



CONSERVATION COUNCIL
OF WESTERN AUSTRALIA INC.

8 April 2009

The Secretary
Senate Select Committee on Climate Policy
PO Box 6100
Parliament House
CANBERRA ACT 2600

climate.sen@aph.gov.au

Re: Submission to the Senate Select Committee on Climate Policy

The Conservation Council of Western Australia welcomes the opportunity to put a submission forward to the Senate Select Committee on Climate Policy.

There are 10 key points we wish to highlight in our submission.

1. The scientific evidence that we are close to the tipping points of irreversible climate change is significant and compelling.
 2. It is strongly in Australia's national interest to take a leadership role on climate change because Australia will be subject to greater negative impacts than many other developed nations. The 5-15% target range takes Australia out of the international negotiation process and will make it more difficult to achieve an international agreement that is in Australia's interest.
 3. Acceptance of the proposed target range by passing the CPRS legislation before the Copenhagen climate negotiations in December 2009 would be an abrogation of the Parliament's responsibilities to act in Australia's national interest.
 4. There is a need to change fundamental aspects of the proposed Carbon Pollution Reduction Scheme (CPRS) to ensure it is credible, cost effective and above all achieves the objective of mitigating the effects of climate change.
 5. The changes that must be made to the CPRS include increasing the emissions reduction targets to 40% by 2020 and 95% by 2050 in line with the credible scientific evidence and advice that we now have that a long-term stabilization goal of 350 parts per million (ppm) of greenhouse gases in the atmosphere will be necessary to avoid the most devastating impacts of climate change.
 6. Compensation to high polluting Liable Entities must be based on salient criteria :
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- i. Compensation should not be provided simply because Liable Entities face carbon constraints. That is “strongly affected” industries must not be shielded from the effects of the Scheme as it reverses the “polluters pay” principle.
 - ii. Compensation to trade exposed industries must be based on a transparent and valid claims of negative trade consequences.
 - iii. Negotiation of international sectoral or pegged agreements should be the first priority for addressing carbon leakage.
 - iv. Permit credits rather than the administrative allocation of free permits should be the basis of compensation.
7. The Renewable Energy Target legislation should be modified to ensure the rapid development and deployment of base load renewable energy.
8. If the emissions reduction targets established under the CPRS cannot be made substantially more ambitious, the measures are required to ensure the expanded RET delivers additional abatement over and above what is achieved through the CPRS by, for example, the retirement of CPRS pollution permits from the scheme for every tonne of abatement achieved through the RET scheme.
9. Native forests and woodlands must be protected within the CPRS and RET scheme. Avoided deforestation facilitated through an Australian REDD scheme should be considered. Native biomass must be excluded as a renewable energy resource under the RET scheme.
10. Voluntary actions to reduce emissions that are undertaken by individuals, businesses and local governments over and above those that are related to price signals created by the CPRS must be accounted for and linked to the emissions cap. In the current design Liable Entities will be able to avoid emissions reductions as voluntary actions free up the number of carbon permits in the system. This problem is exacerbated by the current low emissions reductions targets.

Thank you for the opportunity to make this important submission. We request the opportunity to discuss these issues in more detail at a Senate Hearing in Perth.

Yours sincerely



Piers Verstegen
Director

About the Conservation Council of WA

The Conservation Council of Western Australia which was formed in 1967, is the State's peak non-government environmental organization with over 95 affiliated members who have diverse interests in protecting the natural environment and promoting environmental sustainability in WA.

Terms of Reference (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 costs,**
- (ii) Put into place long-term incentives for investment in clean energy and low-emissions technology, and**
- (iii) Contribute to a global solution to climate change.**

The most important objective for climate change mitigation is to reduce greenhouse gas emissions in the most cost-effective and rapid way. An emissions trading scheme (ETS) or a carbon tax are the most discussed methods for achieving this objective. The Australian community has not had the benefit of detailed public debate on the comparative advantages or disadvantages between these two policy options. Nevertheless, there appears to be sufficient consensus that an ETS provides greater scope to set an emissions reduction target, to check progress against the target and to make adjustments to the scheme that may be less politically arduous than a carbon tax. An ETS also allows international linkages for the trade in permits.

