The Senate

Environment and Communications Legislation Committee

Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 [Provisions] and related bills

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Abbreviations and Acronyms

ACCC	Australian Competition and Consumer Commission
ACOSS	Australian Council of Social Service
AFGC	Australian Food and Grocery Council
ARA	Australian Retailers Association
CCA	Climate Change Authority
CEFC	Clean Energy Finance Corporation
CFI	Carbon Farming Initiative
CO_2	Carbon dioxide
CPI	Consumer Price Index
CPM	Carbon Pricing Mechanism
Cth	Commonwealth
ETS	Emissions Trading Scheme
GE	General Electric
GST	Goods and Services Tax
LPG	Liquefied petroleum gas
MPCC	Multi-Party Climate Change Committee
NFF	National Farmers' Federation
NGERS	National Greenhouse and Energy Reporting Scheme
NGERS	National Greenhouse and Energy Reporting System
OECD	Organisation for Economic Co-operation and Development
RET	Renewable Energy Target
RIAA	Responsible Investment Association of Australia
SGG	Synthetic greenhouse gases
TAA	Tourism Accommodation Australia

Chapter 1

Introduction

1.1 On 14 November 2013, on the recommendation of the Senate Selection of Bills Committee, the Senate referred the provisions of the following bills to the Senate Environment and Communications Legislation Committee (the committee) for inquiry:

- Clean Energy Legislation (Carbon Tax Repeal) Bill 2013;
- Ozone Protection and Synthetic Greenhouse Gas (Import Levy) Amendment (Carbon Tax Repeal) Bill 2013;
- Ozone Protection and Synthetic Greenhouse Gas (Manufacture Levy) Amendment (Carbon Tax Repeal) Bill 2013;
- True-up Shortfall Levy (General) (Carbon Tax Repeal) Bill 2013;
- True-up Shortfall Levy (Excise) (Carbon Tax Repeal) Bill 2013;
- Ozone Protection and Synthetic Greenhouse Gas (Import Levy) (Transitional Provisions) Bill 2013;
- Climate Change Authority (Abolition) Bill 2013;
- Customs Tariff Amendment (Carbon Tax Repeal) Bill 2013;
- Excise Tariff Amendment (Carbon Tax Repeal) Bill 2013;
- Clean Energy (Income Tax Rates and Other Amendments) Bill 2013; and
- Clean Energy Finance Corporation (Abolition) Bill 2013.[1]

1.2 The Selection of Bills Committee report was amended in the Senate to set a reporting date of 2 December 2013.[2]

1.3 The reasons for referral were for the committee to review the bills and report to the Senate on:

- costs to households and businesses from Labor's carbon tax;
- the impact of the carbon tax on business costs including mining, manufacturing and small business; and
- their impact on Australia's efforts to tackle climate change and carbon pollution.[3]

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1 *Journals of the Senate*, No. 3, 14 November 2013, pp 126–127.

2 *Journals of the Senate*, No. 3, 14 November 2013, pp 126–127.

3 Senate Selection of Bills Committee, *Report No. 9 of 2013*, Appendices 3 and 4, 14 November 2013.

Conduct of the inquiry

1.4 In accordance with usual practice, the committee advertised the inquiry on its website and wrote to relevant organisations inviting submissions by 22 November 2013.[4]

1.5 The committee received 37 submissions relating to the bills and these are listed at Appendix 1. The submissions may be accessed through the committee's website at:

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Clean_Energy_Legislation.

1.6 The committee held a public hearing in Canberra on 26 November 2013. A list of witnesses who appeared at the hearing may be found at Appendix 2.

1.7 The committee would like to thank all the organisations and individuals that contributed to the inquiry and the witnesses who attended the public hearing at short notice.

Purpose of the bills

1.8 The purpose of the bills is to implement an election commitment made by the Coalition Government to repeal the previous Labor Government's legislation that implemented a carbon pricing mechanism (also referred to as a carbon tax).[5]

1.9 The carbon tax repeal package repeals the *Clean Energy Act 2011* (Cth) and related Clean Energy Charges Acts (Cth) to abolish the carbon pricing mechanism.[6] The package provides for the collection of all carbon tax liabilities for 2012–13 and 2013–14 and makes arrangements for the finalisation and cessation of industry assistance.[7] The personal income tax cuts that were legislated to commence on 1 July 2015 will be repealed as will associated amendments to the low-income tax offset.[8]

1.10 The bills will amend provisions to remove the equivalent carbon price imposed through duties on aviation fuel and removes provisions imposing an

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4 Senate Standing Committees on Environment and Communications website, 'Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 [Provisions] and related bills', http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Clean_Energy_Legislation (accessed 18 November 2013).

5 The Hon Greg Hunt, MP, 'A Coalition government will repeal the carbon tax', *Media release*, 12 October 2011, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F1152090%22 (accessed 20 November 2013).

6 Clean Energy Legislation (Carbon Tax Repeal) Bill 2013, Schedule 1, items 1–6.

7 Clean Energy Legislation (Carbon Tax Repeal) Bill 2013, Schedule 1.

8 Clean Energy (Income Tax Rates and Other Amendments) Bill 2013, Schedule 1.

equivalent carbon price through levies imposed on the import and manufacture of Synthetic Greenhouse Gases (SGGs).[9]

1.11 The Clean Energy Finance Corporation (CEFC), Climate Change Authority and the Land Sector Carbon and Biodiversity Board will be abolished by the repeal package.[10]

1.12 The proposed legislation will also introduce new powers for the Australian Competition and Consumer Commission (ACCC) to take action to ensure price reductions relating to the carbon tax repeal are passed on to consumers.[11]

9 Customs Tariff Amendment (Carbon Tax Repeal) Bill 2013 and Excise Tariff Amendment (Carbon Tax Repeal) Bill 2013.

10 Climate Change Authority (Abolition) Bill 2013 and Clean Energy Finance Corporation (Abolition) Bill 2013.

11 Clean Energy Legislation (Carbon Tax Repeal) Bill 2013, Schedule 2.

Chapter 2

Background and overview of the bills

2.1 A key policy of the Liberal Party of Australia and the Nationals (together the Coalition) at the 2013 federal election was to abolish the carbon tax established by the previous Labor Government in 2011.[1] If elected, the Coalition committed to taking immediate steps to remove the carbon tax, including introducing repeal legislation on the first day of the new Parliament.[2]

Policy background

2.2 As the 2010 federal election failed to produce a conclusive result, the Prime Minister, the Honourable Julia Gillard, negotiated to form a minority government with the Australian Greens and three Independent Members of Parliament. As part of the agreement to form government, the former Prime Minister agreed to create a Multi-Party Climate Change Committee (MPCC) to 'explore options for implementing a carbon price'.[3] The MPCC was announced on 27 September 2010 and it released a 'Clean Energy Agreement' to reduce carbon pollution on 10 July 2011.[4]

2.3 The Clean Energy Agreement recommended that a broad-based carbon price be introduced into Australia commencing from 1 July 2012 with a fixed price before transitioning to a fully flexible cap-and-trade carbon pricing mechanism on 1 July 2015.[5] It also recommended, amongst other things, the provision of industry

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1 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, p. 1, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fpartypol%2F2645370%22 (accessed 20 November 2013).

2 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, p. 5.

3 The Australian Greens and the Australian Labor Party, *The Agreement*, 1 September 2010, http://parlinfo.aph.gov.au/parlInfo/download/library/jrnart/218794/upload_binary/218794.pdf (accessed 21 November 2013); The Hon Julia Gillard, Prime Minister, *Letter to Mr Oakeshott*, 7 September 2010, http://roboakeshott.com/system/files/images/letter_of_agreement.pdf (accessed 21 November 2013); The Hon Julia Gillard, Prime Minister, *Letter to Mr Windsor*, 7 September 2010, http://www.tonywindsor.com.au/releases/AgreementToFormGovt.pdf (accessed 21 November 2013); The Hon Julia Gillard, Prime Minister and Mr Andrew Wilkie, *The Agreement*, 2 September 2010, http://www.abc.net.au/4corners/special_eds/20110620/wilkie/docs/agreement.pdf (accessed 21 November 2013).

4 Multi-Party Climate Change Committee (MPCC) website, 'Multi-Party Climate Change Committee', http://www.climatechange.gov.au/climate-change/multi-party-climate-change-committee (accessed 21 November 2013).

5 MPCC, *Clean Energy Agreement*, July 2011, p. 1, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 25 November 2013).

and household assistance to reduce energy costs and the creation of new independent bodies to provide advice to government and to administer the carbon price.[6]

2.4 On 24 February 2011, the former Prime Minister announced that the Government intended to implement the MPCC's recommendations and create a carbon price mechanism to commence on 1 July 2012.[7] On 10 July 2011 the Government released the policy document 'Securing a clean energy future: The Australian government's climate change plan' which detailed its plans for a carbon tax.[8] The Clean Energy Futures plan aimed to cut 159 million tonnes a year of carbon pollution from the atmosphere by 2020.[9]

2.5 A legislative package of 18 bills to implement the Government's plan was introduced into the Parliament on 13 September 2011 and passed on 8 November 2011.[10]

2.6 The bills were referred to the Joint Select Committee on Australia's Clean Energy Future Legislation for inquiry. The majority report recommended that the Parliament should pass the legislation. It also highlighted that the Government should re-examine how the legislation treats LPG, the regulation of synthetic greenhouse gases and the provision of information and guidance to those affected.[11] A dissenting report from Coalition members of the committee disagreed with the majority report and recommended that the bills not be passed.[12]

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6 MPCC, *Clean Energy Agreement*, July 2011, http://www.climatechange.gov.au/sites/climatechange/files/documents/04_2013/MPCCC_Clean-energy_agreement-20110710-PDF.pdf (accessed 21 November 2013).

7 The Hon Julia Gillard, Prime Minister, 'Climate change framework announced', *Media release*, 24 February 2011, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/577310/upload_binary/577310.pdf;fileType=application/pdf#search=%22clean%20energy%20future%20%202011%2002%2024%22 (accessed 21 November 2013).

8 The Hon Julia Gillard, Prime Minister, 'Securing a clean energy future for Australia', *Media release*, 10 July 2011, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/915157/upload_binary/915157.pdf;fileType=application/pdf#search=%22clean%20energy%20%202011%2007%2010%20prime%20minister%22 (accessed 21 November 2013).

9 The Hon Julia Gillard, Prime Minister, 'Securing a clean energy future for Australia', *Media release*, 10 July 2011.

10 *Votes and Proceedings of the House of Representatives*, No. 65, 13 September 2011, pp 875–878; *Journals of the Senate*, No. 65, 8 November 2011, p. 1793.

11 Joint Select Committee on Australia's Clean Energy Future Legislation, *Inquiry into Australia's clean energy future*, 7 October 2011, pp xvii–xix.

12 Joint Select Committee on Australia's Clean Energy Future Legislation, *Inquiry into Australia's clean energy future*, 7 October 2011, p. 259.

2.7 The bills were also examined by the Senate Select Committee on the Scrutiny of New Taxes.[13] In its Interim Report, the Coalition-controlled committee recommended that 'the carbon tax should be opposed and the legislation defeated in the Parliament'.[14] The Interim Report stated that:

- there was no electoral mandate for the carbon tax;
- that the carbon tax was likely to undermine Australian businesses' ability to compete in the global economy; and
- the effect of the policy on the cost of living, and on jobs, is likely to be higher than the government's current estimates.[15]

2.8 The dissenting report from Labor senators on the committee recommended that the Parliament pass the bills.[16]

Carbon tax framework

2.9 The Labor Government's Clean Energy Futures legislation implemented a number of initiatives to cut carbon pollution by 2020. The initiatives included:

- introducing a carbon pricing mechanism;
- establishing industry assistance to help emissions-intensive trade-exposed industries;
- providing household assistance to help with forecast increased living costs; and
- establishing a number of bodies to advise government and administer the carbon pricing mechanism.[17]

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13 Senate Select Committee on the Scrutiny of New Taxes, *Final Report – The carbon tax: Economic pain for no environmental gain*, 1 November 2011, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/scrutinynewtaxes/completed_inquiries/2010-13/carbontax/report/index, (accessed 22 November 2013).

14 Senate Select Committee on the Scrutiny of New Taxes, *Interim Report – The carbon tax: Secrecy and spin cannot hide carbon tax flaws*, 7 October 2011, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/scrutinynewtaxes/completed_inquiries/2010-13/carbontax/interim_report/index (accessed 1 November 2013).

15 Senate Select Committee on the Scrutiny of New Taxes, *Interim Report – The carbon tax: Secrecy and spin cannot hide carbon tax flaws*, 1 November 2013, p. xvii.

16 Senate Select Committee on the Scrutiny of New Taxes, *Final Report – The carbon tax: Economic pain for no environmental gain*, 7 October 2013, p. 87.

17 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2, http://pandora.nla.gov.au/pan/127961/20130809-0002/www.cleanenergyfuture.gov.au/wp-content/uploads/2012/05/CEF-overview_Apr2012.pdf (accessed 22 November 2013).

Carbon tax

2.10 The *Clean Energy Act 2011* (Cth) establishes a carbon pricing mechanism that places a price tag on carbon pollution.

2.11 Any facility that emits above an annual threshold of 25 000 tonnes of CO_2 emissions will be liable to pay for each tonne of carbon pollution it emits above the threshold.[18] At the end of each year, the entity will surrender the number of carbon units which represents its total emissions to the Clean Energy Regulator or pay a charge. Liable entities can either buy units or acquire them through industry assistance measures.[19] Emitters may also purchase credits through the Carbon Farming Initiative (CFI), a framework within which farmers and landholders can undertake, monitor, and receive financial benefits for greenhouse gas emissions projects.[20]

2.12 The carbon pricing mechanism commenced on 1 July 2012 with a fixed price on carbon of $23 per tonne.[21] The price is scheduled to increase by 2.5% per annum in real terms for three years.

2.13 On 1 July 2015, the carbon price is to transition to a fully flexible price under an emissions trading scheme with the price determined by the market. Linking to credible international carbon markets and emissions trading schemes will be allowed from the commencement of the flexible price period.[22] At least half of a liable entity's compliance obligation must be met through the use of domestic units or credits.

2.14 The carbon tax is applicable to a number of industry sectors, including the stationary energy sector, industrial processing sector, non-legacy waste sector and fugitive emissions sector.[23] Landfill facilities with direct emissions of 25 000 tonnes of CO_2 emissions a year or more are also liable under the carbon price mechanism.

2.15 The carbon price does not apply to household transport fuels, light vehicle business transport and off-road fuel use by the agriculture, forestry and fishing industries.[24]

18 *Clean Energy Act 2011* (Cth), subsection 22(4).

19 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

20 Anita Talberg and Kai Swoboda, *Emissions trading schemes around the world*, Background Note, 6 June 2013, Parliamentary Library, Canberra, p. 11, http://parlinfo.aph.gov.au/parlInfo/download/library/prspub/2501441/upload_binary/2501441.pdf;fileType=application/pdf (accessed 22 November 2013).

21 *Clean Energy Act 2011* (Cth), section 4.

22 Clean Energy Bill 2011, Revised Explanatory Memorandum, p. 12.

23 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

24 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

2.16 The Liable Entities Public Information Database maintained by the Clean Energy Regulator indicates that there are 351 entities that may be liable to the carbon tax in the 2012–13 financial year.[25]

Industry assistance

2.17 The legislation created a range of targeted industry, and sector-specific, assistance programs as well as general assistance programs available to most businesses that are subject to the carbon pricing mechanism.[26] These assistance measures take a number of forms, including tax incentives, free and discounted emissions permits, matched grants programs and information and advisory services.

