



Submission to

## Senate Inquiry into Climate Policy

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The Secretary  
Senate Select Committee on Climate Policy  
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The City of Sydney welcomes the opportunity to provide comment to the Senate Inquiry on Climate Policy. If you have any questions regarding this submission, please do not hesitate to contact Nik Midlam, Manager Environmental Strategy on 9265 9333 or at [nmidlam@cityofsydney.nsw.gov.au](mailto:nmidlam@cityofsydney.nsw.gov.au)

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### Recommendations

- That the Inquiry express strong concern about the inadequacy of Australia's stated national medium term target for emissions reduction and call for a target in line with leading climate change policy and science.
- That the Inquiry recommend a change to the Government's stated intention to hand out free permits to the worst polluting industries given its impact on the efficacy of the scheme.
- That the Inquiry strongly urge a mechanism within the final form of the Carbon Pollution Reduction Scheme to recognise voluntary greenhouse abatement as additional to the stated cap.

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The City of Sydney covers a catchment of 26.15 sqkm and takes in the commercial, financial and cultural hub of greater Sydney. The local government area comprises 160,000 residents and 370,000 jobs.

The City is committed to being an environmental leader. A number of guiding strategic plans and documents direct our sustainability and environmental initiatives,

including our Sustainable Sydney 2030 Vision which has 10 targets and 186 actions under 10 strategic directions that we are progressively implementing towards a more sustainable future.

The City of Sydney consulted widely on Sustainable Sydney 2030 and 97% of those surveyed want us to address global warming by reducing greenhouse gas emissions. In line with this level of community concern, we are implementing emissions reductions initiatives across all our operations and last year we became the first carbon neutral government in Australia.

Sustainable Sydney 2030 has a target to achieve a 70% reduction in greenhouse gas emissions from 2006 levels by 2030 - a target far greater than is being proposed by the Australian Government. Such a target is necessary to demonstrate leadership in climate change and lead to lower costs through improved energy efficiency and "climate proofing" of the city's vital infrastructure.

The current design of Carbon Pollution Reduction Scheme would create a disincentive for significant regional scale emissions reduction programs such as Sustainable Sydney 2030 in the knowledge that emission reduced in our area would free up permits for other sectors or regions, meaning no change to national aggregate emissions levels.

The Government must either increase its emissions reduction targets in line with leading science required to avert catastrophic climate change, and/or establish ways in which regional scale action such as Sustainable Sydney 2030 or voluntary action may become additional to the national emissions target.

### **City of Sydney Response to Terms of Reference**

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| <p>(a) the choice of emissions trading as the central policy to reduce Australia 's carbon pollution, taking into account the need to:</p> <ul style="list-style-type: none"><li>(i) reduce carbon pollution at the lowest economic cost</li><li>(ii) put in place long-term incentives for investment in clean energy and low-emission technology</li><li>(iii) contribute to a global solution to climate change</li></ul> |
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<p>The City supports the introduction of an emissions trading scheme in Australia as a primary policy tool to reduce carbon pollution at the lowest economic cost, however expresses strong concern that the Carbon Pollution Reduction Scheme (CPRS) in its current form will do little to constrain dangerous levels of emissions.</p>
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<p>The City is concerned that the debate over emissions trading versus other solutions such as carbon trading should have occurred many years ago. Reconsidering the appropriateness of emissions trading now has the potential to significantly delay Australian and international action on climate change.</p>
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<p>The key issue is to ensure that the design of an Australian emissions trading scheme incorporates substantial emissions reduction targets for Australia to play its part to avert potentially catastrophic climate change and demonstrate international leadership.</p>
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<p>A well-functioning cap-and-trade emissions trading scheme has the ability to limit actual emissions from a broad range of sectors, and enables standards of emissions accounting which could integrate with international scheme(s) and contribute toward</p>
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a global solution on climate change. Broad coverage of sectors allows sectors with low cost abatement opportunities to trade and therefore reduces overall costs of abatement.

Whereas a carbon tax would be simpler to administer, there is no guarantee that increased carbon prices stimulate investment in clean energy and low-emission technology as increased compliance costs may simply be passed through to consumers. The relationship between price and abatement is unclear for the multitude of emissions and polluting sectors.

Therefore, an emissions trading scheme which establishes an overall cap on emissions in accordance with best science is the preferred solution.