Getting the CPRS to the point of legislative drafts has also taken enormous amount of resources in terms of policy development, economic modeling, consultation and political debate across many sectors of the community. Much of this effort will have to be reinvested if we change tack and introduce a carbon tax. On balance the CCWA believes that a cap and trade system provides a better mechanism for delivering Australia's emissions reductions for these reasons.

Time is fast running out for us to tackle climate change so it is essential that we move forward urgently. Also we need to maintain our credibility on the international stage, particularly at this crucial point of negotiating the post Kyoto agreement. We need to demonstrate at the December 2009 climate talks in Copenhagen that we have a mechanism in place to make tangible reductions in our emissions.

However, the support for an ETS is conditional on it being an effective, credible and fair scheme. The critical features for an effective Australian ETS are:

- 1. Emissions reduction targets must be based on the climate science and not on political compromise.** The latest scientific evidence is showing that global

emissions are tracking above the Intergovernmental Panel on Climate Change (IPCC) worst case scenario (A1F1). The emissions reduction targets must therefore be at least 40% by 2020 and at least 95% by 2050 if we are to stabilize emissions to less than 350 ppm as recommended by scientific research findings. These are responsible targets both in terms of our national and international interests.

2. **The emission trading scheme must commence by 1 July 2010.** An early start is essential based on the climate science and economic advice. The window of opportunity for averting climate tipping points being reached is rapidly closing and Australia needs to take to the international negotiating table its commitment to commence meaningful emissions reductions as a matter of urgency and to encourage for other nations to follow suit. Economic modeling shows that Australia could gain a relative advantage by starting to reduce emissions early, bed down an effective ETS and ramp up the use of renewable technologies. By commencing in 2010, Australia will be extremely well placed to attract global investment in renewable energy and build our intellectual capital around clean technologies.
3. The ETS must make significant contribution to **a rapid transformation of energy assets and infrastructure** to low emissions technologies by creating strong price signals.
4. The ETS should ensure that there are significant inroads made in **reducing domestic emissions** and that there are constraints imposed on the use of international offset permits. It is in Australia's longer term interests to transition to a low carbon economy as quickly as possible to capture the benefits of early low carbon technology innovation and attending structural adjustment. The overuse of international offsets will simply delay the transformation of our economy and undermine the development and manufacture of renewable technologies.
5. **The case for compensation to polluting industries must be based on rigorous, transparent processes that take account of existing and historic subsidies and tax concessions.** There is no case for compensation by virtue of the fact that an ETS has been introduced. The likelihood of carbon constraints coming into existence globally have been well understood since the signing of the Kyoto Protocol in 1997. Compensation to polluting industries could discriminate entities that have made low carbon investment decisions with foresight and responsibility.
6. **Compensation for trade exposed industries** should be conditional on the likelihood of carbon leakage, evidence of international best practice in emissions reduction and energy efficiency and active engagement in international sectoral agreement development.
7. **Coverage must include all major emissions sources** for which it is practical to measure and with the accuracy required to support a robust and credible ETS. The ETS should not be seen as the only or main abatement mechanism. Appropriate additional measures must be in place to maximize emissions reductions through

energy efficiency, renewable energy use, energy demand management and behavioural change programs.

8. **Polluters pay principle must be upheld.** An ETS will be a failure if polluters are shielded from the effects of carbon constraints and a disproportionate burden of costs of carbon pollution is borne by the broader community.
9. **International Links and Offsets.** The ETS must be able to drive down domestic emissions by a significant amount to reduce our dependence on fossil fuels and fast track the development of a low carbon economy. Over reliance on international offsets will hamper our future prospects for becoming a dominant innovator nation for renewable energy technology and will also continue to place enormous pressure on our environment and high biodiversity values.
10. **Effective Governance is required** with an independent regulator with sufficient powers to ensure that compliance with the ETS regulations are adequately monitored, enforced and reviewed to maintain integrity of the Scheme.

The positive aspects of the Federal Government's Carbon Pollution Reduction Scheme are the comprehensiveness of the Scheme coverage, the commitment to commence by 2010 and the appointment of an independent regulator. However, failure to meet the other critical factors will seriously undermine the effectiveness and credibility of the Scheme to reduce emissions in the most efficient manner and meet the environmental imperative to mitigate the risks of climate change.

