Additional Comments from the Australian Greens

1.1 We are living in a global warming emergency. Scientific evidence reveals that the impacts are already severe and will worsen rapidly as we are on a trajectory to a 4-6 degrees increase in global temperatures. There is no time for Australia to waste on the ineffective, expensive policy that is Direct Action. Replacing our emissions trading scheme framework is fiscal and environmental vandalism.

1.2 As the world moves to a 2015 treaty to seriously limit emissions, it is inevitable that pricing greenhouse gases will be a permanent feature of the global economy. Should the 44th Parliament repeal the *Clean Energy Future* package and replace it with Direct Action, Australia will be dismantling infrastructure that will have to be reconstructed again in a very short time period. There would be a significant cost to Australia in lost time, money, innovation and competitive advantage.

1.3 Direct Action is not a viable replacement and is vastly inferior to existing law. While it should be acknowledged that Direct Action is still transforming from a slogan into a policy, there was not one single economist in written submissions or testimony who supported Direct Action over the existing emissions trading scheme. In contrast, economists have supported the retention of the existing law.[1]

1.4 Direct Action is a high-cost, narrow, government controlled scheme intended to replace the existing market driven, economy-wide, lowest-cost method of reducing harmful greenhouse gas emissions.

1.5 Stripped down, the centrepiece of Direct Action is the Emissions Reduction Fund (ERF), which is a small grant-based subsidy scheme for polluting industries. It will drive no transformation in the economy because of the following main reasons:

i. It is short-term, lasting a few years at most. It is incapable of being scaled up to meet a higher ambition under future international agreements without a devastating impact on the national budget;

ii. Finance institutions are not interested in Direct Action because the grants are so small, contracts are limited to five years and prices on offer are likely to be so low that it falls far short of creating investment grade projects;

iii. The requirement that the lowest-cost abatement is awarded will direct most, if not all grants towards energy efficiency projects leaving carbon

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[1] For example, Professor Ross Garnaut *submission 105;* Mr Bernie Fraser *Committee Hansard* 7 March 2014 pages 28-29; Associate Professor Frank Jotzo *submission 86,* Dr Paul Burke *submission 80,* Mr Nathan Fabian Investor Group on Climate Change *Committee Hansard* 7 March 2014 pages 11-12; Mr Tim Buckley *Committee Hansard* 7 March 2014 pages 11-12; Mr John Hawkins *submission 7,* Mr Paul Pollard *submission 81* and Mr David Rossiter *submission 70.*

farming, energy generation, fugitive emissions from mining and transport will all be uncompetitive and cast aside from the ERF;

iv. Because it is optional, there is no incentive for polluters to participate. The costs for firms to prepare tenders means the scheme will be underutilised resulting in low participation, an inability to spend the grant money but higher total abatement costs because of less competitive pressure and substantial departmental costs in operating the scheme. All these characteristics were revealed by the Auditor-General in 2010 when reviewing the Howard Government's Greenhouse Gas Abatement Scheme. The ERF is a rebirth of that failed policy;

v. There is nothing that will promote innovation and the deployment of technological advances. This will result in a huge opportunity lost for our research and development industries where Australia has a natural competitive advantage; and

vi. Those projects that are most likely to be successfully subsidised by the Fund will be low-cost, straightforward and have very short payback periods meaning they were the projects that were most likely to happen without government hand-outs. Firms will have delayed this investment in knowledge that Direct Action will subsidise the changes.

1.6 The main accompanying policy in Direct Action is the baseline system known in the Green Paper as the 'safeguard mechanism'. Without knowing much detail on how it will work and the Minister having changed his mind several times on whether there will be punishments or 'make good provisions' for exceeding baselines, the inherent problems with such an approach is:

i. It requires a guess as to how firms will perform in the future and relies on the information provided by the firms as to how they have performed in the past. It can never be accurate. In contrast, emissions trading measures the actual emissions a firm sends into the atmosphere and makes them liable for their performance.

ii. Any setting of the trajectory of a company's baseline emissions will always be contested and uncertain. This means that any measurement of emissions reductions will not be real, but just perceived against the estimate. This process will promote rent-seeking and developing close relationships with government to get a better outcome.[2]

iii. Designing, setting and monitoring baselines is a very expensive and time-consuming task for departmental staff to be constantly engaged in. Even after all this work is finalised, there is far from any guarantee that less emissions will be put in the atmosphere as a result.

