



**THE AUSTRALIAN RETAILERS ASSOCIATION**

**SUBMISSION TO THE**

**Senate Select Committee on Climate Policy**

**7 April 2009**

# SUBMISSION TO THE SENATE SELECT COMMITTEE ON CLIMATE POLICY

## **Australian Retailers Association**

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## **Australian Retailers Association**

### **Promoting and protecting retailers for over 100 years**

For over 104 years, the Australian Retailers Association (ARA) has been the peak national retail association representing the interests of the largest employing industry in Australia. We provide leadership and solutions to improve the long-term viability, productivity and visibility of the retail industry by proactively dealing with government, media and other regulatory bodies on behalf of our members.

ARA members comprise a diversity of sizes and types of retailers reflecting the profile of the retail industry, ranging from large national chain retailers to one-person operators throughout the nation.

The ARA provides a range of comprehensive services, advice and representation suited to both small and large retailers in the areas of employment relations, occupational health and safety, tenancy, consumer law and retail business solutions. This includes a range of retail specific training that supports best practice in retail.

## Scope of Submission

On 11 March 2009, the Senate established a Select Committee on Climate Policy to inquire into policies relating to climate change, with particular reference to:

- a. the choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account the need to:
  - i. reduce carbon pollution at the lowest economic cost,
  - ii. put in place long-term incentives for investment in clean energy and low-emission technology, and
  - iii. contribute to a global solution to climate change;
- b. the relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils;
- c. whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change;
- d. an appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be;
- e. whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues; and
- f. any related matter.

## **Executive Summary**

### The ARA's major concerns about the Carbon Pollution Reduction Scheme

- The community is being asked to comment on a new system of carbon trade with ideological haste; and that legislation will be forced through the parliament without proper consideration of global carbon reduction schemes.
- To sacrifice the Australian economy without the support of other major emitting countries does not make sense and the current model puts at risk our exports.
- The current proposed designs of the Emissions Trading Scheme will have an economic impact on every post in the supply channel, from energy and fuel to manufacturers and agriculture thus impacting directly on the price of a basket of groceries.
- The retail sector will be the catchment point for all yet the retail sector has been ignored with no Government assistance, funding or emission permit rebates.
- The CPRS will disadvantage Australia's export industry but excludes imports. The ARA has concerns regarding the impact of this approach on Australia's export industry in the international market, as well as domestic manufacturing and farming industries.
- The price impacts of the ETS are passed through the supply channel to retailers and will ultimately be borne by the consumer
- Australian consumers may not be able to accept retail price impacts as a direct result of ETS costs being passed through the supply channel.
- It is irresponsible for the Government to fail to provide accurate analysis around the price impacts on a basket of groceries for working families.

### **The ARA's major recommendations**

- In the current economic climate and without a synchronized global approach, the Government should defer the introduction of the proposed CPRS and ETS.
- The ARA recommends Australia defer the introduction of any CPRS or ETS in order to reach global environmental goals at the least cost to our nation's economy.
- Australia must avoid the ideological trap of displaying international leadership towards climate change, at the risk of our own economic certainty
- Australia must introduce the most efficient ETS in order to reach environmental goals at the least cost to the economy.
- Funded financial assistance must be considered for the retail sector (in regards to refrigeration of goods and groceries) to otherwise a direct transfer of liability must be allowed to the consumer.
- Economic flow on effects through the supply channel must be accurately measured in order to assess the price impacts on the retail sector and consumers.
- Consider the cost benefits of retailers importing products from across the Tasman and overseas and the impact upon domestic manufacturing and farming industries, and the economic viability of Australia's exports in an international market.
- Compensation to consumers should not be finalised prior to the establishment of the impact. The Government should allow for an annual consumer ETS impact review with the thought to further provide compensation if deemed appropriate.
- The indisputable increase in the cost of retail goods and groceries, as a direct result of an emissions trading scheme, must be factored into any income support for Australian households.

- Adequate education and support to Australian small businesses on their requirement to reduce their carbon footprint and the impact ETS will have on them.



## **Reducing carbon pollution at the lowest economic cost**

### **a) Supply channels and retail catchment**

The current proposed designs of the emissions trading scheme will have an economic impact on every post in the supply channel, from energy and fuel to manufacturers and agriculture.

The Government's Green Paper, White Paper and the Garnaut report accept that Australian businesses will either absorb the price impacts of carbon markets or pass on the cost to the next link in the supply chain. However, both reports fail to

- 1) identify if these increased costs will be absorbed or passed through the supply channel and thus their impact upon consumers
- 2) identify the retail sector as the final catchment for the economic flow on effects of an emissions trading scheme

Retailing is the barometer of the economy, and in 2008 alone the retail sector carried the significant financial burden of a number of economic influences including interest rate rises since November 2007, increasing fuel costs and the drought. As a result, 2008 and 2009 retail trade figures continually indicated either negative growth or growth significantly less than market expectations (see figure 1 below).