Terms of Reference (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.

The Federal Government has outlined its policy measures for emissions reductions that complement the CPRS. These are the expanded Renewable Energy Target, investment in carbon capture and storage (CCS) and energy efficiency actions. These are designed to address perceived market failures or non-pricing barriers to maximum emissions abatement. Additional measures that should also be considered relate to public transport reform and as suggested in this TOR, the protection and enhancement of carbon stores from native forests and soils

Renewable Energy Target

The Conservation Council welcomes the bringing forward of an expanded and national Renewable Energy Target (RET).

There are however, a number of shortcomings are inherent in the RET Legislation that undermine its effectiveness and credibility. Specifically,

- The failure of the proposed RET to deliver any additional pollution abatement than is already committed under the proposed Carbon Pollution Reduction Scheme. If the emissions reduction target established under the CPRS cannot be made substantially more ambitious, the measures need to be put in place to ensure the expanded RET delivers additional abatement to the CPRS through, for

example, the retirement of CPRS pollution permits from the scheme for every tonne of abatement achieved through RET.

- The inadequacy of the target and timeframe to ensure that there is a major transformation of the energy sector away from fossil fuel dependency in the coming decades. The RET does nothing to facilitate the use of proven renewable technologies such as solar thermal and wave power to address base load power requirements. In WA it is estimated that at least 66% of the energy requirements in the South West Integrated System could be sourced from a mix of renewable energy by 2020. The renewable sources include solar thermal, wave power, wind, biomass, solar PV and geothermal. However, the RET is biased towards the development of wind and biomass and domestic scale renewable technologies.
- The failure to exclude native forest biomass sourced within Australia or overseas as a renewable energy source and the failure to place appropriate standards on the use of biomass. Such standards include the exclusion of biomass from genetically modified crops and significant reduction in greenhouse gas emissions of at least 60% compared to fossil fuel generation across the full production cycle.
- The flaw in the multiplier for micro-generation that results in less renewable energy being generated than being claimed in Renewable Energy Credits.
- The choice of Solar Credits over a more credible and effective national gross feed-in-tariff scheme as has been proven in Germany.
- The inclusion of solar hot water systems which is principally an energy efficiency measure to reduce demand rather than a source of renewable energy generation.

The CCWA is very concerned that the Federal Government may provide further compensation of emissions intensive trade exposed industries to shelter such industries from the price impacts of the RET. These industries are already being compensated under the CPRS and are therefore likely to be doubly compensated. The impact of such compensation is that the cost burden is shifted disproportionately to other sectors of the economy particularly small business and households.

We also make the point that renewable energy investment viability needs carbon price around \$30-40 per tonne of CO₂e which may not be reached due to the current flaws in the CPRS for example, the over compensation of highest polluting industries, lack of linkage to voluntary actions and use of unlimited international offsets.

There is a distinct lack of vision in the Federal Government's renewable energy strategy given Australia's significant international comparative advantages. The global market for green technologies is projected to almost double from \$US 1.4 trillion per year to \$US 2.7 trillion per year by 2020. An estimated \$US 16 trillion globally will be invested in green infrastructure by 2030. If Australia were to aim for five percent of the global market for renewables by 2030 the result would be \$US25 -50 billion investment per year, up to ½ million new jobs and a huge step towards tackling climate change.

Carbon Capture and Storage

Given Australia's abundance of coal it is sensible to invest public funding in carbon capture and storage (CCS) technology. However, the CCWA is concerned that there is a substantial imbalance in the allocation of public funding to CCS when Australia is also "resource rich" in renewable technology opportunities. In Western Australia for example, wind, wave and solar power potentials are amongst the highest in the world given the strength of prevailing winds, Southern Ocean and the intensity of solar radiation.

Under the CPRS, public funding for CCS and low emissions coal equates to \$1.5 billion investment over the 2010 to 2020 period. However, the public funding support for renewable technology development and commercialization is around \$600 million for all these technologies.

Energy Efficiency

It is well understood that the CPRS on its own will not be sufficient to deliver abatement in the shortest timeframe and most cost-effective manner.