[2] Associate Professor Frank Jotzo *submission 86* and Dr Paul Burke *submission 80.*

iv. Most of the money spent on the program will be sucked up by departmental costs, meaning that there will be high costs for very little abatement in greenhouse gases.

1.7 Finally, Direct Action as it is currently imagined will seal the fate of the short-lived Carbon Farming Initiative. Instead of land-based abatement projects having a market to sell their Australian Carbon Credit Units (ACCUs), there will only be one buyer—the Federal Government. There will no longer be any identifiable market value of ACCUs, farmers will be bidding blind and the significantly higher risks involved will result in farmers and land managers leaving the market altogether.

1.8 A land manager would have to bid into the auction against all other competitors in cheaper areas such as energy efficiency. Farmers have the major barrier of not being well positioned to aggregate projects to bring their costs down.[3] This is compounded by the government's stated intention to prefer large-scale projects.[4]

1.9 Land-based abatement will not be competitive enough to reach the expected tender price of around \$8 per tonne.[5] The Aboriginal Carbon Fund stated that savannah burning requires a price of \$15 per tonne to be profitable[6] while Sustainable Energy Now identified a price of \$16-25 a tonne for tree planting to be viable. These fledgling industries will have to close.

1.10 Soil carbon will be far more expensive than these two approved and comparatively simple abatement methods. Soil carbon is the preferred abatement method for the government which seeks to achieve a staggering 60% of its 431 million tonnes target from soil carbon.[7]

1.11 In the hope of making this commitment a reality the government has announced it will reduce permanency requirements from 100 to 25 years and will permit a methodology that will not have scientific integrity. There is no scientifically agreed methodology to support soil carbon being included on the CFI positive list and the government cannot name any scientific institution that has a robust methodology to date.

1.12 Even with this abandoning of scientific integrity for soil carbon there is unlikely to be any activity in soil carbon under the Direct Action proposal as it is estimated to cost around \$36 per tonne,[8] far short of the estimated \$8 benchmark price.

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[3] Australian Dairy Industry Council *Committee Hansard* 5 February 2014 page 49

[4] Department of Environment *Emissions Reduction Fund Green Paper* Pages 25-26

[5] 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.

[6] Aboriginal Carbon Fund *Submission to the Emissions Reduction Fund Green Paper* page 2.

[7] Peter Hannam *Sydney Morning Herald* "Coalition's soil carbon plan 'unviable' study finds" 17 July 2013.

[8] Ibid.

The Report's Recommendations

1.13 The Australian Greens endorse this report in full with the exception of Recommendation 5. The Greens do not support bringing forward the floating price period for the following reasons.

1.14 A carbon price is used to drive a seamless transition to a low carbon economy. It is not in the interests of this goal to make it temporarily cheaper for big polluters to emit greenhouse gases at the same time that the European Union is rebuilding its trading price following its decision in February to backload its permit auctions.[9] An extra fixed price year is necessary to minimise the dislocation for clean technology investors.

1.15 It is clear that there would be no move to bring forward flexible pricing if the European Union price was €20 or more. This is a cynical move based on making it cheaper for big polluters. It is not a policy position responding to the accelerating global warming crisis.

1.16 There is insufficient time and a lack of preparation with our European Union trading partners for the floating price period to commence on 1 July 2014. Contributing to this lack of time and preparation was the Australian Labor Party's decision to support the government's removal of regulations that guided the auction of forward permits in the Senate. Without the regulatory procedures to guide the Clean Energy Regulator, an immediate auction could not proceed with clarity and certainty for participating businesses.

Senator Christine Milne
Leader of the Australian Greens

[9] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/envir/141137.pdf