



Dissenting Report – Mr Steven Ciobo MP,
Deputy Chair, Ms Kelly O'Dwyer MP and
Mr Scott Buchholz MP:
Liberal Party of Australia

Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012 and related bills

Dissenting Report from Liberal Members of the Committee

Introduction

The Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012 (Clean Energy Bills) and other related bills were referred to the House of Representatives Standing Committee on Economics (the committee) on 20 September 2012.

The referral to the committee followed a joint announcement by the Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP, and the European Commissioner for Climate Change, Ms Connie Hedegaard on 28 August 2012 that Australia's 'carbon price mechanism' would be linked to the European Union emissions trading schemes.

That announcement was the latest change to the Labor Government's carbon tax scheme that has been amended eight times since the implementation of the tax.

Despite this latest announced change only occurring on 28 August, the Government sought for the committee to report to the Parliament by 9 October 2012.

The committee had only one hearing day and nearly all witnesses remarked on their dissatisfaction that such a tight timeframe was enforced. Witnesses remarked on their inability to prepare comprehensive submissions and to truly ascertain the potential impact of the latest change.

Stakeholder concerns are understandable, in the view of Liberal Members of the committee, given the Labor Government affirmed its commitment to the 'floor price' as a crucial component of the Carbon Tax legislation on eleven occasions.

For example, the Prime Minister remarked in the House of Representatives on 13 September 2011:

"The bill also provides for a price cap and a price floor to apply for the first three years of the floating price period."

This will limit market volatility and reduce risk for businesses as they gain experience in having the market set the carbon tax."

Indeed, the Minister himself affirmed the Government's commitment to the legislated arrangements only a week prior to announcing the 'floor price' was being dumped.

In an interview with David Speers on Sky News Agenda on 21 August 2012, Minister Combet remarked:

We have legislated the floor price, that's quite well-known. I am discussing with the European Union the linkage of our schemes, it is an issue that's in those discussions but we are committed to the arrangements we have legislated.

David Speers: At \$15?

That's the floor price.

Liberal Members of the Committee remain highly concerned about the unrealistically tight reporting timeframe provided to the committee and recognise many stakeholders harbor genuine concerns about not being able to determine the impact of the change to Labor's carbon tax and the consequent inability to meaningfully outline these impacts in submissions to the committee.

Linking of the Australian and European Union Schemes and removal of the 'floor price'

Liberal Members of the committee have specific concerns that the decision to abandon the 'floor price' of Labor's carbon tax is yet another unpredictable policy change which adds to negative perceptions of Australia's sovereign risk.

Further, removing the 'floor price' of the carbon tax and linking it to the European carbon tax leaves the Australian economy in the hands of European bureaucrats who will make policy decisions impacting on the EU price which will directly impact on the linked Australian price.

Furthermore, Liberal Members of the committee are concerned the Government is moving ahead with the adoption of this policy despite negotiations to formalise the agreement being ongoing.

Mr Damian Dwyer, Director of Economics at the Australian Petroleum Production and Exploration Association Ltd also raised serious concerns regarding the competitive impact of tying Australia's scheme to the European scheme.

Mr Dwyer: *I just wanted to make a quick comment on part of the conversation that we have been having. It comes back to the part of the conversation around the link to other emissions trading schemes. We find ourselves talking at cross-purposes sometimes. I think we had an example of it just before. The EU is a very important trading partner – it is a very large trading partner for Australia; I do not think there is any question about that. The issue on the competitiveness angle is not necessarily that; it is: who are our trade competitors? If I look at LNG – and I think my colleagues in the Coal Association have a similar story – the EU does not form our competitors for LNG exports. They are countries in Asia and the Middle East. So, while a link to the EU opens up the sorts of compliance opportunities that we spoke about earlier, it does little for the competitiveness balance between Australian LNG exporters and LNG exporters in other parts of the world. That goes to other parts of the act and the other parts of the design that we have. That is where I think we find ourselves talking at cross-purposes sometimes. What matters to us quite clearly in how the Clean Energy Act impacts on the competitiveness of the industry is: what are the actions of our competitors? In the case of LNG, that is not the EU. That is one of the points that we made in our submission.*

Surrender limits on Kyoto units

There was discussion at hearing regarding the Government's decision to alter surrender limits on Kyoto units and the consequent impact of that decision.