Jobs and Competitiveness Program

2.18 The Jobs and Competitiveness Program provides $9.2 billion over the period 2012–13 to 2014–15 in the form of free carbon permit allocations for companies primarily in emissions-intensive trade-exposed industries, such as steel, aluminium, glass and chemicals manufacturing.[27] Eligibility for the assistance is based on industry thresholds of trade exposure and emissions intensity.

2.19 The value of the permits available under the program will decline by 1.3% per year with the Productivity Commission to undertake a review of the program in 2014–15.

2.20 The Jobs and Competitiveness Program specifically excludes the extraction of coal as an emissions-intensive trade-exposed activity.

Energy Security Fund

2.21 The Energy Security Fund which provides $3 billion over the period to the 2014–15 financial year provides for the allocation of cash and/or free permits to pay for the closure of inefficient coal-fired generators.[28] The Fund also issues free carbon permits to electricity generators if they meet the requirement of a power system reliability test and submit a Clean Energy Investment Plan to the government for publication.

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25 Clean Energy Regulator website, 'LEPID for 2012–13 financial year', http://www.cleanenergyregulator.gov.au/Carbon-Pricing-Mechanism/Liable-Entities-Public-Information-Database/LEPID-for-2012-13-Financial-year/Pages/default.aspx (accessed 25 November 2013).

26 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 27, http://parlinfo.aph.gov.au/parlInfo/download/legislation/billsdgs/1185490/upload_binary/1185490.pdf;fileType=application%2Fpdf (accessed 22 November 2013).

27 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 28.

28 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

Other assistance programs

2.22 The Clean Technology Program provides $1.2 billion over seven years from 2011–12 to provide support to the manufacturing industry.[29] The Program supports improvements in energy efficiency and research and development in low pollution technologies.

2.23 The Steel Transformation Plan provides $300 million over five years to encourage investment in the Australian steel manufacturing industry.[30]

2.24 The Coal Sector Jobs Package makes available $1.3 billion over six years for certain coal mines to implement carbon abatement technologies.[31]

Household assistance

2.25 To assist households with the introduction of the carbon tax, the Clean Energy Futures legislation package provides compensation through a mix of changes to income tax arrangements, one-off direct payments to eligible households and increases in pensions and allowances.

2.26 Changes to the income tax system from 1 July 2015 provide for an annual tax cut of $228 for taxpayers with taxable income of between $22 000 to $37 000. The amount of tax cut declines proportionally for people on incomes between $37 000 and $80 000.

2.27 The centre piece of the planned increases to welfare payments was the creation of a 'Clean Energy Supplement' which equates to a 1.7% increase in pensions, income support allowance and family payments.[32]

Governance

2.28 As part of the Clean Energy Futures legislation package two new Commonwealth agencies were created to advise on, and regulate, the operation of the carbon price mechanism.

2.29 The Climate Change Authority is established by the *Climate Change Authority Act 2011* (Cth) and is responsible for:

- providing recommendations to the government on future pollution caps;
- making recommendations on the indicative national trajectories and long-term emissions budgets;

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29 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

30 Australian Government, Clean Energy Futures, *An overview of the Clean Energy Legislative Package*, p. 2.

31 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 28.

32 Kai Swoboda, Julie Tomaras and Alan Payne, *Clean Energy Bill 2011*, Bills Digest No. 68, 2011–12, Parliamentary Library, Canberra, p. 26.

- providing independent advice to the government on the progress that is being made to reduce Australia's emissions to meet national targets;
- conducting regular reviews on the carbon pricing mechanism; and
- conducting reviews of and making recommendations on the National Greenhouse and Energy Reporting System (NGERS), the Renewable Energy Target (RET) and the CFI.[33]

2.30 The Clean Energy Regulator is established by the *Clean Energy Regulator Act 2011* (Cth) and is responsible for administering the carbon pricing mechanism, the NGERS, the RET and the CFI.[34] The Clean Energy Regulator is required to:

- provide education on the carbon pricing mechanism;
- assess emissions data to determine an entity's carbon liability;
- operate the emissions registry for emissions units;
- monitor, facilitate and enforce compliance with the carbon pricing mechanism;
- allocate permits;
- determine whether an entity is eligible for assistance in the form of permits to be allocated administratively; and
- accredit auditors for the CFI and the NGERS.

Clean Energy Finance Corporation

2.31 The *Clean Energy Finance Corporation Act 2012* (Cth), part of the Clean Energy Futures legislation package, established the Clean Energy Finance Corporation. The Corporation has the power to invest in financial assets for the development of Australian-based renewable energy technologies, low-emission technologies and energy efficiency projects. The Corporation has the power to enter into investment agreements itself, and make investments through subsidiaries.

2.32 The Clean Energy Finance Corporation operates with a $10 billion fund, with $2 billion provided per annum for five years. The first instalment was paid on 1 July 2013.

Coalition commitment to repeal the carbon tax

2.33 A key policy of the Coalition during the 2013 Federal election was to repeal the carbon tax if elected.[35] The Coalition's 'Policy to scrap the carbon tax and reduce the cost of living' stated:

> The Coalition will abolish the carbon tax.

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33 *Climate Change Authority Act 2011* (Cth), section 11.

34 *Clean Energy Regulator Act 2011* (Cth), section 12.

35 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, p. 2.

> The carbon tax indisputably adds to the cost of living, it makes households and families pay more for electricity and gas, it costs business more to operate, and it makes everything in our economy more expensive.[36]

2.34 According to the Coalition's costings, average families would be more than $550 better off in 2014 without the carbon tax.[37] Over the next six years the policy notes that average families would be $3000 better off without the carbon tax.[38]

2.35 The Coalition promised that if elected it would take immediate steps to implement its plan to abolish the carbon tax including:

- on day one, instructing the Department of the Prime Minister and Cabinet to draft legislation that repeals the carbon tax;
- on day one, notifying the Clean Energy Finance Corporation to suspend its operations and instructing the Treasury to prepare legislation to permanently shut-down the Corporation;
- introducing legislation to repeal the carbon tax on the very first day of a new Parliament; and
- introducing legislation to shut-down the Clean Energy Finance Corporation within the first sitting fortnight of the new Parliament.[39]

2.36 The policy indicated that once the carbon tax has been repealed, the Coalition would implement its Direct Action Plan on climate change and carbon emissions. The Direct Action policy aims to reduce CO_2 emissions by 5% by 2020 based on 1990 levels and deliver significant environmental outcomes.[40] The centrepiece of the Direct Action Plan is the establishment of an Emissions Reduction Fund to directly support CO_2 emissions reduction activities by business and industry. Businesses that reduce emissions below their baseline emissions will be able to sell their CO_2 abatement to the Government, thus providing a financial incentive for firms to take action to reduce emissions.

Implementation of the Coalition's policy

2.37 Following the Coalition's election victory on 7 September 2013, the Prime Minister, the Honourable Tony Abbott, set about implementing the new Government's

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36 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, p. 2.

37 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, p. 2.

38 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, p. 2.

39 The Coalition, *The Coalition's policy to scrap the carbon tax and reduce the cost of living*, August 2013, pp 4–5.

40 The Coalition, *Direct action plan*, p. 1, http://parlinfo.aph.gov.au/parlInfo/download/library/partypol/LIOX6/upload_binary/LIOX6.pdf;fileType=application/pdf#search=%22direct%20action%20plan%22 (accessed 20 November 2013).

commitment. On 8 September 2013 the Prime Minster held a meeting with the Secretary of the Department of the Prime Minister and Cabinet and discussed the Government's reform agenda to repeal the carbon tax.[41]

2.38 On 15 October 2013 the Government released exposure drafts of bills to repeal the carbon tax.[42] The Government also released a consultation paper explaining the content of the bills and sought feedback on any technical issues with the draft carbon tax repeal bills and transitional issues for liable businesses and other entities.[43]

2.39 The Prime Minister introduced the bills into the House of Representatives on 13 November 2013. In his second reading speech on the bills he stated:

> The first impact of this bill will be on households, whose overall costs will fall $550 a year on average. Thanks to this bill, household electricity bills will be $200 lower next financial year without the carbon tax.
>
> Household gas bills will be $70 lower next financial year without the carbon tax.
>
> Prices for groceries, for household items and for services will also fall, because the price of power is embedded in every price in our economy.
>
> This is our bill to reduce the bills of the people of Australia.[44]

2.40 The bills passed the House of Representatives on 21 November 2013 without amendment.[45]

Overview of the bills

2.41 The Carbon Tax Repeal Bills are a legislative package of eight bills that repeal the legislation that establishes the carbon pricing mechanism. These bills are the:

- Clean Energy Legislation (Carbon Tax Repeal) Bill 2013;
- True-up Shortfall Levy (General) (Carbon Tax Repeal) Bill 2013;
- True-up Shortfall Levy (Excise) (Carbon Tax Repeal) Bill 2013;

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41 The Hon Tony Abbott, Leader of the Opposition, 'Remarks at briefing from the Secretary of the Department of Prime Minister and Cabinet', *Transcript*, 8 September 2013, Sydney, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/2715656/upload_binary/2715656.pdf;fileType=application/pdf#search=%22abbott%20%2009%20abbott,%20tony,%20mp%22 (accessed 25 November 2013).

42 Department of Environment website, 'Repealing the carbon tax—public comment', http://www.environment.gov.au/carbon-tax-repeal/consultation.html (accessed 25 November 2013).

43 Department of Environment website, 'Repealing the carbon tax—public comment', http://www.environment.gov.au/carbon-tax-repeal/consultation.html (accessed 25 November 2013).

44 The Hon Tony Abbott, Prime Minister, *House of Representatives Hansard*, 13 November 2013, p. 13.

45 *Votes and Proceedings of the House of Representatives*, No. 7, 21 November 2013, p. 138.

- Customs Tariff Amendment (Carbon Tax Repeal) Bill 2013;
- Excise Tariff Amendment (Carbon Tax Repeal) Bill 2013;
- Excise Tariff Amendment (Carbon Tax Repeal) Bill 2013;
- Ozone Protection and Synthetic Greenhouse Gas (Import Levy) Amendment (Carbon Tax Repeal) Bill 2013; and
- Ozone Protection and Synthetic Greenhouse Gas (Manufacture Levy) Amendment (Carbon Tax Repeal) Bill 2013.[46]

2.42 The bills repeal, with effect from 1 July 2014, all of the provisions in the various Acts that impose carbon tax liabilities and make consequential and transitional amendments.[47]

2.43 The abolition of other carbon tax related initiatives are to be done through the following bills:

- Climate Change Authority (Abolition) Bill 2013;
- Clean Energy Finance Corporation (Abolition) Bill 2013; and
- Clean Energy (Income Tax Rates and Other Amendments) Bill 2013.

2.44 The Explanatory Memorandum for the repeal bills indicates that the total savings from removal of the carbon tax and carbon related programs is approximately $7.5 billion.[48]

Clean Energy Legislation (Carbon Tax Repeal) Bill 2013

2.45 The Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 is the main repeal bill of the broader carbon tax repeal package. The bill repeals the *Climate Energy Act 2011* (Cth) that establishes the carbon pricing mechanism (carbon tax), effective from 1 July 2014. The repeal means that no new carbon tax liabilities will arise for 2014–15 or subsequent years.

2.46 To ensure that liabilities incurred by entities in financial years 2012–13 and 2013–14 are met and enforced, the bill preserves some provisions of the Clean Energy Act. Once the final surrender for the financial year 2013–14 has taken place (which is to occur on 2 February 2013), there will be no further need for entities to hold carbon units.

2.47 The bill also makes arrangements for the finalisation and cessation of industry assistance through the Jobs and Competitiveness Program, the Energy Security Fund and the Steel Transformation Plan.

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46 The Explanatory Memorandum for these bills is referred to as the Carbon Tax Repeal Bills Explanatory Memorandum.

47 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 14.

48 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 11.

Increased powers for the Australian Competition and Consumer Commission

2.48 The removal of the carbon tax is expected to lower input costs for some businesses.[49] In some markets this will flow on in the form of lower consumer prices. In selected markets where competition is limited, businesses may choose not to pass through savings from the carbon tax repeal.[50]

2.49 The bill prohibits price exploitation with respect to certain key goods (such as electricity and gas) and false or misleading representations about the effects of the carbon tax repeal on prices.[51]

2.50 The amendments also provide the ACCC with monitoring powers to assess the general effect of the carbon tax repeal on certain prices. The Explanatory Memorandum notes that 'these powers are similar to those made when the GST was first introduced'.[52]

True-up Shortfall Levy (General) (Carbon Tax Repeal) Bill 2013 and True-up Shortfall Levy (Excise) (Carbon Tax Repeal) Bill 2013

2.51 The main carbon tax repeal bill provides for a process by which allocations of free 2013–14 carbon units are subject to a final 'true-up'. According to the Explanatory Memorandum 'this is designed to correct under- and over-allocations of 2013–14 free carbon units, by allowing for issue of extra free carbon units or imposition of a levy if carbon units are not relinquished'.[53]

2.52 The bills are technical in nature and provide for the recovery of the value of over-allocated free carbon units through a constitutionally compliant levy.[54]

Customs Tariff Amendment (Carbon Tax Repeal) Bill 2013 and Excise Tariff Amendment (Carbon Tax Repeal) Bill 2013

2.53 Accompanying the introduction of the carbon tax, increases were made to the rates of excise and excise equivalent customs duty on aviation fuel. This had the effect of implementing an equivalent carbon price on aviation fuel. The equivalent carbon price was represented by increases in the rates of duty equal to a 'carbon component rate'.[55]

2.54 The bills remove the 'carbon component rate' from the rates of excise and excise equivalent customs duty imposed on aviation fuels. The rates of duty are reduced to the pre-carbon tax rate.[56]

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49 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 51.

50 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 51.

51 Clean Energy Legislation (Carbon Tax Repeal) Bill 2013, Schedule 2, item 3.

52 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 51.

53 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 29.

54 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 8.

55 Carbon Tax Repeal Bills, Explanatory Memorandum, pp 68–69.

56 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 69.

Ozone Protection and Synthetic Greenhouse Gas (Import Levy) Amendment (Carbon Tax Repeal) Bill 2013 and Ozone Protection and Synthetic Greenhouse Gas (Manufacture Levy) Amendment (Carbon Tax Repeal) Bill 2013

2.55 The Labor Government's clean energy legislation introduced an equivalent carbon price which applies to the import or manufacture of bulk synthetic greenhouse gases (SGGs) and import of all products containing these gases.[57] The equivalent carbon price for SGGs is calculated using the value of the carbon tax and the global warming potential for each gas relative to carbon dioxide.[58]

2.56 The bills remove the applicable charge rate on SGGs from 1 July 2014. Importers and manufacturer of SGGs and products containing these gases will not have to pay the equivalent carbon price from 1 July 2014.

Climate Change Authority (Abolition) Bill 2013

2.57 The Climate Change Authority has responsibility for advising the Government on key aspects of the carbon pricing mechanism, such as the setting of emissions reduction targets and caps. The Authority also conducts periodic reviews of climate change measures.

2.58 The bill abolishes the Climate Change Authority and the Land Sector Carbon and Biodiversity Board. Relevant functions of the Climate Change Authority will be transferred to the Department of the Environment.[59]

Clean Energy Finance Corporation (Abolition) Bill 2013

2.59 The purpose of the Clean Energy Finance Corporation functions is to invest in clean energy technology. The bill abolishes the Clean Energy Finance Corporation and makes transitional provisions which transfer the Corporation's assets and liabilities to the Commonwealth.[60]

Clean Energy (Income Tax Rates and Other Amendments) Bill 2013

2.60 As part of the previous Labor Government's clean energy futures legislation, personal income tax cuts were legislated to commence on 1 July 2015. The income tax cuts were intended to provide assistance for an expected higher floating carbon price in the financial year 2015–16.

