Chapter 5

Direct Action Plan

5.1 This chapter outlines the Direct Action Plan, and the proposed Emissions Reduction Fund (ERF), and examines the evidence received as to whether they have the capacity to reduce Australia's greenhouse gas emissions adequately and cost-effectively.

Background: What is the Direct Action Plan?

5.2 The 'Direct Action Plan' refers to a climate change policy to reduce Australia's greenhouse gas emissions released in 2010 while the Coalition was in Opposition.[1] The Direct Action Plan states that:

> Australia needs a scheme that will provide the incentive for firms to reduce their carbon emissions and, at the same time, minimise the costs to industry and the Australian economy.[2]

5.3 The Direct Action Plan has a number of components. The ERF is the 'centrepiece' of the Direct Action Plan. The Direct Action Plan states that the ERF will 'directly support CO_2 emissions reduction activities by business and industry'.[3] The original idea behind the ERF was that the Government will pay for projects that will reduce CO_2 emissions 'at least cost'. Funding allocations from the ERF would be made through a reverse auction[4] starting with the lowest-cost projects. The Direct Action Plan identifies a range of possible opportunities for CO_2 abatement,[5] such as energy efficiency projects, cleaning up power stations, reafforestation and revegetation projects or improvement of soil carbon.[6]

5.4 The Direct Action Plan also contained a number of other components and commitments, including 'One Million Solar Roofs', 'Solar Towns and Solar Schools', 'Twenty Million Trees', 'Clean Energy Employments Hubs', 'Geothermal and Tidal Towns', 'Renewable Fuels' and 'Greenhouse Friendly Program'. The table in Appendix

---

1 *The Coalition's Direct Action Plan* (Direct Action Plan), http://www.greghunt.com.au/Portals/0/PDF/TheCoalitionsDirectActionPlanPolicy2010.pdf (accessed 17 December 2013).

2 Direct Action Plan, p. 13.

3 Direct Action Plan, p. 13.

4 That is, unlike an ordinary auction, where buyers compete to obtain a good or service by offering increasingly higher prices, in a reverse auction, the sellers compete to obtain business from the buyer and prices will typically decrease as the sellers undercut each other.

5 To 'abate' greenhouse gas emissions, either less CO_2 (and other greenhouse gases) is released into the air from burning fossil fuels; or more CO_2 needs to be absorbed or retained in other ways – for example, carbon is absorbed into plants by photosynthesis, and it can also be stored in soil.

6 Direct Action Plan, pp 13–21. Soil carbon is discussed further in Chapter 7 of this report.

4 sets out the original commitments under the Direct Action Plan in further detail and the current status of each commitment.

Targets

5.5 The stated aim of the original 2010 Direct Action Plan was to reduce Australia's emissions by 5% by 2020 compared to the 1990 levels. This target has been reiterated by the Government in the recent ERF Green Paper, which states that the Government has committed to reduce Australia's greenhouse gas emissions by 5% below 2000 levels by 2020 and to:

> …review our position in 2015 as part of the global negotiations regarding international commitments both pre- and post-2020.[7]

5.6 The committee notes that whether a 5% target is adequate has been discussed earlier in this report. At the time of writing, on current emissions projections, a 5% target represents a reduction amount of 131 million tonnes of CO_2-e[8] in 2020 and a cumulative amount between 2014 and 2020 of 431 million tonnes.[9]

Clean Air Plan

5.7 Since coming into Government, the Coalition has released the *Plan for a Cleaner Environment*.[10] The 'Clean Air' component of this plan contains some of the commitments made in the Direct Action Plan, and confirms the target of reducing Australia's emissions by 5% below 2000 levels by 2020.[11] The Clean Air Plan indicates that this target will primarily be reached through the ERF, described as the 'centrepiece of the Government's climate action policy'.[12] The Clean Air Plan also contains three other initiatives: 'One Million Solar Roofs', 'Solar Towns and Solar Schools' and 'Twenty Million Trees'. These are discussed further in Chapter 7 of this report.

---

7 Department of the Environment, *Emissions Reduction Fund Green Paper* (Green Paper), December 2013, p. 1, http://www.environment.gov.au/topics/cleaner-environment/clean-air/emissions-reduction-fund/green-paper (accessed 9 February 2014).

8 CO_2-e: carbon dioxide equivalent, which is a measure that quantifies different greenhouse gases in terms of the amount of carbon dioxide that would deliver the same global warming potential: Climate Change Authority, *Targets and progress review*, Final report, February 2014, Glossary, p. 349.

9 Green Paper, p. 1

10 Department of the Environment, *A Plan for a Cleaner Environment*, October 2013, http://www.environment.gov.au/system/files/resources/d25d512f-fd38-49f4-8434-bf6a9edd6d5d/files/cleaner-environment.pdf (accessed 7 January 2014).

11 Department of the Environment, *A Plan for a Cleaner Environment*, p. 7. Note that although the baseline year has changed from 1990 to 2000, this does not significantly change the abatement reduction task. The recently released Green Paper for the Emissions Reduction Fund confirms this target: the aim is to reduce emissions by 5% by 2020 based on 2000 levels.

12 Department of the Environment, *A Plan for a Cleaner Environment*, p. 7.

Budget

5.8 In 2010, the proposed budget for the Direct Action Plan was a total of $3.2 billion over four years. The ERF was allocated $2.55 billion of this total. The ERF had an initial allocation of $300 million in its first year, $500 million in the second year, $750 million in its third year, and $1 billion in its fourth year.[13]

5.9 The more recent *Plan for a Cleaner Environment* commits $300 million, $500 million and $750 million for the ERF over the forward estimates (a total of $1.5 billion). The fourth year commitment has no longer been specified.[14] The Government has indicated that once the budget for the Direct Action Plan is exhausted, no further monies will be spent, whether or not emissions reduction targets have been achieved.[15]

5.10 The table in Appendix 4 sets out original funding commitments under the Direct Action Plan and the current status of that funding and/or commitment.

Background: the Emissions Reduction Fund

5.11 Although described as the 'centrepiece' of the Government's climate policy, the final design of the ERF is still unclear and is currently the subject of a consultation process. On 16 October 2013, the Government released the terms of reference for the ERF. Submissions to the terms of reference closed on Monday, 18 November 2013, and were used to inform the development of the Green Paper.[16]

5.12 The ERF Green Paper (the Green Paper)[17] was released on 20 December 2013, with submissions due by 21 February 2014. The Green Paper sets out the Government's 'preferred options' for design of the ERF including key features such as auctions, baselines and contract arrangements. Submissions to the Green Paper will be considered leading up to the release of a white paper in 'early 2014'. The Department advised that, as part of the white paper process, exposure legislation would be released along with the white paper. The stated goal is for the ERF to commence on 1 July 2014.[18] However, the Department clarified that the ERF will actually commence in two stages: the purchasing and crediting processes would

13 Direct Action Plan, p. 13.

14 Department of the Environment, *A Plan for a Cleaner Environment*, p. 6.

15 Jonathan Swan, 'Liberals cap spending on climate change', *Sydney Morning Herald*, 18 August 2013, http://www.smh.com.au/federal-politics/federal-election-2013/liberals-cap-spending-on-climate-change-policy-20130817-2s3q0.html (accessed 13 January 2014).

16 Department of the Environment, *Emissions Reduction Fund – Call for public comment*, http://www.environment.gov.au/emissions-reduction-fund/consultation.html (accessed 17 December 2013).

17 Department of the Environment, *Emissions Reduction Fund Green Paper*, December 2013, http://www.environment.gov.au/topics/cleaner-environment/clean-air/emissions-reduction-fund/green-paper (accessed 9 February 2014).

18 Green Paper, p. 6. See also Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, pp 1–2.

commence on 1 July 2014, whereas the aim is for the safeguard mechanism to commence on 1 July 2015.[19]

5.13 A review of the ERF will commence 'towards the end of 2015'.[20] A review of 'Australia's climate change policy' will also be conducted in 2015.[21]

Design of the ERF: Summary of Green Paper

5.14 The Green Paper proposes to retain some existing programs and entities: the Clean Energy Regulator; the CFI; and the National Greenhouse and Energy Reporting Scheme (NGERS).[22]

5.15 The Clean Energy Regulator will administer the ERF and will run the auction process and enter into contracts with successful applicants.[23] The Green Paper notes that 'legislative changes would be made to expand the role of the Clean Energy Regulator'.[24]

5.16 The ERF will also 'build on the existing arrangements' under the Carbon Farming Initiative for crediting emissions reductions.[25] However, the Green Paper did seek views on options for 'streamlining' the CFI.[26]

5.17 The Green Paper states that three principles will guide the design of the ERF:

- Lowest-cost emissions reductions. The Emissions Reduction Fund will identify and purchase emissions reductions at the lowest cost.
- Genuine emissions reductions. The Emissions Reduction Fund will purchase emissions reductions that make a real and additional contribution to reducing Australia's greenhouse gas emissions.
- Streamlined administration. The Emissions Reduction Fund will make it easy for businesses to participate.[27]

5.18 The ERF would have two key aspects:

---

19 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 2.

