

27 April 2009

Mr John Hawkins
Secretary
Senate Select Committee on Climate Policy
PO Box 6100
Parliament House
CANBERRA ACT 2600

By Email: economics.sen@aph.gov.au

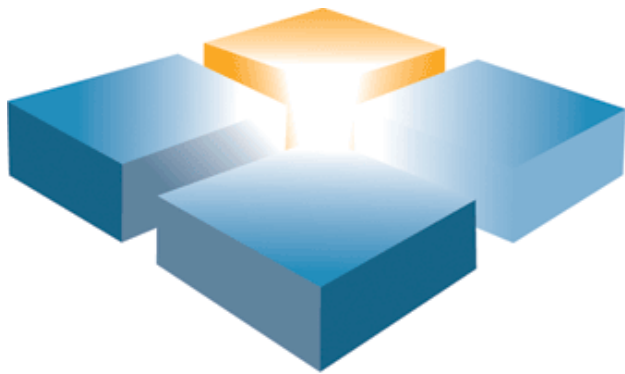
Dear Mr Hawkins

Please find attached the Chamber of Commerce and Industry Queensland's submission to the Senate Select Committee on Climate Policy.

Yours sincerely



Beatrice Booth
President



CHAMBER OF
COMMERCE &
INDUSTRY
QUEENSLAND

**Chamber of Commerce and Industry Queensland
Submission to the Senate Select Committee on Climate
Policy**

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I. INTRODUCTION

The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to participate in the Senate Select Committee inquiry into climate change policy and the Carbon Pollution Reduction Scheme (CPRS).

CCIQ is the peak business organisation in Queensland, representing the interests of 25,000 businesses and 135 chambers of commerce across the State (a more detailed overview of CCIQ's membership is provided in Appendix 1). All of these businesses will be impacted to some extent, either directly or indirectly, by the CPRS and any other measures which may be adopted to address climate change.

In that regard, it is important to note that the vast majority of businesses in Queensland (and Australia for that matter) are small and medium-sized businesses. Indeed, over 95 per cent of Queensland businesses are regarded as small (employ less than twenty people), with a further 4 per cent classified as medium-sized (employ between twenty and two hundred people). Given those demographics, it is imperative that the impact of the CPRS on businesses of this size is adequately assessed prior to its introduction. At this stage, CCIQ is deeply concerned that sufficient analysis of this issue has not been undertaken by the Australian Government.

Queensland, along with Western Australia, has also faces the greatest impacts from the introduction of a carbon price (this fact was acknowledged in the Australian Government's White Paper), with key industries such as coal mining and minerals processing likely to be heavily impacted by the CPRS. CCIQ notes that these industries are key employers in regional and rural areas in Queensland and also make an important contribution to the State's economy and Australia's exports. In addition, these industries directly and indirectly support a large number of small and medium-sized businesses which in turn make important contributions to their local economies and provide employment opportunities for local residents. The potential impact of the CPRS on Queensland's regional communities and businesses can therefore not be understated.

While CCIQ has chosen to prepare its own Queensland-focused submission, the organisation is also a founding member of the Australian Chamber of Commerce and Industry (ACCI) and strongly supports the views that ACCI has expressed in its submission to this inquiry.

II. GENERAL COMMENTS ON THE AUSTRALIAN GOVERNMENT'S PROPOSED POLICY RESPONSE TO CLIMATE CHANGE

A. The CPRS and the Proposed Commencement Date

Queensland business acknowledges that it has a social responsibility to minimise the impact that its activities have on the environment. It is also aware that it needs to work co-operatively with all levels of government and the wider community to address important environmental issues such as climate change.

CCIQ considers that a well designed emissions trading scheme can potentially provide an efficient, effective and nationally consistent mechanism for reducing Australia's greenhouse gas emissions. CCIQ is therefore supportive, in principle, of the establishment of the CPRS. That said, CCIQ is acutely aware that the introduction of the scheme will require significant structural change over the longer term and that this will have serious ramifications for some businesses and regions, the Australian economy and the wider Australian community. Accordingly, it is essential that the CPRS

is designed and implemented in a very careful and considered manner, with sufficient inbuilt 'safety valves'.

