WWF-Australia
Level 13, 235 Jones St
Ultimo NSW 2007
GPO Box 528
SYDNEY NSW 2001
Tel: +61 2 9281 5515
Fax: +61 2 9281 1060
enquiries@wwf.org.au
wwf.org.au
ABN 57 001 594 074

Committee Secretary
Joint Select Committee on Australia's Clean Energy Future Legislation
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

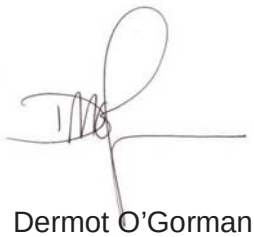
Email: jscacefl@aph.gov.au

22nd September 2011

Dear Sir/Madam

Please find attached WWF submission to the joint select committee on Australia's Clean Energy Future Legislation

If you have any questions or would like to discuss further, please contact Kellie Caught, National Manager Climate Change, 0406 383 277 or kcaught@wwf.org.au.



Dermot O'Gorman
CEO WWF-Australia

Inquiry on the Clean Energy Bills

WWFs submission to the Joint Select Committee on Australia's Clean Energy Future Legislation

I. Introduction

WWF welcomes the opportunity to submit to the Joint Select Committee on Australia's Clean Energy Future Legislation (the Committee).

WWF-Australia is part of the WWF International Network, the world's largest and most experienced independent conservation organisation, with over 80,000 supporters in Australia, five million supporters world wide and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural resources and to build a future in which humans live in harmony with nature. WWF has been an advocate for national and international action, including a carbon price, to avoid dangerous climate change for more than two decades.

WWF believes that the Clean Energy Future Legislation along with the other measures announced in the package of measures on the 10th of July 2011 is an important first step towards meeting Australia's obligations to act on climate change. WWF is particularly supportive of the inclusion of a 2050 legislated target and an independent authority to review and make recommendations around caps, carbon budgets and targets.

While there are some areas in the legislation which should be strengthened to ensure the package has a high level of environmental integrity, there is no reason to delay the passage of this package and we urge parliament to pass the legislation before the end of the year.

II. Why a Carbon Pollution Price

WWF supports a price on pollution as a key mechanism to reducing Australia's greenhouse gas pollution, for the following reasons:

1) It reflects the true cost to society and the environment of a negative externality
2) It provides an economic incentive to reduce pollution and switch to cleaner technologies, goods and services;
3) It delivers least cost abatement in sectors covered by the scheme and provides a financial incentive to find the lowest cost forms of abatement;
4) It enables the market to determine where pollution reduction will occur, which can drive innovation and efficiency throughout the economy;
5) It provides a guaranteed revenue flow that is not reliant on annual government budgets. The revenue can be reinvested in the economy to support the demonstration and commercialisation of clean technology, provide international finance to developing countries, and provide targeted assistance to households and energy intensive trade exposed industries;
6) It provides a degree of *certainty* over the medium to long-term and therefore is less subject to changes in internal political pressures and political cycles. With the probable exception of regulating standards, the diverse range of activities associated with direct

action would be subject to internal political pressures and political cycles, and as a result could fail to meet reduction targets;

7) In the absence of a price signal, support for the deployment of emerging technologies through mechanisms such as grants, a Renewable Energy Target Scheme (RET) or a feed-in-tariff will be *more costly* and *required for a longer period of time* than with a carbon price.

WWF believes a cap-and-trade scheme is the most economically efficient and environmentally effective price mechanism. WWF notes that this view is in line with the conclusions of many economists and in particular by two seminal Australian reports to Government on climate change: the Prime Ministerial Task Force on Emissions Trading prepared under the Howard Government, also known as the *Shergold Report*[1], and the *Garnaut Climate Change Review*[2]. The *Shergold Report* concluded:

> "The Task Group is firmly of the view that the most efficient and effective way to manage risk is through market mechanisms. An Australian emissions trading scheme would allow our nation to respond to future carbon constraints at least cost…..Other forms of government intervention would impose a far heavier burden on economic activity....Emissions trading enables the market – not government – to decide which new or existing technologies will reduce emissions at least cost. Emissions trading also encourage the development, for trade, of offsets… [and] will help new economic opportunities to emerge".[3]

WWF is strongly of the view that the scheme as outlined in the Clean Energy Bill 2011 is a cap and trade system with a 3 year fixed price period and **not** a tax. It is not a tax for the following reasons:

- some of the units will be allocated freely;
- the units are classified in the legislation as personal property;
- the units are tax deductible.