20 Green Paper, pp 6 and 8.

21 Green Paper, pp 6 and 8.

22 Green Paper, pp 3–5. The Direct Action Plan foreshadowed that the ERF would use the existing NGERS: Direct Action Plan, p. 14.

23 Green Paper, p. 6. The Clean Energy Regulator currently administers the NGERS, Carbon Pricing Mechanism, Carbon Farming Initiative, and the Renewable Energy Target: http://www.cleanenergyregulator.gov.au/Pages/default.aspx (accessed 10 January 2014).

24 Green Paper, p. 48.

25 Green Paper, p. 21.

26 For example, the consultation period for draft methods could be reduced from 40 to 28 days. For further details on possible 'streamlining' of the CFI see pp 44–46 of the Green Paper. This issue discussed further in Chapter 7 of this report.

27 Green Paper, pp 2 and 17.

- a process for purchasing and crediting emissions reductions (which would commenced on 1 July 2014); and
- a 'safeguard' mechanism (not scheduled to commence until 1 July 2015).[28]

Process for purchasing emissions reductions

5.19 The Green Paper proposes that:

> …businesses will submit emissions reduction projects into a competitive bidding process run by the Clean Energy Regulator. The bids with the lowest cost per tonne will be selected, and the Clean Energy Regulator will enter into contracts to purchase those emissions reductions. The competitive nature of this process will ensure that the best value for money is achieved.[29]

5.20 The Green Paper suggests the Clean Energy Regulator could:

- run 'relatively frequent auction rounds';
- apply a confidential benchmark price—the maximum amount it will pay per tonne of emissions reduced — with only bids costing less than the benchmark price being considered;
- use standard contracts with a maximum duration of five years (the contracts could include 'make-good' provisions to address under-delivery of emissions reductions);[30] and
- publish details about auctions results and contracts would be published to 'provide information to the public on the progress' of the ERF.[31]

5.21 The Green Paper states that to 'ensure the integrity of the auction', bids and participants would need to meet certain requirements, including identity checks; project eligibility under a relevant 'emissions reduction method'; commercial readiness of the relevant technology or practice; and the credibility of emissions reduction estimates.[32]

Calculating and crediting emissions reductions – 'emissions reduction methods'

5.22 The Green Paper states that the ERF will build on existing arrangements under the CFI for crediting emissions reductions. Approved emissions reduction 'methods' will set out the rules for calculating and verifying emissions reductions from different activities. The arrangements for assessing those methods will be based on those under the CFI:

---

28 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, pp 2–3.

29 Green Paper, p. 29.

30 Green Paper, p. 33.

31 Green Paper, pp 33–34.

32 Green Paper, pp 29–30.

> The Clean Energy Regulator will issue Australian Carbon Credit Units for emissions reductions that are measured and verified by approved methods, as currently occurs under the Carbon Farming Initiative.[33]

5.23 Two types of emissions reduction methods are proposed in the Green Paper:

- **Activity methods** for 'specific emissions reduction actions'. These methods would expand the set of land sector methodologies developed for the Carbon Farming Initiative. It is proposed that existing international methods, such as the Clean Development Mechanism under the Kyoto Protocol, could be used and adapted to Australia.[34]
- **Facility methods** for aggregate emissions reductions from multiple activities at a particular facility. These methods could be used by businesses that already report data under the NGERS.[35]

5.24 The Green Paper proposes that the focus of the ERF would be on emissions reductions that would not have occurred without the ERF—often referred to as 'additionality'.[36] Activities already occurring as part of normal business practice will not be funded. Similarly, only activities which are new, not required by law or do not receive funding from other Government programmes (such as the Renewable Energy Target, or state based energy efficiency schemes) will be eligible.[37] The Green Paper states that the ERF is 'designed to complement rather than duplicate these schemes'.[38]

'Safeguard' mechanism

5.25 The original Direct Action Plan states that businesses that reduce their emissions *below* their individual baseline would be able to offer this CO_2 abatement for sale to the Government. However, businesses undertaking activity with an emissions level *above* their 'business as usual' levels would incur a financial penalty.[39] The Direct Action Plan stated that the value of penalties will be set in consultation with industry but that:

> Given the trend towards lower emissions-intensive activity, and the economic growth projections that have been built into 'business as usual' emissions estimates, this is only expected to apply in exceptional circumstances.[40]

---

33 Green Paper, p. 21.

34 See further Green Paper, pp 24–25.

35 Green Paper, p. 23 and see further pp 26–27.

36 See also Green Paper, Glossary, p. 60.

37 Green Paper, p. 22.

38 Green Paper, p. 22.

39 Direct Action Plan, p. 14.

40 Direct Action Plan, p. 14.

5.26 This commitment appears to have evolved in the Green Paper to a 'safeguard mechanism'. The Green Paper now states that the ERF 'is designed to allow businesses to continue ordinary operations without penalty':

> Businesses will be encouraged to decrease emissions below their historical business-as-usual levels through the Emissions Reduction Fund. In addition, a mechanism will be developed in conjunction with business stakeholders to provide incentives not to exceed historical emissions baselines.[41]

5.27 The Green Paper refers to this as the 'safeguard mechanism', and suggests it could commence from 1 July 2015 to:

> …provide lead time to consult comprehensively with businesses on these elements and allow time for access to the Emissions Reduction Fund's crediting and purchasing elements to help reduce emissions.[42]

5.28 The Green Paper identifies the following issues for the design of an effective framework to discourage emissions growth above historical levels:

- the entities and emissions to be covered by the scheme ('coverage');
- how baseline emission levels would be determined;
- action required from businesses if baselines were exceeded; and
- appropriate treatment of new investments and significant expansions.

Coverage

5.29 In terms of coverage, the Green Paper suggests that the simplest approach would be to limit the scheme to corporations and greenhouse gases already subject to the NGERS[43]—that is, facilities which emit over 25,000 tonnes of CO_2-e emissions each year.[44] The Green Paper suggests that:

> Coverage thresholds should be set at a level that maximises emissions coverage but minimises the number of entities that may need to interact with these elements of the Emissions Reduction Fund.[45]

5.30 The Green Paper then suggests if coverage were restricted to facilities which emit 100,000 tonnes of CO_2-e per year, this would 'significantly streamline coverage by covering around 50 per cent of Australia's emissions, but limit the number of covered entities to around 190'.[46]

---

41 Green Paper, p. 35.

42 Green Paper, p. 35.

43 The greenhouse gases reported under NGERS include carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons: see Green Paper, p. 36.

44 Green Paper, p. 36.

45 Green Paper, p. 36.

46 Green Paper, p. 36.

Setting baselines for the safeguard mechanism

5.31 A 'baseline' is defined as 'a projected level of future emissions or a historical level of emissions that would have occurred without policy intervention'.[47] The Green Paper notes that:

> Baseline parameters need to be designed to help achieve the goals of the Emissions Reduction Fund with minimal complexity. A facility's emissions are likely to fluctuate over time due to a variety of influences such as changes in production levels, the mix of outputs produced, plant maintenance, and the quality of inputs used. Baselines could be set in a way that takes account of these normal variations.[48]

5.32 Options include setting historical baselines based on *emissions intensity* (the ratio of emissions per output) or on *absolute emissions* levels (the absolute level of emissions from a facility during a historical period). The Green Paper notes that baselines based on absolute emissions 'would be simple to determine' using the existing NGERS reporting framework without requiring any new reporting.[49]

5.33 The Green Paper suggests that initial baselines could be set 'using data that represents a high point in historical emissions for a facility' and explains that:

> This would ensure baselines accommodate situations where a facility increases production in the future back towards fully installed capacity or where normal variation occurs as a result of the issues described above. While this approach may provide sufficient flexibility in baselines to accommodate historical variations, significant expansions in the production capacity at a facility are likely to require specific treatment.[50]

5.34 The Green Paper states that there is no intention to raise revenue via the ERF, and that if an entity did exceed its baseline, 'there would be flexible compliance arrangements available'.[51] Options suggested include 'an initial transition period during which compliance action for exceeding baselines would not apply'; a multi-year compliance period, where a facility could exceed a baseline in one year so long as its average emissions over the full compliance period remained below the baseline; and enabling businesses to purchase credits to bring their net emissions back within baselines.[52]

5.35 Finally, the Green Paper also states that the ERF would 'put in place a framework that supports new facilities or significant expansions at *best practice*'.[53]

---

47 See Green Paper, Glossary, p. 60.

48 Green Paper, p. 37.

49 Green Paper, p. 37.

50 Green Paper, p. 37.

51 Green Paper, p. 38.

52 Green Paper, p. 38.

53 Green Paper, p. 39.

The Green Paper notes that the definitions of 'best practice' and 'significant expansion' will be key issues.[54]

Capacity of the Direct Action Plan to meet Australia's targets

5.36 This section considers the evidence relating to the capacity of the Direct Action Plan to meet Australia's targets adequately and in a cost-effective manner. The more technical design issues relating to the ERF are considered further in the next chapter.