2.61 The bill repeals the personal income tax cuts that were legislated and associated amendments to the low-income tax offset.[61]

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57 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 71.

58 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 71.

59 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 3.

60 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 8.

61 Carbon Tax Repeal Bills, Explanatory Memorandum, p. 8.

Chapter 3

Key Issues

3.1 This chapter discusses key issues raised in submissions and evidence, including:

- support for the repeal of the carbon tax;
- cost impacts of the carbon tax and impacts of the carbon tax on Australia's competitiveness;
- effectiveness of the carbon tax;
- timing of the carbon tax repeal;
- the proposed role and powers of the Australian Competition and Consumer Commission; and
- the abolition of the Climate Change Authority and the Clean Energy Finance Corporation.

Repeal of the carbon tax

3.2 Many submitters and witnesses argued that the carbon tax imposes high costs for little or no environmental benefit.[1]

3.3 For example, the Minerals Council of Australia argued that the Clean Energy Act is a 'poorly designed response to the policy challenge' and that the carbon tax 'operates as a blunt redistribution mechanism'.[2] It argued that the carbon tax framework:

> …imposed high costs for little environmental benefit, undermined competitiveness and did little to boost substantial investment in a broad range of low emissions technologies and adaptation measures.[3]

3.4 The Business Council of Australia similarly urged that the carbon tax be repealed due to the high costs on business.[4] The Business Council indicated that it

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1 Mr Peter Lang, *Submission 2*; Tourism Accommodation Australia (TAA), *Submission 3*; Origin Energy, *Submission 6*; Australian Retailers Association, *Submission 8*; Energy Supply Association of Australia, Energy Retailers Association of Australia, Energy Networks Association, Australian Pipeline Industry Association (Energy Industry Groups), *Submission 17*; Australian Forest Products Association (AFPA), *Submission 18*; National Farmers' Federation (NFF), *Submission 19*; Minerals Council of Australia, *Submission 20*; Australian Aluminium Council, *Submission 23*; Cement Industry Federation and National Lime Association of Australia, *Submission 25*; Australian Industry Group, *Submission 26*; Business Council of Australia (BCA), *Submission 27*; Australian Environment Foundation, *Submission 31*.

2 Minerals Council of Australia, *Submission 20*, p. 3.

3 Minerals Council of Australia, *Submission 20*, p. 3; see also Mr Peter Lang, *Submission 2*, pp 5–6; Australian Environment Foundation, *Submission 31*, p. 4.

4 Business Council of Australia, *Submission 27*, p. 3.

'supports the wind-up of the carbon pricing mechanism (CPM), given it places excessive costs on business and households because the carbon charge under the legislation is now one of the highest in the world'.[5]

3.5 The Australian Food and Grocery Council (AFGC) requested that the Parliament recognise the desire of businesses and electors to repeal the carbon tax.[6] The AFGC urged the Senate to:

> …pass the carbon tax repeal bill without delay. Businesses have been through many years of debate. We have had an election fought on this issue. I think generally businesses now want the parliament to get on with it and repeal the carbon tax and reduce energy costs in the interests of improving competitiveness, encouraging investment and driving job creation and growth.[7]

3.6 The committee also received evidence arguing against the repeal of the Clean Energy legislation. Research bodies and environmental groups indicated that the repeal of the carbon pricing mechanism will place Australia behind worlds' best practice for addressing climate change and create policy uncertainty for businesses and investors.[8] For example, the Investor Group on Climate Change requested that, 'in the absence of an alternative policy proposal that is likely to be at least as effective and efficient as the current carbon pricing framework', the repeal bills not proceed.[9]

Cost impacts of the carbon tax

3.7 Submissions supporting the bills pointed to the costs of the carbon tax on business and the community. For example, the Australian Industry Group cited a survey it conducted in 2012 which 'found that businesses in the manufacturing, construction and services sectors estimated an average increase of around 14.5% in their energy costs as a result of the carbon tax'.[10]

3.8 The Minerals Council of Australia described the carbon tax as a 'deadweight' on the Australian economy, pointing out that in '2013–14, it added an estimated

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5 Business Council of Australia, *Submission 27*, p. 2.

6 Mr Gary Dawson, Chief Executive Officer, Australian Food and Grocery Council, *Proof Committee Hansard*, 26 November 2013, p. 56.

7 Mr Gary Dawson, Chief Executive Officer, Australian Food and Grocery Council, *Proof Committee Hansard*, 26 November 2013, p. 56.

8 Australian Youth Climate Coalition (AYCC), *Submission 4*; Doctors for the Environment, *Submission 11*; Pacific Calling Partnership, *Submission 12*; Investor Group on Climate Change, *Submission 14*; Australian Council of Trade Unions (ACTU), *Submission 21*; Responsible Investment Association of Australia, *Submission 22*; WWF-Australia, *Submission 24*; Australian Conservation Foundation, *Submission 28*; Regnan—Government Research and Engagement, *Submission 29*; Wentworth Group of Concerned Scientists, *Submission 32*; Hepburn Wind, *Submission 34*; Dr Frank Jotzo, *Submission 35*.

9 Investor Group on Climate Change, *Submission 14*, p. 1.

10 Australian Industry Group, *Submission 26*, p. 3; see also Australian Environment Foundation, *Submission 31*, p. 7.

$6.4 billion to the nation's tax bill (equivalent to a 10% increase in company tax revenue)'.[11] The Minerals Council of Australia further estimated that 'the combined costs of permits, higher fuel costs and pass through of carbon costs on gas and electricity was an added burden of about $1.2 billion'.[12]

3.9 In supporting the repeal bills, Tourism Accommodation Australia (TAA) suggested that the carbon tax has had a major impact on the hotel accommodation industry. TAA considered that the carbon tax 'is stifling investment in accommodation in Australia' and 'adding directly to the current historically high cost of construction'.[13] TAA submitted that:

> Carbon pricing is impacting heavily on accommodation businesses, with profit reductions of up to 12% attributable to increased costs related to the tax. It is estimated that across the Australian accommodation industry, the carbon tax cost will be up to $114.9 million in its first year.
>
> The repeal of carbon tax will cause significant price reductions and ease concerns for the accommodation hotel sector, depending on the carbon footprint of the particular properties or chains.[14]

3.10 Refrigerants Australia, the peak body representing the refrigerant and air conditioning industry, highlighted that the carbon tax has had a devastating impact on their members' businesses.[15] Due to their emissions intensive nature, prices of refrigerants rose approximately three to six times after import.[16] According to Refrigerants Australia:

> …the refrigerant and air conditioning industry consists of about 20 000 businesses nationally, employing 173 000 people across Australia. The industry had overall expenditure of over $26 billion in 2012, which represented about 1.7% of national GDP and supports many essential uses, including nearly $30 billion worth of perishable food per annum from farm to domestic refrigerator.
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> …
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> Companies and operations across Australia—abattoirs, horticultural operators and fishers, for example—were subject to significantly increased costs of, at times, tens of thousands of dollars, which they could neither recover, offset nor predict.[17]

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11 Minerals Council of Australia, *Submission 20*, p. 2.

12 Minerals Council of Australia, *Submission 20*, p. 2.

13 TAA, *Submission 3*, p. 7.

14 TAA, *Submission 3*, p. 4.

15 Mr Gregory Pickers, Executive Director, Refrigerants Australia, *Proof Committee Hansard*, 26 November 2013, p. 14.

16 Mr Gregory Pickers, Executive Director, Refrigerants Australia, *Proof Committee Hansard*, 26 November 2013, p. 14.

17 Mr Gregory Pickers, Executive Director, Refrigerants Australia, *Proof Committee Hansard*, 26 November 2013, p. 14.

3.11 In the agricultural sector, the costs of the carbon tax have also had a significant impact. The National Farmers' Federation (NFF) informed the committee that, for an average-sized farm, there have been additional costs of up to $10 000 a year as a result of the carbon pricing mechanism.[18]

3.12 In supporting the repeal of the carbon tax, the Australian Retailers Association (ARA) submitted that 'the abolition of the carbon tax would mean a spending boost of around $500 pa for consumers—a major boost for the retail sector'. Further:

> …many of our members have supplied direct evidence of the price impact on their energy bills, with some retailers such as supermarkets and fast food operators reporting energy usage in excess of all other outgoings short of wages thanks to the impact of the tax. Major retailers are now anticipating savings for their businesses as well as increased consumer confidence and spending post 1 July 2014.[19]

3.13 In contrast, the Investor Group on Climate Change submitted that the carbon price has increased prices less than the 0.7% forecast by the Treasury before the start of the scheme[20] and that 'market economists have estimated around a 0.3%–0.4% [Consumer Price Index] CPI increase attributable to carbon pricing across the economy'.[21]

3.14 It was also argued that factors other than the carbon price were impacting on increased costs of living. For example, the Investor Group on Climate Change pointed out that 'the carbon price makes up around 7% of retail electricity prices, compared with 43% for transmission and distribution charges'.[22]

3.15 The Australian Council of Social Service (ACOSS) submitted that 'it remains unclear whether repealing the carbon tax will lead to a significant decrease in household living costs' and that:

> The drivers of energy price rises are much broader and more complex than the introduction of the carbon price alone including, for example, increased network expenditure.[23]

Impacts of the carbon tax on Australia's competitiveness

3.16 Several submissions also expressed concern about the impact of the carbon tax on Australia's international competitiveness. The committee heard evidence that the price on carbon could rise to anywhere between $38 to $68 per tonne of CO_2

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18 Mr Matthew Linnegar, Chief Executive Officer, National Farmers' Federation, *Proof Committee Hansard*, 26 November 2013, p. 23.

19 ARA, *Submission 8*, p. 1.

20 Investor Group on Climate Change, *Submission 14*, p. 3.

21 Investor Group on Climate Change, *Submission 14*, p. 3.

22 Investor Group on Climate Change, *Submission 14*, p. 4; see also Sustainable Population Australia, *Submission 15*, pp 1–2; and WWF-Australia, *Submission 24*, p. 3.

23 ACOSS, *Submission 10*, p. 5.

emissions in the future, particularly if the carbon pricing scheme does not allow international trading.[24]

3.17 The Business Council of Australia, in acknowledging such projections, argued that Australia's carbon charge 'is now one of the highest in the world'.[25] The Investor Group on Climate Change also recognised that Australia's carbon price mechanism is one of the most broad and highest cost national schemes in the world.[26]

3.18 The Australian Industry Group insisted that 'the tax is far too high in light of international prices'.[27] The industry body informed the committee that:

> Our assessment is that Australia's current high, fixed carbon tax is among the highest in the world. There are Scandinavian taxes with narrower or broader bases which are set at a higher level. There is a sub-national scheme in Canada which is set at a higher level. But of all major schemes ours is by far the highest price point combined with a relatively broad application across the economy and a relatively low level of free allocation of permits with is another critical issue for distinguishing schemes.[28]

3.19 The Minerals Council of Australia agreed that the Australian carbon pricing scheme is the world's biggest carbon tax and that none of Australia's minerals export competitors face an impost on the same scale.[29]

3.20 Similarly, the Cement Industry Foundation and National Lime Association of Australia argued that responses to climate change should be consistent globally, and that:

> Australia's climate change policy must not expose the Australian cement and lime manufacturers to costs not faced by their international competitors. Our competitors are mainly from Asia—none of which face a nation-wide carbon price.[30]

3.21 TAA likewise recommended that:

> …the inefficient carbon tax needs to be repealed to put Australia's accommodation industry back on a more level playing field with international competitors and other investment classes and to facilitate opportunities to attract new investment in high-quality accommodation

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24 Mr Anthony Wood, Energy Program Director, Grattan Institute, *Proof Committee Hansard*, 26 November 2013, p. 7.

25 Business Council of Australia, *Submission 27*, p. 2 and see also p. 3.

26 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, *Proof Committee Hansard*, 26 November 2013, pp 8–9.

27 Australian Industry Group, *Submission 26*, p. 1 and see also Appendix B.

28 Mr Tennant Reed, Principal National Adviser, Public Policy, Australian Industry Group, *Proof Committee Hansard*, 26 November 2013, p. 54.

29 Minerals Council of Australia, *Submission 20*, p. 2; see also Australian Environment Foundation, *Submission 31*, p. 6.

30 Cement Industry Foundation and National Lime Association of Australia, *Submission 25*, p. 3.

stock. This tax must be reversed, especially due to the high cost impacts it has on this important industry.[31]

3.22 In contrast, the Climate Institute argued 'it has been one of the enduring myths in the carbon policy debate' that Australia has the world's highest carbon tax.[32] The Institute explained:

> Putting aside the Nordic countries, who have had carbon prices in place since the early nineties that are at a higher levels than we currently have in Australia…you have places like the UK who have a carbon price floor which, coupled with the European emissions trading scheme, sees carbon prices in the order of what we currently have in place here. It is not a correct assertion to say that Australia's carbon price, as it currently stands in terms of the fixed price period, is above what other countries are doing. Certainly it is above what some countries are doing, like Japan, for example…[33]

3.23 Others also disagreed that repealing the carbon tax would boost Australia's economic growth, increase jobs and enhance Australia's international competitiveness, arguing that 'there is evidence there are many opportunities for growth and development in the renewable industry which would also increase employment'.[34]

Effectiveness of the carbon tax

3.24 Those opposed to the bills argued that the carbon price has been an effective and efficient measure to reduce greenhouse gas emissions.[35] For example, WWF-Australia observed that:

> In the first twelve months of the Clean Energy Act's operation, emissions in Australia's electricity sector fell by 7 per cent—equivalent to 12 million tonnes of carbon dioxide. Power generation from brown coal was down by 13 per cent and renewable energy generation grew by 25 per cent. While not all of these changes in the electricity sector can be attributed to the emissions trading scheme, the general consensus amongst analysts is that putting a price on carbon pollution has made polluting energy sources less competitive and renewable energy sources more competitive.[36]

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31 TAA, *Submission 3*, p. 4.

32 Mr Ewin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Proof Committee Hansard*, 26 November 2013, p. 34.

33 Mr Ewin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Proof Committee Hansard*, 26 November 2013, p. 34.

34 Pacific Calling Partnership, *Submission 12*, p. 2.

35 Investor Group on Climate Change, *Submission 14*, p. 2; Doctors for the Environment Australia, *Submission 11*, p. 2; Australian Council of Trade Unions, *Submission 21*; see also Hepburn Wind, *Submission 34*, p. 2; Dr Frank Jotzo, *Submission 35*, pp 1–3.