For example, Mr Martijn Wilder AM, a partner of Baker & McKenzie indicated:

Mr CIOBO: *Are you talking about carbon abatement?*

Mr Wilder: *Yes, I am talking about carbon abatement as opposed to unit –*

Mr CIOBO: *So are you saying that there are projects happening in developing countries where it is not always but generally cheaper to abate carbon, and those projects are now ceasing because there is not a commercial marketplace to sell those abatement permits into? I am not trying to verbal you, I am trying to clarify.*

Mr Wilder: *Yes.*

Mr CIOBO: *The reason that is happening is because, for example, in Australia domestic policy dictates that we will not allow – to use your words – 'cheap foreign abatement permits' to flood the market.*

Mr Wilder: *Yes. This is a point in time issue. At the moment, CERs are a lot cheaper,*

€90, compared to 18 months ago when they were selling at €20. It is a big difference. Depending how the price dynamic goes, that could go up again. So, right at this very point in time, if you wanted to offset 100 per cent of your units from abatement projects, the CER price is a lot cheaper. So, yes, that is the case. Coming back to the point before on what is supplementarity, it was always agreed under Kyoto that the policy objective would be to drive abatement at home, not overseas. With supplementarity, everyone wanted to make sure we would be reducing emissions in our own country rather than doing it in other countries.

Mr CIOBO: *So the cost abatement in Australia, because of the quota –*

Mr Wilder: *No, the cost of abatement in Australia is generally not because of the quota.*

Mr CIOBO: *The cost of abatement in Australia is higher than purchasing equivalent abatement from offshore?*

Mr Wilder: *At the moment, at today's prices.*

Mr CIOBO: *That is what I am talking about. Currently, the cost of abatement in Australia is more expensive than abatement offshore.*

Mr Wilder: *Yes it is.*

Mr CIOBO: *You were talking about philosophical policy decisions. The policy of the government is deliberately to drive abatement domestically and not internationally.*

Mr Wilder: *I do not know if that is the policy of the government. I am saying that is potentially an outcome.*

The above testimony indicates a direct consequence of this policy is that Australian businesses will be required to abate carbon emissions through the increased use of more expensive domestic units.

For all Australians, this means higher costs that will be passed onto consumers.

Small businesses for example, will be required to pay more for electricity and pass those costs on because abatement will be more expensive than need otherwise be the case.

Budgetary Impacts

The impact of removing the 'floor price' and linking the Australian scheme to the European scheme will have significant budgetary impacts. Regrettably, the Government is unwilling to be transparent on this impact and refused to provide that information to the committee.

For example, questioning Ms Luise McCulloch of Treasury about this impact:

Ms McCulloch: *The 2012-13 budget, which was the latest estimates update, was based on the modeling of \$29.*

Mr CIOBO: *And that represents revenue to the government of how much?*

Ms McCulloch: *The budget had a figure of, off the top of my head, 24-point-something billion. It was \$24.4 billion in total over the four years to 2015-16.*

Mr CIOBO: *If that is still the projected figure in the government's budget papers, why is there a need to remove the floor price of \$15?*

Ms McCulloch: *The issue of the floor price and EU linking is not a budget issue; it is actually an issue of efficiency of the scheme and compliance costs and so forth. So it is more a question for climate change as to why we have removed the price floor. It was not a budget related decision.*

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Mr CIOBO: *Treasury, based on the floor price, if the price trader was at the floor price, what was the total quantum of revenue to government?*

Ms McCulloch: *Treasury has not published those estimates.*

Mr CIOBO: *Are you willing to provide them to the committee?*

Ms McCulloch: *The government has not published those estimates. The published estimates are the ones in the 2012-13 budget. In the 2012-13 budget, the government stated that, even if the price had fallen to the floor, the budget would still be in surplus.*

Mr CIOBO: *Okay, so Treasury has modeled, I take it, the impact on revenue of the floor price being hit?*

Ms McCulloch: *Modeling is not quite the right phrase – I think you mean: have we*

estimated the impact?

Mr CIOBO: *Correct.*

Ms McCulloch: *We provide advice to government all the time on different price scenarios, but our current price assumptions –*

Mr CIOBO: *I understand but, working backwards, you must have, because otherwise how could the government be confident the budget was still going to be in surplus? Based on the government's own statements, you have clearly provided that advice to government.*

Ms McCulloch: *We have provided a number of different price assumptions and scenarios to government as part of our advice over a long period of time.*

The Government is attempting to maintain a position that with a forecast \$29 price and a consequent revenue benefit of \$24.4 billion, even if the carbon price drops below the \$15 'floor price', the impact on the budget is of no real consequence.

Despite claims of being transparent, the Government would not provide through the Department of Treasury the budgetary impact of a lower carbon price.

Liberal Members believe such claims by the Government are unsustainable.

Recommendation

The House not pass the Clean Energy Amendments (International Emissions Trading and Others Measures) Bill 2012 and associated bills; and further, repeal the Clean Energy legislative package.

Steven Ciobo MP

Deputy Chairman

Kelly O'Dwyer MP

Scott Buchholz MP