5.37 An overwhelming number of submissions and witnesses expressed doubt about whether the Direct Action Plan and the ERF could achieve Australia's existing emissions reduction targets.[55] This doubt was based on a number of factors which are discussed further below:

- the need for more detail to make an assessment;
- the budget allocated to the ERF and the associated price of abatement;
- comparison with the performance of similar past schemes;
- the administrative burden involved in the ERF;
- the voluntary nature of the ERF;
- the lack of economy-wide incentives to reduce emissions;
- the overall cost-effectiveness of the scheme; and
- the need for other complementary measures.

54 Green Paper, pp 39–40.

55 Professor Ross Garnaut, *Submission 105*, p. 5; Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 7; Reverend Evan Pederick, Deputy Chair, Anglican EcoCare Commission, *Committee Hansard*, 31 January 2014, p. 60 and *Submission 40*, p. 2; Doctors for the Environment Australia, *Submission 13*, p. 6; CCWA, *Submission 29*, p. 1; 350 Australia, *Submission 33*, p. 2; Anglican EcoCare Commission, *Submission 40*, p. 2; Sustainable Energy Now, *Submission 34*, p. 1; Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 9; Mr Dugald Murray, Senior Economist, ACF, *Committee Hansard*, 5 February 2014, p. 35; Ms Kellie Caught, National Manager, Climate Change, WWF-Australia, *Committee Hansard*, 5 February 2014, p. 59; Wentworth Group of Concerned Scientists, *Submission 95*, pp 1, 4; ACF, *Submission 14*, pp 2, 6; ARRCC, *Submission 21*, p. 9; Environment Victoria, *Submission 25*, pp 1-2; GetUp Action for Australia, *Submission 47*; Climate Action Newcastle, *Submission 48*, p. 1; Conservation Council of South Australia, *Submission 44*, p. 5; Oxfam Australia, *Submission 31*, pp 5–6; Mr David Rossiter, *Committee Hansard*, 28 February 2014, pp 8–9 and *Submission 70*, p. 2; UnitingJustice Australia, *Submission 68*, p. 2; Climate and Health Alliance, *Submission 99*, p. 13.

More detail required

5.38 Many identified the need for more detail in order to properly evaluate the proposed ERF.[56] As Professor Garnaut observed, it is difficult to make a responsible choice between the two approaches of the ERF and the carbon pricing mechanism. He described the choice as a 'Martian beauty contest':

> … there has been an incomplete definition of the alternative…the Senate is put in the position of a judge of a Martian beauty contest who is invited to make the unseen candidate the winner, having seen some imperfections in the first candidate.[57]

5.39 Professor Ross Garnaut remarked that the Green Paper is an 'unusual document':

> Normally a green paper on a very important new policy would specify more clearly the objectives, the alternative ways of meeting them and the government's preferred approach as a means of underpinning a productive and constructive discussion.[58]

5.40 Professor Garnaut described the Green Paper as a 'shooting of the breeze':

> …there are many things that would need to be part of an effective emissions reduction fund that simply are not discussed in the paper. We are left to work out for ourselves how quite a number of things would work. Some important issues are raised, but raised just lightly, without suggestions of what the government has in mind to go about it.[59]

5.41 Several submissions concluded that 'it is premature to assess the impact or potential impact' of the Direct Action Plan and the ERF until further detail is available.[60] For example, the Energy Supply Association of Australia told the committee that:

> Direct Action as a suite of policies still under development, and in that context it is not possible to make definitive statements regarding its efficacy as compared with carbon pricing.[61]

---

56 Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 6; Professor Ray Wills, *Committee Hansard*, 31 January 2014, pp 48 and 50; Mr Noel Campbell, ADIC, *Committee Hansard*, 5 February 2014, p. 47; North Queensland Conservation Council, *Submission 77*, p. 1; Mr Bernie Fraser, Chair, Climate Change Authority, *Committee Hansard*, 7 March 2014, p. 27; Energy Supply Association of Australia, *Submission 61*, p. 1; Australian Industry Group, *Submission 92*, p. 3.

57 Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 1; and *Submission 105*, p. 7.

58 Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 2.

59 Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 2; and *Submission 105*, p. 3.

60 NFF, *Submission 37*, p. 1; see also Mr Tennant Reed, Principal National Advisor, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 52; Grattan Institute, *Submission 22.*

61 Mr Kieran Donoghue, General Manager, Policy, Energy Supply Association of Australia, *Committee Hansard*, 5 February 2014, p. 40.

5.42 Similarly, the ADIC told the committee that:

> …there is the potential that the Direct Action Plan could assist, but it will depend on how it is designed and [whether it] has enough funding...[62]

5.43 Several submitters put forward modelling analysing the Direct Action Plan based on various possible designs for the ERF. For example, Mr Erwin Jackson from The Climate Institute told the committee that:

> …even using very conservative assumptions and very generous assumptions about the direct action policy, our assessment with SKM and Monash University suggests that Australia's emissions would *increase* by around 10 per cent to 2020 under the current policy framework.[63] [emphasis added]

5.44 Mr Jackson further pointed out that the Government has not presented any evidence or independent modelling to demonstrate that the Direct Action Plan can achieve its target.[64] The Climate Institute submission further remarked that:

> No independent analysis to date has shown that the [Direct Action Plan] policy framework as outlined can achieve Australia's international obligations and emission commitments.[65]

5.45 Even those who were more optimistic that the ERF might be enough to meet a 5% target[66] cautioned that the ERF needed to be designed well. For example, ClimateWorks Australia submitted that, *if well designed and sufficiently resourced*, the ERF could potentially meet more than a 5% emission reduction target.[67]

5.46 Mr Tony Wood from the Grattan Institute also expressed the view that 'the Direct Action Plan can effectively and efficiently reduce emissions', but 'whether it will be efficient in reducing emissions is going to depend upon the design of the scheme, many elements of which are yet to be determined'.[68]

5.47 Others were concerned that the Direct Action Plan and ERF fail to provide a market-based price signal to reduce emissions.[69] For example, Mr David Rossiter told the committee that:

---

62 Ms Irene Clarke, Senior Policy Manager, ADIC, *Committee Hansard*, 5 February 2014, p. 51.

63 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 9; see also The Climate Institute, *Submission 2*, pp 5–6 and Attachment 1.

64 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 13.

65 The Climate Institute, *Submission 2*, p. 5.

66 Noting the discussion in earlier chapters of this report as to whether this target is sufficient.

67 ClimateWorks Australia, *Submission 24*, p. 2.

68 Mr Tony Wood, Program Director—Energy, Grattan Institute, *Committee Hansard*, 5 February 2014, p. 1; see also, for example, ADIC, *Submission 11*, pp 2–3; Grattan Institute, *Submission 22*, p. 2.

69 Sustainable Energy Association, *Submission 90*, p. 3.

> …this plan provides public funding to companies for specific abatement purposes, but because the company may not have had to fund this abatement, there will be no cascading price signal coming down from the company due to additional costs of their produce, so the consumers in the wider community will not get a price signal to reduce the abatement further.[70]

5.48 The Grattan Institute indicated that the ERF *could* effectively establish at least a 'shadow' carbon price:

> Although the ERF does not include a tradable commodity such as is created by an Emissions Trading Scheme or the RET, it will establish a carbon price, based on the marginal cost curve of emissions reduction activities covered by the fund.[71]

5.49 However, the Grattan Institute reiterated that whether this will occur depends on design and that more detail is needed:

> An assessment of the capacity of the Direct Action Plan to achieve cost effective greenhouse gas reductions rests on whether it will effectively generate a carbon price across a broad range of abatement options. In principle and with good design, the ERF could meet this criterion. There is simply insufficient detail yet available to make this assessment, and whether providing that detail would lead to greater administrative complexity and cost than would be associated with a well-designed ETS.[72]

5.50 Technical design issues are discussed further in Chapter 6.

Adequacy of the Budget and the price of abatement

5.51 Evidence to the committee indicated that a key constraint on the ability of the ERF to meet Australia's targets is the budget for the ERF and the associated cost of abatement opportunities.