The key benefits of a cap-and-trade system include:

1) The provision of certainty around pollution reduction targets:

By setting a pollution cap that tightens over time to meet a target, a cap-and-trade scheme provides confidence that significant reductions will be made in the time required. A price on pollution without limits or caps does not provide the Australian Government or the international community with confidence that Australia can meet its national and international pollution targets.

2) Minimises national budgetary risk:

---

[1] Prime Ministerial Task Force on Emissions Trading (2007) Report of the Task Group on Emissions Trading http://pandora.nla.gov.au/pan/79623/20080117-2207/dpmc.gov.au/emissions/docs/emissions_trading_report.pdf

[2] The Garnaut Climate Change Review (2008) Final report http://www.garnautreview.org.au/CA25734E0016A131/pages/draft-report

[3] Prime Ministerial Task Force on Emissions Trading (2007) Report of the Task Group on Emissions Trading http://pandora.nla.gov.au/pan/79623/20080117-2207/dpmc.gov.au/emissions/docs/emissions_trading_report.pdf,pg 6.

Because other pricing schemes do not have a cap on pollution there is a real risk that Australia could fail to meet international targets, which would require the Government to purchase international emissions units at a cost to the domestic budget.

3) Delivers least cost abatement in covered sectors:

In addition to providing the financial incentive to find the most cost effective forms of abatement, a cap-and-trade scheme allows trading amongst participants and across markets to find the most cost effective form of abatement.

4) Send a long-term price signal for large-scale investment:

The *long-term* price signal inherent in a cap-and-trade scheme allows industry to begin investing and planning now to make the large transformational change that will be required.

5) International linkage:

A cap-and-trade framework was strongly advocated by Australia under Prime Minister John Howard during the international negotiations leading up to the Kyoto meeting in 1997. Thirty two developed countries operate a cap-and-trade scheme, including 10 US states with a further 11 US states starting a scheme in 2012. China, Japan and South Korea are implementing trial schemes. International linkage can provide benefits including:

- Promotion of technology transfers to developing countries
- Encouragement of other industrialised economies to also implement a price on pollution
- Support for an efficient global response to climate change.

III. Delay Will be Costly, Action Advantageous

The science of climate change is well established and agreed by all major national academies of science internationally. Many scientists now believe we have a small window of opportunity – the next five years – to act in order to avoid dangerous climate change.

Already, endangered species and threatened habitats in Australia and around the globe are suffering the impacts of climate change. Climate change is devastating for iconic species – like marine turtles, polar bears and pandas – and precious ecosystems like the Great Barrier Reef.

For example, in 2010 a heat wave hit Perth with temperatures soaring to 50 degrees celcius,146 endangered Carnaby's Black cockatoos fell from the trees dying of heat exhaustion[4].

Without action scientists predict that temperature rise of between 2 and 3 degrees could result in 20-30% of species becoming extinct[5].

[4] Saunders, D.A., Mawson, P. and Dawson, R (2011) The impact of two extreme weather events and other causes of death on Carnaby's Black Cockatoo: a promise of things to come for a threatened species? Pacific Conservation Biology Vol.17**:** 141–148. Surrey Beatty & Sons, Sydney. 2011.
5 http://www.ipcc.ch/publications_and_data/ar4/wg2/en/ch4s4-4-11.html

Climate change also deeply affects humans. Climate change impacts on our health, causes more extreme weather events, is reducing food production in Australia, and is hurting parts of our economy.

For example the World Health Organization (WHO) estimated that the small increase in average global temperature since 1970 was responsible for at least 150,000 excess deaths per year until 2000.[6] The Global Humanitarian Forum claims that this figure already increased to 300,000 deaths by 2008.[7]

On reduced food production, the Australian Parliamentary Library in their examination of the effects of climate change state:

> "Forecasters estimate an overall drop in Australian food production as a result of climate change. William Cline in *Global warming and agriculture* suggests a 15.6 per cent to 26.6 per cent reduction in agricultural production for Australia. *Don Gunasekera et al*. from ABARE estimate that Australian wheat, beef, dairy and sugar production could fall by 9–10 per cent by 2030 and 13–19 per cent by 2050 and that key exports could decline by 11 to 63 per cent in 2030 and by 15–79 per cent by 2050."[8]

At 2 degrees more than 90% of the GBR will experience bleaching, this has devastating impact on marine life and the tourism industry that employs 50,000 people[9] and is worth worth $6.9 billion dollars annually[10]

Other countries have made significant progress towards cutting their pollution by effectively putting a price on pollution and investing in clean technologies. The report *Clean Economy, Living Planet - Building Strong Clean Energy Technology Industries*[11] released globally in December 2009 found clean energy technology is on track to become the third largest industrial sector globally, with Australia languishing behind most industrialised countries. If Australia continues to delay substantial action that will facilitate significant investment in new technology, we will miss the opportunity to grow new industries.