## ABS February Retail Trade Turnover (Figure 1)

### RETAIL TURNOVER, By Industry Group(a)

Month	Food retailing	Department stores	Clothing & soft good retailing	Household good retailing	Other retailing	Cafes, restaurants & takeaway food services	Total
SEASONALLY ADJUSTED (% change from preceding month)							
<b>2007</b>							
December	0.4	-0.1	-0.9	1.5	0.0	-0.2	0.3
<b>2008</b>							
January	-0.1	1.2	-0.8	-0.8	1.5	-1.6	-0.1
February	-0.2	0.0	2.0	-2.5	1.2	1.1	0.0
March	1.5	-1.2	-2.2	1.5	-0.9	-2.1	0.2
April	-1.3	1.4	2.4	0.5	-0.7	0.7	-0.2
May	1.2	-0.9	-0.6	-0.6	2.6	0.1	0.7
June	-0.1	-5.2	-4.9	0.8	-2.0	0.0	-1.0
July	0.8	10.9	5.4	2.3	3.2	-4.5	1.9
August	3.2	-6.4	4.0	-4.3	-6.5	10.5	0.5
September	-1.4	2.7	-6.0	-2.9	3.7	-7.0	-1.6
October	0.7	-2.0	-0.5	0.9	8.2	-4.7	1.0
November	1.8	-1.8	0.8	0.0	-6.5	7.6	0.4
December	1.4	8.3	5.8	9.9	2.6	1.7	3.8
<b>2009</b>							
January	1.8	-0.5	0.8	-4.0	0.2	3.3	0.5
February	-0.4	-9.8	-2.7	-3.8	-0.3	-1.3	-2.0

It is the ARA's strong view that economic flow on effects through the supply channel must be accurately measured in order to assess the price impacts within the retail sector.

#### b) Consumers

Current economic pressures on Australian households including interest rate rises and increases in fuel costs have indicated a change in consumer spending behaviour patterns with working families unable to accept the retail price impacts and they are left with limited discretionary spend.

The price impacts of the emissions trading scheme that are passed through the supply channel to retailers will ultimately be borne by the consumer. It is the ARA's strong view

that this is a cost Australian consumers may not be able to accept and to fix a rate of compensation for certain segments of the community.

The ARA believes an Emissions Trading Scheme must accurately take into account the price impacts of retail goods (including groceries by 2015) on households and the ability of households to absorb these price impacts while they are dealing with increased energy bills as well as other economic uncertainties. The ARA recommends that a final position on compensation to consumers not be made prior to the establishment of the impact. At the very least the Government should allow for an annual consumer ETS impact review with the thought to further provide compensation if deemed appropriate.

The Government has undertaken preliminary analysis to assess the broad distributional impacts of the scheme on households. This analysis examines the impact of an illustrative carbon price on the price of a wide range of consumer goods and assesses the distributional impacts on households, using available information on the consumption patterns of different household groups. The White Paper's estimate that ETS will only cost Australian households up to \$2 - 4 per week for electricity and gas is deceptive and fails to take into account the increased retail costs as a result of price impacts through supply channels. This estimation is grossly underestimated and fails to answer the simple question: 'What is the impact of ETS on a basket of groceries?'

Furthermore, the modeling and analysis is only applied to emissions from all sectors currently expected to be covered at scheme commencement (2010), and thus excludes agriculture and land use emissions expected to be introduced to the scheme in 2015.

The ARA has grave concerns regarding the omission of agriculture emissions from the analysis and believes the ultimate cost to households must accurately measure the additional costs passed onto consumers by retailers who will be dealing with the economic flow on effects of an emissions trading scheme. This includes agriculture and land use emissions that will have a profound effect on grocery prices, especially when it is considered that agriculture emissions contribute to over 21 percent of total national emissions (Table 1). The ARA believes it is irresponsible for the Government to fail to provide accurate analysis around the price impacts on a basket of groceries for working families.

**Table 1: The Agriculture Industries Proportion of National CO2 emissions**

*Source: Carbon Pollution Reduction Scheme Green Paper*

<b>Agriculture Industry</b>	<b>Emissions per unit of revenue</b>	<b>Proportion of National Emissions</b>
Beef Cattle	6,687	11.2%
Sheep	3,513	3.4%
Diary Cattle	3,240	2.7%
Pigs	1,958	0.4%
Poultry	792	0.3%
Grains	523	1.1%
Other Agriculture	341	0.6%
Other Food Products	284	0.7%
Flour mill products and, cereal foods	142	0.1%
Meat and meat products	132	0.4%
Oils and fats	105	<0.1%
Dairy products	93	0.2%
Bakery Products	86	0.1%
Fruit and vegetable	86	0.1%
Services to agriculture, hunting and trapping	39	<0.1%

**Agriculture industries total emissions per unit of revenue: 12, 025**

**Agriculture industries total proportion of national emissions: 21.4 %**

Furthermore, the ARA strongly believes that the indisputable increase in the cost of retail goods and groceries, as a direct result of an emissions trading scheme, must be factored into any income support for Australian households as a direct result of retailers passing emissions trading scheme costs.