Budget for the ERF

5.52 As noted earlier in this chapter, the Government has indicated that if the budget for the Direct Action Plan is exhausted, no further monies will be spent, whether or not emissions reduction targets have been achieved.[73]

5.53 Many submissions criticised this approach of a cap on funding rather than a cap on emissions.[74] Mr David Rossiter pointed out that the abatement target is an

---

70 Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 9.

71 Grattan Institute, *Submission 22*, p. 3; see also Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 8.

72 Grattan Institute, *Submission 22*, p. 3.

73 Jonathan Swan, 'Liberals cap spending on climate change', *Sydney Morning Herald*, 18 August 2013, at: http://www.smh.com.au/federal-politics/federal-election-2013/liberals-cap-spending-on-climate-change-policy-20130817-2s3q0.html (accessed 13 January 2014).

international commitment and yet 'the Government has a cap set on its DAP [Direct Action Plan] funding regardless of whether or not it can reach its abatement target'.[75]

5.54 Many queried whether the funding allocated to the ERF would be sufficient to meet Australia's targets.[76] The Grattan Institute submitted that 'the funding allocation, rather than the inherent design, of the Direct Action Plan will be the major determinant of its adequacy'.[77] The Grattan Institute pointed to published analyses which suggest that 'the target cannot be achieved with the allocated funds, given assumptions of emissions projections, abatement costs and budgetary allocation'.[78]

5.55 It was suggested that to be effective, the ERF would need increased funding.[79] Various estimates were put forward of exactly how much more funding might be needed up to 2020, ranging from $4 billion to up to $100 billion.[80] The estimates varied depending on the design of the ERF and the estimated price of abatement. WWF-Australia warned that:

> …the cost per tonne of abatement is expected to be significantly higher than has been budgeted for under the ERF. As a result the fund is expected to run out before the required level of abatement has been purchased.[81]

5.56 Some submitters therefore concluded:

> …if funding for the ERF/DAP won't be increased, it seems clear that the Coalition have no real intention of even meeting the emission reduction targets they have promised.[82]

---

74 See, for example, Sustainable Energy Association, *Submission 90*, p. 7; 350 Australia, *Submission 33*, p. 8; Anglican EcoCare Commission, *Submission 40*, p. 3; Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 34; Environmental Farmers Network, *Submission 9*, p. 1; Mr Peter Boyer, *Submission 6*, p. 2; Mr John Hawkins, *Submission 7*, p. 5; Climate Action Network Australia, *Submission 73*, p. 2.

75 Mr David Rossiter, *Submission 70*, p. 3.

76 See, for example, South East Council Climate Change Alliance, *Submission 39*, p. 2; Dr Justin Wood, *Submission 28*, p. 1; ACTU, *Submission 30*, p. 5; Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 38; 350 Australia, *Submission 33*, p. 6; Anglican EcoCare Commission, *Submission 40*, p. 3; Mr John Hawkins, *Submission 7*, p. 5; Carbon Market Institute, *Submission 64*, p. 9; Professor Frank Jotzo, *Submission 86*, p. 2; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 31.

77 Grattan Institute, *Submission 22*, p. 2.

78 Grattan Institute, *Submission 22*, p. 3.

79 See, for example, Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 4; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27.

80 See, for example, The Climate Institute, *Submission 2*, p. 6; Mr John Hawkins, *Submission 7*, p. 6; Greenbank Environmental, *Submission 63*, p. 8; Mr James Wight, *Submission 65*, p. 15; and WWF-Australia, *Submission 67*, Table 3, on p. 19, which sets out a comparison of cumulative budget impact estimates of the Direct Action Plan from various sources.

81 WWF-Australia, *Submission 67*, p. 10.

82 350 Australia, *Submission 33*, p. 6; also Anglican EcoCare Commission, *Submission 40*, p. 5.

5.57 At the same time, it was pointed out that, if the ERF suffers from the same problem as previous grant-based schemes like the former Greenhouse Gas Abatement Program, as discussed later in this chapter, this is a strong possibility that the ERF will actually be underspent.[83]

Estimated price of abatement

5.58 It was generally suggested that the price available for abatement under the ERF, given its current budget, would be too low for many abatement opportunities.[84] The committee also heard various estimates of the possible price of abatement that would be available per tonne of emissions under the ERF. Many submitters and witnesses calculated their estimates based on the funding allocation for the ERF (of $1.55 billion) and the abatement target of 431Mt to 2020. Estimates varied from $3.60 per tonne to $12 per tonne, with most around the average of $8 per tonne.[85]

5.59 For example, the Sustainable Energy Association calculated that:

> To achieve abatement of 431 million t CO_2-e by 2020 with a budget of $1.55 billion, as is currently proposed, the average price of carbon would need to be $3.60/t CO_2-e to achieve the emissions target.[86]

5.60 The CEFC submitted that 'the hypothetical price per tonne of emissions purchased for abatement' would need to be 'very low' – possibly in the order of $4-7/tonne if the ERF was expected to deliver the majority of this abatement target.[87]

5.61 Greenbank Environmental similarly warned that:

> …the Government's 'estimated' $8-10 price of GHG Emission reductions is too low to fund renewable energy projects and too high to meet the emissions reduction target within the allocated funds.[88]

5.62 It was suggested that, realistically, most abatement opportunities would cost at least $25–$30 per tonne, and possibly up to $114 per tonne, and as a result the budget for the ERF would need to be increased to achieve an emissions reduction target of 5%.[89] For example, the CEFC submitted that:

---

83 See, for example, CEFC, *Submission 75*, p. 27; The Australia Institute, *Submission 38*, p. 5; Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 12.

84 See, for example, Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8; see also *Submission 81*, p. 2; Sustainable Energy Association, *Submission 90*, p. 6; Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 5; Professor David Pannell, *Committee Hansard*, 31 January 2014, p. 13.

85 See, for example, Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8; Mr John Hawkins, *Submission 7*, p. 3; Greenbank Environmental, *Submission 63*, p. 9.

86 Sustainable Energy Association of Australia, *Submission 90*, p. 6.

87 CEFC, *Submission 12*, p. 12.

88 Greenbank Environmental, *Submission 63*, p. 3.

89 See, for example, Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, pp and 11; WWF-Australia, *Submission 67*, p. 10.

> Independent modelling has shown, consistent with CEFC's experience, that an abatement cost of between AU$20–$40 per tonne is the likely settlement price needed to achieve the goals of the Emission Reduction Fund.[90]

5.63 Mr Jackson from The Climate Institute agreed that:

> …the government's estimates—that it could achieve the target with emission reductions in the order of six or seven dollars a tonne—are not realistic and not supported by any evidence. We are talking in the order of $25 or $30 a tonne required in order to get most of these projects off the ground.[91]

5.64 Sustainable Energy Now calculated that, if the average cost of abatement were $30 per tonne, the ERF would buy around 85 million tonnes of abatement. That would leave at least 340 million tonnes left to abate to reach the emissions reduction target of 5% by 2020, which would mean the budget for the ERF would need to be increased by around $10.4 billion.[92]

5.65 The Climate Change Authority also told the committee that the modelling in its recent report showed that under low and medium carbon price scenarios, a 5% emissions reduction target would not be able to be achieved domestically.[93]

5.66 The Australia Institute noted that the ERF Green Paper appears to have budgeted for 'about $9 to $12 per tonne of CO2e over the forward estimates'. In contrast:

> Most competitive grant schemes have cost between $60 and $100 per tonne of CO2e, with many schemes costing in excess of $100 per tonne of CO2e. This compares to market mechanisms…which cost between $15 and $40 per tonne of CO2e…If we assume a more realistic, but still very optimistic cost of abatement of $60 per tonne of CO2e then ERF would need to be increased by $7.2 billion over the forward estimates and about $21 billion out to 2020. This of course assumes that enough projects can be found to achieve the required level of abatement…[94]

Low cost abatement opportunities

5.67 There was discussion during the committee's inquiry as to where such low cost abatement opportunities might arise. For example, ClimateWorks Australia suggested that, if well designed and sufficiently resourced, the ERF could target abatement opportunities that:

---

90 CEFC, *Submission 75*, p. 25.

91 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 11.

92 Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 31.