Studies by McKinsey & Co have demonstrated the potential to achieve significant abatement through energy efficiencies which would result in a net financial benefit to the economy. These include efficiencies in vehicles, residential and commercial buildings, lighting and appliances and mechanical heating and cooling systems.

Numerous studies show that the uptake of energy efficiency measures at the household and industry level is subject to a number of market failures, many of which will not be addressed by a carbon price signal. For this reason, it is considered necessary for a comprehensive suite of complementary measures to be introduced to promote the uptake of relatively low cost abatement opportunities in end use energy efficiency.

The Government's February announcement of \$3.9 billion for ceiling insulation and solar hot water systems is welcomed but the links to an overall strategy for energy efficiency has yet to be declared. The Government has indicated that a National Strategy for Energy Efficiency will be in place by June 2009. However, there has been no public information or consultation on the Strategy to date.

Urgent requirements for energy efficiency measures include:

- Mandated energy reduction minimum standards and stretch targets for new buildings, such as BCA 7 Star thermal efficiency rating for residential buildings, a 50% energy efficiency reduction target by 2010 and carbon neutral buildings by 2020;
- Introduction of a national mandatory energy rating of houses at point of sale based on the ACT model;
- Retrofits for all Government housing, schools, hospitals, offices and other public buildings to the maximum energy efficiency standards;
- Retrofit incentives and plans for existing private housing and buildings;
- Mandated targets and energy efficiency ratings for all major household appliances (including refrigerators, televisions, air conditioners and heating) to become at least 50% more energy efficient by 2020.

- Demand management programs including incentives for the installation of smart meters in homes and commercial premises.
- Behavioral change through a combination of regulations, incentives and education/awareness programs. The Living Smart program in WA is a good example of a public awareness/ behavioral change program that could be extended nationally.

Reform of Public Transport

Transport emissions in Australia continue to grow and between 1990 and 2006 these emissions increased by 27%. Public transport investment should be a major focus of public investment and nation building in the wake of the Global Financial Crisis.

The Conservation Council supports the vision of the Rapid and Affordable Transport Alliance (RATA) to re-apportion the transport budget in favour of public transport investment rather than roads. Specific measures that should be given priority in the next 10 years include:

- Extending the rail systems including rapid intercity and interregional trains;
- Highly integrated feeder services with the heavy rail network – including better coordinated bus and tram/light rail routes, bicycle routes and mini-bus services.
- Increase dedicated bus lanes on multi-lane roads and invest in bus rapid transit systems
- Introduce bike hire systems in our major cities to encourage sustainable healthy transport solutions for short trips.
- Better regulation for urban planning and renewal projects to reduce urban sprawl, increase Transit Oriented Developments and pedestrian oriented precincts.

The reform agenda for public transport should also examine the implications of the rapid emergence of electric vehicles to ensure that the rise of electric vehicles does not undermine the ramping up of public transport modes. Research is required to ensure that electric vehicles are able to deliver positive benefits in terms of emissions abatement and sustainability across the lifecycle.

Protection and development of native forest biomass

Concern must be expressed that the carbon sinks created through reforestation attract an offset under the CPRS while land clearing and native forest logging are excluded. The result is likely to be plantation timbers being used as carbon sinks leading to greater demand for native forest timber for wood products and biomass energy production. The destruction of native forest would increase emissions as well as destroy the natural resilience of forest ecosystems to climate change. The intrinsic value of native forests and woodlands cannot be expressed in economic terms but contribute significantly to our cultural identity.

Scientific research by the Australian National University¹ on the green carbon in our natural forests demonstrates the high value of our native forests as carbon sinks. The 14.5 million hectares of eucalypt forest in southeastern Australia is estimated to contain 25.5 Gt CO₂e. According to the research findings the current carbon carrying capacity of the eucalypt forests of the south east are three times greater than IPCC default values for temperate forests. Natural forests are also more resilient to climate change than plantation or industrial forests which have 40-60% less carbon carrying capacity. The researchers argue that despite this natural advantage and carbon sequestration significance, the preservation of natural forests and avoided deforestation is not given sufficient regard in climate change mitigation.