The current design of the CPRS has provisions which effectively undermine the efficacy of a cap-and-trade emissions trading scheme, including:

- Inadequacy of a national 2020 emissions target/cap
- Free allocation of permits to polluting industries
- Missing incentive for voluntary action by non-liable entities
- Unlimited issuance of “price-cap” permits

#### **2020 emissions target/cap**

The City of Sydney shares the view of leading scientific consensus that a stronger national target than 5-15% is required in the context of global emissions reductions to reduce the risks associated with climate change.

#### **Free permits**

The allocation of free permits to polluting industries undermines the effectiveness of emissions trading – which is to give a meaningful financial impetus for sectors to reduce pollution, and misses an historic opportunity to use funds raised through the scheme for green infrastructure.

#### **Voluntary action**

Voluntary emissions reduction by individuals and non-liable parties has considerable potential to help Australia move towards a carbon constrained economy and stimulate investment in Australian low emissions technology and innovation. In the absence of a substantial national emissions target, voluntary action should not be counted toward CPRS targets.

#### **Price-cap permits**

Under the proposed CPRS, the Government has proposed liable entities are granted access to an unlimited store of additional “price-cap” permits at fixed price. The basic operation of the scheme would therefore be undermined as extra permits would be issued.

These issues are discussed further in this submission.

(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 City submits that multiple solutions are required to avert dangerous climate change beyond the Carbon Pollution Reduction Scheme (CPRS) compliance market. Complimentary measures are necessary including energy efficiency, renewable energy targets, and a “beyond compliance” voluntary market.

Under the CPRS, there is a national greenhouse gas emissions target reduction of between 5 to 15% of 2000 levels by 2020 which would establish a cap (and floor) to Australia's greenhouse gas emissions. The City shares the view of leading scientific consensus that a stronger national target is required in the context of global emissions reductions to reduce the risks associated with climate change.

Unless there is a substantial national emissions reduction target, avenues need to be created for complimentary measures including voluntary action by non-liable entities under CPRS, to be additional to the national emissions cap. This is especially important in early days of the scheme given that CPRS is likely to be constrained by price caps, limited coverage and compensation to polluters.

Even where complimentary measures do not result in greenhouse gas abatement above Australia's national targets, the measures will defer new carbon intensive electricity generation and help Australia to meet its national target faster and with less impact on the community than high carbon permit prices.

The City supports a range of programs which encourage energy avoidance and energy efficiency irrespective of whether an emissions trading scheme is commenced, including:

- The Australian Government commitment to expand the Renewable Energy Target (RET) to 20% by 2020 even in the scenario that an emissions trading scheme is introduced. The expanded RET is believed necessary because the expected carbon price under CPRS is unlikely to result in the timely introduction of new renewable energy.
- Greater investment in demand management and local energy generation instead of continued investment to augment the energy networks that connect to centralised coal-fired electricity generation.
- Introduction of a feed-in tariff for NSW or nationally, to encourage the uptake of solar photovoltaics leading to innovation and reduced cost of the technology.
- The Federal Government's Mandatory Disclosure of Commercial Office Building Energy Efficiency scheme.
- A National Carbon Offset standard if it is designed so that voluntary carbon reduction is additional to emissions caps under CPRS.

Meeting the substantive targets of the City's Sustainable Sydney 2030 Vision means active involvement by our community in a range of emissions reduction initiatives such as energy efficiency programs and using lower carbon heating, cooling and



electricity.

To facilitate this, the City is developing decentralised energy master plans for combined cooling, heating and power, and renewable energy. We are also conducting a trial of energy efficient LED street lighting, and working on a business case for alternative waste treatment which could potentially feed electricity into the grid.

A significant flaw of the draft CPRS is that voluntary actions such as these would simply free-up pollution permits (and lowers the cost) to other polluting sectors of the economy. Communities that believe the cap is not strong enough are rendered powerless to assist Australia move beyond the stated cap.

The community is poorly served by a scheme that would neutralise efforts by organisations and households to reduce their own emissions. Voluntary action has considerable potential to help Australia move towards a carbon constrained economy and stimulate investment in Australian low emissions technology and innovation. In light of the stronger post 2020 targets that Australia has set, the nation needs to be taking steps now to propel innovation and green jobs growth.

