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### **Green Paper Submission**

Thankyou for the opportunity to comment on the Carbon Pollution Reduction Scheme Green Paper.

The Clarence branch of Climate Change Australia was formed as a local community group to respond to climate change issues. We aim to raise community awareness and responsibility about climate change, and to lobby all tiers of government to implement genuine and effective mitigation and adaptation measures to address climate change.

We congratulate the Government for taking a step towards mitigation through the CPR Scheme. It is a necessary step towards the change which must occur if meaningful mitigation is to be achieved, and if Australia is to have any credibility in a global climate change mitigation context.

We support the core objective (1.1) of the proposed CPRS: 'to meet Australia's emissions reduction targets in the most flexible and cost-effective way; to support an effective global response to climate change; and to provide for transitional assistance for the most affected households and firms'.

We support the use of a cap and trade system as a concept whose success depends on:

- coverage being sufficiently comprehensive
- the scheme cap being set at a low enough level for the market to send a genuine price signal to consumers
- genuine protection of low-income households while a meaningful price signal is being sent to all other consumers
- the most significant emission sources –petrol and coal - being addressed adequately and with a high degree of certainty about the future
- the cap being set independently of government
- agriculture being included in the scheme as soon as possible
- implementation of a range of complementary measures to encourage demand management

- the scheme being administered independently of government
- genuine incentives being created for the development of low-emissions technologies
- assistance to high-emissions industries kept to an absolute minimum
- provision of high levels of certainty about the scheme's operation from the outset.

According to the Green Paper, sectors with high abatement costs have a strong incentive to reduce carbon liability exposures, and the introduction of a carbon price provides a financial incentive for investment in low-emissions technology research, development and commercialisation. The Paper says a carbon cap should lead to consumer behavioural changes. With these desired outcomes in mind, we offer the following comments:

### **Emissions targets**

Caps under the CPRS must be consistent with reducing national emissions by at least 40% cuts by 2020 (compared to 1990 levels) taking into account any exemptions for noncovered sectors. We note Professor Ross Garnaut takes a pessimistic view of Australians' willingness to make serious changes, and his final report will likely reluctantly nominate an extremely low medium emissions target. We expect the Government to rise to Professor Garnaut's challenge and adopt a meaningful target.

### **Complementary measures**

The Green Paper compares the relative merits of an emissions trading scheme against a regulatory scheme. We agree that a trading scheme will be more useful in helping Australia to meet its international obligations. We suggest additional energy efficiency measures would support the scheme by taking some high-emissions activities out of the carbon equation. Examples are:

- Reform the fringe benefit tax to encourage fuel conservation. Currently, the further a car is driven, the less tax paid by the employee.
- Increase import tariffs on low-fuel efficient cars
- Invest in public transport
- Offer a free solar hot water service to all households
- Introduce a requirement for all air conditioners to include solar power unit
- Increase sales tax on high-emissions durables.

### **Strongly Affected Industries**

Until the quantum of assistance to SAIs is determined, it is difficult to provide detailed feedback. On the basis of information provided in the Green Paper, we are unlikely to support assistance for SAIs. We offer the following comments in the absence of more detailed information.

Electricity in Australia is cheap. That is why we waste it. Stationary energy provides 50% of Australia's greenhouse gas emissions and is the fastest growing source of emissions. Most emissions from this source are from the electricity generation sector. The Green Paper says coverage of this sector is critical to meeting Australia's climate change requirements.

It is therefore not clear why coal fired power stations are proposed to be protected from the scheme as strongly affected industries. Protecting SAIs seems inconsistent with the scheme's intent to make emissions-intensive goods more expensive than those that are less emissions-intensive. Compensating SAIs means less revenue for facilitating the transition to low carbon technologies.

According to the Green Paper, an emissions intensive industry cannot increase its prices without fear that its lower-priced competitors will undercut them. But it is market behaviour which drives the CPR Scheme. The desired outcome is that the market will necessitate high-emissions technology being supplanted by low-emissions technology. We want new low-emitting entrants in the generation industry. Again, until the quantum of assistance is known it is difficult to judge whether protecting SAIs would reduce market opportunities for low-emissions generators.

If the Government decided to protect SAIs, we would then advocate the issuing of marginally discounted permits on a once and for all basis for existing (June 2007) generators, rather than on-going allocations of assistance. This will accelerate the need to investigate CCS, stimulate the low-emissions generation sector, and necessitate demand management by consumers. The quantity of assistance should be sufficiently low as to avoid any disincentives to investment in low-emissions generators. Incentives should be given to low-emissions generators who can readily respond to spikes in demand. The scheme should be able to reduce the level of risk for investors in low-emissions generators.

We support the preferred position for assistance for affected communities and workers.

We hope CCS proves viable and can be managed responsibly in the very long-term. We hope the cost of abatement using CCS will be lower than the carbon price. It is hard to imagine this.

## **Transport**

The Green Paper recommends offsetting rises in fuel prices as a result of the CPRS by reducing the fuel excise on a dollar for dollar basis, to be reviewed in three years. We believe this is a risky strategy. The review is sure to become a controversial political issue. We do not support the fuel offset. Motorists will have from now until 2010 to make decisions about their fuel usage. Another three years would see a loss of revenue and loss of emissions-reduction opportunities. If an offset is necessary, the scheme should set a firm sunset date and adhere to it, rather than promising reviews and adjustments. This will allow motorists, public transport providers, businesses and town planners to make decisions based on firmly expected outcomes. Any transport-related financial assistance should be directed towards public transport (including regional and inter-city services) and cycling infrastructure.