As highlighted by the Green Institute² emissions trading does not recognize permanent storage of carbon and therefore a complementary scheme is required. The Institute proposes the establishment of a REDD Plus scheme for Australia which would establish as transparent and appropriate accounting mechanism for biocarbon emissions and storage.

There are a number of strategies which should be considered:

1. Establish reliable estimates of carbon stocks, carbon carrying capacity and carbon sequestration potential for all native forests.
2. Development of a framework based on REDD to eliminate emissions from deforestation of native forests and woodlands, halt further destruction of natural ecosystems and secure the permanent protection of native forests and their ecosystems.
3. Allowing native forests to reach their optimum carbon carrying capacity by the cessation of logging that removes large old trees that store most of the above ground carbon and thus restoring the forest's current carbon stocks; and
4. Further increasing the stock of carbon stored in Australian ecosystems by promoting permanent native vegetation restoration, including commercially focused re-forestation, especially on already cleared marginal agricultural land.

Terms of Reference (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 reduction targets in avoiding dangerous climate change.

The emissions reductions targets set within the CPRS are totally inadequate and represent a failure of responsible and evidence-based policy. The proposed targets damage the prospects of successful international negotiations for a global agreement on emissions reductions since international expectations set in the UNFCCC talks in Bali (2007) and Poznan (2008) are that developed countries reduce emissions by at least 25-40% by 2020. Since then the peer reviewed

¹ Mackey, B. G. et al. 2008 Green carbon : the role of natural forests in carbon storage. Part 1, A green carbon account of Australia's south-eastern Eucalypt forest, and policy implications. ANU E Press

² Blakers, M 2008 Biocarbon, biodiversity and climate change. A REDD Plus scheme for Australia. Green Institute Working Paper No. 3

and updated climate science is suggesting that the upper end of the range will be necessary to reduce the chances of runaway climate change.

The latest communiqué from climate scientists who gathered at Copenhagen in mid March 2009 confirms that the global emissions are tracking above the IPCC worst case scenario. Climate scientists are urging that world leaders put in place emissions reduction targets that will allow greenhouse gases to be stabilized around 350 parts per million (ppm) to prevent global temperatures rising by more than 2°C by the end of this century. The current level of emissions is at 383 ppm which is the highest for the last 650,000 years. If global emissions reductions are not achieved, the current prediction is for emissions to rise above 750 ppm with global temperatures rising above 4°C.

According to the communiqué from the March 2009 Scientific Congress in Copenhagen

“... many key parameters, the climate system is already moving beyond the patterns of natural variability within which our society and economy have developed and thrived. These parameters include global mean surface temperature, sea-level rise, ocean and ice sheet dynamics, ocean acidification, and extreme climatic events. There is a significant risk that many of the trends will accelerate, leading to an increasing risk of abrupt or irreversible climatic shifts.” From Key Message 1.

The recommended targets based on the recent climate science are for a 40% reduction by 2020 and 95% by 2050 by developed countries including Australia.

Australia’s 5-15% reduction target also compares unfavorably to the US recent commitment to reduce emissions by 30% by 2020.³

The 15% conditional target proposed under the CPRS is an international embarrassment given the expectations that developed countries will need to cut emissions by 40% based on the latest climate science. Our offer of 15% is likely to portray Australia as a carbon pollution free rider.

Worst still the 5% unconditional target, if translated globally, would result in temperature increases above 3°C with devastating environmental, social and economic consequences. By 2070 the implications for Western Australia would be:

- Up to 60% less rain in the South West compared to a 1960-1990 baseline;
- Up to 70 days per year of temperatures over 35°C in Perth;
- Summer temperatures up to 6.5°C higher and winter temperatures up to 5.5°C higher in the South West;
- Threats to water and energy security;
- Loss of major fisheries and agricultural lands;
- Substantial burden on health system as deaths & diseases rise due to heat waves and droughts;

³ Using the UN baseline of 1990 emissions levels, the US cut would be 19% compared to 4-14% by Australia. Using the Australian 2000 baseline the US emissions reduction would be 30%. Both allow international offsets credits although the US places a 10% cap on these credits.

