Dissenting Report from Government Senators

1.1 The Government believes there is a better way to tackle climate change than by imposing a $7.6 billion, economy-wide tax that hinders business and does nothing for the environment.

1.2 That is why the Government is committed to repealing the carbon tax and implementing the Direct Action Plan. Legislation to repeal the carbon tax was the first item of business introduced by the Government into the new Parliament.

1.3 The Government accepts the science of climate change.

1.4 The Government seeks to meet its commitment (a politically bipartisan commitment) to reduce emissions by 5% below 2000 levels by 2020 with the implementation of the Direct Action Plan. This policy was endorsed by Australian voters at the 2013 Federal election in addition to the Government's commitment to repeal the carbon tax. It is also the Government's intention to consider further action and targets in 2015 on the basis of comparable real global action, in particular by major economies and trading partners.

The carbon tax is not reducing Australia's emissions

1.5 The Government's plan is to abolish the carbon tax because it represents an ever increasing financial burden for no real environmental gain. Under the carbon tax, Australia's domestic emissions are projected to go up, not down.

1.6 Modelling presented by the Climate Change Authority showed that under the carbon tax Australia's domestic emissions rise from 590 million tonnes of carbon dioxide equivalent emissions in 2010 to 620 million tonnes in 2020.

1.7 The Department of the Environment presented evidence showing that there had been almost no change in domestic emissions in 2012-13 compared with 2011-12, despite carbon tax revenue of $7.6 billion.

1.8 The Government is committed to repealing the carbon tax to reduce costs for households and business and to pave the way for our *Direct Action Plan*. Abolishing the tax will flow through to businesses in the form of lower input costs and to households through lower energy bills and cheaper household items.

1.9 On average, households will be around $550 better off in 2014-15 than they would have been with the carbon tax in place. On average household electricity bills will be $200 lower and gas bills $70 lower.

1.10 The Committee received evidence that highlighted the significant impact of the carbon tax on the international competitiveness of Australian industries. The National Farmers Federation, the Business Council of Australia, the Minerals Council of Australia and the Australian Industry Group support the repeal of the carbon tax.

> The National Farmers Federation does not support the carbon tax due to the significant flow-on impacts to agriculture (as an uncovered sector). Therefore, the NFF supports its repeal. (Submission 37)

1.11 The Direct Action Plan with the Emissions Reduction Fund as its centrepiece will provide incentives rather than penalties to reduce emissions: incentives for businesses to innovate and invest in new technologies, incentives to improve the efficiency and productivity of businesses' operations and incentives to encourage farmers and landholders to store carbon on the land.

1.12 The Emissions Reduction Fund will have an initial allocation of $300 million, $500 million and $750 million over three years, the Fund will establish a pool of capital to create a market for abatement.

1.13 The Emissions Reduction Fund will not be prescriptive about the source of potential abatement and will unlock abatement opportunities across the Australian economy – from businesses, industries and the land sector. These emissions reductions will be real, genuine and additional to business-as-usual.

1.14 Climateworks provided evidence to the Committee showing a wide range of possible abatement opportunities, which may be unlocked under the Emissions Reduction Fund. (Submission 24)

1.15 Potential abatement opportunities include projects to clean up waste coal mine gas, clean up power stations, capture landfill gas, energy efficiency improvements in Australian buildings and industrial facilities, reafforestation of marginal lands, revegetation or improvement of soil carbon.

1.16 To ensure that the repeal of the carbon tax proceeds in an effective and efficient manner, the Government has consulted extensively on exposure drafts of the repeal bills, giving stakeholders and businesses the chance to comment on the details of the repeal process.

Consultation on the Emissions Reduction Fund is underway

1.17 The Committee received evidence that significant consultation was underway on the Direct Action Plan

1.18 The Department of the Environment gave evidence that:

> …late last year the government released a green paper and invited submissions. Prior to that green paper, it had released the terms of reference and also invited submissions to those terms of reference to develop the green paper and subsequently the white paper. The government received around 300 submissions to the terms of reference, and it used those in guiding the putting together of the green paper. (Public Hearing, Canberra, 18th March 2014)

The minus five per cent target is sufficient

1.19 Australia's emissions reduction target to reduce emissions by five per cent below 2000 levels by 2020 is significant. This represents an emissions reduction target of 17 per cent below business as usual levels.

1.20 The committee received submissions supporting the Government's minus five per cent target and the significant negative impact that the carbon tax had on businesses.