The potential for programs like Sustainable Sydney 2030 to improve energy efficiency and generate local low-carbon energy are essential and must not be underestimated in their potential to transition Australia toward its greenhouse emissions targets. The final design for an emissions trading scheme must ensure that complimentary measures such as these receive financial and policy support.

One option could be for the Australian Government to increase the CPRS target each year by the amount of voluntary savings and/or complementary policy such as energy efficiency targets and GreenPower. A 'secondary market' in audited and verified emissions reductions at the household or business level could be created with formal exchange mechanisms between CPRS via intermediaries.

Alternatively, the Government could simply remove from the annual allocation of permits (either free or auctioned), a quantity of permits equivalent to the amount of emissions avoided due to voluntary action in the previous year.

In regard to terrestrial carbon storage, the City supports the protection and enhancement of bio-diverse forests. While CPRS does include the forest sector, carbon sequestration through agricultural practices and the manufacture of bio-char have significant potential to reduce emissions and expand coverage of the scheme.

(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;

Australia's per capita emissions are the highest in the OECD and among the highest in the world<sup>1</sup>. This regrettable position should be the impetus for strong leadership, meaningful targets and robust policy decisions that make significant inroads into these emissions.

The International Panel on Climate Change (IPCC) states that deep cuts of 25-40% cuts to greenhouse gas emissions over 1990 levels are needed by developed countries by 2020 to 'keep climate change from sliding into climate chaos'<sup>2</sup>.

Australia's commitment to cut its greenhouse gas emissions by 5 to 15 per cent of 2000 levels by 2020 falls considerably below this recommended level. The City shares the view of leading scientific consensus that a stronger national target than 5-15% by 2020 is required in the context of global emissions reductions to reduce the risks associated with climate change.

The City of Sydney has endorsed a target for 70 per cent reduction of greenhouse gas emissions from our local government area by 2050 based on 1990 levels. This is based on the IPCC 4<sup>th</sup> Assessment Report.

The City's target is substantially more than the Australian Government long-term target of 60 per cent reduction in greenhouse gas emissions from 2000 levels by 2050. The Australian Government regularly review its long term target in response to latest climate change science.

(d) an appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be;

The following principles should be applied in establishing equitable contribution to the global emission reduction effort:

- Quantification of absolute global emissions thresholds required to constrain atmospheric carbon dioxide equivalent emissions below 450 ppm.
- Conversion of absolute global emissions thresholds to global per capita thresholds which are then extrapolated to absolute national allocations.
- Weighting results based on individual countries historic contribution to atmospheric concentrations of greenhouse gas emissions, concessions, and ability for individual countries to respond to the impacts of change.

<sup>1</sup> Professor Ross Garnaut, Garnaut Climate Change review, Ch 7

<sup>2</sup> Jan 2009 Address by Yvo de Boer, Executive Secretary, United Nations Framework Convention on Climate Change



(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

For reasons outlined in this submission the current design of the Carbon Pollution Reduction Scheme (CPRS) would not send appropriate signals for investment in green infrastructure nor voluntary abatement activities.

The City has strong concerns about the current design of CPRS which would issue free permits to major polluting industries<sup>3</sup>. The magnitude of free permits proposed under CPRS is substantial, at around 50 - 90% of the Scheme's annual revenue.

As experienced by the European Union emissions trading scheme, free permit allocation undermines the effectiveness of emissions trading – which is to give a meaningful financial impetus for sectors to reduce pollution.

The allocation of free permits also misses an historic opportunity to use funds raised through the scheme for large scale investment in energy efficiency, mass transit, and renewable energy infrastructure.

Professor Ross Garnaut has raised grave concerns about the related issue of compensation to generators. In his words “never in the history of Australian public finance has so much been given without public policy purpose, by so many, to so few”.<sup>4</sup>

The CPRS also has provision to control the cost of permits between \$23 to \$40 per tonne for the first five years of the Scheme. Liable entities would have access to an unlimited store of additional “price-cap” permits at fixed price. These extra permits would support a business as usual approach instead of diverting investment into lower pollution opportunities. The basic operation of the scheme would therefore be undermined.

(f) any related matter.

Nil.

<sup>3</sup> Australian Government, Budget Impact of Carbon Pollution Reduction Scheme papers

<sup>4</sup> Professor Ross Garnaut, Oiling the Squeaks, Sydney Morning Herald Dec 20 2008

## Appendix A : Committee Inquiry 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 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.