93 Ms Anthea Harris, Chief Executive Officer, Climate Change Authority, *Committee Hansard*, 7 March 2014, p. 36.

94 The Australia Institute, *Submission 38*, p. 5.

> …are large in volume, technologically proven and can be captured at reasonable cost. Among these, major focus areas include capture of waste methane from coal mines, increased deep retrofitting of commercial buildings and industrial facilities, and carbon farming and forestry.[95]

5.68 However, Ms Gillian Broadbent AO, CEFC Chair, cautioned that:

> …if you want to find the lowest cost abatement, then the more broad the range of transactions that you consider means you are more likely to find it. If you cut it down to only large transactions and only large transactions that are self-financing through large corporations, you are not looking as broadly, you are not getting the cost down to necessarily the lowest cost of abatement...[96]

5.69 By way of example of the costs of other forms of abatement, the CSIRO indicated that the cost of abatement of current technologies for the capture of fugitive emissions is around $10–20 per tonne, but that they were hoping with the next generation of technologies, this might be reduced to $5 per tonne and be deployed 'towards the end of this decade'.[97] In relation to abatement opportunities relating to livestock, the CSIRO told the committee that this would cost around $73 per tonne.[98] The CSIRO submitted that whether Australia will capture the many abatement opportunities 'will depend on the detailed design of the program.'[99]

5.70 The committee heard that most of the lowest cost abatement opportunities in Australia related to energy efficiency.[100] However, the Clean Energy Council expressed concern that:

> In this context the implications of a strict 'least cost abatement' approach to assessing projects also need to be considered. Some activities, like energy efficiency, might come to dominate the program and reduce the level of diversity in activity that would most likely be needed in order to achieve a balanced approach to emission reduction across the economy.[101]

---

95 ClimateWorks Australia, *Submission 24*, p. 2. Note also the ClimateWorks cost curve, which is set out on p. 13 of ERF Green Paper. See also AFPA, *Submission 15* in relation to opportunities in the forestry sector.

96 Ms Gillian Broadbent AO, Chair, CEFC, *Committee Hansard*, 7 March 2014, p. 24.

97 Dr Alex Wonhas, Director, Energy Flagship, CSIRO, *Committee Hansard*, 7 March 2014, p. 8.

98 Dr Michael Battaglia, Deputy Director, Sustainable Agriculture Flagship, CSIRO, *Committee Hansard*, 7 March 2014, p. 9.

99 CSIRO, *Submission 102*, p. 2.

100 See, for example, Ms Anna Skarbek, Executive Director, ClimateWorks Australia, *Committee Hansard*, 5 February 2014, p. 27; Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 6; Professor Ray Wills, *Committee Hansard*, 31 January 2014, p. 50.

101 Clean Energy Council, *Submission 16*, p. 4.

5.71 WWF-Australia warned in relation to energy efficiency projects, that many 'would have occurred anyway as they make good financial sense'.[102] Similarly, the Australian Manufacturing Workers' Union (AMWU) submitted that:

> …there is no way for the Government to guarantee that such non-additive abatement isn't purchased by the Government. Many capital investment projects would lead to improved energy efficiency and thus abatement as a bi-product of the efficiency improvement. Such projects can be presented as abatement projects and can participate in Direct Action auctions in an attempt to secure funding for a part of the projects cost. Indeed, it is not unlikely that firms are holding off implementing such projects in anticipation of having the project cost decreased through an Emission Reduction Fund grant.[103]

5.72 Others queried why government should be involved in 'picking winners' in terms of abatement opportunities, rather than letting the market decide using a carbon pricing mechanism.[104] However, as Dr Paul Burke observed:

> In terms of working out where the abatement could possibly come from, as an economist I would prefer to let the market do that rather than me sit back and pick it.[105]

5.73 Others objected generally to the involvement of government in this way:

> …we need to reduce government regulation. We need to have a light-handed government….Why are we going to a direct action policy that involves the government hand when we could have left it to the market to make decisions about where these investments would be made?[106]

5.74 It was also pointed out that there are also a number of practical obstacles to low-cost abatement, such as lack of information, shortage of capital and the short timeframes.[107] To overcome these obstacles, it was suggested that a higher price may actually need to be paid. For example, Mr Paul Pollard warned that 'a $20 price/incentive may be needed to uncover emissions reductions where theoretically a $10 figure would suffice'. [108]

5.75 Dr Paul Burke also pointed out that the costs to business of making an application under the ERF system could also add to the cost of abatement under the ERF:

---

102 WWF-Australia, *Submission 67*, p. 13. This issue of 'additionality' is discussed further in the next chapter.

103 Australian Manufacturing Workers' Union (AMWU), *Submission 50*, pp 8–9.

104 Mr Richard Korner, *Submission 89*, p. 1; see also The Australia Institute, *Submission 38*, p. 3.

105 Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 38.

106 Professor Ray Wills, *Committee Hansard*, 31 January 2014, p. 47.

107 The issue of short timeframes under the ERF is discussed further in the next chapter.

108 Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8 and *Submission 81*, p. 4.

> …subsidy approaches can involve an economic cost per unit of emissions reduction that is more than 10 times higher than can be achieved using price-based approaches.[109]

5.76 The AMWU agreed that the Government could end up paying a premium on abatement under the ERF:

> As polluters would not be obliged to participate, they would require a price per tonne of abatement that was greater than the cost per tonne of abatement in order to participate, otherwise there would be no benefit (and therefore no reason) to participate. This would by definition guarantee that the Government would be overpaying for every tonne of abatement (as it would be paying a premium to every participant).[110]

Ability of grant-based schemes to deliver abatement

5.77 A key concern was that the ERF auction process closely resembles unsuccessful grant-based schemes used by governments in the past and would therefore be plagued by similar problems.[111] For example, The Australia Institute submitted that similar schemes in the past:

- took significantly longer to achieve any abatement than originally planned;
- were unable to find enough suitable projects; and
- achieved substantially less emissions reductions than planned.[112]

5.78 A key example put to the committee was the former Greenhouse Gas Abatement Program (GGAP).[113] The GGAP was a competitive grant program for emission reduction projects. It commenced on 1 July 2000 with an initial allocated budget of $400 million over four years, but was subsequently extended and ran until

109 Dr Paul Burke, *Submission 80*, p. 1.

110 AMWU, *Submission 50*, p. 7.

111 See, for example, Grattan Institute, *Submission 22*, p. 3; The Australia Institute, *Submission 38*; ACF, *Submission 14*, p. 2; Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 9 and *Submission 70*, p. 2; Mr John Hawkins, *Submission 7*, p. 9.

112 The Australia Institute, *Submission 38*, p. 3; see also Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 37; and ACF, *Submission 14*, p. 2 and Daley. J et al (2011) *Learning the hard way: Australia's policies to reduce emissions*, Grattan Institute.

113 See, for example, ACF, *Submission 14*, pp 7–8; The Australia Institute, *Submission 38*, pp 4–5; Kimberley Land Council, *Submission 27*, p. 1; Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 37; Climate Action Network Australia, *Submission 73*, p. 4; Mr David Rossiter, *Committee Hansard*, 28 February 2014, pp 9 and 12 and *Submission 70*, pp 1–2; Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 36; Mr John Hawkins, *Submission 7*, pp 9–10; CEFC, *Submission 75*, p. 17.

2009.[114] GGAP was projected to reduce greenhouse gas pollution by 51.5 Mt CO_2-e.[115] The aims of GGAP sound somewhat familiar:

> GGAP is targeting opportunities for large-scale, cost-effective and sustained abatement across the economy. GGAP will only support projects that will result in quantifiable and additional abatement not expected to occur in the absence of GGAP funding…[116]

5.79 An Auditor-General review revealed that by 30 June 2003, the GGAP had only spent $50.1 million of its original $400 million budget.[117] A further investigation by the Auditor-General in 2010 reported that the GGAP only managed to reduce emissions by 15.5 MT CO_2-e—30% of the original intention—and spent only 40% of its original budget allocation over a ten year period.[118] The $400 million allocated to GGAP was consistently underspent throughout the life of the program. The Auditor-General found that the underspend reflected three key factors:

- difficulties in attracting sufficient numbers of quality project proposals;
- termination of nine of the 23 approved projects for reasons such as failure to meet contractual obligations and operational difficulties with project implementation; and
- reallocation of funds to other programs.[119]

5.80 As Mr Jamie Hanson from the ACF observed, some of these reasons for under-delivery 'were remediable but others were structural problems that face grant and tender schemes'.[120]

5.81 The Grattan Institute similarly cautioned that 'these schemes have a mixed record' and there is 'a significant risk that developers will bid extremely low in order to win the auction, but then fail to deliver the project'.[121] The Grattan Institute noted

---

114 Australian National Audit Office, Audit Report No. 34 2003–4, *The Administration of Major Programs, Australian Greenhouse Office*, p. 88; ANAO, Audit Report No. 26 2009–10, *Administration of Climate Change Programs*, p. 13.

115 ANAO, Audit Report No. 34 2003–4, *The Administration of Major Programs, Australian Greenhouse Office*, p. 37; ANAO, Audit Report No. 26 2009–10, *Administration of Climate Change Programs*, p. 43.