36 WWF-Australia, *Submission 24*, p. 3; see also AYCC, *Submission 4*, p. 1.

3.25 Similarly, the Investor Group on Climate Change submitted that a price on emissions is 'the most effective and efficient way to provide a long-term, transparent and certain regulatory framework to address carbon risks in investment portfolios.'[37]

3.26 The Group expressed support for 'policies that cut emissions at the lowest possible cost' and suggested that 'an internationally linked carbon market allows emissions reductions to occur where the cost is lowest' and therefore supported moving to a floating carbon price linked to the European Union emissions trading scheme from 1 July 2014.[38] It pointed to recent OECD reports which found that 'market-based approaches like taxes and trading systems consistently reduced CO_2 at a lower cost than other instruments'.[39]

3.27 ACOSS considered that a carbon price or emissions trading scheme would provide the greatest environmental benefit for the lowest economic cost.[40] ACOSS expressed its concern that:

> …the repeal of the carbon tax and the implementation of 'direct action' policies may come at a net cost to the Federal Budget. If the government foregoes revenue from a carbon price but retains the full household compensation arrangements, savings may be sought from other programs to compensate for the impact on the Federal Budget. Similarly, direct expenditures to encourage polluters to reduce emissions represent a more costly approach to climate change mitigation. These additional costs may also have to come from scarce Federal Budget revenue.[41]

3.28 In contrast to these positions, The Grattan Institute conceded that Australia has reduced its emissions intensity over the past decades without pricing on carbon:

> There is a long-term trend for Australia's energy intensity, and therefore emissions per dollar of GDP to go down. That has been going on since the mid-seventies, independent of a carbon price.[42]

Timing of the repeal

3.29 The committee received evidence outlining a number of issues relating to the timing of the passage of the bills, and transitional issues involved in the removal of the carbon pricing mechanism.

3.30 The intention is for the carbon tax to end on 30 June 2014, regardless of when the legislation is passed.[43] Several submitters and witnesses called for the prompt

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37 Investor Group on Climate Change, *Submission 14*, p. 1.

38 Investor Group on Climate Change, *Submission 14*, p. 1.

39 Investor Group on Climate Change, *Submission 14*, p. 4.

40 See, for example, ACOSS, *Submission 10*, p. 4.

41 ACOSS, *Submission 10*, p. 5.

42 Mr Anthony Wood, Energy Program Director, Grattan Institute, *Proof Committee Hansard*, 26 November 2013, p. 7.

43 Carbon Tax Repeal Bills, Explanatory Memorandum, pp 8–10.

passage of the bills and/or raised concerns about problems that may arise if the bills are not passed until after 30 June 2014.[44] In particular, the Australian Industry Group was concerned that any:

> ...delay and uncertainty about the timing would impose unnecessary cost and confusion on industry and households, primarily through the electricity market.[45]

3.31 The Minerals Council of Australia similarly argued that:

> The end of the financial year is the right time to act to ensure business and investor confidence in the Australian economy. The minerals industry urges the Parliament to respect the authority the electorate has given the Government to repeal the Clean Energy Act.[46]

3.32 However, the Minerals Council of Australia was concerned about any delays:

> There will be minimal transitional issues if the Bill is passed in a timely manner. While the Government has sought to support investor confidence by framing the Bill in a way which deals with a delay beyond 30 June 2014, (operating retrospectively in the first instance), other issues may arise for business the longer the Bill takes to pass.
>
> While the Bill seeks to be clear about the state of carbon liabilities post 30 June 2014—that is, retrospective application if the Bill is passed after that date—it is less clear about the operation of the compliance mechanisms. Minerals companies take their compliance obligations seriously and it is a key concern for investors.[47]

3.33 The Business Council of Australia agreed and stated:

> Any delay in the repeal will have adverse impacts on companies liable under the current legislation.
>
> Liable companies will continue to face compliance obligations under the [Carbon Pricing Mechanism] CPM and associated non-recoverable costs for a yet-to-be-determined period, possibly into the next financial year or longer.[48]

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44 Australian Aluminium Council, *Submission 23*, p. 1; Energy Industry Groups, *Submission 17*, p. 5; Minerals Council of Australia, *Submission 20*, p. 4; COzero, *Submission 16*, p. 1; Cement Industry Federation and National Lime Association of Australia, *Submission 25*, p. 4; Australian Industry Group, *Submission 26*, p. 3; Business Council of Australia, *Submission 27*, pp 3–5; Pacific Hydro, *Submission 33*, pp 6–7.

45 Australian Industry Group, *Submission 26*, p. 1.

46 Minerals Council of Australia, *Submission 20*, p. 4.

47 Minerals Council of Australia, *Submission 20*, p. 4.

48 Business Council of Australia, *Submission 27*, p. 4.

3.34 Refrigerants Australia highlighted that unless the Senate expeditiously passes the repeal legislation, their billion dollar industry could face increased costs and shortages.[49]

3.35 The Clean Energy legislation introduced an equivalent carbon price on synthetic greenhouse gases (SGGs) at the point of import or manufacture. There is a small risk that there could be potential shortages in SGGs in the lead-up to the repeal of the equivalent carbon price on 1 July 2014.[50] This is due to reduced SGG imports in anticipation of the lower SGG levy from 1 July 2014 and domestic businesses reducing levels of SGG inventories in order to delay purchases of SGGs until after repeal of the carbon tax.[51]

3.36 To address this risk, an exemption from the equivalent carbon price will be made for the import of SGGs between 1 April and 30 June 2014.[52] Refrigerants Australia stated that these measures would 'allow companies to pre-position refrigeration and hopefully avoid any lack of supply'.[53]

Sufficient time and notice needed

3.37 In addition to the timely repeal of the bills, many called for sufficient time to make arrangements relating to the repeal of the carbon price mechanism. The Business Council of Australia submitted that:

> Assessing contracts and determining price variations will take time if it is to be done properly. The repeal legislation has not factored in that companies will not be able to instantly change arrangements and that at a minimum companies will need three months to review contracting arrangements.[54]

3.38 The Business Council of Australia therefore recommended that the Government:

> …take into consideration that companies will require at least three months once the legislation is passed to amend the range of contracts that they have in place with carbon pass-through clauses and ensure companies are not penalised during this time.[55]

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49 Dr Gregory Picker, Executive Director, Refrigerants Australia, *Proof Committee Hansard*, 26 November 2013, p. 15.

50 Ozone Protection and Synthetic Greenhouse Gas (Import Levy) (Transitional Provisions) Bill 2013, Explanatory Memorandum, p. 6.

51 Ozone Protection and Synthetic Greenhouse Gas (Import Levy) (Transitional Provisions) Bill 2013, Explanatory Memorandum, p. 6.

52 Ozone Protection and Synthetic Greenhouse Gas (Import Levy) (Transitional Provisions) Bill 2013, Explanatory Memorandum, p. 6.

53 Dr Gregory Picker, Executive Director, Refrigerants Australia, *Proof Committee Hansard*, 26 November 2013, p. 20.

54 Business Council of Australia, *Submission 27*, p. 3 and see also p. 5.

55 Business Council of Australia, *Submission 27*, p. 3.

3.39 COzero similarly raised concerns about the implications of the repeal bills in terms of existing contractual arrangements:

> Electricity contracts, in particular, hedged contracts, have been entered into by Liable Entities and Counterparties until the end of the 2015 financial year. These contracts have an implied carbon price in them. Regardless of whether the Carbon Tax is removed, or not, these contracts will have to be honored with a carbon component that will have to be either absorbed by Liable Entities, or passed on.[56]

3.40 Origin Energy Limited (Origin) also emphasised the need for sufficient notice to be given to liable parties to implement repeal 'to ensure that any benefits from carbon price repeal are passed onto consumers in a timely manner'.[57] Origin explained:

> The carbon price was a very complex piece of legislation to implement in the energy markets. Over six months formal notice was given for this implementation and based on our experience a similar period should be given for its repeal to ensure that any benefits are passed onto consumers in a timely manner.[58]

Need for alternatives to be in place before repeal

3.41 Several submissions suggested that the carbon pricing mechanism should not be repealed until appropriate alternative measures are in place to reduce greenhouse gas emissions.[59] For example, the Responsible Investment Association Australia (RIAA) submitted that:

> …we cannot support the repeal of the current Clean Energy legislation due to the resulting policy uncertainty that this will and is already creating. Importantly, it is difficult to assess or support an alternative policy framework until sufficient detail exists upon which our community can make an assessment based on its merits. To date, this detail does not exist.[60]

3.42 The Public Health Association of Australia submitted that it would 'prefer to see a complete alternative package of measures developed and publicly discussed before repeal of the existing legislative package occurs'.[61]

3.43 General Electric (GE) stated its preference for the proposed removal of carbon pricing to be 'conjoined' with its proposed replacement (Direct Action including the Emissions Reduction Fund).[62]

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56 COzero, *Submission 16*, p. 1.

57 Origin, *Submission 6*, p. 1.

58 Origin, *Submission 6*, p. 3.

59 WWF-Australia, *Submission 24*, pp 4 and 11; Australian Conservation Foundation, *Submission 28*, p. 2; Regnan – Governance Research & Engagement, *Submission 29*, p. 2.

60 RIAA, *Submission 22*, p. 2.

61 PHAA, *Submission 5*, p. 6; see also Doctors for the Environment Australia, *Submission 11*, p. 5.

62 GE, *Submission* 1, p. 1.

3.44 ClimateWorks Australia submitted that if the carbon tax legislation is repealed, 'it will need to be replaced with measures that will deliver equivalent emissions reductions (and more), and which address both the price and non-price barriers to achievement of emissions reductions'.[63]

3.45 Several submitters and witnesses also pointed out that any delay in emissions reductions will increase the ultimate cost of delivering abatement.[64]

Role of Australian Competition and Consumer Commission

3.46 Several submitters and witnesses raised concerns about the powers proposed to be given to the Australian Competition and Consumer Commission (ACCC) to monitor prices following the repeal of the carbon price mechanism.[65] These powers are contained in the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013.

3.47 The Business Council of Australia acknowledged that:

> The role of the ACCC will be important in ensuring community confidence that the removal of the carbon tax is happening in an appropriate manner. There are elements of the repeal legislation, however, which make the role of the ACCC and the matters it should take into consideration in assessing whether there has been price exploitation unclear and subjective.[66]

3.48 Concerns were raised about the drafting of the relevant provisions governing the powers of the ACCC. For example, energy industry groups were concerned that the powers are 'vaguely worded' and could 'interfere with otherwise efficient energy markets' and would 'duplicate existing state government powers to monitor and regulate retail energy prices'.[67]

3.49 Others also raised concerns about the absence of a definition for the term 'unreasonably high' in relation to price exploitation in proposed paragraph 60C.[68] For example, the energy industry groups argued that this fails to consider the specificities of the energy industry:

> In a competitive energy market, prices will vary by supplier. Businesses that charge high prices will lose market share to those offering a more affordable service. Different businesses will have different cost structures and offer different products, and so prices will vary.
>
> Furthermore, as outlined above, electricity and gas customers may be on market or standing offers, which vary in price. Market offers typically give

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63 ClimateWorks Australia, *Submission 13*, p. 2.

64 ClimateWorks Australia, *Submission 13*, p. 2; WWF-Australia, *Submission 24*, p. 11.

65 For example, Origin, *Submission 6*, p. 1; Energy Industry Groups, *Submission 17*, p. 1; Business Council of Australia, *Submission 27*, p. 2; Pacific Hydro, *Submission 33*, pp 5–6.

66 Business Council of Australia, *Submission 27*, p. 4 and also p. 6.

67 Energy Industry Groups, *Submission 17*, p. 3; see also Origin, *Submission 6*, p. 1.

68 Proposed paragraph 60C requires that a corporation must not engage in price exploitation in relation to the carbon tax repeal, with price exploitation occurring if the price for the supply is unreasonably high.

> a discount in exchange for meeting certain conditions, such as a contract length, or if bills are paid on time.
>
> Given this variation, the energy industry does not see how the ACCC would be able to establish what an "unreasonably high" charge for electricity could be.[69]

3.50 Submissions concerned about the proposed ACCC powers commented that they appeared to be based on those used for the introduction of the Goods and Services Tax (GST).[70] However, it was noted that the carbon price operates differently to the GST, and in particular, is not a fixed percentage cost. It is therefore difficult to quantify its exact impact on prices.[71] The energy industry groups gave the following example to illustrate their concerns:

> …the introduction of the carbon tax meant that low- or zero-emissions generators received increased margins while highly emissive generators faced lower margins. One would expect this process to reverse once the carbon tax is repealed. The likely net effect would be that margins would return to the same level they were before the carbon tax was implemented. Yet, under these provisions it is possible the ACCC could take action. This is a highly inappropriate consequence and may increase risks for energy businesses.[72]

3.51 Similarly, the Australian Industry Group submitted that:

> …outside of energy prices, carbon price pass-throughs have been limited and the impacts of repeal will also be limited. An Ai Group survey earlier in 2013 found that 70% of businesses in the manufacturing, services and construction sectors were unable to pass through any of their carbon-related energy cost increases to customers. The remainder of the sample were able to pass through small amounts of their carbon cost. Across all businesses, just 6% of total carbon costs were estimated to have been passed on to customers. This strongly suggests that the ACCC should be cautious and focussed in its price monitoring role, as significant price movements are only likely in the area of electricity and gas.[73]

3.52 Concerns were also expressed about the drafting of paragraph 60C(3)(a) of the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 which requires the ACCC to consider the supplier's costs, supply and demand conditions and any other matter. It was suggested that the paragraph be expanded to include additional considerations such as wholesale energy costs, network price determinations,

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69 Energy Industry Groups, *Submission 17*, p. 3; see also Business Council of Australia, *Submission 27*, p. 4 and Pacific Hydro, *Submission 33*, pp 5–6.

70 See, for example, Origin, *Submission 6*, Appendix A; Energy Industry Groups, *Submission 17*, p. 3.

71 Origin, *Submission 6*, Appendix A; Energy Industry Groups, *Submission 17*, pp 3–4.

72 Energy Industry Groups, *Submission 17*, p. 3.

73 Australian Industry Group, *Submission 26*, p. 3.

compliance with state and federal legislation, regulated prices for electricity and gas, and the overall risk profile of the business. [74]

3.53 Others were also concerned about proposed new section 60E of the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013, which enables the ACCC to send out notices to prevent price exploitation, and allow the ACCC to specify a maximum price that may be charged. The energy industry groups argued that the 'ACCC is not the appropriate authority to have the power to effectively set maximum energy prices'.[75] Similarly, the Business Council of Australia was concerned that 'this would appear to be an overreach in terms of the role and capacity of the ACCC'.[76]

3.54 Origin further suggested a regulation making power be included to give flexibility for the government to specify what does *not* constitute price exploitation, and that the Explanatory Memorandum provide detailed examples of how the price exploitation provisions will be applied.[77]

3.55 Others supported the use of the ACCC. For example, the Australian Retailers Association expressed support for the use of the ACCC 'to see cost savings being passed onto businesses and consumers'.[78] ACOSS submitted that the price monitoring powers of the ACCC would be 'essential consumer protection during a period of consuming price adjustment'.[79]

Australian Competition and Consumer Commission's response

3.56 The ACCC informed the committee that it believes it will be able to adequately examine carbon price charges and ensure that they are not being passed on to consumers once the carbon tax is repealed.[80] The ACCC advised that:

> We will have the capacity to look at individual businesses and the decisions they made in terms of the introduction of the carbon price. We will be able to ensure that they take similar decisions on the way out. I think it is fair to say there are a number of factors we will take into account but, at the end of the day, that very simple proposition that where there is a carbon price component in the current price we will look to ensure that it is removed.[81]

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74 Origin, *Submission 6*, Appendix A; Energy Industry Groups, *Submission 17*, p. 4.

75 Energy Industry Groups, *Submission 17*, p. 5.

76 Business Council of Australia, *Submission 27*, p. 6; and see also Pacific Hydro, *Submission 33*, p. 6.

77 Origin, *Submission 6*, Appendix A.

78 ARA, *Submission 8*, p. 1.

79 ACOSS, *Submission 10*, p. 5.

80 Mr Scott Gregson, Group General Manager, Enforcement Group, Australian Competition and Consumer Commission, *Proof Committee Hansard*, 26 November 2013, p. 40.