### **c) Agriculture**

Although Agriculture emissions will not be covered under the Carbon Pollution Reduction Scheme from 2010, the ARA makes note of the Government's intention to include agriculture in the Scheme by 2015 (see policy position below from the *Carbon Pollution Reduction Scheme Whitepaper*)

**Policy position 6.21**

The Government is disposed to include agriculture emissions in the Scheme by 2015.

Commencing in 2009, the Government will undertake a work program in consultation with the agriculture industry to enable a decision in 2013 on coverage of agriculture emissions in 2015.

The ARA has concerns regarding the impact of this approach on Australia's export industry in the international market, as well as domestic manufacturing and farming industries.

The ARA believes the Government must consider the cost benefits of

- 1) retailers importing products from across the Tasman and overseas and the impact upon domestic manufacturing and farming industries and
- 2) the economic viability of Australia's agriculture exports in an international market

#### **d) Retail Impact**

The retail sector is a high energy user, particularly when refrigeration is taken into account, and it is also the catchment point for the economic flow-on effects of an emissions trading scheme.

Refrigeration costs for retailers will be impacted by the inclusion of synthetic greenhouse gas emissions for the Scheme commencement. Scheme obligations will be applied to entities that import or manufacture (there are currently none) 25 000 tonnes of CO<sub>2</sub>-e a year or more. This will have a significant impact on the cost of groceries for consumers.

However, the proposed designs for the Carbon Pollution Reduction Schemes in the Government's White Paper and exposure drafts neglect to consider the retail sector for any Government assistance, funding or emission permit rebates. This means that unless costs can be transferred to consumers then the ETS will have a major effect on the profitability of retailers.

Furthermore, The White Paper's Climate Change Action Fund fails to recognize the importance of educating the retail sector, including retail SMEs regarding

- The price impacts of a CPRS and ETS through the supply channels to the retail catchment
- Incentives to reduce the use of synthetic greenhouse gases through the purchase of lower emission refrigeration equipment.

The Government's Green Paper estimates that retail trade directly contributes to 0.8 percent of national CO<sub>2</sub> emissions and accommodation, cafes and restaurants contribute a further 1.1 percent.

When these two categories are combined, the retail sector's direct contribution to national CO<sub>2</sub> emissions (1.9 percent) is greater than that of petroleum and coal products (1.5 percent). The ARA believes for Australia to experience a successful Carbon

Pollution Reduction Scheme government, funded financial assistance must be considered for the retail sector's refrigeration costs otherwise a direct transfer of liability must be allowed to the consumer.

## **Reducing Australia's carbon pollution in a global context**

### **e) Date of effect and application**

The ARA acknowledges an emissions trading scheme is the most important issue before the market and the broader community, however we remain concerned about the haste in which Australia is moving to change the market.

The ARA is concerned the community is being asked to comment on a new system of carbon trade with ideological haste; and that legislation will be forced through the parliament without proper consideration of global carbon reduction schemes.

It is the view of the ARA that while it is important to engage Australia in a carbon trading scheme, the most important economic reform impact on the market in the current and the next decade, is that we should move forward with caution rather than ideological haste.

After one quarter of negative growth, and the fear of a recession looming, it is also the view of the ARA that any CPRS or ETS should be delayed until the economy recovers. The ARA refers to the April 2009 ACCI Survey of Investor Confidence that found 48.0% of businesses consider that the CPRS should be delayed until after the economy recovers.

The ARA is also concerned the Regulation Impact Statement, as well as Statement as to financial impact and compliance cost impact will be available at the time of introduction will only be available at the time of the Bill's introduction and not prior

### **f) International links**

The ARA agrees with the following statement from the Federal Government's 'Exposure Draft: Carbon Pollution Reduction Scheme commentary'

*“While Australia is responsible for only a relatively small proportion of global emissions, Australia’s climate and economy are likely to be strongly affected by climate change. Australia therefore has a strong and direct national interest in pursuing a global solution.”*

The global policy outcome of reducing greenhouse gasses cannot be achieved if the countries responsible for around 70 – 75 % of global emissions including the United States and developing countries - India, China, Korea and Indonesia – are either not committed to reducing emissions or if Australia’s carbon reduction efforts are not synchronized with international schemes.

US President Barack Obama plans moving to tackle climate change and shift the nation from reliance on foreign oil to green energy. The plan will begin in 2012 and will focus on auctioning off carbon pollution permits to help develop clean-energy technologies, such as solar and wind power. But Congress has yet to write a bill and until a draft bill is released any of Australia’s carbon pollution reduction efforts will not be synchronized with international efforts.

Therefore, The ARA recommends Australia defer the introduction of any CPRS or ETS in order to reach global environmental goals at the least cost to our nation’s economy.

Australia can lead - but not in an ideological sense - where the proportion of economic responsibility to our own country is put at risk. Australia leads in many fields in the development of environmentally sound industries and this is where our initiatives can influence other countries with significant emission issues.

To sacrifice our economy without a synchronized approach with other nations does not make sense and the current model puts Australian exports at risk.