It is also imperative that the introduction of any major greenhouse gas reduction measures such as the proposed CPRS is timed to coincide with the introduction of comparable measures by Australia's major international competitors (particularly in key export industries/sectors such as agriculture, mining and minerals processing). There is a very real risk that Australia will damage the international competitiveness of its businesses (both import-competing and exporting) if it implements a more wide-reaching emissions trading scheme before major overseas countries adopt similar measures. This is because there will be considerable financial incentives for businesses to shift their production to countries which do not impose a price on carbon. As the Australian Government and the Australian Parliament are no doubt aware, the loss of this production would have a serious impact on Australia's terms of trade as well as the availability of employment in businesses across the country.

It will also achieve very little, if anything, in terms of emissions reductions as the relevant emissions will simply be shifted from Australia to another country. Indeed, there is a real risk that this outcome may actually be detrimental to the environment as the production processes in the alternative location may be more emissions-intensive than those employed in Australia. For example, the Australian cement industry is a more emissions-efficient producer of cement than China, India, the Middle East and Asia. Any shift of production offshore which occurs as a consequence of the introduction of the CPRS will therefore be likely to result in higher emissions than otherwise would have been the case. This outcome would be entirely inconsistent with the stated aim of reducing global emissions. CCIQ therefore considers that it is essential that Australian action on climate change, including the implementation of the CPRS, mirrors that undertaken by other our major international competitors. This will ensure that Australia maintains its international competitiveness whilst also making a meaningful contribution to global efforts to address climate change.

The current economic downturn strengthens the argument in favour of delaying the commencement of the CPRS. As Senators will no doubt be aware, the performance of the Australian economy has deteriorated significantly over the last six months and it is inevitable that it will be in recession in the near future. This tough economic climate is placing significant pressure on Queensland businesses, with many struggling to maintain employment levels and to remain viable. The last thing that businesses (especially those which are small and medium-sized) need in these challenging circumstances is additional cost imposts; in particular, increases in the cost of a wide range of products and services as a result of the introduction of the CPRS.

Any such costs increases will simply place unwelcome and unnecessary additional pressure on many businesses at a time when they are already grappling with lower revenue, tighter margins and a reduced ability to pass through costs to consumers. It will also increase the risk of business failures and delay any eventual economic recovery. In CCIQ's view, these downside risks are simply too great to continue with the proposed starting date of 2010. Accordingly, CCIQ considers that the Australian Government should not introduce any major climate change measures that will add significantly to business costs until the economy and individual businesses have recovered from the current downturn.

While CCIQ considers the introduction of any major measures should be delayed, it is however critically important that both the Australian Government and the Australian Parliament provide the business community with sufficient certainty regarding Australia's climate change response.

Businesses need certainty on this issue so that they can assess the likely impacts of that policy response and respond accordingly. In particular, the cost implications of the policy response are integral to the major long-term planning, financing and investment decisions of many businesses. There is no doubt that some of these decisions are almost certainly being delayed at the moment until a firm, binding decision on Australia's climate change policy has been made by the Australian Parliament.

It is important to note however that certainty is not contingent on the CPRS coming into force without delay. It simply requires the Australian Government and the Australian Parliament to put the relevant legislative and administrative framework in place as soon as possible and to provide a clear commitment as to the commencement date for the CPRS. Once that occurs, business will have sufficient certainty to plan for the future regardless of whether the start date of the CPRS is 1 July 2010 or 1 July 2012 or later. As noted above, CCIQ is firmly of the view that the CPRS start date should be aligned with the implementation of equivalent measures by Australia's major international competitors.

B. Proposed Targets and Coverage

CCIQ acknowledges that the Australian Government has an electoral mandate to commit Australia to a 60 per cent reduction of its 2000 emissions by 2050. Given that the proposed 2020 target range of 5 to 15 per cent reduction in 2000 emissions amounts to a 27 to 34 per cent reduction in the per capita emissions of *every* Australian, the challenges associated with reducing emissions by 60 per cent cannot be understated. Achieving this target will require a very significant per capita reduction in emissions on the part of each and every Australian.

CCIQ considers that a gentle start to emissions reduction is essential, as it will minimise the potential for serious shocks while businesses adapt to the new economic reality of an economy-wide carbon price. In addition to a soft start, CCIQ believes that future targets and trajectories should not exceed those adopted by Australia's major international competitors. As noted above, Australia stands to gain little from being at the forefront of global reductions in emissions and risks irreparably damaging its economy and reducing the welfare of its community if it pursues such an approach.