81 Mr Scott Gregson, Group General Manager, Enforcement Group, Australian Competition and Consumer Commission, *Proof Committee Hansard*, 26 November 2013, p. 40.

3.57 The ACCC also confirmed that in relation to electricity price increases, it expects that the 9% per cent price increase attributed to the carbon price will be removed.[82]

Abolition of the Climate Change Authority and Clean Energy Finance Corporation

3.58 Some submissions expressed concern about the abolition of the Climate Change Authority and the Clean Energy Finance Corporation. These submissions took the view that it was important to have independent analysis and advice on emissions reductions and the investment in clean energy technology.[83]

3.59 In this context, several submissions raised the issue of reviews of the Renewable Energy Target (RET), which are currently undertaken by the Climate Change Authority. The Business Council of Australia pointed out that:

> With the wind-up of the Climate Change Authority, consideration needs to be given to the arrangements for the 2014 review of the Renewable Energy Target. To remove any ambiguity it will be important for the government to make clear the matters that will be included in the review either in the legislation or in related documents.[84]

3.60 The Business Council of Australia suggested that the 2014 review should include, for example, explicit consideration of the consequences of changes in demand for electricity, the repeal of the carbon price, and the impact of the RET on business electricity prices.[85]

3.61 GE noted that the intention is for future reviews of the RET to be undertaken, at the minister's direction, by the Department of the Environment, in consultation with the Department of Industry.[86] However, GE suggested that future reviews of the RET be conducted every four years, rather than every two years.[87] GE also suggested that the Climate Change Authority (Abolition) Bill 2013 be amended to reinstate current subsections 162(7)–(14) to provide guidance to the reviewer.[88]

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82 Mr Scott Gregson, Group General Manager, Enforcement Group, Australian Competition and Consumer Commission, *Proof Committee Hansard*, 26 November 2013, p. 40.

83 For example, AYCC, *Submission 4*, p. 2; Public Health Association of Australia, *Submission 5*, p. 7; ClimateWorks Australia, *Submission 13*, p. 5; Investor Group on Climate Change, *Submission 14*, p. 2; ACTU, *Submission 21*, p. 2; WWF-Australia, *Submission 24*, pp 4 and 18; Australian Conservation Foundation, *Submission 28*, p. 6; Regnan – Governance Research & Engagement, *Submission 29*, p. 2; Wentworth Group of Concerned Scientists, *Submission 32*, p. 5; Dr Frank Jotzo, *Submission 35*, p. 3.

84 Business Council of Australia, *Submission 27*, p. 3.

85 Business Council of Australia, *Submission 27*, pp 4 and 6.

86 GE, *Submission 1*, p. 2; Climate Change Authority (Abolition) Bill 2013, Explanatory Memorandum, p. 11.

87 GE, *Submission 1*, p. 2; see also Australian Industry Group, *Submission 26*, p. 4; and Pacific Hydro, *Submission 33*, pp 7–8.

88 GE, *Submission 1*, p. 2.

3.62 Origin suggested that the Productivity Commission should play a role in the review of the RET, and that a clause should be inserted that the Department of the Environment 'must take into account' advice of the Productivity Commission.[89]

3.63 The Department of the Environment informed the committee that, despite the abolition of the Climate Change Authority, a number of reporting and monitoring mechanisms will remain in place:

> The things that will remain are the National Greenhouse and Energy Reporting System, which is the mechanism by which companies report their emissions and energy use and also information about energy efficiency. The Australian National Registry of Emissions Units will remain in place, and that supports the Carbon Farming Initiative…which will also remain in place. So all of that infrastructure to support the measurement, verification and recording of emissions will remain in place.[90]

3.64 Several submissions also called for the Government to reconsider the abolition of the Clean Energy Finance Corporation (CEFC).[91] It was argued that:

> …the CEFC co-investment model is a prudent and cost effective way to allocate limited public funds to leverage private investment to do the heavy lifting in the investment into a low carbon transition.[92]

3.65 For example, the Investor Group on Climate Change argued that the CEFC has played a key role in advancing Australia's response to climate change and in:

> …attracting private capital to low carbon opportunities globally. The ability of co-financing organisations (such as CEFC) to achieve emissions reductions with a positive financial return to government warrants their inclusion in the Government's climate change policy suite.[93]

3.66 Indeed, the CEFC itself made a submission to the committee outlining its achievements since its inception:

> By working with private sector co-financiers, the CEFC multiplies the total amount of funding available for investment. Through investing $536 million of CEFC funds (including Low Carbon Australia's portfolio) and $1.55 billion in private sector co-financing, the CEFC has facilitated over $2.2 billion in projects, delivered 3.88 million tonnes of abatement,

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89 Origin, *Submission 6*, p. 3.

90 Mr Simon Writer, Assistant Secretary, Department of the Environment, *Proof Committee Hansard*, 26 November 2013, p. 70.

91 Epuron, *Submission 7*, p. 1; AYCC, *Submission 4*, p. 3; Professor John A Mathews, *Submission 9*; Investor Group on Climate Change, *Submission 14*, p. 2; RIAA, *Submission 22*, p. 2; WWF-Australia, *Submission 24*, pp 4, 17–18; Australian Conservation Foundation, *Submission 28*, pp 7–8; PacificHydro, *Submission 33*, pp 1–2; Dr Frank Jotzo, *Submission 35*, p. 3.

92 RIAA, *Submission 22*, p. 2.

93 Investor Group on Climate Change, *Submission 14*, p. 2.

> and achieved it at negative cost (i.e. net return or benefit to the taxpayer) of $2.40 per tonne of abatement.[94]

3.67 The Department of the Environment outlined to the committee that Government's policy position on abolishing the Clean Energy Finance Corporation:

> The government has been very clear that the premise of abolition is that it is a market activity that should be delivered not by government but by the private sector.[95]

Committee comment

3.68 The committee supports the Government's intention to abolish the carbon tax.

3.69 Evidence received by the committee shows that Australia's carbon tax is one of the highest and broadest carbon taxes in the world. The carbon tax has had a significant impact on costs for Australian businesses and families. In particular, the price of electricity and gas has increased to record levels.

3.70 In response to increased energy costs and compliance measures, struggling businesses have been forced to pass these costs on to customers. Where circumstances have not allowed businesses to pass on these costs, they have been forced to bear the brunt of the new tax.

3.71 The committee is concerned that the high price and broad-base of the carbon tax has placed Australian industries at a disadvantage internationally. Australian businesses are forced to compete with international competitors who are not encumbered by such a high carbon price. The carbon tax has made the cost of doing business in Australia more expensive. The committee received evidence that shows that removing the burden of the carbon tax will allow businesses to compete more evenly in international markets and encourage investment in Australian industries.

3.72 The committee is satisfied that the additional powers that are provided to the ACCC will ensure that imposts charged as a result of the carbon tax will come down quickly. The ACCC will have the capacity to look at individual businesses and the decisions they made following the introduction of the carbon tax and see that they are reversed when it is removed. The committee also notes that the ACCC is confident that the 9% increase in electricity prices attributed to the carbon tax will be reversed once the tax is repealed.

3.73 The committee agrees with the bill's intention to abolish the Clean Energy Finance Corporation and the Climate Change Authority. The use of $10 billion in taxpayer money to fund what essentially amounts to a private bank is not justified. The removal of the carbon tax means that the Climate Change Authority is no longer needed to administer the scheme. The committee is satisfied that other government departments will be able to successfully undertake any future climate policy implementation.

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94 Clean Energy Finance Corporation, *Submission 30*, p. 2.

95 Dr Gordon de Brouwer, Secretary, Department of the Environment, *Proof Committee Hansard*, 26 November 2013, p. 66.

3.74 Many submitters recommended to the committee that the repeal of the carbon tax occur immediately and that the Senate not unduly delay the benefits that removal of the carbon tax will have for Australian businesses. The committee also notes the concerns of businesses that if repeal of the carbon tax is delayed until after 1 July 2014 it will create uncertainty. In particular, the retrospective repeal of the carbon tax after 1 July 2014 would create confusion and red tape.

3.75 The committee notes that Australia has had a good track record of protecting the environment and reducing carbon emissions prior to the introduction of the carbon tax. The committee encourages the Government to give consideration to its Direct Action Plan to replace the carbon tax to ensure that there is policy continuity for Australia to meet its target of reducing carbon emission by 5% by 2020.

3.76 The committee recommends that the bills be passed.

Recommendation 1

3.77 The committee recommends that the bills be passed.

Senator John Williams
Chair

Dissenting Report from the Australian Labor Party

1.1 Labor has a clear position on climate change.

1.2 Labor understands there is a strong foundation of scientific fact underpinning the imperative to reduce global greenhouse gas emissions to reduce the risk of global warming above 2 degrees.

1.3 Labor's approach to reducing emissions is to repeal the carbon tax and keep in place the already legislated emissions trading scheme which puts a legal cap on carbon pollution. This lets business work out the cheapest and most effective way to operate within that cap and is overwhelmingly endorsed by economists as the most cost effective and efficient emissions reduction method.

1.4 The first twelve months of the carbon price has seen emissions from electricity fall with coal power generation down and renewable energy generation up. The price on carbon pollution has been effective in increasing the competitiveness of renewable energy generation. Meanwhile, Australia's economy grew at trend in 2012-13 while additional government assistance to households has more than offset any price rises caused by the carbon price.

1.5 The binding caps will ensure Australia meets its international emissions reduction targets under the second commitment period of the Kyoto Protocol (2013 to 2020) and under the United Nations Framework Convention on Climate Change.

1.6 The flexible-price would bring the Australian carbon price into line with the carbon price prevailing under the European Union Emission Trading System, which is currently expected to be around $6 per tonne of emissions. Moving to flexible-price emissions trading would ensure Australia meets its international emissions reduction commitments, reduce compliance costs and transaction costs for businesses, increase flexibility, and improve risk management.

1.7 Australia has not been alone. 99 countries, covering 80 per cent of global emissions and including all of the major emitters have pledged to reduce or limit emissions by 2020.[1]

1.8 The Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and related bills remove the necessary tools for Australia to tackle climate change.

1.9 In recommending the repeal of the price on carbon mechanism, the Coalition majority report is showing a disregard for science, a disregard for future generations and a disregard for the environment. The Coalition's plan is a recipe to do nothing, and sets Australia up for unnecessarily higher costs in years to come.

1.10 Direct action without legislated emissions reduction targets, as proposed by the Coalition Government (but not included in this legislative package) will leave Australia without a long term emissions reduction method. The repeal bills leave our nation without a path to help industry, households and business reduce emissions. As

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1 Climate Change Authority Targets and Progress Review Draft Report October 2013

many submitters to the inquiry highlighted the uncertainty around how the problem of carbon emissions will be managed into the future is damaging to business and investment decisions.

1.11 The repeal bills also do away with worthwhile independent institutions established by the former Labor Government to tackle climate change including the Clean Energy Finance Corporation (CEFC) and the Climate Change Authority. The Government has also moved to reduce funding to the independent Australian Renewable Energy Agency (ARENA).

1.12 The CEFC facilitates comprehensive commercial loans for both renewable and cleaner energy technology investments and is set to fund emissions reductions at a negative cost (turn a profit) to government. The Government's alternative plan for an Emissions Reduction Fund will consume billions from Consolidated Revenue. ARENA provides funding to improve the competitiveness of renewable energy technologies, assisting particularly at the difficult-to-fund points in the product life cycle. The Climate Change Authority provides independent advice on Australia's emissions reduction targets, its functions are proposed to be subsumed by the Environment Department removing the independent advisory role thereby lowering transparency. These are all vitally important institutions for tackling climate change and accelerating the roll out of clean energy.

1.13 The plan the Coalition Government has put forward to the Parliament demonstrates that this government isn't serious about taking meaningful action on climate change. Last month, we heard John Howard tell a London audience that those of us who accept that climate change is real are a bunch of "religious zealots", and that he'll trust his "instinct" rather than the overwhelming evidence of the world's climate scientists.

1.14 Prime Minister Abbott accused the United Nations Climate Chief of "talking through her hat", while Minister for the Environment, Hon Greg Hunt MP, used Wikipedia to contradict her opinion in a BBC interview.

1.15 Based on the Coalition Government's policies, Australia's rating has dropped to 57th out of 61 countries in its efforts to mitigate climate change as rated by the Climate Change Performance Index.

1.16 Embarrassingly, at the recent Warsaw Climate Change Conference Australia received four of five 'Fossil of the Day' "awards", recognising the Coalition's backward proposal to wind back the carbon price mechanism and abandon support for research and clean energy.

1.17 Meanwhile, the Coalition Government has not been able to come up with one credible scientist or economist who's willing to stand up and back their Direct Action plan, which is so scant on detail four years after the announcement.

1.18 A recent survey showed that 86 per cent of economists back an emissions trading scheme as the cheapest and most effective way to tackle carbon pollution.[2]

2 http://www.smh.com.au/federal-politics/political-opinion/economists-remain-convinced-carbon-tax-or-ets-is-the-way-forward-20131027-2w9rv.html?rand=1382909118970

Former Treasury Secretary Ken Henry called the Coalition's direct action policy a "bizarre" strategy, which involves the Government paying big polluters in a scheme that will cost more and will reduce productivity.[3]

1.19 This month, the OECD released a report confirming that countries could achieve higher levels of emissions reductions at much lower cost if they relied on a market-based policy.[4]

1.20 The necessity to act only grows each year. Reports show that Australia is on track for its warmest year ever, while the UN World Meteorological Organisation reports that the amount of carbon dioxide in our atmosphere is at a record high.[5] The latest Intergovernmental Panel on Climate Change report on the physical science of climate change states:

> Warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented over decades to millennia. It is extremely likely (greater than 95 per cent) that human influence has been the dominant cause of the observed warming since the mid-20th century.[6]

1.21 The Wentworth Group of Concerned Scientists highlighted that current scientific trends forecast climate change to have very negative impacts on the condition of Australia's natural resources (soil, water, biodiversity and coastal zone) and the human communities that depend on the ecosystem services provided, over the 21st century and beyond.[7]

1.22 The immediate and long term costs of allowing warming greater than 2 degrees are the core reason for acting now with a policy suite that is designed to scale up over time. Removing this policy suite for the sake of a slight reduction in utilities costs in one financial year is reckless and irresponsible.

1.23 Despite the shallow rhetoric of the Coalition stating it believes in climate change and that it supports action - it's clear that nothing could be further from the truth. If the Coalition Government does believe in climate change then it wouldn't be putting Australian in a position where it falls behind in playing its part in global action and leaves the Australian economy exposed to future unnecessary costs because we have failed to take adequate action.

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3 http://www.theaustralian.com.au/national-affairs/policy/tony-abbotts-direct-action-climate-policy-bizarre-ken-henry/story-e6frg6xf-1226752735032

4 http://www.oecd-ilibrary.org/environment-and-sustainable-development/climate-and-carbon_5k3z11hjg6r7-en

5 http://www.wmo.int/pages/mediacentre/press_releases/pr_981_EN.html

6 IPCC Report, September 2013

7 Submission 32, Wentworth Group of Concerned Scientists

2. An emissions trading scheme is the most rational policy choice for Australia

2.1 In its latest report on climate change policies, the OECD highlighted that those serious about tackling climate change are implementing a price on carbon.

