

Labor Senators' Dissenting Report

1.1 Labor Senators are deeply concerned that the Coalition Government is desperate for the Parliament to pass the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and associated bills while the alternative Direct Action policy remains incomplete.

1.2 The Coalition announced its Direct Action policy in 2010. There has been limited information provided about the policy since this announcement, and very little support for the policy from within the science and economic communities.

1.3 The Direct Action policy includes a number of elements, all asserting to contribute to Australia's emissions reduction target of 5% on 2000 emissions levels by 2020. The elements of Direct Action include extending the Carbon Farming Initiative, planting 20 million trees, establishing the Green Army and the so-called centrepiece, the Emissions Reduction Fund.

1.4 The Coalition Government is seeking to amend the *Carbon Credits (Carbon Farming Initiative) Act 2011* to allow for the Emissions Reduction Fund to be administered. The Amendment allows for the Clean Energy Regulator to enter into contracts as part of the Emissions Reduction Fund administration and expands coverage of the carbon farming initiative to the entire economy.

1.5 The current Carbon Farming Initiative has been a bipartisan policy since it was introduced by the then Labor Government as part of the Clean Energy Package in 2011.

Emissions Reduction Fund

1.6 The Emissions Reduction Fund is based on a reverse-auction to purchase carbon pollution abatement. The 2014–15 Budget allocated \$1.14 billion across the forward estimates for the ERF. The Government insists up to \$2.55 billion is available for purchasing abatement, however has been unclear how this money is appropriated as it is not allocated in the Budget papers.

The ERF is based on three principles:

- Lowest cost emissions reduction: the reverse-auction will prioritise projects that propose emissions reductions per lowest cost, rather than per emissions reduction quantity or per industry.
- Genuine emissions reduction: the ERF will only support projects that would not have already been undertaken. However the definition means that projects that have been fully planned for will qualify. There has been no detail on the safeguard mechanism to ensure companies will not receive ERF money for projects they would have done regardless of the ERF.

- Streamlined administration: The ERF will be administered by the Clean Energy Regulator. The Government does not propose to increase staff resources at the Clean Energy Regulator for this task.

1.7 The development of the Emissions Reduction Fund has included multiple community and industry consultation sessions, as well as community consultation on the ERF Green Paper before the ERF White Paper was released in May and enabling legislation was brought to the House of Representatives. However, there are still very many aspects of the ERF that attract significant criticism within the community and it appears little effort has been made to address these concerns through the process.

1.8 A recent Senate Inquiry into Direct Action received 106 submissions and held five public hearings. The Committee did not hear from one representative that could categorically conclude the ERF will achieve its abatement targets within its existing budget.

1.9 Further, during both the May 2014 Budget Estimates hearings and the hearings into this Bill, the Department of the Environment admitted to being unsure as to the policy's success, citing the policy's current incomplete state as the reason for being unable to confirm its contribution towards the 5% emissions reduction target.

1.10 A number of eminent Australian economists and carbon market research agencies have released modelling to discredit the Government's claims of Direct Action's effectiveness, the predominant criticisms are summarised in this Dissenting Report.

1.11 For a full view of Federal Labor's views on this matter this dissenting report should be read in conjunction with the majority report from the March 2014 Senate Environment and Communications References Committee inquiry 'Direct Action: Paying polluters to halt global warming?'.

"Support for the Bill" but No Debate on the Bill

1.12 The Key Issues chapter of the Chair's Report into this Bill commences not by seeking to clarify technical issues raised in submissions but with a section seeking to highlight "Support for the Bill", particularly in the still hypothetical scenario of the abolition of the carbon price mechanism.

1.13 A large number of the Chair's questions during the public hearing focussed on ascertaining political "Support for the Bill".

1.14 Despite the prominence of this section in the Chair's Report and the reporting date of 7 July 2014, the Senate programme for the sitting week commencing 7 July 2014 does not list this Bill for debate.¹

1 Department of the Prime Minister and Cabinet: Legislative Drafting Program for the Senate, <http://www.dpmc.gov.au/parliamentary/senate/html/senate.html> (accessed Friday 4 July 2014).

