that is Long, Loud and Legal, or put another way, Transparent, Long-living and Clear (TLC Policy) to have a degree of certainty with our investment of capital and resources in assisting Australia meet its GHG Emission reduction targets. The market has been in a holding pattern for all of 2013 and it is likely to remain so due to a complete about face from a policy perspective, which we feel has impacted productivity and buy-in to any future scheme.[173]

3.119 Other industry bodies that are in favour of repeal of the Clean Energy Package also requested policy certainty. The Australian Dairy Industry Council (ADIC) were concerned that repeal of the legislation has, amongst other things, put funding for continued research under the CFI in doubt.[174] The ADIC noted that 'the timing lag between the Clean Energy Package and the details of the Direct Action policy creates investment uncertainty'.[175] They further explained that:

> Australian agriculture needs continued investment in developing methodologies and discovering novel carbon sequestration or abatement opportunities. Without this investment, we risk missing opportunities for cost-effective abatement measures, and our international reputation and competitive advantage as a sector takes climate change seriously.[176]

3.120 The ADIC requested that consideration should be given to 'interim programs being made available to support emissions reduction and energy efficiency projects while maintaining the interest and momentum of the previous Government policy'.[177]

3.121 The Australian Forest Products Association (AFPA), the peak national body for Australia's forest wood and paper products industry, also encouraged the Government to act with certainty in the area of climate action, noting that it 'is in our national interest that businesses have policy certainty and clarity, as well as a level playing field with our major trading partners'.[178]

Bipartisan political support

3.122 Some submitters urged for Australia's political parties to arrive at a consensus on climate action to support long-term policy certainty.

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172 AUSTELA, *Submission 76*, pp 8–9.

173 Greenbank Environmental, *Submission 63*, p. 11.

174 Australian Dairy Industry Council (ADIC), *Submission 11*, p. 3.

175 ADIC, *Submission 11*, p. 4.

176 ADIC, *Submission 11*, p. 3.

177 ADIC, *Submission 11*, p. 4.

178 AFPA, *Submission 15*, p. 1.

3.123 The ACF noted that 'Australian climate policy has been politicised in recent years, leading to poor environmental outcomes, while policy instability has also undermined investor confidence'.[179]

3.124 Energetics observed that whilst the Australian Labor Party and the Coalition agree on the science of climate change, and in principle that a market based mechanism is the best way to address the risk of climate change, without bipartisan policy 'it is unlikely that Australian domestic climate change policy will advance beyond uncertain rhetoric to drive wholesale behavioural changes'.[180]

3.125 The Australian Industry Group noted that:

> The absence of bipartisan, stable, long-term policy at this point would be an inhibitor for long-term investments that are closely affected by climate policy of one sort or another, but many of those investment decisions are not being taken at the moment and we have something of a breathing space for the next several years to arrive at some degree of bipartisan policy.[181]

3.126 The Public Health Association of Australia (PHAA), noting the significant impact of climate change on public health, requested that a consensus approach is needed by Australia's leaders. The PHAA stated:

> The politicised nature of the current discussion about this subject in Australia is seriously impeding a rational and reasoned response. The PHAA considers that this pressing policy challenge requires a cross-parliamentary approach to match the urgency of this serious common threat to Australian prosperity and health.[182]

Support for repeal of the Clean Energy Package

3.127 Some submitters to the inquiry were supportive of the repeal of the Clean Energy Package.[183]A number of industry bodies argued that the legislative package, including the carbon pricing mechanism, imposed unnecessary costs on their businesses and placed them at an unfair advantage compared to their international competitors.[184]

3.128 AFPA strongly supported the quick repeal of the carbon pricing mechanism.[185] The Association reasoned that 'it is in our national interest that

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179 ACF, *Submission 14*,p. 3.

180 Energetics, *Submission 59*, p. 6.

181 Mr Tennant Reed, Principal National Adviser, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, pp 52–53.

182 PHAA, *Submission 4*, p. 9.

183 AFPA, *Submission 15*, p. 1.

184 See, for example, AFPA, *Submission 15*, p. 1; Cement Industry Federation, *Submission 49*, p. 2; and Association of Mining and Exploration Companies (AMEC), *Submission 74*, p. 2.

185 AFPA, *Submission 15*, p. 1.

businesses have policy certainty and clarity, as well as a level playing field with our major trading partners'.[186]

3.129 The Cement Industry Federation likewise supported the repeal of the Clean Energy Package.[187] The Federation stated that it:

> …supports climate change policy that does not expose cement manufacturing operations in Australia to costs not faced by our competitors in other countries. The Clean Energy Future policy did not address this issue adequately, with only part of the cement manufacturing production process being recognised as being emissions intensive and trade exposed. This is inconsistent with the cement activity definitions of emissions trading schemes in New Zealand and California where all components of the cement manufacturing process are included.[188]

3.130 The Association of Mining and Exploration Companies (AMEC) asserted that the 'Clean Energy Package placed Australian mining and exploration industries at a significant disadvantage to our competitors'.[189] For the exploration and mining industry 'it was a financial penalty without any meaningful opportunity to contribute to Australia's response to climate change'.[190]