ClimateWorks Australia estimate that delaying action on climate change to 2015 would increase by $5.5 billion the cost for businesses and households of reaching Australia's minimum 5 per cent pollution target in 2020.[12]

The overwhelming evidence shows the longer we delay the more it will cost our economy, society and environment.

But acting now could be advantageous for Australia. Australia has access to abundant wind, solar, geothermal and wave power, and we have the skills and ingenuity to implement the solutions. A recent report commissioned by WWF suggests that Australia could have access

---

[6] WHO. The World Health Report 2002: reducing risks and promoting healthy life. World Health Organization: Geneva, 2002.
[7] Global Humanitarian Forum 2009: Climate Change – The Anatomy of a Silent Crisis (May 2009) p.3
[8] http://www.aph.gov.au/library/pubs/climatechange/effects/social/health/healthNutrition.htm
[9] [9] http://www.gbrmpa.gov.au/our-partners/connecting-with-the-community
[10] [10] http://www.gbrmpa.gov.au/__data/assets/pdf_file/0020/4493/climate-change-action-plan-2007-2012.pdf
[11] Roland Berger (2009) *Clean Economy, Living Planet - Building Strong Clean Energy Technology Industries* http://assets.panda.org/downloads/rapport_wwf_cleaneconomy_international_def.pdf
[12] http://www.climateworksaustralia.org/Press%20release%20LCGP%20update%20110405.pdf

to some of the world's cheapest renewable energy, putting us in a position to attract energy intensive industry to Australia[13].

The Shergold Report argued that if Australia wanted to reap economic benefits, Government should act quickly and irrespective of a global agreement:

> "The Task Group has concluded that Australia should not wait until a genuinely global agreement has been negotiated. It believes that there are benefits, which outweigh the costs, in early adoption by Australia of an appropriate emissions constraint. Such action would enhance investment certainty and provide a long-term platform for responding to carbon constraints."[14]

If Australia is going to contribute its fair share to the global effort to prevent dangerous climate change to protect our vulnerable environment and be competitive in a carbon constrained world, we must legislate scientifically recommended pollution targets and implement mechanisms –including a carbon price - that will achieve the reductions.

Australian Governments have been proposing a carbon price for two decades, businesses have had time to prepare and for many it is critical that they have the investment certainty.

There is no reason to delay the passage of these Bills through Parliament or their introduction into law.

IV. Strengthening Environmental integrity

WWF provided a submission on the draft exposure legislation recommending a number of amendments to strengthen the environmental integrity of the legislation. While some of the recommendations were addressed in the final Bill, there remain a number of key elements of the Bills which should be strengthened to further maximize the environmental integrity of the package and Australia's ability to act to reduce its greenhouse gas emissions.

These include requiring the Minister to consider Australia's international commitments to reduce carbon pollution, a framework to make policy recommendations to ensure carbon budgets are met, providing third parties with open standing to bring proceedings to remedy or restrain breaches of the Bill and strengthening the Biodiversity Fund to ensure it prioritises protection of biodiverse ecosystems. Specific suggestions for amendments are below.

However the imperative remains that this package of bills is passed into law in 2011, allowing Australia to begin taking serious action on climate change.

Section	Amendment	Purpose
International action		
s14(2)(c)(i) Clean Energy Bill	Remove s14(2)(c)(i) and place under s14(a) to read:	• To ensure that all international progress and non-binding

[13] Climate Risk (2011) WWF Energy report Supplemental Briefing –Australia: What would a 100% global renewable energy plan mean for Australia http://www.wwf.org.au/news/australia-could-lead-with-worlds-cheapest-renewable-energy/

[14] Prime Ministerial Task Force on Emissions Trading (2007) Report of the Task Group on Emissions Trading http://pandora.nla.gov.au/pan/79623/20080117-2207/dpmc.gov.au/emissions/docs/emissions_trading_report.pdf,pg 6.