1.15 However, the programme lists the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and associated bills as the first order of business on 7 July 2014. The reporting date for these Bills is 14 July 2014.

Recommendation 1

1.16 If the Coalition Government truly considers the evidence provided by industry in answers to the Government's own rhetorical questions as of such a high concern, Labor Senators recommend that the Government delays the debate on the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and associated bills until such time that it is prepared to also debate the Carbon Farming Initiative Amendment Bill 2014 in the Senate.

Key criticisms of the Emissions Reduction Fund and the Bill

There is insufficient funding to be able to secure enough abatement to meet Australia's emissions targets now and into the future

1.17 Recent research from Reputex shows that even if the full \$2.55 billion is used to buy abatement, the Government will fall 300 million tonnes short of its carbon emissions reduction targets.²

1.18 Former Treasury secretary Ken Henry and leading Australian economist Ross Garnaut have said that it's likely to cost up to \$5 billion to reach the target with the ERF.³

1.19 The underfunding issue was reinforced during the hearing by Mr Peter Castellanos Chief Executive Officer of the Carbon Market Institute who said that the ERF will not be the policy mechanism that is going to achieve the emissions reduction target⁴ and Mr Tony Wood Program Director Energy at the Grattan Institute who said that he has not seen any analysis that suggests that the ERF will be sufficient to meet the target⁵.

1.20 Despite the widespread concerns about the ability of the ERF's current budget to meet the target, Mr Trevor Power Acting First Assistant Secretary at the

2 Reputex, *High benchmark price to lift supply, but ERF short*, 11 June 2014, <http://www.reputex.com/media-centre/media-release-emissions-reduction-fund-to-be-undersupplied-reputex/> (accessed 4 July 2014).

3 ABC 7.30 Report, *Former Treasury head warns tax reform needed to pay for policy promises*, 12 March 2014, <http://www.abc.net.au/7.30/content/2014/s3962156.htm> (accessed 4 July 2014); Professor Ross Garnaut, *Submission 105*, Senate Environment and Communications References Committee *Inquiry into the Abbott Government's Direct Action Plan*, pp 1–8.

4 Mr Peter Castellanos, Carbon Market Institute, *Committee Hansard*, 1 July 2014, p. 32.

5 Mr Tony Wood, Grattan Institute, *Committee Hansard*, 1 July 2014, p. 42.

Department of the Environment confirmed that no estimates about emissions reductions under the ERF have been released.⁶

1.21 Further, in evidence at the hearing, the Chair and Chief Executive Officer of the Clean Energy Regulator, Ms Chloe Munro confirmed concerns that the \$2.55 billion budgeted for the ERF in the budget could be paid out for emissions reductions achieved post-2020.⁷

1.22 Mr Wood from the Grattan Institute and Mr Power from the Department of the Environment both confirmed that emissions reductions achieved post-2020 from ERF funding would not count towards the 2020 target.⁸

1.23 Mr Castellás proposed that to maximise pre-2020 reductions, the Clean Energy Regulator could construct the first auctions with a weighting on reductions in the pre-2020 period.⁹

1.24 Labor Senators are concerned that despite the clear concerns of a number of witnesses and highly reputable researchers and economists that the funding allocation for the Emissions Reduction Fund to 2020 is insufficient to meet the target, the Key issues section of the Chair's Report did not mention ERF funding once.

1.25 Labor Senators are concerned that no estimates about emissions reductions under the ERF have been released.

1.26 Labor Senators are concerned that the underfunded ERF does not include a policy that all emissions reductions financed from the fund must be achieved before 2020.

There is a lack of a robust safeguard mechanism with stringent baselines and penalties for exceeding baselines

1.27 The Government recently announced the safeguard element of the ERF will not start until 1 July 2015, despite the Government aiming to begin purchasing emissions under the ERF from 2014.

1.28 This is due to uncertainty about the design of the safeguard mechanism, with many industry representatives citing the difficulty to set benchmarks and enforce emissions reductions without legislation.

1.29 The Chair's Report noted that the Government is still consulting with business (despite the development of Green and White Papers) on the design of the safeguard mechanism.