- Significant losses in economic and social terms as coastal homes and infrastructure become vulnerable to sea level rises, storm surging and coastal inundation;
- Widespread loss of corals at Ningaloo Reef, Kimberley coasts and island reefs;
- 55% loss of core habitat of eucalyptus trees affecting native birds, marsupials and frogs;
- Karri forests reduced to small patches;
- Loss of tropical wetlands/mangroves in the Kimberley;
- Permanent loss of existing terrestrial and marine biodiversity with significant extinctions of many species.

The emissions reduction target may be further compromised by the ability of the Government to issue unlimited additional permits if the carbon prices rises above \$40 per t CO₂e. The issue of these permits must be subject to the cap which can occur by adjusting the cap in the next compliance period.

Under the current CPRS targets will be locked in until 2020 and any upward revision of the target before will result in significant compensation to Liable Entities due to the property rights attached to permits. Therefore the targets must be align with the risks identified through the climate science and CPRS must be redesigned to enable greater flexibility to adjust targets in response to information and advice from the IPCC without incurring major compensation claims by permit holders.

Terms of Reference (d):

An appropriate mechanism for determining what a fair and equitable contribution to the global emissions reduction effort would be.

The CCWA considers that Professor Ross Garnaut has provided the most compelling argument regarding the fairest approach to be taken by all countries to achieve global emissions reductions that will lead us to a safe climate.

Professor Garnaut has proposed the use of a contraction and convergence model based on achieving a global per capita allocation of emissions by 2050. His analysis showed that the per capita allocation is broadly consistent with the emissions reduction targets likely to be set for developed nations.

Using the per capita framework, the global average per capita allocation would be around two to four tonnes CO₂e based on 450 ppm greenhouse gas stabilization goal. However, as the latest climate science is suggesting that the stabilization goal needs to be around 350ppm, the two t CO₂e would represent the lower bounds of the per capita allocation.

If we accept that this is the likely basis for international agreement on emissions reduction, then the current CPRS creates a “future shock” for our younger and future generations. With a target of only 15% emissions reduction, per capita emissions in Australia will fall to 18.9 t CO₂e by

2020 requiring a further 17 t CO₂e to be reduced by 2050 (by domestic emissions cuts and/or international offsets).

This future shock represents the consequences of not going hard enough on early action. Soft targets now will result in far more costly mitigation and adaptation which will penalize future generations and escalate the chances of runaway climate change.

Terms of Reference (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.

The Conservation Council believes that the proposed CPRS is seriously flawed and the most concerning aspects is that it will not create the price signals required to transform the economy and reduce our dependency on fossil fuels. The opportunities exist in current innovations and proven alternative technologies to create new or to boost existing green industries, green jobs and green exports.

The low targets, the extent of free permits issued (up to 45% by 2020 for trade exposure industries), the allowance for uncapped international credit offsets and the ability of the Government to issue unlimited amount of additional credits means that there will be little incentive for the Australian industries to lower their carbon footprint and invest for a low carbon future.

The current policy framework therefore represents a loss of opportunity to generate a multi-billion dollar low carbon economy based on renewable energy due to the combination of low targets, overcompensation to polluting industries (for example, \$7.3 billion in the first two years of the Scheme which will increase in subsequent years) and the prospect of voluntary abatement by individuals, businesses and local governments freeing up permits to polluters (discussed below).

Suspensions are also raised that the forthcoming Energy White Paper will also put the break on the rapid transition to renewable energy as the High Level Consultative Committee overseeing the development of Australia's future energy strategy does not include a single expert on renewable technology. The Committee includes representation from the oil, gas, coal and uranium mining sectors and the omission of renewable technology sector is a serious error which should be rectified as a matter of priority.

Further, the opportunity to create an inspiring future vision for Australia that couples economic recovery and climate security has not been taken. By contrast, the American Recovery and Reinvestment Act 2009 commits funding of \$ US74 billion for renewable energy, energy efficiency, electric vehicles, fuel efficiency and transport reform. President Obama has articulated a strong vision for the US to deduce its dependency on fossil fuels. By comparison Australia's commitment to a low carbon future comprises \$ A2.2 billion so far without a visionary context. On a per capita basis, Australia's commitment is less than half of the proposed US investment.

Overcompensation of High Polluting Industries with sufficient conditions

We believe that the CPRS over compensates the highest polluting industries and in effect becomes a cash dispenser for carbon polluters.