In terms of the Australian Government's specific proposals, CCIQ is comfortable with the proposed approach of setting scheme caps for five years in advance, using a 'gateway' or emissions range for the ten years beyond the caps and leaving the scheme caps unadjusted in the event that they are inconsistent with Australia's international commitments (that is, the Australian Government will make up any shortfall in Australia's emissions targets by purchasing sufficient international emissions units). CCIQ considers that this approach will provide business and the wider community with greater certainty regarding the required emissions reductions and hence the likely price of permits.

At this stage, CCIQ is comfortable with the proposed initial coverage of the CPRS. CCIQ also supports the Australian Government's stated intention to ensure that the CPRS has, in the longer term, maximum practical coverage of Australia's greenhouse gas emissions. CCIQ considers that the broadest possible coverage is crucial if the costs associated with emissions reduction are to be minimised and distributed on equitable basis across the community.

Consequently, while CCIQ acknowledges the unique challenges associated with including agricultural emissions in the CPRS, we believe that it is important that these emissions are

eventually incorporated into the scheme if possible as they represent a significant proportion of Australia's overall emissions. If this is not possible, CCIQ is of the view that the Australian Government should implement alternative measures to ensure that the agricultural sector contributes its fair share to the costs incurred in reducing Australia's greenhouse gas emissions.

C. Proposed Compensation Arrangements

CCIQ notes that targeted compensation has an important role to play in ensuring that any such adverse outcomes are either avoided or minimised. That said, CCIQ does have some concerns about the proposed compensation arrangements.

Firstly, the imposition of an arbitrary set of thresholds increases the potential for market distortions. For example, a business which fails to satisfy the relevant threshold will miss out on any compensation. It may however be competing against another domestic business which just satisfies the relevant threshold and is therefore eligible for compensation. The second business may potentially gain a taxpayer-funded competitive advantage over the first business by virtue of the compensation arrangements. CCIQ considers that the compensation arrangements for the CPRS must be carefully designed and closely monitored following implementation to ensure that they do not create this type of market distortion.

CCIQ also notes that some smaller trade-exposed, emissions-intensive businesses may potentially lack the resources (financial and/or knowledge) to put together a satisfactory application for assistance. Accordingly, CCIQ believes that the Australian Government must ensure that it has appropriate measures in place to provide assistance to smaller businesses which may be eligible for trade-exposed, emissions-intensive compensation to prepare their applications.

Secondly, while CCIQ is strongly supportive of assistance for trade-exposed industries, the Chamber notes that the needs of this sector must be balanced against the needs of other businesses and the wider community. Increasing the assistance provided to the emissions-intensive, trade-exposed sector will shift more of the emissions reduction burden onto the rest of the business community. It is therefore important that the assistance arrangements facilitate, to the greatest extent possible, an equitable sharing of the emissions reduction burden across the entire Australian community.

III. GENERAL COMMENTS ON CLIMATE CHANGE POLICY

As noted above, it is essential that Australian action on climate change, including the implementation of the CPRS, mirrors that undertaken by other major industrialised countries. This will ensure that Australia maintains its international competitiveness whilst also making a meaningful contribution to global efforts to address climate change. There is a very real risk that Australia will damage the international competitiveness of its businesses (both import-competing and exporting) if it implements more wide-reaching emissions reduction measures before similar steps are undertaken by our major international competitors. This is because there will be considerable incentives for businesses to shift their production to countries which do not impose a price on carbon. As the Australian Government and the Australian Parliament are no doubt aware, the loss of this production would have a serious impact on Australia's terms of trade as well as the availability of employment in businesses across the country.

It is also imperative that the Australian Government develops and implements robust long-term strategies to address some of the major challenges associated with reducing the nation's

emissions, including maintaining the long-term strength and prosperity of the Australian economy. In particular, the Australian Government must ensure that it provides tangible and timely assistance to the most seriously affected communities. This assistance must help these communities to adjust gradually to the realities of a carbon-constrained economy and to remain sustainable in the future.

For example, the Gladstone community in Central Queensland will potentially be particularly hard hit by the CPRS in the longer term, with a number of the region's key activities at risk in a carbon-constrained environment including cement production and minerals processing. These industries not only employ a significant number of people and make an important contribution to the local community, they also directly and indirectly support a large number of local businesses. The loss of these industries would therefore have a very serious impact on the Gladstone economy and on the employment and business opportunities available to the local community.

Aside from the impacts on energy prices and local employment, one of the major concerns for rural and regional businesses and communities in Queensland is the impact that emissions reduction measures will have on transportation costs. As Senators will no doubt be aware, many communities in rural, regional and remote Queensland are very reliant on heavy vehicle and rail transport for the delivery of both essential and non-essential goods and services. Any increase in transportation costs is therefore likely to have a significant impact on the welfare of these communities given the substantial distances that must be travelled to reach them and the lack of public transport options in these areas.