6 Mr Trevor Power, Department of the Environment, *Committee Hansard*, p. 52.

7 Ms Chloe Munro, Clean Energy Regulator, *Committee Hansard*, 1 July 2014, p. 20.

8 Mr Tony Wood, Grattan Institute, *Committee Hansard*, 1 July 2014, p. 43; Mr Trevor Power, Department of the Environment, *Committee Hansard*, 1 July 2014, p. 57.

9 Mr Peter Castellás, Carbon Market Institute, *Committee Hansard*, 1 July 2014, p. 32.

1.30 Labor Senators note from the White Paper that the safeguarding mechanism will cover facilities with direct emissions of 100,000 t CO₂-e or more per annum but there appears to be confusion as to how many businesses this equates to.

1.31 Mr Power from the Department of the Environment said in evidence to the hearing that the government estimates about 190 companies might be engaged by the safeguard mechanism.¹⁰

1.32 While the April 2014 White Paper stated that around 130 businesses will be covered by the safeguard mechanism.¹¹

1.33 The Chair's Report includes the Grattan Institute's evidence on the difficulty in setting baselines when historical data does not exist, but does not elaborate on the potential risks to covered entities from growth in uncovered emissions as highlighted in the Australian Industry Greenhouse Network's submission.

AIGN draws attention to the Government's intent for the mechanism to ensure emissions reductions paid for through the ERF are not displaced by significant rises elsewhere in the economy. The safeguarding mechanism will leave about 48 per cent of Australia's emissions uncovered, creating the possibility for economy-wide emissions to rise outside the scope of the mechanism. Entities covered under the safeguarding mechanism must not bear the burden of rises in uncovered emissions in any way.¹²

1.34 Mr Peter Castellas, Chief Executive Officer, Carbon Market Institute summarised the potential effectiveness of a safeguard mechanism with penalties in evidence to the hearing:

Using the safeguard mechanism will be necessary to defray the ongoing indefinite public cost of funding emissions reduction and become the primary means to manage emissions growth across the economy.

Importantly, there needs to be a legislated make-good provision or penalty for companies liable under the mechanism that exceed their allocated baseline. This could be in the form of purchasing eligible units, either Australian carbon credit units or international units or a combination of both.

As the Emissions Reduction Fund funding reduces over time and the allocated safeguard mechanism baselines become more stringent, the policy framework could transfer to a more efficient market based scheme where the cost to the economy to meet our targets will progressively move from the public to the private sector.

Setting declining baselines will also increase the incentive for companies to limit emissions growth and to invest in low carbon technologies or

10 Mr Trevor Power, Department of the Environment, *Committee Hansard*, 1 July 2014, p. 56.

11 Department of the Environment: Emissions Reduction Fund White Paper, http://www.environment.gov.au/system/files/resources/1f98a924-5946-404c-9510-d440304280f1/files/emissions-reduction-fund-white-paper_0.pdf p. 52, (accessed 4 July 2014).

12 Australian Industry Greenhouse Network, *Submission 14*, p. 3.

processes, which is consistent with driving sustained decarbonisation of major emitting sectors.

Businesses need policy certainty regarding future compliance obligations to ensure that they are not competitively disadvantaged in the period 2020 to 2030 as the emission reduction task intensifies.¹³

1.35 The submission from Dr Tim Moore a Director at NetPositive highlighted the inadequacy of information in the Green and White Papers on the safeguard mechanism, the need for a market for emission reduction units to enable Australia to meet its abatement obligations over the coming decades and the potential opportunities for carbon farming.¹⁴

1.36 Labor Senators urge the Government to complete development of the safeguard mechanism prior to the first auction, including stringent baselines and penalties for exceeding baselines.

There is no legislated limit or 'cap' on Australia's emissions in line with emissions reductions targets

1.37 The most effective way to ensure Australia meets its emissions reduction targets is to place a legal cap on pollution.

1.38 The ERF, as it stands, is a voluntary program which businesses can choose to participate in.

1.39 There is no disincentive for businesses to continue their usual practices which could lead to increased carbon pollution.