1.21 The Australian Forest Products Association 'commends the Government on their determination to maintain the commitment of the previous Government to unconditionally reduce national GHG emissions by 5 per cent over 2000 levels by 2020.' (Submission 15, page 1)

1.22 The Facility Management Association of Australia 'fully supports the Australian Government's intent to reduce carbon emissions to levels 5% lower than 2008 levels by 2020, and as custodians of buildings once constructed, facility management professionals are key contributors to reducing Australia's emissions in the built environment.' (Submission 36, Page 1)

1.23 The Committee further notes submissions by the Business Council of Australia and the Australian Industry Group to the Climate Change Authority Caps and Targets Review draft report that the minus five per cent target represent serious action.

1.24 The Business Council of Australia recommends that 'Australia maintain its current commitment to net emissions of -5% of 2000 levels by 2020 as there is no evidence to suggest that any of the conditions needed to trigger consideration of an increase to that commitment have been met and, further, it is clear that at -5% Australia's commitment more than matches the pledges of other advanced economies.' (BCA Submission to Climate Change Authority Caps and Targets Review, Page 2)

1.25 The Australian Industry Group does 'not support any decision on additional targets at this time.' (BCA Submission to Climate Change Authority Caps and Targets Review, Page 2)

Significant impact of the carbon tax

1.26 A large number of submissions noted the significant impact of the carbon tax on Australian industry.

1.27 The Association of Mining and Exploration Companies provided evidence that:

> The burden borne by Australian industry under the previous Governments Clean Energy package placed Australian mining and exploration industries at a significant disadvantage to our competitors. For the exploration and mining industry it was a financial penalty without any meaningful opportunities to contribute to Australia's response to climate change. (Submission 74, Page 1)

1.28 The National Farmers Federation 'does not support the carbon tax due to the significant flow on impacts to agriculture'. (Submission 37, Page 1)

1.29 The Australian Dairy Industry Council 'does not support any carbon tax or pricing scheme that results in a less competitive position for a trade-exposed industry such as the dairy industry.' (Submission 11, Page 1) and:

> The risk with carbon pricing is that it could result in Australia's dairy industry being disadvantaged in the global market compared to its major dairy competitors. For example, the New Zealand dairy industry is not subject to the same liabilities under the New Zealand ETS as the Australian

industry is under the Australian carbon tax and ETS. (Submission 11, Page 2)

1.30 The Australian Forest Products Association 'recognise that following the September 2013 election the Government was given a clear mandate to remove the current carbon tax. AFPA strongly supports the removal of the current carbon tax and encourages the Government to act quickly, as it is in our national interest that businesses have policy certainty and clarity, as well as a level playing field with our major trading partners.' (Submission 15, page 1)

1.31 The Cement Industry Federation 'supports climate change policy that does not expose cement manufacturing operations in Australia to costs not faced by our competitors in other countries. The Clean Energy Future policy did not address this issue adequately, with only part of the cement manufacturing production process being recognised as being emissions intensive and trade exposed. This is inconsistent with the cement activity definitions of emissions trading schemes in New Zealand and California where all components of the cement manufacturing process are included.' (Submission 49, page 2).

1.32 The committee heard evidence of the significant package of assistance provided with the carbon tax. The Clean Energy Finance Corporation (CEFC) outlined it had been given $10 billion to lend to renewable and low emissions projects which were delivering 3.88 million tonnes of abatement per year.

1.33 $10 billion is similar to Commonwealth expenditure on ageing and aged care services in 2013-14 ($12.3 bn).[1]

1.34 The CEFC was asked by the Committee to explain why it had chosen to invest in commercial wind farms which are already supported through the Renewable Energy Target. In one instance the Committee heard that the CEFC had provided a loan to an established and commercial wind-farm, the Macarthur wind farm. Once it received the loan, the wind farm was subsequently sold by its owner the New Zealand Government for a profit.

1.35 The CEFC was asked a question on notice from Senator Williams on how it had calculated its claimed 3.88 million tonnes of abatement. The CEFC provided reference to the CEFC website, but did not provide a detailed breakdown of emissions reductions by project. The list of projects includes projects already supported under the Renewable Energy target, the Clean Technology Investment Program, the Australian Renewable Energy Agency and Low Carbon Australia.

1.36 The CEFC did provide evidence that the abatement did not come from the established Macarthur wind farm. The Committee noted that the CEFC website was claiming the Macarthur wind farm is delivering emissions reductions of 1.7 million tonnes of emissions reductions per annum.