	(a) must have regard to (i) Australia's international obligations under international climate change agreements; and (ii) undertakings relating to the reduction of greenhouse gas emissions that Australia has given under international climate change agreements;	commitments are considered by current and future governments in cap-setting. • To underpin the good faith of international negotiations by assuring other countries that Australia intends to legally stand by our international commitments.
Carbon Budgets		
Climate Change Authority Bill *Part 2, Division 1*	Clause 11 insert "(b)(b) to conduct research and make recommendations on polices and measures to meet the carbon budgets"	• Like the UK Climate Change Commission, require the Climate Change Authority to make recommendations on policies to ensure the carbon budget is met.
Clean Energy Bill Insert new Part 21B	Minister to prepare and report on proposals and policies for meeting carbon budgets (1) The Minister for Climate Change must prepare such policies and measures as the Minister considers will enable the carbon budgets that have been set under Part 21A in this Act to be met. (2) The proposals and policies must be prepared with a view to meeting— (a) the 2050 target, and (b) Australia's international agreements and commitments (3) The policies and measures, taken as a whole, must be such as to contribute to sustainable development. (4) In preparing the policies and measures, the Minister must take into account the policies and measures recommended by the Climate Change Authority and may take into account any representations made by the other national authorities. (5) As soon as is reasonably practicable after making an order setting the carbon budget for a budgetary period, the Minister must lay before Parliament a report setting out proposals and policies for meeting the carbon budgets for the current and future budgetary periods up to and including that period. (6) If the recommendations by the Climate Change Authority are different, the Minister must also publish a statement setting out the reasons for that decision	• Require the Minister to prepare and report on policies and measures to ensure the carbon budget is met and require the Minister to make a public statement outlining the reason for any decision to accept or reject the Climate Change Authority's recommendations regarding policies and measures to meet carbon budgets.
Clean Energy Bill 2011 Part 7, Division 5, Section 156,	Clause 2(l) *after* "objectives" *insert* "and carbon budgets"	• Reference to carbon budgets should be included to ensure the Productivity Commission considers the implications of carbon budgets for assistance to

		emission intensive trade exposed industries.
Biodiversity Fund		
s62(b) Climate Change Authority Bill	Amend to include: (b) to advise the Environment Minister about: (i) performance indicators for; and (ii) the implementation of; and (iii) guidelines for the funding of; Biodiversity Fund program measures to enhance non market storage of carbon in the landscape and to protect natural systems of national significance and build resilience to climate change impacts that;…	• To establish the purpose of the Biodiversity Fund in legislation and provide some protection against changing priorities of future governments. • To establish clear boundaries between Biodiversity Fund activities and those of the Carbon Farming Initiative and other landscape programs.
Open standing for third parties		
Part 21 Clean Energy Bill	Insert new Part 21A titled "Restraint of Breaches of this Act", including a new section based on s123 of the *Environmental Planning and Assessment Act 1979* (NSW).	• To underpin the integrity of the scheme and ensure greater accountability and liability
Climate Change Authority principles		
s12(a) Climate Change Authority Bill	Insert new subsections: (i) adhere to the precautionary principle; and (ii) charge polluters;… Amend s12(a)(iii) to: (iii) be equitable for current and future generations;…	• To ensure authorise the Climate Change Authority considers the customary principles of environmental law.
Clean Energy Investment Plans		
s178(a) Clean Energy Bill	Amend s178(a)(i), (ii) and (iii) to remove the words "If any" in all subsections	• To ensure generators receiving transitional free permits are actually required to take some action in return for the assistance

In addition, we stress the importance of implementing the promised and necessary additional measures that are not covered in these Bills. In particular, we look forward to:

- Establishment of the Clean Energy Finance Corporation.
- Development of emissions performance standards for power generation as promised in the 2010 election.
- Implementation of the recommendations of the Prime Minister's Task Force on Energy Efficiency.
- Continued provision of international finance for developing countries to support them undertaking climate change mitigation and adaptation, including phase out of fossil fuel subsidies and support for innovative long-term finance sources.
- Timetable to close down 2000MW of heavily polluting coal-fired power generation.
- Conclusion by 2012 of the Australian Energy Market Operator's assessment of the technical needs for a switch to 100% Renewable Energy.

Committee Secretary
Joint Select Committee on Australia's Clean Energy Future Legislation
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Email: jscacefl@aph.gov.au

22nd September 2011

WWF-Australia
Level 13, 235 Jones St
Ultimo NSW 2007
GPO Box 528
SYDNEY NSW 2001
Tel: +61 2 9281 5515
Fax: +61 2 9281 1060
enquiries@wwf.org.au
wwf.org.au

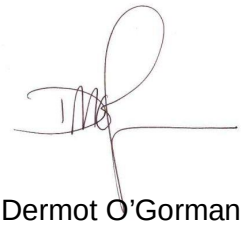
ABN 57 001 594 074

Dear Sir/Madam

WWF would like to submit to the joint committee on Australia's Clean Energy Future Legislation, the attached open letter from respected business and academic economists in support of a carbon pollution price.