1.40 As outlined in the previous section, the Government expects between 100 – 200 companies to be subject to the safeguard mechanism, which will cover only approximately 52 percent of Australia's emissions.

1.41 The NetPositive submission notes that a cap and trade system would be the most preferred model but even a baseline and credit approach would be preferable to the current proposed arrangements and went on to say:

The ERF and CFI legislation need a clear example of how a national cap will be imposed to create an emissions limit, enabling the development of a market based approach to lowest cost projects driving the emissions reductions.¹⁵

1.42 The Chair's Report provided no commentary on the need or otherwise for a legislated limit or 'cap' on Australia's emissions.

13 Mr Peter Castellanos, Carbon Market Institute, *Committee Hansard*, 1 July 2014, pp 29–30.

14 NetPositive, *Submission 4*, p. 5.

15 NetPositive, *Submission 4*, p. 5.

1.43 Labor Senators urge the Government to include a legislated limit for 2020 and 2050 in its legislative package to reduce emissions to ensure a long term outlook is maintained for reducing Australia's carbon emissions.

There is no access to international emissions credits

1.44 The ERF is not connected to international emissions reduction schemes, limiting businesses' opportunities to participate in other schemes, which could potentially lead to cheaper emissions abatement opportunities for business.

1.45 The submission from the Australian Industry Greenhouse Network supported access to international units:

This will promote genuine emissions reductions, assist with maintaining Australia's competitiveness, and address the potential for leakage.¹⁶

1.46 The AIGN submission went on to state that in respect to the make-good provision:

One option is to enable entities needing to make good a shortfall to access the international market; this would alleviate industry concerns that participation in the ERF could inadvertently be a cost-negative exercise.¹⁷

1.47 In its submission to this inquiry, the Carbon Market Institute also highlighted the benefits of including eligible international units in the make-good provision:

The international market is established, deep and liquid and would allow proponents to be able to effectively manage delivery risk should the ACCU secondary market not develop. In this scenario, the proponent would only be paid the contract price for the ACCUs delivered. They would not be paid for any of the make-good international units delivered so there would not be any arbitrage opportunity.¹⁸

1.48 Many submissions to the References Committee inquiry queried whether this was the best approach including; the Grattan Institute, Sustainable Energy Association, Australian Industry Group, Professor David Karoly, Professor Frank Jotzo, Investor Group on Climate Change, Mr John Hawkins, Carbon Market Institute, Mr James Wight and Corporate Carbon Advisory.¹⁹

1.49 Labor Senators consider that it is appropriate for Australia to utilise international emissions credits as a proportion of its emissions reduction policy mix.

16 Australian Industry Greenhouse Network, *Submission 14*, p. 2.

17 Australian Industry Greenhouse Network, *Submission 14*, p. 5.

18 Carbon Market Institute, *Submission 11*, p. 12.

19 Senate Environment and Communications References Committee, *Inquiry into the Abbott Government's Direct Action Plan*, p 117.

The maximum terms of contracts for purchasing emissions reductions under the Emissions Reduction Fund need to be increased

1.50 The ERF contracts are capped at five years.

1.51 Businesses have said this is not enough time to implement large-scale projects that will lead to large-scale emissions reductions.

1.52 The current five-year contract does not present an attractive investment opportunity for businesses that will be required to provide their own funds for projects such as infrastructure upgrades or a transition to renewable energy sources.

1.53 The Chair's Report notes concerns from two submissions, the Aboriginal Carbon Fund and the Carbon Market Institute around the proposed contract length.

1.54 Labor Senators note that a number of other submissions were also concerned by the proposed short contract length.²⁰

1.55 Labor Senators are concerned that the evidence provided by the Department around the Government's expectations on a participant's return on capital are at odds with a number of submissions.²¹

1.56 Labor Senators urge the Government to reconsider the short contract length and work with potential contractors in the lead up to the first auction to address these concerns.

Ongoing emissions reductions projects must have a renewal option for crediting period

1.57 The existing Carbon Farming Initiative allows for an application to renew crediting periods after the first crediting period has expired.