At this stage, the Australian Government has not announced any specific long-term measures to address this issue and the short-term exemptions on fuel-based emissions provide little certainty for residents and businesses in these areas. The proposed tax system-based compensation arrangements also do not adequately acknowledge the fact that residents in some rural and remote areas of Queensland will likely experience a greater cost impact on essential goods and services than residents in other areas of the State and Australia. Given the potential impacts, CCIQ believes that the Australian Government must clearly provide much clearer and more comprehensive strategies for addressing these issues in the long term prior to any vote on the CPRS.

CCIQ also considers that there is the potential for various levels of government to introduce competing and/or inconsistent policy measures to reduce emissions and address climate change more generally. CCIQ is strongly of the view that the CPRS, if it is implemented, should be the primary mechanism for driving the desired reductions in Australia's emissions. Any existing or proposed greenhouse gas abatement measures at the federal, state and local level will need to be reconsidered in light of the introduction of a comprehensive emissions trading scheme. There is a very real risk that some of these additional policy measures may actually increase abatement costs with no additional reduction in emissions. Given that, CCIQ considers that additional abatement policies should only be adopted or retained in circumstances where there is a clearly identified market failure or gap in the coverage of the scheme. Abatement policies which cannot be justified in the presence of a functioning emissions trading scheme should be removed in a timely manner.

The compliance costs associated with any climate policy measures must also be minimised.

IV. Contact Information

If you wish to discuss any aspect of CCIQ's submission in more detail, please contact Sarah Kearney, Senior Policy Advisor, on (07) 3842 2253 (skearney@cciq.com.au) or Nick Behrens, General Manager – Policy, on (07) 3842 2279 (nbehrens@cciq.com.au).

Appendix 1 – CCIQ Membership Profile

invigorating

> Chamber of Commerce & Industry Queensland Profile



CHAMBER OF
COMMERCE &
INDUSTRY
QUEENSLAND

Chamber of Commerce & Industry Queensland is the state's peak industry body, representing the interests of 25,000 businesses, across all industry sectors and in all regions. We champion business to gear up for the future today with the right set of solutions for success in tomorrow's world.

Chamber of Commerce & Industry Queensland is a non-government organisation that seeks to work with Government and other groups to shape Queensland's economic and social environments in a way that promotes business growth and community prosperity.

Chamber of Commerce & Industry Queensland is called upon by thousands of enterprises to deliver a broad range of business services including business representation, business compliance, business skills, business safety, business sustainability, business connections and business globally. We are commercially-minded and expertly-qualified.

Chamber of Commerce & Industry Queensland is a founding member and influential partner of the Australian Chamber of Commerce and Industry (ACCI) and part of the worldwide network of Chambers of Commerce and affiliated business service organisations.

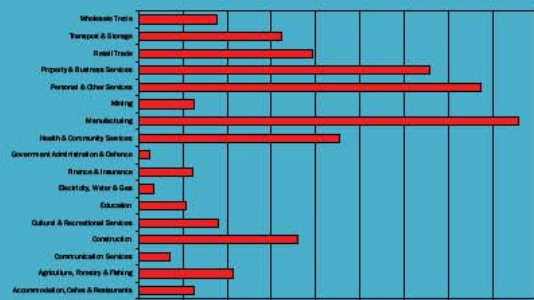
Chamber of Commerce & Industry Queensland has in excess of 3,700 members across 8 regional offices and represents over 135 local chambers of commerce and 60 trade and professional associations.

Our vision is to invigorate business success in Queensland.

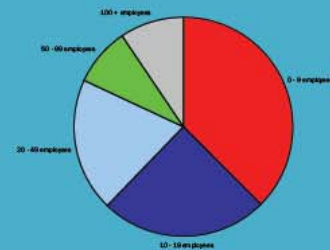


The diversification of Chamber of Commerce & Industry Queensland's membership is illustrated in the following charts:

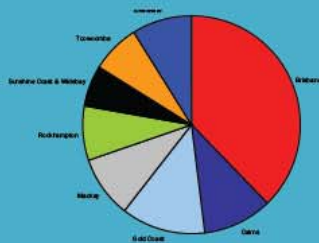
Commerce Queensland members by Industry



Commerce Queensland members by Employment Size



Commerce Queensland members by Region



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