1 Source: https://www.health.gov.au/internet/budget/publishing.nsf/Content/2013-2014_Health_PBS_sup1/$File/2013-14_DoHA_PBS_2.04_Outcome_4.pdf

High cost of direct action

1.37 The Committee received evidence of the high cost and small emissions reductions that have occurred under the carbon tax.

1.38 The Department of the Environment indicated that 'The last quarterly update, which was for the quarter to September 2013, showed that Australia's greenhouse gas emissions were 542.1 million tonnes. This represents a decline of 0.3 per cent on the previous year.'

1.39 The Department of the Environment provided evidence that the carbon tax revenue in 2012-13 was $7.6 billion made up of the carbon tax payments, carbon tax equivalent payments under the Synthetic Greenhouse Gas levies; and carbon tax equivalent payments under the fuel arrangements.

Soil Carbon Sequestration

1.40 Carbon Farmers Australia gave evidence that the sequestration of carbon in the soil can be a major player in carbon abatement:

> The first point is that soil carbon is said to be a minor player with not much potential to contribute to climate action. This is patently wrong and based on ignorance of the facts. The second point we would like to make is that permanence—the hundred years rule—which many people believes rules out any farmer's being involved in carbon sequestration is a permanent dead end; it is wrong. We are in the process of developing systems for soil carbon, and we know, based on our daily work, what the potential for soil carbon is. (Public Hearing, Canberra, 28th February 2014)

1.41 Similarly the CSIRO stated the case for building soil carbon for agriculture:

> By building soil carbon you can increase the capacity of the soil to hold nutrients, but usually there you are talking about the other nutrients that would pass through the soil. What often happens is that, as you build soil carbon, you in fact lock up an increasing proportion of nitrogen—so the process of adding carbon to soils will lock up nitrogen, sulphur, potassium into the humus as well. That is not a problem but it does mean that there is a net nutrient cost in building soils up. But, overall, building soil carbon will add a lot of benefits through physical properties in what we call cation exchange—the holding capacity of nutrients in soils—which gives you better value out of a lot of agricultural practices. (Public Hearing, Canberra, 3rd March, 2014)

Carbon tax revenue in 2012-13

	Accrual revenue 2012-13 ($m)#	**Approximate number of liable parties**
Carbon Pricing Mechanism	$6,600	348
Revenue from SGGs	$100	1, 059
Revenue from aviation and non-transport gaseous fuels	$200	75,000†
Fuel tax credit reduction*	$700	
Total carbon tax	$7,600	

Notes:

Revenues are rounded to the nearest $100 million.
* This is an expenditure reduction, not a revenue measure. Treasury estimates.
† Approximate number of payers is not additive as entities paying via the Carbon Price Mechanism or SGGs may also be affected by the fuel tax credit reduction.

World Carbon Taxes

1.42 The Department of the Environment also provided information on carbon taxes and emissions trading scheme in operation in a number of jurisdictions, including:

- the European Union;
- the Regional Greenhouse Gas Initiative market (United States)
- California;
- Chinese pilot emissions trading schemes; and
- New Zealand.

1.43 The information showed that the Australian carbon tax is the highest and has the broadest national coverage.

Comparison of international emissions trading units

Emissions Trading Schemes (ETSs) in operation				
Scheme	**Currency**	**Price**	**As at:**	**AUD equivalent as at 19 Mar 2014**
Australian Carbon Pricing Mechanism	AUD	24.15	19-Mar-14	24.15
New Zealand ETS (NZETS)	NZD	3.00	14-Mar-14	2.83
European Union ETS (EUETS)	EUR	5.72	18-Mar-14	8.72
Californian ETS	USD	11.48	19-Feb-14	12.57
Regional Greenhouse Gas initiative (RGGI)	USD	4.00	5-Mar-14	4.38
China - Shenzen Pilot ETS	RMB	80	27-Nov-13	14.15
China - Shanghai Pilot ETS	RMB	28	27-Nov-13	4.95
China - Beijing Pilot ETS	RMB	50	28-Nov-13	8.84
China - Guangdong Pilot ETS	RMB	60	20-Jan-14	10.61
China - Tianjin Pilot ETS	RMB	26 to 28	26-Dec-13	4.60 to 4.95

Sources:

Australian CPM	*Clean Energy Act 2011*
NZ ETS	PointCarbon, 14 March 2014 reporting of the lowest NZETS price in seven months. (www.pointcarbon.com/news/reutersnews/1.4502381)
EUETS	PointCarbon, EUETS spot price at 18 March 2014. (www.pointcarbon.com/)
California ETS	Californian Air Resources Board, February 2014 auction clearing price. (http://www.arb.ca.gov/cc/capandtrade/auction/february-2014/results.pdf)
RGGI	RGGI, 5 March auction clearing price. (www.rggi.org/docs/Auctions/23/PR030714_Auction23.pdf)
Shenzen Pilot ETS	Reuters, 28 November 2013 reporting of price at market close. (www.reuters.com/article/2013/11/28/us-china-carbon-beijing-idUSBRE9AR07C20131128)
Shanghai Pilot ETS	Reuters, 28 November 2013 reporting of price at market close. (www.reuters.com/article/2013/11/28/us-china-carbon-beijing-idUSBRE9AR07C20131128)
Beijing Pilot ETS	Reuters, 28 November 2013 reporting of trades of 40,000 permits. (www.reuters.com/article/2013/11/28/us-china-carbon-beijing-idUSBRE9AR07C20131128)
Guangdong Pilot ETS	PointCarbon, 20 January 2014 reporting of 28 companies purchasing over 3 million permits at auction at the suggested price of 60 RMB. (www.pointcarbon.com/aboutus/pressroom/pressreleases/1.3782935)
Tianjin Pilot ETS	Reuters, 26 December 2013 reporting of five trades for a total of 45,000 permits. (www.reuters.com/article/2013/12/26/china-tianjin-carbon-idUSL3N0K50AS20131226)

Emissions Trading Schemes (ETSs) in operation[2]
The design features of individual schemes are subject to change.

Scheme	Coverage	Free allocation
Australian Carbon Pricing Mechanism	67 per cent of national emissions 348 directly liable entities are covered by the CPM, of which 57 received assistance in 2012-13.	Free allocation of either 66 per cent or 94.5 per cent of permits for Emissions-Intensive Trade-Exposed (EITE) industries depending on emissions intensity.
New Zealand ETS (NZETS)	53 per cent 221 mandatory entities 2 880 total entities	Free allocation of either 60 per cent or 90 per cent of permits for Emissions-Intensive Trade-Exposed (EITE) industries depending on emissions intensity.
European Union ETS (EUETS)	45 per cent >11, 000 installations	Electricity sector: full auctioning. Manufacturing sector: some free allocation based on industry benchmarks.
Californian ETS	36 per cent 350 entities representing 600 facilities	In the second compliance period (2015-2017) industrial facilities receive free allowances for transition assistance and to prevent leakage, based on emissions intensity and trade-exposure.
Regional Greenhouse Gas initiative (RGGI)	22 per cent 168 facilities	Negligible – 94 per cent of 2013 allowances are auctioned.
China - Shenzen Pilot ETS	38 per cent 635 companies and 197 public buildings	Allowances are distributed for free based on sector-specific carbon intensity benchmarks. Proposal to move to full auctioning over time.
China - Shanghai Pilot ETS	60 per cent Approximately 200 companies	One-off free allocation for 2013–2015 based on 2009–2011 emissions considering company growth. Benchmarking will be used for the energy sector, airlines, ports and airports. Auctioning will be considered.
China - Beijing Pilot ETS	42 per cent Approximately 490 entities	Free allocation based on 2009–2012 emissions and considering sector development. For new entrants, free allocation will be based on sector-specific benchmarks.
China - Guangdong Pilot ETS	55 per cent Approximately 200 companies	Mainly grandfathering (97% in the first two years of operation, 90% in 2015) based on historical emissions (2010–2012), taking account of the characteristics of the sectors. The remaining allowances will be auctioned.
China - Tianjin Pilot ETS	60 per cent 114 entities	Free allowances are expected to be distributed mainly based on historical emissions for exist-ing entities and on benchmarks for new entrants. Auctioning may also be used.

2 **Sources:** In January 2014 the International Carbon Action Partnership (ICAP) published a report: *Emissions Trading Worldwide International Carbon Action Partnership (ICAP) Status Report 2014*. This report provides up to date information on emissions trading schemes in operation around the world. The information in this table is taken from this report which can be found at: https://icapcarbonaction.com/component/attach/?task=download&id=152.