1.58 However, this Bill proposes to limit crediting periods to one single period (with the exception of limited transitional projects).

1.59 The Government has decided to only grant projects one crediting period on the basis that it wants the Emissions Reduction Fund to target new projects that build on previous gains.

1.60 The Chair's Report does not outline why the Government has taken this position.

1.61 The Chair's Report very briefly mentions the concerns of three submissions, the Aboriginal Carbon Fund, the Kimberley Land Council and C02 Australia, misrepresents the concerns of the Carbon Market Institute (in seeking to find a

20 Australian Sustainable Built Environment Council, *Submission 3*, p. 2; Australian Industry Greenhouse Network, *Submission 14*, p. 3; CSIRO, *Submission 16*, p. 3; NetPostive, *Submission 4*, p. 2.

21 Mr Trevor Power, Department of the Environment, *Committee Hansard*, 1 July 2014, p. 52.

supportive submission) and disregards the concerns of NetPositive and the Law Council of Australia.²²

1.62 The Carbon Market Institute's submission included the following criticism of limiting projects to one crediting period:

Limiting projects to one crediting period may impact the formation of a liquid secondary market in ACCUs and in particular limiting the term of this market. For example, a project with a single seven-year crediting period and a five-year ERF contract would only be able to generate a further two years' worth of ACCUs to supply into the secondary market. The potential for limited liquidity in ACCU secondary market would make it more difficult to manage the risk of makegood provisions required for ERF contract under delivery. This may result in project proponents under-bidding volume and a higher average cost per tonne for the ERF. The development of the voluntary market may also be inhibited by lack of liquidity as the inability to generate ACCUs beyond the single seven- or 15-year crediting period would limit supply into this market.²³

1.63 The submission from NetPositive was equally as damning in its assessment of the one crediting period policy:

There is no sound reason nor any logical policy setting for the Government to limit successful proponents to only one contracting period. This policy actually undermines the potential for the ERF to drive new investment in dealing with Australia's abatement challenge. If a project has a crediting lifetime greater than the contract lifetime, then the project or credit owners should be able to bid into subsequent rounds.²⁴

1.64 The submission from the Kimberly Land Council is much more comprehensive than calling the change to the single crediting period "significant" as quoted in the Chair's Report:

This change undermines business certainty and removes the opportunity for Indigenous communities to develop long-term sustainable businesses based upon carbon projects. The change puts at a significant disadvantage existing CFI projects that have made business decisions based on the assumption that future crediting periods would be available.²⁵

1.65 Labor Senators note the Government has not presented a credible reason to change current policy in this area and urge the Government to keep the current renewal terms.

22 Carbon Market Institute, *Submission 11*, p. 8; NetPositive, *Submission 4*, p. 2; Law Council of Australia, *Submission 17*, p. 7.

23 Carbon Market Institute, *Submission 11*, p. 8.

24 NetPositive, *Submission 4*, p. 2.

25 Kimberley Land Council, *Submission 12*, p. 3.

There is significant confusion and concern around the new additionality requirements

1.66 The existing Carbon Farming Initiative provides for additionality in a number of ways.

1.67 However, this Bill proposes to remove the common practice test, and introduce a requirement that projects must be new and unlikely to occur as a result of another government programme.

1.68 The Chair's Report highlights that a number of submissions were concerned about the change in additionality requirements and seeks to allay these concerns through an explanation from the Department.

1.69 The Chair's Report particularly focusses on the legitimate concerns of the Aboriginal Carbon Fund, Kimberley Land Council, Carbon Market Institute and Law Council of Australia that indigenous savannah burning, which relies on other government funding may not meet the new additionality test. This view was also raised in the submission from the Indigenous Land Council.²⁶

1.70 Mr Greg McIntyre, Chair, Australian Environment and Planning Law Group at the Law Council of Australia clarified the Council's concern:

Our real concern is that it is not entirely clear whether they might often fail the test. So we suggest that some careful attention be given to it so that it is made clear that they are unlikely to fail the test.²⁷

1.71 The Chair's Report includes evidence from the Department of the Environment that these issues will be dealt with on an ad-hoc basis through the regulator.