> If governments are serious in their fight against climate change, the core message of this reform must be that the cost of CO2 emissions will gradually increase, creating a strong economic incentive to reduce the carbon entanglement and to shift towards a zero carbon trajectory. A central feature of such an approach is placing a price on carbon.[1]

2.2 For Australia to have a carbon pricing mechanism in place and remove it means we are turning our backs on the world. The rest of the world is in unison with using a carbon pricing mechanism to reduce carbon pollution except for the Current Australian Government. China, long held up by the Coalition as not acting, is implementing seven carbon pricing trials and in one its carbon price has surged higher than Europe's.[2] The President of the United States of America has outlined his desire for a national market-based solution to climate change.[3]

2.3 Dr Frank Jotzo highlighted in his submission the clear benefits to the Australian economy of a carbon price mechanism in tackling climate change.

> The carbon pricing mechanism currently in place is an economically sound basis for climate change mitigation policy in Australia. Repealing Australia’s Clean Energy Legislation and related bills is undesirable if a lasting policy framework for greenhouse gas emissions reductions is to be established, and if emissions reductions are to be achieved cost effectively. If emissions reductions are to be achieved without carbon pricing, then regulatory and subsidy approaches will need to play a larger role. These are generally more costly and less effective in creating incentives for long-term investment in low-carbon options by Australia’s businesses. Repeal will exacerbate policy uncertainty, with adverse effects on investment.[4]

2.4 Mr Nathan Fabian, Chief Executive Officer of the Investor Group on Climate Change noted five key elements members of his organisation consider important include:

> …a scheme cap that reflects an emissions reduction objective; broad coverage of sources of emissions in the economy; transitional assistance arrangements for trade exposed sectors; the ability to access international

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1 OECD October 2013 report, Climate and Carbon – Aligning Prices and Policies

2 http://www.bloomberg.com/news/2013-08-21/carbon-permits-rise-on-china-s-first-market-to-exceed-eu-price.html

3 President Barack Obama, 2013 State of the Union Address,

4 Submission 35, Dr Frank Jotzo

> permits to achieve least-cost abatement; and the capacity to respond to deeper reduction targets as necessary over time.[5]

2.5 While in its submission, the Wentworth Group of Concerned Scientists noted that the Productivity Commission considers "an emissions trading scheme is by far the most cost effective way for Australia to contribute to global efforts to mitigate climate change".[6]

2.6 Mr Fabian highlighted that the world is acting and the important step is to set in place appropriate policies to make the necessary emissions reductions in the long term:

> We see accelerating emissions reduction ambition in most countries around the world. As deep reductions will be needed to achieve a stable climate outcome, the policy conversation that matters for Australia and all nations now is: how can deeper reductions targets be achieved, and how quickly? We are careful to differentiate between ambition to reduce emissions and the types of instruments used. Our experience tells us that those holding out for a single global trading scheme are likely to be disappointed. Nations are implementing emissions reductions policies that make sense for their circumstances. These include cap and trade schemes in some countries, including China and Europe; industry regulation in the US; and co-financing vehicles in many countries.
>
> South Africa's carbon tax will take effect on 1 January 2015, and on the same day South Korea's emissions trading scheme will start. It is our view that an emissions trading scheme with a cap makes sense for Australia's circumstances. That is because it is in the interest of Australian companies to be able to contribute to emissions reductions at least cost while reducing their own emissions from domestic plant and equipment over time, and in a time frame that makes sense to them.[7]

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5 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

6 Submission 32, Wentworth Group of Concerned Scientists

7 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

3. The Coalition is creating investment uncertainty for Australia

3.1 The Coalition Government's repeal bills and Direct Action policy are undermining investment certainty in renewable energy and energy efficiency measures. If there is bipartisan recognition that climate change is a serious concern and we must limit Australia's emissions, we need a long term framework with which to provide some certainty to investors, business, the community and other nations. The Australian Conservation Foundation eloquently highlights this concern in its submission:

> Long term targets are important. Business and the broader Australian community must be given clear signals that decarbonisation will occur, in order to allow for investment decisions to be made in the context of awareness of the declining availability of permission to pollute.[1]

3.2 Direct Action has a 5% from 2000 levels by 2020 emissions reduction target and a limited four year budget. The 5% target is not legislated. It is not binding. The Government has insisted that there will be no further expenditure across the four year budget. However, everything is unknown until the Government's review processes are finalised sometime in 2014. The submission from the Responsible Investment Association Australia noted that the scant level of detail on Direct Action is making it difficult for the community to assess the merits of the policy.[2]

3.3 Together, this is an impediment to long term investment in the Australian renewable energy sector. Institutional investors such as the Investor Group on Climate Change suggest that it is easier and more secure to invest in countries such as Ireland, the UK and USA because of policy certainty than it is in Australia now. Investors like long term certainty with the lowest possible risk and reasonable returns.

3.4 Mr Fabian provided the committee of the scenario that his members would prefer to see from climate change policy.

> We are affiliated with other institutional investor groups around the world that collectively represent $20 trillion of investment funds. Our groups around the world have similar aims—that is, transparent, long-term and relatively certain policies that can assist us to allocate capital to low-carbon activities. In the absence of an alternative policy proposal that is likely to be at least as effective and efficient as the carbon-pricing framework we do not support repealing Australia's carbon legislation and recommended the repeal bill not proceed.[3]
>
> ….I think the pension community globally realises that, as it has invested across the global economy, it desperately wants to see a staged reduction in emissions around economies. We do not want to see radical policy action at any time to catch up to a gap. That is our biggest concern. The risk of

1 Submission 28, Australian Conservation Foundation

2 Submission 22, Responsible Investment Association Australia

3 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

> systemic events affecting financial markets are well documented and clear. I do not think there is any doubt about that. Were there to be a broad devaluation of emissions-intensive assets around the world because of radical policy action, which may happen,—we would prefer that it did not happen—is why we argue for steady policy change over time. [4]

3.5 While, Mr Wood, Energy Program Director with the Grattan Institute highlighted the shortcomings of this short term outlook.

> Industry, I would suggest, is faced with a continuing period of significant uncertainty, because until the government has decided what it is going to do beyond 2020 or beyond five per cent—and my understanding is that that is going to be decided in the lead-up to 2015—there is significant uncertainty for industry in how it invests in the long term. Even the current funding that has been announced under the Emissions Reduction Fund is not in the long term. So if you are looking to invest in low-emission technology, particularly if you want to keep up with your competitors overseas—such as companies who are already working under emissions trading schemes in China, where they have pilot schemes in place—then you are going to be having some difficulty in working out what sort of carbon price you build into your business model. So I think that uncertainty will pertain until the government decides how it is going to address its actions either beyond five per cent or beyond 2020. I think that uncertainty is quite a bad situation for business, and I am sure that is one of the issues business would be raising. [5]

3.6 It is not just big institution investors that have been hit by the investment uncertainty created by the Coalition Government. In its submission, Hepburn Wind, noted that at the time its 2000 members invested in 2008-09, there was bipartisan support for a carbon price mechanism.

> Many of our members are ‘mum and dad investors’ and contributed personally significant funds, including personal superannuation, based on unambiguous support for carbon pricing from across the political spectrum. Our earnings before depreciation for the 2012/13 financial year was 4.1c / share. Without the estimated positive uplift attributed to the carbon price, our equivalent earnings before depreciation would have been just 1.1 cents / share.[6]

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4 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.9.

5 Mr Anthony Wood, Energy Program Director, Grattan Institute, Committee Hansard, 26 November, 2013, p.4.

6 Submission 34, Hepburn Wind

4. Impact of Repeal on energy prices

4.1 The Coalition's main purpose for this policy package is to reduce utility bills and overall costs on households and business. In his second reading speech on the repeal bills, the Prime Minister was unambiguous in the reductions Australians can expect, using an average figure on overall costs but exact specifics for electricity and gas costs.

> The first impact of this bill will be on households, whose overall costs will fall $550 a year on average. Thanks to this bill, household electricity bills will be $200 lower next financial year without the carbon tax. Household gas bills will be $70 lower next financial year without the carbon tax.[1]

4.2 There appears to be evidence to suggest the Coalition Government has overestimated the impact of removing the carbon price on household expenses.

4.3 In evidence before the committee the Mr Wood said,

> …It means therefore that when you remove the carbon price at just over $24 a tonne of CO2 equivalent, the savings that will be generated whenever that occurs will be less than if they would have been than when the cost was first imposed. Secondly, the correct comparison of the removal of the carbon price would be against what would have happened otherwise; namely, if there had been a continuity of this legislation in place then the carbon price almost certainly would have gone down significantly once it moved to a market based mechanism.[2]

4.4 In its submission, ACOSS highlighted the increased network expenditure as a factor that would impact any reductions in electricity bills:

> Based on currently available evidence, it remains unclear whether repealing the carbon tax will lead to a significant decrease in household living costs. ACOSS has been advocating for low income energy consumers in energy market reform processes for the past seven years. The drivers of energy price rises are much broader and more complex than the introduction of the carbon price alone including, for example, increased network expenditure.[3]

4.5 While industry group COzero noted that some businesses would not see any impact from repeal because of the length of hedging contracts entered into.

> Electricity contracts, in particular, hedged contracts, have been entered into by Liable Entities and Counterparties until the end of the 2015 financial year. These contracts have an implied carbon price in them. Regardless of whether the Carbon Tax is removed, or not, these contracts will have to be

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1 Hon Tony Abbott MP, Prime Minister, House of Representatives Hansard, 13 November 2013.

2 Mr Anthony Wood, Energy Program Director, Grattan Institute, Committee Hansard, 26 November, 2013, p.1.

3 Submission 10, ACOSS

> honored with a carbon component that will have to be either absorbed by Liable Entities, or passed on.[4]

4.6 In designing the Clean Energy Future Package, Labor was acutely aware of the impacts on industry, particularly emissions intensive, trade exposed industry and the need to smooth this over time. As such, the Jobs and Competitiveness Program was designed to provide the most emissions-intensive trade-exposed businesses with assistance to cover 94.5 per cent of industry average carbon costs in the first year of the carbon price and less emissions-intensive trade-exposed businesses with assistance to cover 66 per cent of industry average carbon costs. To encourage industry to cut pollution, assistance was forecast to be reduced by 1.3 per cent each year and reviewed regularly to ensure effectiveness.

4.7 In its submission, the Australian Industry Group praised the Jobs and Competitiveness Program as "of great importance", no doubt as it saw the most emissions-intensive trade-exposed businesses with an effective carbon price of $1.27 per tonne and less emissions emissions-intensive trade-exposed businesses with an effective carbon price of $7.82 per tonne.[5] Relative to increases in distribution costs, repealing the carbon price will have a small impact on the power bills of Australia's most emissions-intensive trade-exposed businesses, which in 2013-14 rose to effective price of approximately $1.70 per tonne.

4.8 The Clean Energy Future Package also contained significant co-investment funding to encourage business to become more energy efficient and/or reduce carbon emissions. Since July 2011, the Clean Technology Program has seen over $246 million of government investment leverage over $500 million of private sector investment. Many of these projects were financed by industry on the basis of increasing costs over time from the carbon price mechanism. Removal of the carbon price reduces the savings per annum from energy efficiency measures, pushing out payback periods from investment.

4.9 Given the Prime Minister's penchant for absolute honesty in this space, Labor Senators await the outcome of research into changes in costs if the repeal bills pass.

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4 Submission 16, COzero

5 Submission 26, Australian Industry Group

5. Direct Action sets Australia up to fail on its commitment to addressing Climate Change

5.1 Labor is concerned that the Coalition Government has no intention of ensuring Australia meets our internationally committed target of a 5 per cent reduction on 2000 levels by 2020, let alone our maximum of 25 per cent.

5.2 Australia's climate policies must be capable of achieving Australia's maximum internationally committed targets of up to 25 per cent reductions by 2020. Notably a failure to demonstrate a credible plan weakens our ability to play a constructive role in the new agreement that will cover all major emitters from 2020. [1] Australia's existing policies give certainty in this regard.

> …Australia's carbon price and limit on emissions can achieve our 25 per cent target and stronger reductions through post-2020 decades. The key features of the existing carbon pricing legislation ensure that Australia can meet its targets and stronger post-2020 targets if it chooses to do so. [2]

5.3 Australia's existing carbon reduction policy suite has a greater capacity to meet our current and future targets because it features a legally binding cap on emissions.

> These features are the ability to set legally binding annual caps on carbon emissions and for liable entities to access international carbon permits to comply with these caps. These features provide confidence that Australia's carbon policy framework is sufficiently robust to manage the risks and uncertainty of future emissions drivers and deliver emission reductions at reasonable cost. These features also allow significant flexibility. The government can choose to adjust Australians emissions trajectory through the caps or companies can choose within certain limits how best to fulfil their obligations, whether by reducing emissions or by purchasing domestic and international permits or a combination thereof. [3]

5.4 Meanwhile, direct action has no commitment to targets beyond 2020 and there is uncertainty within the policy about how it can even achieve these 2020 targets.

> The government is currently yet to demonstrate that its alternative policy can achieve Australia's minimum commitments, and all independent analysis to date indicates that emissions will continue to increase under its currently proposed framework. [4]

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1 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

2 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

3 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

4 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

5.5 The Coalition Government's lack of long term funding commitments for Direct Action further confirms Labor's view that the Coalition Government has no long term commitment to meaningful action to address climate change. The Grattan Institute in evidence before the Committee highlighted how Direct Action can have no longevity as a policy without further significant budget appropriations.

> My understanding from every conversation I have had with the senior representatives of the government is that direct action has been targeted directly to achieve the five per cent target by 2020; that is shorthand, obviously. Many have criticised whether it might even do that. But, just focusing on your question, there is fundamentally no reason why the Emissions Reduction Fund, which is the centrepiece of direct action, could not be expanded. But because it is funded on budget, which is by the very nature of the instrument different from an emissions trading scheme or a renewable energy target, it would require additional budget appropriations in future times to be able to achieve that outcome. [5]

5.6 The source of funding for the Direct Action policy was raised as a concern by the Australian Council of Social Services. Its submission highlighted that there is no benefit for low income Australians from one year of reduced power prices if the Direct Action policy is funded by reducing programs on which these people rely. [6] Of course, programs that low income Australians rely upon are right in the Coalition's sights with moves already to scrap the School Kids Bonus and Low Income Superannuation Co-contribution.

5.7 A 2010 Auditor-General's report into the Administration of Climate Change Programs raises serious concerns about the effectiveness of a Direct Action policy.

> The Emissions Reduction Fund is a grant/tender scheme similar in structure to several previously implemented in Australia. The 2010 'Administration of Climate Change Programs' report of the Auditor-General evaluates the success of a range of programs aimed at reducing Australian greenhouse gas pollution.6 The assessed greenhouse gas pollution reduction policy that most closely resembles the ERF was the Greenhouse Gas Abatement Program (GGAP). The Auditor-General's finding is that the actual abatement achieved by the GGAP program was substantially less than originally planned, with only 30 per cent of planned emissions abatement being achieved. This underperformance was partly due to delays in finalising funding agreements, but also because of the termination of 40 per cent of funded projects – largely due to organisations bidding in with unsustainably low quotes for pollution reduction, before abandoning projects when costs were higher than anticipated.[7]

5 Mr Anthony Wood, Energy Program Director, Grattan Institute, Committee Hansard, 26 November, 2013, p.1.

6 Submission 10, ACOSS

7 Submission 28, Australian Conservation Foundation

5.8 While the OECD considers that capital subsidies, as per the Direct Action policy, were among the most expensive ways of reducing emissions.[8]

5.9 The CEO of the Clean Energy Finance Corporation, Mr Oliver Yates, in evidence to the Committee highlighted concerns with financing emissions reduction programs with grants rather than loans.