The rationale for providing \$3.9 billion in compensation to the heaviest carbon polluters within the coal fired power generators is not credible. Since at least 1997 when the Kyoto Protocol was signed, all industries have been aware that global carbon constraints would eventuate. Australia is not the first country or jurisdiction to introduce an greenhouse gas emissions cap and trade scheme and other forms of carbon constraints exist in countries such as China.

The Scheme includes an unconditional “golden handcuff” to the most emissions intensive coal fired power stations by making free permits for the first five years of the scheme conditional on these power stations retaining the same historic capacity to generate electricity. There is no explicit requirement for these power generators to plan for a transition to low carbon sources including clean coal during that time.

Conditional assistance should also include the requirement to prepare structural adjustment plans for affected workers and communities to ensure a just transition for the phase out of all coal-fired power generation facilities that do not have the ability to use clean coal or to sequester carbon after 2020.

The policy setting for compensation to Emissions Intensive Trade Exposed Industries (EITE) on the basis of carbon leakage also needs to be recalibrated with conditions set for reducing emissions, increasing efficiency and participating negotiations to reduce competitive disadvantage.

The first concern is the level of compensation. Compensation in the form of free permits is expected to increase from 25% of all permits in 2010 to 45% of all permits by 2020. In the first two years of the scheme assistance is likely to be worth \$6 billion compared to \$10 billion in assistance to low and middle income households. As the percentage of permits grow with the expansion of these industries, the “cost neutrality” of the CPRS will begin to be undermined.

The EITE compensation package comes with no strings attached. It therefore lacks incentives for these industries to work towards lowering their emissions or trade exposure through mechanisms such as international sectoral agreements. For example, the LNG sector, which already benefits from generous government assistance, meets many of the criteria for the development of sectoral agreements. Their compensation could therefore be made conditional on evidence that this industry has substantially committed to establishing an international sectoral agreement.

Research by Innovest⁴ has shown that the aluminum industry is set to become the largest beneficiary of EITE compensation with an estimated \$939 million in 2010-11 rising to \$1.3 million in 2014-15. However, losing our aluminum industry or reducing Australian production capacity will very likely reduce global emissions not raise them because much of the aluminum smelting overseas occurs using hydro or gas whereas our industry is coal fired.

⁴ Fryer, D., Barraclough, M. & Crooks, R. 2008 Research Note: The impact of industry assistance measures under the Carbon Pollution Reduction Scheme – White Paper update. Innovest www.innovestgroup.com

Innovest's research has also shown that a significant proportion of compensation will go to non-Australian companies. The largest beneficiaries will be Rio Tinto (\$408 million); Alcoa (\$151 m) Norsk Hydro (\$102 million); Alumina Ltd (\$101 million part owned by Alcoa).

By shielding the coal industry and other high polluters (euphemistically called "emission intensive") from carbon constraints, the Government is not only paying the heaviest polluters it is also actively obstructing the investment of billions of dollars in new clean technologies, new industries and new jobs that will result in a stronger Australian economy and prevent irreversible climate change.

An alternative approach to reducing adverse trade exposure in the international context

(Combined ETS and pegged levy model)

EITE industries form a large part of the Australian economy and this is projected to grow over time. The implications of this growth are that the political difficulties and undesirable distribution effects associated with domestic EITE compensation are likely to become more significant over time. Consequently, it is strongly in Australia's interest for our country to play a leadership role internationally in the development of measures to overcome carbon leakage problems faced by EITE industries.

The CCWA provides for the consideration of this Inquiry an alternative approach to deal with the problem of trade exposure and carbon leakage. We describe this alternative model as a 'combined ETS and pegged levy model'.

There is a reasonable likelihood that over the next few years, a critical mass of nations (including Australia) will put in place cap and trade emissions reduction schemes which could be linked together. So far the European Union has the largest scheme with the US poised to introduce its own ETS. Together with the Australian scheme a critical mass of nations are likely to form a much larger ETS involving many of the developed or Annex-1 countries in the Kyoto protocol.

While this would not address competitiveness and leakage issues as they relate to developing countries, it would form the basis of global carbon price to inform parallel policy measures in developing countries. In this case, the model could involve the aggregation of a number of different EITE Sectors under an internationally agreed framework for addressing competitiveness and leakage.