The letter was released to the public on June 2nd 2011 before the clean energy future package was announced or drafted. Therefore the letter cannot not be interpreted as an endorsement of the Clean Energy Package but can be interpreted as an endorsement of a carbon price, preferably an emissions trading scheme, as the best way to reduce carbon emissions over time.

If you have any questions or would like to discuss further, please contact Kellie Caught, National Manager Climate Change, 0406 383 277 or kcaught@wwf.org.au.



Dermot O'Gorman
CEO WWF-Australia

Economists' Open Letter
SUPPORTING A PRICE ON CARBON POLLUTION 2011

We are writing this open letter on a carbon pollution price as a group of concerned economists with a broad range of personal political views, but united in the judgements that:

- **a price on carbon pollution, preferably an emissions trading scheme, is the best way to reduce carbon emissions over time; and**
- **the design features of such a scheme will be critical to its success.**

We are all of the view that the introduction of an emissions trading scheme is a necessary and desirable structural reform of the Australian economy, designed to change relative prices in a way that provides an effective incentive to consumers and producers to shift over time to more low carbon energy efficient patterns of consumption and production. As such, it should be broadly-based in its application and highly transparent in its implementation. It should not be approached in a politically opportunistic and haphazard manner. We would make the following more specific observations regarding the design of a price mechanism:

1. **Firstly,** it is critical that any price mechanism apply across as many high carbon producing sectors of the economy as possible. Excluding one sector inevitably means extra pressure on other sectors. Furthermore, excluding or giving special concessions to particular polluters will dilute the relative price changes that the scheme is designed to create. That would come at a very real cost to the community in terms of lost incentives and opportunities to develop new technologies and alternative products in that sector

2. **Secondly,** the market should set the price of a carbon permit, and any price cap should be high and non-binding. Fixing the price in the initial years according to some formula, and/or setting the price cap too low, would severely inhibit carbon trading and could raise doubts about the Government's determination to eventually move to a market based system. A fixed price may be appropriate as a transitional arrangement but should default to an emissions trading scheme as early as possible. By fixing the price it is extremely unlikely that targeted quantity reductions can be achieved. Certainty on quantity targets can only be achieved by allowing the price to reach a level which is consistent with that target

3. **Thirdly,** revenue raised from the price scheme should contribute to the reduction of undesirable consequences of a market scheme and improve productivity while aiming for budget neutrality in the long run. Priority should be given to compensating low income and vulnerable households for higher costs of living and to providing targeted transitional assistance for emissions-intensive industries impacted by the introduction of a carbon price, so as to reduce the risk of carbon leakage to offshore competitors and allow business to transition smoothly into a carbon–constrained economy

4. **Fourthly,** a properly designed price mechanism will encourage the development of new technologies which, over time, will reduce the cost to the community of lowering emission levels. However, technology neutral complementary measures may be necessary in the early years to overcome existing tax, regulatory or infrastructure barriers and disincentives to the development of clean energy technology and energy efficiency

5. **Fifthly,** the price mechanism should be administered by an independent authority, similar to the Reserve Bank of Australia. The authority would have responsibility for: selling/auctioning permits, collecting revenue, and allocating revenue in accordance with guidelines defined by legislation and by agreement with government. This would assure fairness, transparency and accountability, and a clean market price.

Paul Brennan, Head of Economics, Citigroup Global Markets, Australia

Chris Caton, Chief Economist, BT Financial Group

Besa Deda, Chief Economist, St George

Saul Eslake, Director of the Productivity Growth Program, Grattan Institute, and former Chief Economist ANZ from 1995 to 2009.

Bill Evans, Chief Economist, Westpac

Joshua Gans, Professor of Management, Melbourne Business School

Richard Gibbs, Global Head of Economics and Chief Economist, Macquarie Bank Limited

Stephen Grenville, visiting fellow, Lowy Institute for International Policy

Stephen Halmarick, Chairman Australian Business Economists

John Hewson, Economist and Former Leader of the Liberal party and the Federal Opposition

Raja Junankar, Professorial Visiting Fellow, School of Economics University of New South Wales and Emeritus Professor University of Western Sydney

Geoff Weir, Director, Financial Sector Services

Glenn Withers, Chief Executive, Universities Australia

WWF

* The signatories to this open letter have signed in an individual capacity and the views herein are not necessarily those of, and should not be attributed to their employers.

Authorised by Dermot O'Gorman, WWF-Australia, Level 13, 235 Jones Street Ultimo NSW 2007