> Our experience is that providing people with debt creates discipline and ensures that the person who is borrowing from the state uses that money carefully. Our own view is that, if you are given money for taking an action, you are less likely to be as cautious as you would be if you were borrowing the money to achieve that outcome.[9]

5.10 This evidence highlights the major concern that the Coalition is not serious about reducing Australia's carbon emissions. The Direct Action policy has no guarantees of funding and no guarantees of reducing emissions.

> If it passes into law, the Clean Energy Act Repeal Bill will remove Australia’s legislated cap on pollution. Government has indicated the replacement Emissions Reduction Fund scheme will have no legislated cap on pollution, nor any mechanism to ensure that Australia’s pollution reduction targets are satisfied. Government has also committed to capping spending on the ERF scheme.[10]

5.11 With no guaranteed funding and no guaranteed emissions reductions, ClimateWorks Australia's submission notes that the current repeal bills leave Australia vulnerable to a shock in future years.

> Any replacement legislation needs to both retain a 2050 target and provide a mechanism for enabling an achievable pathway to the 2050 target and adjusting the 2020 target to one that will not impose higher and unnecessary costs in the future.[11]

5.12 ClimateWorks Australia further argues that the current architecture of the Clean Energy Future legislation should be retained in order to avoid unnecessary cost and delay in establishing new architecture.

5.13 The Senate inquiry also made clear that the Coalition Government has no clear policy rationale or evidence base to support its Direct Action Policy. The policy is being developed in the absence of economic modelling. This was made clear by both officials from the Treasury and Environment Departments during hearings for this inquiry.

> **Senator Pratt:** In terms of the bills that are in front of us today, part of that bill is to repeal the Clean Energy Finance Corporation, and, in the future,

8 OECD, Effective Carbon Prices, November 2013, www.oecd-ilibrary.org/environment/effective-carbonprices_9789264196964-en

9 Mr Oliver Yates, Chief Executive Officer, Clean Energy Finance Corporation, Committee Hansard, 26 November, 2013, p.60

10 Submission 28, Australian Conservation Foundation

11 Submission 13, ClimateWorks Australia

we are supposed to look to an Emissions Reduction Fund and we are supposed to take it at face value that that fund is coming in the future. We have not had modelling done that enables us to compare the existing policy with the future policy. You are telling us that you have not been asked to do that modelling.

Mr Campbell (Treasury): We have not. That is not to say that work has not been undertaken or is proposed to be undertaken within the taskforce, but there is nothing today I can comment on.[12]

Senator Pratt: What is the policy rationale from Treasury regarding the abolishment of the CEFC and the carbon pricing bills overall?

Mr Haigh (Treasury): The Treasury's role with regard to the CEFC is to implement the government's policy to wind up the CEFC. We have responsibility for doing that, subject to the bill passing parliament. The government's position on the CEFC or the reason for its abolition is, as I understand it, the CEFC either crowds out possible private sector investment or takes risks that are not appropriate with taxpayers' money. [13]

Senator Pratt: What is the evidence base to uphold that statement? I appreciate that is the government's position. Is there an evidence base from Treasury's point of view to substantiate that?

Mr Haigh (Treasury): We have not looked into an evidence base to support or review that suggestion. [14]

Ms Broadbent (CEFC): I think we have got evidence that there has certainly been crowding in rather than crowding out, because new financial institutions have come to participate in the market, being encouraged by a government owned entity's participation. [15]

Senator Pratt: What work is being done from a policy point of view to compare efficient outcomes between different policy platforms?

Dr de Brouwer (Environment): The government has undertaken, through a release of terms of reference and a green paper process, to go through what the Emissions Reduction Fund would look like and also within that the various elements of Direct Action, which include other things like the million solar roofs, 20 million trees and those other policies. The other step that is involved in this is being clear about what the abatement challenge is. So the government has been very clear about its commitment to reduce

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12 Mr Russ Campbell, General Manager, Macroeconomic Modelling Division, The Treasury, Committee Hansard, 26 November, 2013, p.61.

13 Mr David Haigh, General Manager, Infrastructure, Industry, Environment and Defence Division, The Treasury, Committee Hansard, 26 November, 2013, p.66.

14 Mr David Haigh, General Manager, Infrastructure, Industry, Environment and Defence Division, The Treasury, Committee Hansard, 26 November, 2013, p.66.

15 Ms Jillian Broadbent, Chair, Clean Energy Finance Corporation, Committee Hansard, 26 November, 2013, p.66.

Australia's domestic emissions by five per cent by 2020. It is really then understanding what the abatement challenge is, given where that goes, and setting out a very clear public process to go through a terms of reference, green paper and white paper process to draw that out in public. [16]

Senator Pratt: About halfway through your statement, you talked about the submissions process around the Emissions Reduction Fund. Will any of that work compare the efficiency of an emissions reduction fund with an emissions trading scheme?

Dr de Brouwer: It is very hard, when the green paper has not been released, to talk about what is going to be in the green paper. [17]

Senator Pratt: But it has not been covered in the terms of reference, though, has it?

Dr de Brouwer: I do not think that is explicitly in the terms of reference. I could go through the terms of reference if you wish. [18]

Senator Pratt: Is there any work going on within government—I know it has been done in the past—to compare the cost of abatement under direct action with that provided for under the existing legislation that we are operating under?

Dr de Brouwer: The government has been very clear about its policy stance and policy priorities in this area. The abatement that is associated with the Emissions Reduction Fund will come out as that fund operates. It really depends, in the reverse auction process, what the bids are for abatement and the cost of that abatement. That is revealed through the auction process; it is not revealed in advance. The government has been clear that it wants to have an auction process that goes across all parts of the economy—that is in the terms of reference—and purchase the lowest cost abatement from that exercise. Those answers are revealed in the exercise of the auction in that market process. [19]

Senator Pratt: Can you point the parliament to any information or evidence base that would enable us—in terms of being the ones who are asked to answer this question of whether or not to repeal—to make those comparisons?

Dr de Brouwer: We are going through a design process now and it is a properly designed process. So that will be the source of the material. [20]

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16 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

17 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

18 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

19 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

20 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

> **Senator Pratt:** So, in other words, yes, the parliament is being asked to repeal these bills before that information is available to us.
>
> **Dr de Brouwer:** I think you are asking me to give personal views about things, Senator, and I do not think that is appropriate. [21]

5.14 Labor Senators note that Treasury has previously done extensive work examining emissions trading schemes but has done no work under this Government looking at Direct Action. Previous work done by Treasury supported emissions trading as the most efficient policy framework for Australia, over and above that of direct action policies.[22]

21 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

22 Australia’s Low Pollution Future; The Economics of Climate Change Mitigation, Commonwealth of Australia, 2008

6. The Coalition's policy removes access to international abatement

6.1 The repeal bills remove the opportunity for international abatement to be utilised as a part of Australia's carbon reduction policy suite. A number of witnesses provided evidence that the use of domestic only abatement will increase the cost of reducing emissions and make it more difficult to reach our emissions targets.

> …any proposed policy framework in Australia, the one that is going to be the least costly and gives the greatest level of confidence that we have to achieve our targets is going to include international abatement. [1]
>
> …the difference between the $38 and $60 I mentioned is if you do not allow international permits. You get the lower price if you do allow international permits.[2]
>
> There is no real scenario, unless you have effective carbon prices in the order of $65 to $75 a tonne by 2020, that you could achieve our targets all domestically. That is obviously a much higher cost than is currently accessible on the international market and we should be examining those opportunities too, at least as an insurance policy. The type of policy framework that the coalition or the government is proposing does not get us there; as it currently stands it is unlikely. [3]
>
> Because the cost of reducing emissions may be lower internationally, this is a significantly cheaper way to reduce emissions than if all the effort occurred domestically.[4]

6.2 Labor Senators are concerned that the Coalition is unnecessarily raising concerns about the efficacy of international abatement as a means of dismissing international action on climate change. Mr Jackson from the Climate Institute highlighted in evidence to the Committee that the Kyoto Protocol's clean development mechanism is supporting renewable energy investment and the international rules and markets have become more stringent, not less.[5]

6.3 Labor Senators believe Australia should participate in the international carbon market because one tonne of emissions has the same impact on climate change regardless of its country of origin and as such we need to support all countries in their efforts to move to lower their emissions. Further, international abatement unlocks an opportunity for Australia to reduce emissions at almost half the cost of doing so purely using domestic abatement.

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1 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.31.

2 Mr Tony Wood, Energy Director, Grattan Institute, Committee Hansard, 26 November 2013, p.6.

3 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.31.

4 Submission 14, Investor Group on Climate Change

5 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.30.

7. Support for the Clean Energy Finance Corporation and Australian Renewable Energy Agency

7.1 Australia has not only priced carbon to reduce carbon pollution; we have been pro-active in setting up a policy suite including the Clean Energy Finance Corporation (CEFC), and Australian Renewable Energy Agency (ARENA). The CEFC facilitates comprehensive commercial loans and is set to fund emissions reductions at a negative cost (turn a profit) to government; its functions are to be replaced with the Emissions Reduction Fund that will consume billions from Consolidated Revenue. ARENA provides funding to improve the competitiveness of renewable energy technologies, assisting particularly at the difficult-to-fund points in the product life cycle.

7.2 In its first months of operation, the CEFC has been successful in providing loans to organisations. Over time, the CEFC has the capacity to make investments that would account for 50 per cent of the 5 per cent emissions reduction target by 2020 at a profit to the taxpayer of $2.40 per tonne.[1]

> By working with private sector co-financiers, the CEFC multiplies the total amount of funding available for investment. Through investing $536 million of CEFC funds and $1.55 billion in private sector co-financing, the CEFC has facilitated over $2.2 billion in projects, delivered approximately 4 million tonnes of abatement, and achieved it at negative cost (i.e. net return or benefit) of $2.40 per tonne of abatement.[2]

7.3 Despite its successful operations, the repeal bills seek to abolish the Clean Energy Finance Corporation. Coalition Senators have been unable to see past their free market blinkers and appreciate the role the CEFC plays in facilitating investment in renewable energy that would otherwise be missed by normal commercial banks.

7.4 Many stakeholders gave evidence regarding the important work of the Clean Energy Finance Corporation and argue strongly that it should be retained.

7.5 Mr Nathan Fabian, Chief Executive Officer, of the Investor Group on Climate Change summarised the need for the CEFC in evidence:

> The CEFC is one example of what are now 14 co-financing institutions around the world. These organisations are needed for five reasons. Firstly, governments cannot sufficiently finance low-carbon alternatives to meet a two-degree outcome and private capital is needed. Secondly, the low-carbon investment market is relatively young and so deal flow needs to be supported. Thirdly, capacity in the finance sector must be increased through the experience of financing investments. Fourthly, financial participants welcome investment opportunities presented in a new market by an objective third party, even more than by investment banks. Lastly, co-financing organisations can actually earn financial returns for governments, delivering abatement at negative costs—and we think this is appealing and

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1 Mr Oliver Yates, Chief Executive Officer, Clean Energy Finance Corporation, Committee Hansard, 26 November, 2013, p.60

2 Submission 30, Clean Energy Finance Corporation

> makes sense to all parties. Given the government's infrastructure agenda, we think that dismissing co-financing as a useful policy instrument may be premature.[3]

7.6 Mr Fabian went on to highlight that the role played by the CEFC is only possible because it also brings funds to the table.

> Investors do not turn up for chat; they turn up when there is a deal to be done. If we know that the counterparty can make the investment more attractive, then we are interested. We are not just going to come along for a bit of a chat about what might occur or what investment might take place.[4]

7.7 In its submission, the renewable energy company Epuron noted the importance of the CEFC in facilitating finance for its renewable energy projects.

> Our own experience in securing funding for projects underlines the key role of the CEFC. Epuron has secured ground-breaking commercial lending facilities with a major Australian bank for the solar power stations we operate in the Northern Territory. To achieve this both parties have been on a long journey because, despite the high quality nature of the projects and established track record of solar PV globally, such projects constitute a new asset class for the Australian banking community and the transaction sizes can be relatively small. Globally the market for financing of renewable energy markets, including solar and wind, is mature whereas the debt terms we have been able to achieve for our Australian projects are comparatively conservative.
>
> The role of the CEFC is pivotal in enabling renewable energy projects, particularly solar PV, to reach financial close so that more are built and the market in Australia matures at a faster rate. In our own experience, the CEFC has not been providing concessional loan finance that undercuts the market but rather debt that fairly reflects project quality on market terms from a global perspective and in a way that does not crowd out the local banking community. In this way it appears that the CEFC has consistently exceeded its statutory benchmark lending rate.[5]

7.8 The Responsible Investment Association of Australia's submission highlighted that the CEFC is not a novel idea, with many other countries deploying similar financing models.

> The CEFC co-investment model is a prudent and cost effective way to allocate limited public funds to leverage private investment to do the heavy lifting in the investment into a low carbon transition. A testament to this model is that global trend by many countries to put in place such public finance institutions to help catalyse investment flows into low carbon assets, including the UK Green Investment Bank, Germany’s KfW, China’s

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3 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

4 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.12.

5 Submission 7, Epuron

> Development Bank, the US Department of Environment's Loan Program Office, the New York Green Bank, California Clean Energy Fund, European Investment Bank and many of the multilateral development banks such as the Asian Development Bank.[6]

7.9 While, Dr Frank Jotzo noted that the Clean Energy Finance Corporation would complement the Coalition's Direct Action Policy and support Australia's climate change policy irrespective of whether there is a carbon price. [7]

7.10 The Australian Conservation Foundation noted that the strategic government support corrects the market failure known as the "Valley of Death" - the research phase after proof of concept but before commercial production - when companies often need continued funding to survive.[8]

6 Submission 22, Responsible Investment Association Australia

7 Submission 35, Dr Frank Jotzo

8 Submission 28, Australian Conservation Foundation

8. Support for an independent Climate Change Authority

8.1 As climate change has been one of the most overtly political issues of the past decade, it is vital that the scientific targets and policy that underpins our response is conducted by an agency independent of Government. Subsuming the functions of the Climate Change Authority into the Department of Environment is likely to lead to less transparency in this highly political area of public policy. We believe that the risks are too great to abolish this independent institution.

8.2 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute noted the political record of climate change policy and highlighted the need for climate policies based on evidence not the political agenda.

> … the Climate Change Authority plays an essential role in informing that climate policy should be retained. Australia has a track record of highly politicised approaches to climate policy. This has produced policies that are often inefficient and continually readjusted, which in turn has resulted in significant business uncertainty, higher costs associated with investments and inadequate emission reductions. To achieve a sustained emission reduction consistent with our national interest, Australia needs climate policies that are based on a sound foundation of evidence rather than political agenda. [1]

8.3 In his submission, Dr Frank Jotzo highlighted that the Climate Change Authority could still function under the Coalition's Direct Action policy.[2]

8.4 The submission from the Investor Group on Climate Change noted that the investment community values the analysis from the Climate Change Authority.

> Regardless of the policy tools that Australian governments choose to implement, the CCA’s analysis assists investors to interpret the likely future emissions reductions trajectory for Australia and the scale of policy response that will be required.[3]

8.5 Investor Regnan noted the risks to Australian business from the abolition of the Climate Change Authority.

> Abolition of the CCA increases the risk that Australian regulatory settings will move increasingly out-of-step with emissions reduction developments emerging at the international level in response to new science and global carbon budget commitments. The implications for Australian businesses would be to increasingly fall behind in carbon-competitiveness, risking large and disruptive value impacts in the future. We see implications particularly for carbon intensive companies with long-lived assets in the

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1 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

2 Submission 35, Dr Frank Jotzo

3 Submission 14, Investor Group on Climate Change

> absence of regulatory settings which provide sufficient signalling to influence capital investment programs and technology choices.[4]

8.6 Finally, the submission from the Australian Conservation Foundation noted that the repeal bills do not reallocate the responsibility for consideration of renewable energy targets from the abolished Climate Change Authority.[5] Labor Senators consider this oversight to be consistent with the short sighted approach to climate change policy taken by the Coalition Government.