Such a model could take the form of a 'pegged levy' on EITE's located in developing (non ETS participant) countries, where the rate of the levy was constantly adjusted to match the price of carbon in the Annex-1 ETS. This model would create a truly level playing field without the need for developing countries to take on binding emissions reduction targets that are necessary to participate in an ETS.

The combined ETS and pegged levy approach would also have the added benefit that funds raised through the imposition of the levy could be retained in imposing developing countries, or managed in a central fund by developing countries for use towards emissions reduction and adaptation needs in the developing world. For this reason, this approach may be very attractive to developing countries and contribute to a global financing model for developing country abatement action.

Before such a model was established, EITEs in Australia could be compensated as a transitional measure based on the model proposed by Professor Garnaut – that is, permit credits for every unit of production equivalent to the expected rise in world product prices for the relevant commodity if carbon constraints also applied to our trading competitors. This would be phased out when international settings result in a level playing field.

Additional Voluntary Abatement is recognized

Under the current design, high emitters who are Liable Parties under the CPRS can avoid major reductions in emissions if voluntary actions by householders, businesses and local governments are large enough to make inroads into the emissions target. The paradox is that individual action such as using energy efficient lights or installing solar panels which is over and above the price signal created by the CPRS will not have any effect on Australia's carbon emissions.

For example, if householders voluntarily reduce their car use by cycling to work or make their buildings more thermally efficient the result will be a fall in the level of transport and stationary energy emissions. However, this will not result in overall emissions reductions. This is because the total emissions will be determined by the number of pollution permits allocated by government.

The consequences of voluntary actions are the freeing up of more permits for Liable Parties and the potential lowering of the price for permits.

The solutions to this problem are:

- A higher emissions target in the order of 40% by 2020 and less compensation so that big polluters have no option but to play their fair part;
- A mechanism for tracking and certifying voluntary abatement;
- A direct link between voluntary actions and the CPRS such as the removal (or withholding from allocation) of permits by the Government equivalent to the amount of voluntary abatement.

The Government has said it will adjust the target if voluntary abatement is shown to be significant. However, this will only occur post 2020 and we know that if there is no measurement or accounting of voluntary abatement there will be no “business case” available to adjust the target.

Concluding Statement

The Federal Government's current climate policy framework is ineffectual as it fails to acknowledge the urgency of the climate situation, demonstrate climate leadership and provide credible evidenced-based solutions.

Climate scientists are urging world leaders to act decisively on climate change but there is an increasing gap between what the science demands and the policy responses that are being offered by our political leaders.

Global emissions growth is tracking well above the estimates made just five years ago. We are fast approaching climate tipping points beyond which we have very little capacity to understand the likely profound impacts on communities, the economy and the environment.

The CPRS is a flawed policy instrument as it replaces one substantial market failure- unmitigated carbon pollution - with a series of others. The complementary measures are also inadequate and in combination with the CPRS fail to deliver the rapid transformation of the Australian economy required to mitigate against the worst consequences of climate change. The represents a huge opportunity loss for Australia to have a diversified economy based around thriving green industries and exports that capitalize on our natural comparative advantage.

The CPRS in particular undermines our international credentials to influence a global solution to climate change that is crucial to Australia's interests as well as participating as globally responsible citizens.

The major flaws relate to the low targets which fall well short of the requirements to prevent runaway climate change. Our offer at the international table should be 40% reduction by 2020 and 95% by 2050. There must be a limit placed on the amount of international offsets allowed to ensure that the restructure of our economy for a low carbon future is not hampered. For similar reasons but also because of the polluters pay principle, the high levels of compensation for major polluters must be reduced. Further policy development is required to address the problem of carbon leakage and the Conservation Council puts forward its proposal for a combined ETS and pegged levy approach for consideration. Stronger complementary policies, particularly a more ambitious renewable energy incentive program and energy efficiency measures are required. From a civil libertarian perspective the CPRS must not hamper the rights of individuals to undertake meaningful abatement action over and above the price signal.

The final message is that a strong economy and stable society depend on a safe climate and healthy environment. We require climate policies that deliver this enduring outcome.