1.72 The Chair's Report fails to include the concerns of the Australian Sustainable Built Environment Council that under the proposed changes, retrofitting existing plant and equipment and utilising other government incentives where private funding is still required are not additional.²⁸

1.73 Mr Cosier from the Wentworth Group of Concerned Scientists responded to a question from Senator Milne regarding low-till or no-till agriculture meeting the new additionality definition that in this case Government will not actually paying for carbon abatement, but providing a subsidy to agriculture.²⁹

1.74 Ms Stuart-Fox from the Department of the Environment confirmed that the Department look at an activity on a fairly broad brush basis rather than necessarily looking at the particulars of whether a particular given activity could build soil carbon:

26 Indigenous Land Council, *Submission 13*, pp 3–4.

27 Mr Greg McIntyre, Law Council of Australia, *Committee Hansard*, 1 July 2014, p. 10.

28 Australian Sustainable Built Environment Council, *Submission 3, Attachment 1*, pp 8–9.

29 Mr Peter Cosier, Wentworth Group of Concerned Scientists, *Committee Hansard*, 1 July 2014, p. 46.

The recognition was that, while in some cases individual management actions will build soil carbon levels on a given property, they may not necessarily do so across the board. So the decision was made that, in order to incentivise positive action to build soil carbon, it was sensible to take this broader activity basis approach to the common-practice test.³⁰

1.75 Labor Senators are concerned that the Government is not looking to clarify its flawed amendments but deal with the confusion on an ad-hoc basis through the regulator. Ad-hoc determinations may not address these concerns, potentially stranding large savannah burning projects in particular.

1.76 Labor Senators urge the Government to clarify the new additionality requirements through amendments to this Bill.

The change from bottom up to top down methodology development

1.77 The existing Carbon Farming Initiative provides for methodology development by stakeholders through an advisory committee to the Minister.

1.78 However, this Bill proposes to remove this bottom up process and give the Minister sole responsibility for methodology development.

1.79 The Chair's Report highlights the Aboriginal Carbon Fund, the Kimberley Land Council and Law Council of Australia's evidence against this proposal and uses evidence from C02 Australia that does not seem to relate to methodology development together with evidence from the department in support of the change.

1.80 While the evidence from the department attempts to justify the change, it does not take into consideration the potential for small stakeholders to be overlooked in the process.

1.81 The submission from the Aboriginal Carbon Fund expands on this issue:

While private developers can still make suggestions, the Government will call the shots and decide which methodologies are developed and endorsed. This will stifle entrepreneurship from the land sector. For example, we have invested in developing a methodology for savanna enrichment – growing bush foods and carbon at the same time – but will it ever be put to the Minister under the new system?³¹

1.82 In evidence to the hearing, Mr Foley expanded on the work of ACF to develop the savanna enrichment methodology:

It has taken three years of research and development. We work quite closely with Dr Mark Dangerfield, who is an expert in this field and a former member of the Domestic Offsets Integrity Committee, the DOIC.

There is a trial plot up in Broome that the Kimberley Training Institute have had for the last several years. We put in a draft for consultation through the

30 Ms Maya Stuart-Fox, Department of the Environment, *Committee Hansard*, 1 July 2014, p. 54.

31 Aboriginal Carbon Fund, *Submission 5*, p. 3.

department. They were pretty happy with it. We had to do one or two things to it, tidy it up a little bit, and we have formally submitted it to the DOIC now.

I must admit I am at a loss to know what the process is from here. They sent me back an email saying, 'Thank you very much.' I do not know when it is going to be approved or where it is up to. I know there is a 40-day consultation period. But with these tools that we use in the tool kit, there needs to be a clear process that says within six months they must be either approved or rejected. At the moment, there seems to be a bit of a black hole there.

I do not understand why it is up to the minister to put forward methodologies, and from the department. We live in a social democracy and we have excellent scientific researchers. We have CSIRO and AIMS and a whole range of scientific people who can develop these methodologies—and we are one of them. We have done it and we can see that there is a technique that can be used to bring the country to back to producing food and carbon credits. I am not sure that the minister and the department are going to be the font of all wisdom when it comes to scientific endeavour.³²

1.83 Labor Senators are concerned that the Government is seeking to centralise control for the development of methodologies with the Minister, which submissions quite rightly raise may stifle innovation and preclude small stakeholders.