Recommendation 1

8.7 **Labor Senators consider that it is irresponsible to pass these Bills in the absence of a credible alternative emissions reduction policy.**

Senator Anne Urquhart **Senator Louise Pratt**

4 Submission 29, Regnan

5 Submission 28, Australian Conservation Foundation

Australian Greens' Dissenting Report

The Australian Greens do not support the repeal of the price on pollution or the abolition of the critically important institutions, the Clean Energy Finance Corporation (CEFC) and the Climate Change Authority (CCA).

The carbon tax repeal package repeals the *Clean Energy Act 2011* and related Clean Energy Charges Acts to abolish the carbon pricing mechanism. This is in spite of the fact that the most effective, and the most affordable, way to reduce our emissions is to impose a price on pollution, a market mechanism, like the one contained in this Act.

When Tony Abbott and Greg Hunt say they have a mandate to remove the price on pollution, what they are actually saying is they have a mandate to do nothing about global warming as they have no alternative mechanisms beyond concepts. They are wrong.

Without a price on pollution Australia has no effective action to reduce emissions, transform the economy to low carbon, and build jobs in clean energy. By attempting to dismantle the price on pollution Tony Abbott is attempting to destroy the only effective policy to reduce the emissions which are driving extreme weather and droughts that loom over the next half century.

Australia is lagging behind our global counterparts who are implementing emission reduction schemes that are in keeping with what the scientists and economists recommend as the most effective way to tackle dangerous global warming.

The truth is that the Clean Energy Package is working. Australia's emissions are being reduced in the covered sectors.

Under the Clean Energy Package, electricity sector emissions have reduced by 6.1% in the year to March. That is 12 million tonnes of C02 less than the previous year. The Australian Energy Market Operator has again downgraded expected demand for next year.

In the first six months of the scheme, emissions from electricity generation came down by 7% and the dirtiest brown coal generation in Victoria fell by 14%. The scheme only covers around 60% of our total emissions, and yet total emissions (including transport, agriculture and waste that are not covered by the scheme) have remained flat while our economy has grown. The decoupling of economic growth from emissions growth has now begun.

The scheme has been so much more successful than first envisioned that the default caps under the legislation for the first flexible pricing year in 2015 (which are based on this year's emissions levels) would mean a 15% reduction below 2000 levels instead of 5% as planned. Success is so much closer and easier than we first thought possible because of the effectiveness of the Clean Energy Package. The CEFC, the CCA, and the Land Sector Carbon and Biodiversity Board will be abolished by the repeal package. The Australian Greens oppose the abolition of these entities.

The CCA was established to provide independent information on the carbon target Australia should adopt to do its fair share in reducing emissions globally consistent with constraining global warming to <2 degrees. It is recognised as providing key information to the investment and carbon pricing communities. It depoliticises the setting of greenhouse gas reduction targets and caps in the Australian emissions trading scheme.

Within its first year of operation, the CEFC has generated investments responsible for 3.9 million tonnes of CO2-equivalent abatement annually, which has been generated at a negative cost (net benefit) of approximately $2.40 per tonne. 179 proposals for projects are in the pipeline to an estimated value of $14.9 billion of investment in clean technologies. This investment will help drive the transition in Australia to a clean, low carbon economy. The role of the CEFC as a convenor, facilitator, and co-financier in the financial sector has been welcomed by the Investor Group on Climate Change. No evidence was provided to support the abolition of the CEFC.

In repealing the price on pollution, the Coalition intends to implement a policy called ‘Direct Action’. This policy is estimated to cost $3.2 billion, whereas the existing legislation creates $7.3 billion. That means the abolition of the Clean Energy Package and the implementation of ‘Direct Action’ would lead to a $10 billion deterioration in the budget position.

The cost under Direct Action will be higher, the risks greater, and this makeshift gap of a policy provides no investment certainty for either existing businesses or potential investors. With absolutely no detail on the policy developed, and a green and white paper process still to go, with a depleting and demoralising of departmental staff, the emissions reduction fund is highly unlikely to be ready to start auctions by June next year. Direct Action is simply designed to hide the government's climate denialism.

The price on pollution is not destroying the economy, in fact, it is providing certainty to business about the legislative framework in which it needs to operate in a world reducing greenhouse gas emissions. The price on pollution is reducing carbon emissions effectively. It is a crime against future generations for Tony Abbott to dismantle our best defence against the devastating impacts of global warming. The Australian Greens will do everything we can to defend the price on pollution and funding for clean renewable energy.

Australia is at a crossroads. The nation can either continue on a responsible path to do our fair share in constraining global warming to <2 degrees, or we can abandon that responsibility. We can condemn the nation to a ‘rust bucket’ economy or we can embrace the opportunities to transform to the new industries and services the world needs in a low carbon future. We can put a safe climate and a secure future for our children at the forefront of government policy or we can condemn them to climate chaos. The world is facing a climate emergency and the Greens will not allow the Abbott government to maintain its wilful blindness and tear down the legislative framework and institutions we have put in place.

Recommendation 1

That the bills not be passed.

Senator Christine Milne
Leader of the Australian Greens

Senator Xenophon Additional Comments

1.1 Climate change is one of the biggest challenges facing us as a nation, something of which our farmers in particular are all too aware. I believe we need to take meaningful and appropriate action to address the issue from both an environmental and economic point of view. The cost of not doing so in the next few years effectively will be much greater for generations to come.

1.2 Given the significance of this issue, the solution to it must be well-considered, effective and flexible. It must take into account, and meet, environmental, social and economic needs. I do not believe the current carbon pricing mechanism and associated measures do this.

1.3 I agree that the current mechanisms have created a poor economic outcome without even any reasonable environmental return for the economic impact involved. I did not support the former Government's legislation to introduce these measures for these reasons, not because I do not believe we need to take action on climate change. For me, the debate on these issues is about finding the most cost-effective way to abate greenhouse gases.

1.4 As such, I agree with the comments of some submitters, who called for alternative measures to be in place before the existing scheme is repealed. I believe it is vital that the Government release draft legislation or detailed policy as soon as possible, both to demonstrate their commitment to this issue and to provide certainty for businesses and investors.

1.5 I am also extremely concerned, indeed shocked, that Treasury has not undertaken any modelling to determine whether it is more effective to spend money to reduce high-emissions activity or to spend money to increase cleaner generation activity. This is a significant gap in policy-making, and I strongly believe the Government should commission such modelling as a matter of priority.

> **Senator XENOPHON:** In terms of abatement, you could spend money to reduce high-emissions activity or you could spend money to increase cleaner generation activity. I am not saying that is the only way you can do it, but those are two of the policy choices. Does Treasury consider that has a different effect on electricity pricing and on outcomes in terms of abatement?
>
> **Mr Campbell:** We have not undertaken an analysis of the effectiveness of different programs for delivering abatement and its impact on prices.
>
> **Senator XENOPHON:** It is pretty fundamental. Would you agree that it is potentially quite important as to whether you spend money to reduce high-emissions activity or whether you spend it to produce cleaner generation activity. It could have quite significant impacts in terms of the merit order and, presumably, one would be more efficient than the other in terms of abatement, particularly in the context of a direct action scheme.
>
> **CHAIR:** Senator Xenophon, aren't you seeking an opinion?

Senator XENOPHON: No, I am asking whether there has been any modelling in respect of the two. Is this something that has been considered by Treasury?

Mr Campbell: No. We have not undertaken any work on that.

Senator XENOPHON: Is Treasury planning to undertake any work on that?

Mr Campbell: We will undertake work if we are requested to do so.

Senator XENOPHON: Are you in a position to say whether you would be advising government that it would be prudent to do so in terms of the most-effective use of taxpayers' funds in the context of the most-efficient way of achieving abatement?

Mr Campbell: We will make our usual comments to government through the processes around the consideration of the emissions reduction fund in the normal course. We would not be making a decision beyond that.

Senator XENOPHON: But you are familiar with the merit order argument? The merit order could be appreciably changed in the context of the electricity market and the effect on prices and also on abatement in the context of how you spend that money—whether it is by reducing high-emissions activity or by increasing cleaner generation activity.

Mr Campbell: I am aware of the issues that are at stake, yes.

Senator XENOPHON: I am shocked that Treasury has not undertaken any modelling in respect of this. I will leave it at that.[1]

1.6 I would also draw to the Government's attention the modelling done by Frontier Economics in 2009, which was jointly commissioned by myself and then-Opposition Leader Malcolm Turnbull. The Frontier scheme can deliver deeper cuts to emissions at a lower cost than the CPRS and the Carbon Tax, because it avoids the enormous economic cost associated with the revenue churn of the former Government's scheme. Frontier's modelling has estimated that, for every dollar invested in abatement, there is a churn of five to six dollars through the economy. An intensity-based scheme, by contrast, sets emissions targets for industries, particularly the stationary energy sector, and avoids that level of churn and with it distortions and loss of economic activity.

1.7 While I support the committee's comments in the majority report, I also believe it is important to highlight the fact that these matters are not straightforward and that the abolition of the current scheme may not lead directly to a reduction in costs. This is particularly true of the electricity market, where a number of factors are at play. I strongly suggest the Government refer to the matters raised by the Senate Select Committee on Electricity Prices, which need urgent attention.

1.8 The political debate regarding electricity prices over the past few years has been narrow and simplistic. To suggest or imply that the carbon tax is the primary

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1 Mr Russ Campbell, General Manager, Macroeconomic Modelling Division, Department of the Treasury, *Proof Committee Hansard*, 26 November 2013, p. 69.

cause of electricity price rises ignores the fact that charges for the use of electricity transmission and distribution accounts for about half of electricity bills. Currently, these charges are paid by retailers, who then pass them on to consumers. The doubling of retail tariffs over the past few years can be directly linked to the rise in network tariffs.

1.9 Network tariffs are regulated by the Australian Energy Regulator, which is part of the ACCC. The Rules governing how networks are regulated oblige the AER to provide network businesses with a guaranteed return on their investment, regardless of whether the investment was necessary or worthwhile and regardless of whether the investment is later found to be unnecessary or premature.

1.10 The changes that have been made to address this issue do not go far enough. The Australian Energy Regulator needs the ability to conduct detailed optimisation analyses of electricity networks' asset bases to uncover instances of excessive or premature spending. To the extent this has occurred, network owners need to be penalised so that consumers are not forced to pay for investment decisions that were made with little genuine justification of need or due to electricity demand forecasts that were clearly inflated in defiance of the emerging evidence.

1.11 Finally, I am also concerned about the proposed abolition of the Clean Energy Finance Corporation. A vital part of any scheme to reduce carbon emissions is investment in clean energy projects. The CEFC is not, as the committee report suggests, 'a private bank'[2], but an agency with specific knowledge and expertise to support renewable energy projects. Utilised effectively, the CEFC's $10 billion fund, allocated over five years, could make significant changes to Australia's renewable energy sector and emerging technologies. It should not be discounted lightly, and I query whether any modelling has been done to suggest where that funding could be spent with equal effectiveness. I found the evidence of the Chair of the Clean Energy Finance Corporation, Ms Jillian Broadbent, to be compelling.

1.12 Ultimately, I am supportive of the Government's move to abolish the current scheme, with the exception of the CEFC. However, I strongly encourage the Government to release a detailed policy document or draft legislation for Direct Action as a matter of urgency, and for the Government to consider the benefits of the Frontier Scheme, which the Coalition jointly commissioned with me in 2009.

Senator Nick Xenophon

2 Majority report, p. 31.

Appendix 1

Submissions, tabled documents and answers to questions taken on notice

Submissions

1. GE Australia & New Zealand
2. Mr Peter Lang
3. Tourism Accommodation Australia
4. Australian Youth Climate Coalition
5. Public Health Association of Australia
6. Origin
7. Epuron Pty Ltd
8. Australian Retailers Association
9. Professor John A Mathews
10. Australian Council of Social Service
11. Doctors for the Environment Australia
12. Pacific Calling Partnerships
13. ClimateWorks Australia
14. Investor Group on Climate Change
15. Sustainable Population Australia
16. COzero
17. Energy Supply Association of Australia, Energy Retailers Association of Australia, Energy Networks Association, Australian Pipeline Industry Association
18. Australian Forest Products Association
19. National Farmers Federation
20. Minerals Council of Australia
21. ACTU
22. Responsible Investment Association Australasia
23. Australian Aluminium Council
24. WWF-Australia
25. Cement Industry Federation and National Lime Association of Australia
26. The Australian Industry Group
27. Business Council of Australia
28. Australian Conservation Foundation
29. Regnan - Governance Research & Engagement
30. Clean Energy Finance Corporation
31. Australian Environment Foundation
32. Wentworth Group of Concerned Scientists
33. PacificHydro
34. Hepburn Wind
35. Dr Frank Jotzo

36 Climate Change Authority

37 Ms Barbara Thomas

Tabled documents

Opening statement by Ms Jillian Broadbent AO, Chair of the Board of the Clean Energy Finance Corporation, tabled by Ms Jillian Broadbent AO (at public hearing, 26 November 2013, Canberra)

Answers to questions taken on notice

Department of Environment – Answer to a question taken on notice (from public hearing, 26 November 2013)

Master Builders Australia – Answers to questions taken on notice (from public hearing, 26 November 2013)

The Climate Institute – Answers to questions taken on notice (from public hearing, 26 November 2013)

Appendix 2
Public hearings

Tuesday, 26 November 2013 – Canberra

Grattan Institute

Mr Anthony Wood, Energy Program Director

Investor Group on Climate Change

Mr Nathan Fabian, Chief Executive Officer

Master Builders Australia

Mr Peter Jones, Chief Economist

Refrigerants Australia

Dr Gregory R Picker, Executive Director

National Farmers' Federation

Mr Matthew Linnegar, Chief Executive Officer

Ms Deborah Kerr, Manager, Natural Resources Management

The Climate Institute

Mr Erwin Jackson, Deputy Chief Executive Officer

Australian Competition and Consumer Commission

Mr Scott Gregson, Group General Manager, Enforcement Group

Mr Brenton Philp, General Manager, Enforcement Operations ACT and National Projects

Energy Supply Association of Australia

Mr Kieran Donoghue, General Manager Policy

Mr Matthew Warren, Chief Executive Officer

Australian Industry Group

Dr Peter Burn, Director, Public Policy

Mr Tennant Reed, Principal National Adviser, Public Policy

Australian Food and Grocery Council

Mr Gary Dawson, Chief Executive Officer

Department of the Environment

Dr Gordon de Brouwer, Secretary

Mr Brad Archer, First Assistant Secretary

Mr Simon Writer, Assistant Secretary

Mr Paul Locke, Director

Clean Energy Finance Corporation

Ms Jillian Broadbent, Chair

Mr Oliver Yates, Chief Executive Officer

Mr Andrew Powell, Chief Finance Officer

Ms Meg McDonald, Chief Operating Officer

Department of the Treasury

Mr David Haigh, General Manger, Infrastructure Industry, Environment and Defence Division

Mr Russ Campbell, General Manager, Macroeconomic Modelling Division