116 Senate Environment, Communications, Information Technology and the Arts References Committee, *The Heat Is On: Australia's Greenhouse Future*, November 2000, p. 120.

117 ANAO, Audit Report No. 34 2003–4, *The Administration of Major Programs, Australian Greenhouse Office*, p. 63.

118 ANAO, Audit Report No. 26 2009–10, *Administration of Climate Change Programs*, p. 25.

119 ANAO, Audit Report No. 26 2009–10, *Administration of Climate Change Programs*, pp 84–85; see also Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 37.

120 Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 37.

121 Grattan Institute, *Submission 22*, p. 3.

that this risk can be addressed and that the Government is proposing to address the issue in the ERF design by paying only on delivery. However, Mr Wood from the Grattan Institute pointed out that the problem then becomes project delivery:

> …if I bid a project and get a contract and then fail to deliver that project in three years' time, you won't pay me the money—the government won't pay me the money—but then again the government does not get its abatement either. The problem with many of these programs is not that the money gets purloined inappropriately, it is that it never gets spent. So the fundamental objective to reduce emissions never gets achieved...[122]

5.82 The Australia Institute contrasted other similar grant based schemes with market mechanisms, and concluded that competitive grant schemes had been 'relative costly' and only reduced emissions by small amounts compared to market mechanisms.[123]

5.83 Submitters were also concerned that grant-based schemes impose a high administrative burden on Government, and the complex processes involved could also be a disincentive to participation for businesses.[124]

Administrative burden

5.84 Submissions were also critical of the ERF model for its administrative complexity. This included the workload involved in assessing bids made under auctions, as well as the considerable complexity involved in crediting emissions reduction methods, setting baselines and determining 'additionality', all of which will result in a high administrative burden for Government.[125] As Dr Burke explained, the ERF is:

> … administratively complex, requiring the government to guess baselines and assess and monitor abatement projects. These are expensive tasks that the government does not need to do and should not be doing.[126]

5.85 Dr Burke then observed that he would:

> …feel very sorry for the Canberra bureaucrat or team of bureaucrats who would need to be doing this job. It is extremely difficult to be guessing

122 Mr Tony Wood, Program Director—Energy, Grattan Institute, *Committee Hansard*, 5 February 2014, p. 6; see also Grattan Institute, *Submission 22*, p. 3.

123 The Australia Institute, *Submission 38*, p. 4.

124 See, for example, ACF, *Submission 14*, pp 7–8; Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 10; AMEC, *Submission 74*, p. 2; CEFC, *Submission 75*, p. 13.

125 See, for example, Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, pp 4–5; Mr John Hawkins, *Submission 7*, p. 11; Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 32 and *Submission 86*, p. 3; Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8 and *Submission 81*, p. 6; Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 32 and *Submission 80*, p. 1; Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 16.

126 Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 32.

> baselines on a project or even company basis over a period of five years or more…[127]

5.86 As will be discussed further in the next chapter, Mr Rossiter suggested that up to 600 baselines might need to be set, which would require considerable levels of staffing and technical expertise.[128]

5.87 In response to the committee's questioning as to the levels of staffing that might be required to design and administer the ERF, departmental representatives advised that decisions about staffing levels:

> …will be guided by the decisions the government takes on the nature, scope and otherwise of the program. Currently the Clean Energy Regulator has a staff of well over 300, from memory, and then the department advises on other aspects. So there is substantial capacity in government to administer any arrangements. However, all budget decisions and the size and scope of the scheme are decisions in front of the government at the moment…[129]

5.88 Other submitters and witnesses pointed out that there would be also be a cost to bidders under the ERF, which would be a disincentive to participation. As Professor Ross Garnaut pointed out:

> It will cost money for enterprises to prepare a bid. To prepare a credible bid, firms would actually have to have designed the investments that were going to reduce emissions and that costs a lot of money. There would be no return on that investment in the way of payments from the Emissions Reduction Fund unless they were successful in the competitive process.[130]

5.89 Dr Burke cautioned that, as a result, the ERF will not necessarily support lowest cost abatement:

> Firms will not apply for subsidies for many of the least-cost emissions reduction possibilities. This is because: (1) Many low-cost abatement possibilities may be small in nature or not in line with Direct Action requirements; and (2) There are costs and uncertainties of applying for subsidies. Many of the "lowest hanging fruit" of emissions reductions will therefore be missed.[131]

5.90 Professor Frank Jotzo similarly observed:

---

127 Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 37.

128 Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 12.

129 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 6.

130 Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 2; see also CEFC, *Submission 75*, p. 13.

131 Dr Paul Burke, *Submission 80*, p. 1.

> ...substantial transaction costs are associated with this, in particular, for small to medium size projects. Businesses might just decide that it is simply not worth their while entering into the process...[132]

5.91 The Australian Industry Group acknowledged that the safeguard mechanism 'has the potential to create administrative costs and compliance costs', depending on its design. However, they argued that the 'quite simple method tentatively proposed in the Green Paper' would not create significant administrative costs.[133]

5.92 In response to questioning on this issue, the Department advised that one of the design principles of the ERF is to focus on ensuring that costs are kept to a minimum. The Department further noted that:

> The transaction costs or administrative costs that might come about under the ERF come about in two ways. The first way is around the crediting and purchasing element. This is an entirely optional part of the scheme. Any firm that comes forward with a project that it wants to generate credits under and bid into the ERF does that entirely voluntarily. Any costs that were reflected in a bidding in for that return it would presumably include in the scope of the project in which it was bidding in, of course, because it is expecting to win a contract to pay for undertaking the project. However, having said that, there would be no reason not to keep those costs as low as possible.[134]

Voluntary nature of the scheme

5.93 Many submitters and witnesses were critical of the voluntary nature of the Direct Action Plan and ERF.[135] For example, Reverend Pederick from the Anglican EcoCare Commission told the committee that:

> ...it is an opt-in process. There is no compulsion on businesses to compete for participation in ERF projects, and no penalty for those who choose not to.[136]

5.94 In the same vein, WWF-Australia submitted that it is difficult to see why companies would be inclined to participate in the ERF 'if they don't need to'.[137]

5.95 Dr Tom Skladzien from the AMWU argued that, because it is a voluntary choice for business whether to engage in the ERF auction process and there will be transaction costs involved in participating, businesses 'will only engage if it is in their

---

132 Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 38.

133 Mr Tennant Reed, Principal National Adviser, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 52.

134 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 8.

135 See, for example, AMWU, *Submission 50*, p. 7; Mr James Wight, *Submission 65*, p. 12; Climate and Health Alliance, *Submission 99*¸ p. 12; 350 Australia, *Submission 33*, p. x.

136 Reverend Evan Pederick, Deputy Chair, Anglican EcoCare Commission, *Committee Hansard*, 31 January 2014, p. 61.

137 WWF-Australia, *Submission 67*, p. 12.

financial interest to do so'. As noted earlier in this chapter, this could result in the Government paying a premium for abatement.[138]

> …. will only engage if it is in their financial interest to do so. That means that the government will be paying a premium for every tonne of abatement, because otherwise they would be indifferent to engage or not and would choose not….[139]

5.96 Mr Nathan Fabian of the IGCC was of the view that 'direct action is not an investment grade policy' and that:

> …from what we know of the ERF the scale, duration and carbon prices of deals likely to be on offer will not provide sufficient incentive for investors to participate. We think the banks will take a similar view.[140]

5.97 Mr Rossiter pointed out that, according to NGERS data, just 12 emitters produce 50% of Australia's emissions. He was concerned, if participation is voluntary, the ERF scheme:

> …would have no capacity to focus on the biggest emitters and assist in reducing their emissions. The scheme neither provides an obligation for the large emitters to reduce their emissions nor does it provide sufficient funding to attract large emitters to make bids. This is a huge flaw in the scheme…[141]

5.98 A departmental representative responded to concerns about the voluntary nature of the scheme as follows:

> It will be voluntary to enter the scheme and generate credits, but the opportunity to sign a contract with the Commonwealth over a number of years for a given price, for given tonnes of abatement, is potentially a very strong incentive for some businesses.[142]

No economy wide incentives

5.99 A key concern for many was that the Direct Action Plan and the ERF would provide no incentives or opportunities to assist Australia in the necessary transition to

138 Dr Tom Skladzien, National Economic and Industry Adviser, AMWU, *Committee Hansard*, 28 February 2014, p. 29.

139 Dr Tom Skladzien, National Economic and Industry Adviser, AMWU, *Committee Hansard*, 28 February 2014, p. 29.

140 Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11 and also p. 12.

141 Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 9.