1.84 Labor Senators urge the Government to urgently revisit the process for methodology development.

An increase of staffing may be required within the Clean Energy Regulator in order to administer the scheme properly

1.85 The Government proposes the entire scheme will be administered by the Clean Energy Regulator, including running the reverse auction and implementing the safeguard mechanism, if and when that comes on line, in addition to its existing regulatory functions.

1.86 The Government does not propose to increase the staff resources of the Regulator.

1.87 The Chair's Report does not mention staffing of the Clean Energy Regulator until the final comment, which states that "the committee considers that the Clean Energy Regulator has the expertise and resources to commence the administration of the Emissions Reduction Fund immediately".

1.88 Labor Senators note that the Chair's Report only includes phrase "to commence the administration..." and does not express confidence that the Clean Energy Regulator has the resources to administer the scheme in the long term.

32 Mr Rowan Foley, Aboriginal Carbon Fund, *Committee Hansard*, 1 July 2014, p. 26.

1.89 Labor Senators note that at 30 June 2013 the Clean Energy Regulator had a total staff of 371, while in evidence to the hearing, Ms Munro confirmed that the latest numbers were 317 full-time equivalent staff, with funding for 339 full-time equivalent staff.³³

1.90 Labor Senators are concerned that this Bill and the resulting Emissions Reduction Fund will create considerable extra work for the Clean Energy Regulator, which may lead to delays in administration and potential oversights.

Labor's position on the Carbon Farming Initiative Amendment Bill 2014

1.91 This Bill amends the Carbon Farming Initiative Act to allow for the administration of the Abbott Government's Emissions Reduction Fund.

1.92 The Carbon Farming Initiative has previously enjoyed bipartisan support.

1.93 Since the first announcement of the Emissions Reduction Fund in 2010, there has not been any public support for the program. From the limited information available, it is clear this program is little more than a grants program. Eminent Australian economists have predicted the fund will not achieve its goals within its existing budget and carbon market research experts have supported these predictions with modelling showing the Government will fall well short of its emissions reductions targets.

1.94 There is no available modelling or research to support Government claims of the ERF's projected successful outcomes.

1.95 The Committee view section of the Chair's Report does not make a comment on the potential effectiveness or otherwise of the ERF as the so-called centrepiece of the Government's policy to reduce emissions by five percent on 2000 levels by 2020.

1.96 The policy's design has not been completed, and as a result the Government's own department is unsure of specific elements.

1.97 Industry representatives have repeatedly raised concerns at Senate inquiry hearings, community forums and in the media, while there's no evidence the Government has addressed these concerns.

1.98 Mr Wood from the Grattan Institute said in evidence at the hearing that in running auctions under the ERF before the issues are finalised there is a risk that the "best buyers" won't turn up.

You may very well get buyers turning up, but I suspect what you will not get is the lowest cost abatement, because of, firstly, the design flaws associated with baselines; secondly, to some extent, additionality; and,

33 Clean Energy Regulator, *Annual Report 2012–13*, p. 70; Ms Chloe Munro, Clean Energy Regulator, *Committee Hansard*, 1 July 2014, p. 16.

thirdly, the limited term of the contracts which the government is prepared to enter under the ERF.³⁴

1.99 There is reported discontent within Government backbenches about the cost of the policy, given its known shortfalls.

1.100 Based on the available information, Labor Party Senators do not expect the Emissions Reduction Fund will achieve Australia's international obligations to reduce its emissions by 5% on 2000 levels by 2020.

Recommendation 2

Labor Senators recommend that the Carbon Farming Initiative Amendment Bill 2014 not be passed.

Senator Anne Urquhart
Senator for Tasmania

Senator the Hon Lisa Singh
Senator for Tasmania

34 Mr Tony Wood, Grattan Institute, *Committee Hansard*, 1 July 2014, p. 44.