3.131 AMEC explained that as the major carbon emissions relating to mining are those associated with diesel use, miners are constrained by the manufacturers of vehicles and power plants in their ability to reduce their carbon emissions. Furthermore they stated that upgrades of mining equipment would more than likely be classed as actions that would have already occurred and not be eligible for funding under the Emissions Reduction Fund.[191]

3.132 The National Farmers' Federation (NFF) indicated that it 'does not support the carbon tax due to the significant flow-on impacts to agriculture.[192]

Committee comment

3.133 The implementation of the Clean Energy Package in 2011 represented a major shift in Australia's response to climate change. It presented a comprehensive set of policy instruments to reduce Australia's carbon emissions, invest in renewable energy and provide assistance for businesses and households to transition to a clean energy economy. The package was the result of extensive consultation between policy makers, scientific experts and industry groups. A significant amount of time and effort

186 AFPA, *Submission 15*, p. 1.

187 Cement Industry Federation, *Submission 49*, p. 2.

188 Cement Industry Federation, *Submission 49*, p. 3.

189 AMEC, *Submission 74*, p. 2

190 AMEC, *Submission 74*, p. 2

191 AMEC, *Submission 74*, p. 2.

192 National Farmers' Federation (NFF), *Submission 37*, p. 1.

was spent on ensuring that Australia adopted an effective and credible way to address climate change in the long term.

3.134 The centrepiece of the Clean Energy Package, the carbon pricing mechanism and future emissions trading scheme, has been shown by submitters to be the most effective and least interventionist way to reduce carbon emissions. Market mechanisms reduce the need for government to predict the future, provide long-term certainty and give businesses the flexibility to achieve desired outcomes. The concept of a market mechanism also accurately reflects the 'polluter pays' principle and apportions responsibility for emissions with emitters.

3.135 Despite the short period of time since the implementation of the Clean Energy Package, it has been effective at reducing carbon emissions. Figures from the Australian National Greenhouse Accounts have shown that emissions decreased by 0.1% in just one year between 2012 and 2013, with modelling suggesting that emissions over the same period would have been 2.8% higher without the Clean Energy Package. The Clean Energy Package has been successful at turning around Australia's emissions trajectory.

3.136 However, the instruments put in place under the Clean Energy Package are designed to effect long-term change and an analysis of the success of the policy after such a short period of time is limited in its usefulness. The Clean Energy Package is designed to modify polluter behaviour and over time will produce stronger gains in emissions reductions.

3.137 Submitters have shown that the Australian Government's intention to repeal the Clean Energy Package will have a significant impact on Australia's ability to address climate change. Repeal of the package would remove an essential incentive, through the carbon pricing mechanism, for polluters to reduce their emissions. The energy sector is the largest contributor to Australia's greenhouse gas emissions though the burning of fossil fuels. Without a mechanism to make these major polluters pay for their emissions, there will be little incentive for them to change their business as usual approach.

3.138 The Clean Energy Package provided a carrot and stick approach to emissions reductions by charging a price on emissions while offering financial assistance through industry packages and the Clean Energy Finance Corporation to modify behaviour. Combined with a legislated cap on emissions, the package created a comprehensive response to climate change. The committee acknowledges the comprehensive evidence from submitters that the Clean Energy Package was an effective set of policy measures to address average global temperature increases. The committee also recognises submitters concerns that delaying emissions reduction measures will only serve to increase the costs of achieving targets in the future.

3.139 Repeal would also serve to undermine Australia's international reputation and responsibility as a highly developed economy which takes the critical issue of climate change seriously. Australia would be the first country in the world to move backwards and remove a carbon pricing scheme.

3.140 Most significantly, repeal of the Clean Energy Package will result in policy uncertainty for Australian businesses and industry. Academics, policy experts, industry groups and environmental groups all requested policy certainty be achieved in the area of climate change. The Australian economy needs to be prepared to meet the challenges of a clean energy future with business and industry having certainty to allow for long term investment. As noted by the Grattan Institute, certainty would allow the private sector to confidently form a view about the likely path of the carbon price over time.

3.141 The committee recommends that Australia undertakes effective action to reduce carbon pollution and provide a long-term framework that instils policy certainty. As such the Clean Energy Package should not be repealed. Furthermore, the committee believes that to recognise the full advantages of a market mechanism to limit carbon pollution, the Clean Energy Package should transition to the planned flexible price period on 1 July 2014. The committee also recommends that the Government adopt stringent legislated caps on carbon emissions, based on the advice of the Climate Change Authority, to ensure Australia meets its emissions reduction targets.

Recommendation 4

3.142 The committee recommends that the Clean Energy Package not be repealed.

Recommendation 5

3.143 The committee recommends that the transition of the fixed carbon price to a fully flexible price under an emissions trading scheme with the price determined by the market occur on 1 July 2014.

Recommendation 6

3.144 The committee recommends that the Government adopt stringent legislated caps on carbon emissions, based on the advice of the Climate Change Authority, to ensure that Australia meets its emissions reduction targets.