Support for Incentives rather than penalties

1.44 The committee received support for the use of incentives rather than taxes to achieve Australia's emissions reductions goals

1.45 The Nursery & Garden Industry Australia indicated:

> The Government's Direct Action Plan commits the Government to the planting of an additional 20 million trees by 2020 in a bid to deliver greenhouse gas emission reductions. (Submission 8, Page 3)

1.46 And:

> Carbon mitigation is but one element of incorporating trees in the landscape and the co-benefits of planting trees in urban areas are substantial. These relate to trees reducing air and water pollution, effective storm water and run off management; increasing aesthetics, reducing crime, increasing property values, and mitigating heat-islands. (Submission 8, Page 6)

1.47 The Australian Dairy Industry Council highlighted:

> The Emissions Reduction Fund (ERF), if appropriately designed with realistic benchmark prices per tonne of CO2e, could offer the industry an opportunity to contribute substantially to reducing Australia's target of 5% reduction on emissions levels by 2020. The ERF at the same time could improve the dairy industry's profitability and international competitiveness by reducing the substantial energy costs for manufacturers and on farm (ranging from $20 to $100 a day per farm). (Submission 11, page 2)

1.48 The Australian Forest Products Association 'has identified a range of domestic activities that could potentially contribute up to 30 million tonnes of emissions abatement over the next 5 to 10 years.' (Submission 15, Page 3)

1.49 The Facility Management Association of Australia provided evidence that:

> By encouraging facilities management industry investment the ERF scheme will be better placed to deliver real world, workable outcomes beyond 'business as usual', which will directly contributed to a reduction in emissions from the build environment. (Submission 36, Page 3)

1.50 And:

> Cost effective abatement initiatives that FMs can implement and that offer the bets return on investment include: improvements in building operations, improvements in maintenance, building commissioning and tuning, behavioural change and upgrading projects. (Submission 36, Page 3)

1.51 The Green Building Council of Australia submission highlighted that:

> Retrofitting existing buildings such as offices, shopping centres, public buildings and hospitals remains one of the most cost-effective abatement opportunities, using technologies and practices that are available now. (Submission 35 , Page 2) and –

1.52 And:

> The GBCA believes that a well-designed ERF can play a significant role in reducing carbon emissions, but if Australia is to take advantage of the many

emissions reduction opportunities that exist in the built environment and across the economy, the ERF must be one part of a range of complementary measures.' (Submission 35, Page 2)

1.53 Climateworks Australia indicated that:

> If well designed and sufficiently resourced, the proposed Emissions Reduction Fund could effectively target opportunities that are not expected to occur without additional incentives yet are large in volume, technologically proven and can be captured at reasonable cost. (Submission 24, page 2)

1.54 Origin Energy 'believes that there are a number of excellent opportunities in the energy sector that would benefit from access to the ERF. Some of the opportunities we support include: GreenPower, Smart technologies, Cogeneration/Trigeneration and Electric vehicles.' (Submission 45, Page 2)

1.55 The Cement Industry Federation provided evidence that:

> 'There are significant opportunities for the Australian cement industry to further reduce CO2 emissions, especially through future amendments to the cement standard to allow increased mineral additions and via further adoption of alternative fuels to reduce thermal emissions.' (Submission 49, Page 7).

Recommendations

Recommendation 1

1.56 Government Senators recommend the carbon tax is repealed and replaced with the Emissions Reduction Fund.

Recommendation 2

1.57 Government Senators note that the minus five per cent emissions reduction is significant and represents emissions reduction of 17 per cent below businesses as usual in 2020. Government Senators further note that Australia's emissions reduction target is an international commitment which is lodged with the United Nations Framework Convention on Climate Change.

Recommendation 3

1.58 Government Senators recommend that Australia should consider its emissions reduction target and further action in 2015 on the basis of comparable real global action, particular by major economies and trading partners.

Recommendation 4

1.59 Government Senators note that removing the carbon tax will reduce cost of living of Australian households and business input costs. The Government Senators note that without the carbon tax in place, assistance mechanisms and carbon tax bureaucracy is not needed and should be removed.

Recommendation 5

1.60 Government Senators note that a review of the Renewable Energy Target is legislated to be undertaken in 2014. The Government is currently progressing this review.

Recommendation 6

1.61 Government Senators do not support further inquiries into the Emissions Reduction Fund and Carbon Farming Initiative.

Senator John Williams
Deputy Chair

Senator Anne Ruston
Senator for South Australia