142 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 10.

a low-carbon economy in the long-term.[143] The AMWU were particularly scathing in this regard:

> Direct Action is neither equitable, economically efficient, nor capable of bringing about significant economic change. It will hinder not help the development of a global solution to climate change, and it will set a dangerous precedent...Rather than any serious attempt at a policy to address climate change, Direct Action is more likely an attempt to delay a real climate change policy at taxpayer expense.[144]

5.100 Reverend Pederick from the Anglican EcoCare Commission was concerned that the Direct Action Plan and ERF 'basically avoids making the structural changes that the Australian economy requires'.[145] Mr Hanson from the ACF agreed that:

> The single greatest flaw of the Direct Action Plan is that it simply cannot drive the long-term changes that are required.[146]

5.101 The AYCC agreed that while the ERF provides incentives for *some* businesses to reduce their carbon pollution:

> …there is no incentive for other polluting businesses to clean up their act—and in fact some high polluting businesses may choose not to reduce pollution of their own accord in the hope of winning future ERF grants.[147]

5.102 As Professor Jotzo warned, the approach proposed under the ERF:

> …can also create incentives to hold back investments that reduce energy use or emissions unless they are subsidised under the mechanism. This in turn has economic costs through suboptimal investment and skewed investment patterns.[148]

---

143 See, for example, CCWA, *Submission 29*, p. 2; 350 Australia, *Submission 33*, p. 2; AUSTELA, *Submission 76*, p. 7; ACTU, *Submission 30*, p. 5; Ms Tania Maxted, *Submission 43*, p. 6; Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 32; WWF-Australia, *Submission 67*, p. 4; Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 9; Dr George Crisp, Doctors for the Environment Australia, *Committee Hansard*, 31 January 2014, pp 18 and 22; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27; ACF, *Submission 14*, p. 2; Environment Victoria, *Submission 25*, pp 2–3; Conservation Council of South Australia, *Submission 44*, p. 2; Mr Tim Buckley, *Committee Hansard*, 7 March 2014, p. 11; Anglican EcoCare Commission, *Submission 40*, p. 2; AMWU, *Submission 50*, p. 8; Northern Alliance for Greenhouse Action, *Submission 60*, p. 2; Sustainable Energy Association, *Submission 90*, p. 8.

144 AMWU, *Submission 50*, p. 11.

145 Reverend Evan Pederick, Deputy Chair, Anglican EcoCare Commission, *Committee Hansard*, 31 January 2014, p. 61.

146 Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32.

147 Australian Youth Climate Coalition, *Submission 32*, p. 4; see also ACF, *Submission 14*, p. 5.

148 Professor Frank Jotzo, *Submission 86*, p. 3.

5.103 Ms Skarbek of ClimateWorks Australia indicated that research shows that a 'deep decarbonisation' of the Australian and global economy is required by 2050.[149] Many pointed out that it would be more costly and difficult to make emissions reductions in the long term, and that the longer we wait, the harder and more expensive it will get.[150] For example, Mr Murray from the ACF told the committee:

> We can act sooner or we can act later to start the transformation of Australia's economy. The sooner we act…the lower the cost will be to business, to families and to Australia's economy. If we put off that action until later the costs are going to go up.[151]

5.104 The ACTU similarly expressed concern that:

> Without an effective policy, the shift to a low carbon economy will be delayed. This 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 of the future.[152]

5.105 Mr Fabian of the IGCC advised that the ERF 'is not an effective alternative to an emissions trading scheme and should not be substituted for it'.[153]

Overall cost-effectiveness

5.106 Many submissions and witnesses expressed the view that, in general, the cost of achieving Australia's emissions reduction targets under Direct Action would be higher than under the current carbon price framework.[154] As Professor Garnaut pointed out, the Green Paper does not attempt to analyse the costs of meeting even a minus 5% target through Direct Action and the ERF. However, Professor Garnaut reasoned that the Direct Action Plan is likely to cost more for less reduction in emissions.[155]

5.107 Others agreed that the ERF will not be cost-effective. For example, Mr Murray from the ACF argued that:

---

149 Ms Anna Skarbek, Executive Director, ClimateWorks Australia, *Committee Hansard*, 5 February 2014, p. 25.

150 Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32; CCWA, *Submission 29*, p. 2; Dr Tom Skladzien, National Economic and Industry Adviser, AMWU, *Committee Hansard*, 28 February 2014, p. 28; Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 38.

151 Mr Dugald Murray, Senior Economist, ACF, *Committee Hansard*, 5 February 2014, p. 34.

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

153 Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11.

154 CCWA, *Submission 29*, p. 1; Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32; Mr Dugald Murray, Senior Economist, ACF, *Committee Hansard*, 5 February 2014, p. 34; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27.

155 Professor Ross Garnaut, *Submission 105*, p. 3.

> …an approach like direct action would come at a higher cost. The scheme costs more to implement and it may not get the same efficiencies that the market-based approach for the emissions trading scheme would bring about.[156]

5.108 Mr Piers Verstegen from the CCWA stated that the Direct Action Plan is not a cost-effective alternative to the current framework:

> …it is going to be impossible to determine a baseline in terms of the national total emissions profile and then target emissions reduction expenditure in a way which is going to deliver the least-cost abatement. That is what an economy-wide price does. It delivers least-cost abatement. This policy will not deliver least-cost abatement. It will deliver much more expensive abatement, and it will conflict and create other market failures and other market problems which will reduce the efficiency of the delivery of that abatement effort.[157]

5.109 The Sustainable Energy Association pointed out that, unlike the carbon pricing mechanism, the Direct Action Plan proposal 'raises no revenue and comes at net cost to the Budget'.[158]

5.110 In contrast, the Grattan Institute considered that the ERF *could* deliver 'cost-effective reductions in greenhouse gas emissions', but there is 'currently inadequate detail available to assess its cost effectiveness'.[159]

5.111 Mr Jackson from The Climate Institute observed:

> …the real issue for government, at the end of the day, is whether that is money well spent. You never really know and, unless it is achieving our targets, which it is unlikely to do, why would we spend the money? You are not actually delivering the outcome. You are just imposing a cost on the community with no real benefit.[160]

Who should pay for emissions reductions?

5.112 It was argued that Direct Action will not only be more expensive, but there is also a fundamental principal at stake at to who should pay for emissions reductions. For example, the Conservation Council of Western Australia were concerned that:

> The mitigation that is achieved through Direct Action will come at a very high cost per tonne, which will be borne by taxpayers, rather than polluters.[161]

---

156 Mr Dugald Murray, Senior Economist, ACF, *Committee Hansard*, 5 February 2014, p. 34.

157 Mr Piers Verstegen, Director, CCWA, 31 January 2014, p. 53.

158 Sustainable Energy Association, *Submission 90*, p. 8.

159 Grattan Institute, *Submission 22*, p. 2.

160 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 11.

161 CCWA, *Submission 29*, p. 2; see also 350 Australia, *Submission 33*, pp 2 and 8; Sustainable Energy Now, *Submission 34*, p. 4.

5.113 Indeed, many submitters objected to the approach under the ERF based on the general 'polluter pays' principle. It was pointed out that, under the Direct Action Plan, the Government would pay polluters to reduce their pollution, effectively subsidising those polluters with taxpayer funds.[162] Some described the Direct Action Plan as 'fundamentally inequitable' for this reason.[163]

5.114 Mr Hanson from the ACF told the committee that:

> ….a fair and effective approach to pollution reduction will require polluters to pay for the damage they cause. Pollution comes at a cost. If polluters do not pay, the community will, and that is not fair. Yet the Direct Action Plan proposes subsidising polluters.[164]

5.115 The North Queensland Conservation Council submitted that:

> In surprise move, the coalition government is reversing its habitual stand on market-based, user-pays systems, by proposing an approach that rewards polluters with the money of those that suffer from the pollution. Instead of 'fining' polluters and giving the money to the taxpayer, the DAP involves using taxpayer funds to 'encourage' polluters to refrain from their dirty habits.[165]

5.116 Several submissions also noted that businesses or facilities that have already taken action to reduce their emissions may be disadvantaged, while entities that have taken no action have more opportunities to access subsidies.[166] Or, as Mr John Hawkins argued, the ERF scheme 'penalises past good behaviour and rewards bad behaviour', so that, for example:

> …a company that has been operating inefficiently and polluting a lot has much more scope to put in a tender than a responsible firm that has already taken action to minimise its emissions.[167]

---

162 See, for example, Sustainable Energy Association, *Submission 90*, p. 4; Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 12; Mr Stephen Gates, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 31; Mr Peter Boyer, *Submission 6*, p. 2; Dr Justin Wood, *Submission 28*, p. 1; Ms Tania Maxted, *Submission 43*, p. 5; Dr Tom Skladzien, National Economic and Industry Adviser, AMWU, *Committee Hansard*, 28 February 2014, p. 27; Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 32 and *Submission 86*, p. 1; Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 32; The Climate Institute, *Submission 2*, p. 6; Mr John Hawkins, *Submission 7*, p. 2; AMWU, *Submission 50*, p. 8; Greenbank Environmental, *Submission 63*, p. 8; Mr David Rossiter, *Submission 70*, p. 3; Mr Paul Pollard, *Submission 81*, p. 5; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27.

163 ACTU, *Submission 30*, p. 5; Dr Tom Skladzien, National Economic and Industry Adviser, AMWU, *Committee Hansard*, 28 February 2014, p. 28.

164 Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32.

165 North Queensland Conservation Council, *Submission 77*, p. 2.

166 Sustainable Energy Association, *Submission 90*, p. 9; Mr John Hawkins, *Submission 7*, p. 2; see also, for example, Dr Paul Burke, *Submission 80*, p. 2.

167 Mr John Hawkins, *Submission 7*, p. 2.

Other complementary measures needed

5.117 Many submissions suggested that they could support the ERF as an additional measure to achieve emissions reductions, but not as a stand-alone solution.[168] These submissions observed that the challenge of reducing Australia's greenhouse gas emissions will require 'a combination of approaches'.[169] As The Australia Institute remarked:

> The idea that we should only use one strategy to combat climate change is as strange as employing only one strategy to reduce smoking. Multiple strategies need to be employed if we are to effectively reduce emissions.[170]

5.118 Mr Verstegen of the CCWA similarly told the committee that the Direct Action Plan 'may be able to make an additional useful contribution' along with other policy instrument including an economy-wide carbon price and cap and renewable energy targets, but:

> …on its own we do not believe it is capable of delivering anywhere near what is required to reduce our greenhouse emissions.[171]

5.119 A range of other complementary measures to reduce Australia's greenhouse gas emissions were suggested during the committee's inquiry. These included a carbon price scheme; renewable energy targets; stricter land clearing regulations; carbon labelling; building and vehicle emission standards; energy efficiency measures; and

168 See, for example, Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 1; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27; Mr Piers Verstegen, Director, CCWA, 31 January 2014, p. 53; CCWA, *Submission 29*, p. 1; Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 38; ACF, *Submission 14*, pp 1–2; ARRCC, *Submission 21*, p. 4; Reverend Evan Pederick, Deputy Chair, Anglican EcoCare Commission, *Committee Hansard*, 31 January 2014, p. 61; CANA, *Submission 73*, p. 4.

169 See, for example, Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 1.

170 The Australia Institute, *Submission 38*, p. 5.

171 Mr Piers Verstegen, Director, CCWA, 31 January 2014, p. 53; see also, for example, Reverend Evan Pederick, Deputy Chair, Anglican EcoCare Commission, *Committee Hansard*, 31 January 2014, p. 61.

education and research funding.[172] Several submissions also called for the reduction and removal of direct and indirect fossil fuel subsidies.[173]

5.120 The Green Paper notes that there are 'several other government programmes that promote emission reductions, including the Renewable Energy Target',[174] and other Direct Action measures such as the Twenty Million Trees program as well as state based efficiency schemes.[175]

5.121 The committee notes that the Green Paper sought views on 'regulatory reform opportunities that would complement the ERF'. However, the only measure identified in that part of the Green Paper was a phase down on the use of hydrofluorocarbons (HFCs) under the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989* (Cth).[176]

5.122 In the context of energy efficiency, submissions expressed support for the Energy Efficiency Opportunities Program, as well as disappointment at its abandonment.[177] The committee notes that the Government recently announced that the program will not continue in its current form. The Government website states that 'companies continue to have obligations under the *Energy Efficiency Opportunities Act 2006'* and that 'the department will continue to verify compliance with the program'. Finally it states that 'through the Energy White Paper process, the Government is consulting on how to optimise energy efficiency policy as part of the overall energy policy mix'.[178] However, WWF-Australia submitted that:

---

172 See, for example, Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 1; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27; Mr Piers Verstegen, Director, CCWA, 31 January 2014, p. 53; 350 Australia, *Submission 33*, pp 9–10; Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 15; The Climate Institute, *Submission 2*, pp 7–8; Ms Anna Skarbek, Executive Director, ClimateWorks Australia, *Committee Hansard*, 5 February 2014, p. 25; ClimateWorks Australia, *Submission 24*, p. 2; Climate Change Authority, *Submission 51*, p. 2; Dr Barry Naughten, *Submission 96*, p. 2; ARRCC, *Submission 21*, p. 5; Green Building Council Australia, *Submission 35*, p. 2; Ms Anthea Harris, CEO, Climate Change Authority, *Committee Hansard*, 7 March 2014, p. 29; Australian Sustainable Built Environment Council, *Submission 82*, pp 1–2.

173 See, for example, Sustainable Energy Now, *Submission 34*, p. 7; Ms Mary Voice, *Submission 58*, p. 1; Mr Brian Mollan, *Submission 23*, p. 1; LIVE, *Submission 19*, p. 6; ARRCC, *Submission 21*, p. 7; Ms Tania Maxted, *Submission 43*, p. 6; Environment Victoria, *Submission 25*, p. 3.

174 This is discussed further in Chapter 7 of this report.

175 Green Paper, p. 22.

176 Green Paper, pp 28–29.

177 Sustainable Energy Now, *Submission 34*, pp 2–3; Ms Mary Voice, *Submission 58*, p. 1; Ms Irene Clarke, Senior Policy Manager, ADIC, *Committee Hansard*, 5 February 2014, p. 48; Tasmanian Climate Change Office, *Submission 46*, p. 2; WWF-Australia, *Submission 67*, p. 12.

178 Department of Industry, *Energy Efficiency Opportunities*, http://energyefficiencyopportunities.gov.au/ (accessed 21 February 2014).

> …cost effective energy efficiency opportunities already identified under this reporting framework should not now be eligible for ERF funding, so as to ensure that abatement delivered by the ERF is fully additional to business as usual.[179]

Committee comment

5.123 The committee finds that there is no evidence that the Direct Action Plan and its Emissions Reduction Fund will achieve substantial emissions reductions at a reasonable cost. In fact, there was considerable doubt in evidence received by the committee as to whether the Emissions Reduction Fund will meet a 5% emissions reduction target, let alone the higher targets that will be required into the future that have been recommended by the Climate Change Authority, as discussed in Chapter 2.

5.124 Based on the evidence that is available to the committee—and noting that there is a considerable amount of detail lacking about the design of the Emissions Reduction Fund—the committee is persuaded that the Government's Direct Action Plan and the proposed Emissions Reduction Fund are fundamentally flawed. They ignore the well-established principle of 'polluter pays', and instead propose that the Australian taxpayer should effectively subsidise big polluters.

5.125 The committee notes that the Government has indicated that the funding for the Direct Action Plan is capped. That is, if the budget for the Direct Action Plan is insufficient, no further monies will be spent, regardless of whether emissions reduction targets have been achieved. On the one hand, the committee heard evidence that the budget allocated to Direct Action will be completely inadequate to achieve the required levels of abatement. At the same time, evidence to the committee was that similar grant-based schemes in the past have struggled to spend their money because they did not attract sufficient numbers of quality project proposals and many of the projects failed to deliver. While it is hard to reconcile these two issues, the committee considers that it is an indication of a fundamentally flawed proposal.

5.126 Moreover, the committee heard evidence that the Direct Action Plan and its Emissions Reduction Fund will not assist in the necessary transition to a low-carbon economy. As a voluntary program, there is no guarantee that businesses will even participate in the scheme. Even if they do, the design requires the Government to 'pick winners' rather than letting the market decide and as such imposes a high administrative burden on the Government.

5.127 The committee agrees with evidence that the Emissions Reduction Fund is not an adequate substitute for the carbon pricing mechanism. The committee considers that the Direct Action Plan and Emissions Reduction Fund are a significant step backwards for climate policy in Australia. The only conclusion that can be made is that the Government is paying lip service to the science of climate change. A Government that truly accepted the science of climate change would not put forward such a flawed, inadequate and irresponsible 'fig leaf' policy.

179 WWF-Australia, *Submission 67*, p. 12.

5.128 Nevertheless, the committee recognises the evidence that, although the Emissions Reduction Fund is not a stand-alone solution, it could be supported if it were part of a range of measures to reduce Australia's greenhouse gas emissions, including a carbon pricing mechanism and the Renewable Energy Target. However, the committee is concerned as to whether the Emissions Reduction Fund is an appropriate and cost-effective use of taxpayer's money and considers that the design issues discussed in the next chapter would need to be adequately addressed.

Recommendation 10

5.129 The committee recommends that the Emissions Reduction Fund not be substituted for the carbon pricing mechanism.