We support domestic aviation being covered by the scheme. We believe international aviation must also be somehow accounted for. We acknowledge it is complex. Perhaps it could be on the basis of every Australian passenger on an international flight. If domestic aviation becomes more expensive than international flights, people may opt to take more overseas holidays – a perverse and damaging outcome.

## **Assistance to households**

It is important that the CPRS does not result in regressive wealth impacts. We support providing assistance to low income households through the tax and payment system.

We do not support cash payments being given to other households. There is no energy-conservation incentive in that approach. Instead, all households should be offered a rebate on energy efficiency house improvements of the householder's choice – eg insulation, solar hot water, awnings. This would lessen the impact of electricity price rises by reducing the household's power bills. We support all measures to implement energy efficiency in rental accommodation.

### **Use of permit revenue**

Revenue from permit auctions should be used to support restructuring the society and economy, including the deployment of climate change solutions and minimise the impact of climate change on those most affected. This should include:

- Renewable energy research, commercialisation and deployment.
- Assistance for low-income households to improve energy efficiency and minimise the impact of any increase in energy costs.
- Contributing to international adaptation financing for least developed countries.
- Phase-out and industry structural adjustment for emissions-intensive products like beef, aluminium and cement.
- Land stewardship payments to reduce land-based emissions.
- Providing adjustment measures to assist the most adversely affected communities and workers.
- Investment in public transport
- A biodiversity fund to provide incentives for reforestation of native species.

### **Deforestation**

We believe deforestation should be covered in the scheme. According to the Green Paper there are too many small entities to include. However, State clearing regulations would provide records of approvals, which would make coverage of deforestation relatively easy to apply. Scheme obligations could be tied to the state clearing approvals process. There should be no size thresholds, as much clearing is small-scale. If the Government decides to include deforestation, it should consider how to avoid people avoid panic-clearing.

### **Compliance**

We support the approach of publicly available information on prices, free permit issue, permit shortfalls and non-compliance. This will create more accountability and transparency, and give businesses opportunities to promote their green credentials.

We support the imposition of a penalty and a make-good provision for non-compliance. The penalty rate should proportionally well above the permit market price so it is not used as a price cap.

We support the proposal to allow any entity to voluntarily surrender permits regardless of whether they have obligations under the scheme.

### **Price cap**

We support the inclusion of banking and borrowing permits to help smooth out price spikes. We are concerned that a price cap may have the potential to compromise the

emissions cap by lowering the permit price and consequently increasing the supply of permits when the market price for permits exceeds a certain level. The scheme cap would be pushed out to accommodate emission levels, rather than the scheme cap acting as a determinant of emission levels. The scheme should restrict itself to controlling the quantity of emissions, and allow the banking and borrowing mechanisms to smooth out potential price volatility.

Promising to review the price cap after five years creates uncertainty. It is important that the scheme provides a clear direction from the outset, so that consumers and business can plan with the best information. As with the fuel excise, government will be under pressure to maintain the price cap in any future review, and the issue will become politicised. If there is a fear of high permit prices in 2010, why wouldn't there be a fear of high prices later on? The scheme will not be truly bedded down until all temporary appeasement mechanisms have been removed. As the cap decreases over time, fear of higher permit prices would be well-founded – higher prices are the basis of the scheme's rationale. Early equivocating is likely to be a liability for the scheme.

## **Auctioning**

We support the scheme progressively moving towards 100% auctioning, as transitional assistance to SAIs and EITEs is removed.

## **Emissions Intensive Trade Exposed Industries**

Many existing EITE industries are located in Australia because of the presence of raw materials and stable political structures. We are not convinced that a majority of companies would choose to relocate offshore as a result of the CPRS. Any issue of free permits would compromise the cap, increase the emissions reduction burden on other sectors, and limit the amount of money available for assisting industries and households to genuinely adjust to a low carbon economy. Potential carbon leakage of an industry should be carefully and transparently assessed to determine if there are indeed alternative, more viable locations. Border tax adjustments are a more equitable, effective and transparent method of avoiding leakage of emissions internationally than free allocation of permits.

Notwithstanding the above, we recognise the political and economic realities that underpin the EITE concept. If assistance is provided to EITEs, we offer the following comments:

We support assistance being provided on the basis of industry average activity emission intensities rather than the intensity of a particular firm.

We support reduction of the degree of assistance over time at a pre-announced rate. This approach is more equitable across sectors.

Any assistance should be conditional on the industry funding and participating in a long term, low carbon transition plan. Assistance should only be available until international competitors face similar carbon constraints.

## **Review**

The Government needs to be bold about sending firm signals to consumers and business. Protecting some emitters over others, being vague about start dates, and promising future reviews of various scheme components (eg fuel excise offsets and price cap) will only lead to a loss of faith. Certainty is important. It allows people to feel safer about making their business and lifestyle decisions.

It is important that the proposed regular five-year scheme review does not create a lobbying point at which industry pressure will be brought to bear on the regulator. Scope of the reviews should be tightly defined, and the process should be transparent and public. Reviews should not allow targets to be weakened for financial or political reasons.

### **Governance & implementation**

We support the formation of an independent carbon bank as proposed in the Garnaut Report, modelled on the Reserve Bank. We do not support the scheme regulator being accountable to a Government minister. We believe high emitting sectors are likely to attempt to exert high level of influence on the government of the day, potentially compromising the CPR Scheme.

We agree that decisions about medium and long-term national emissions targets should be informed by the public advice of an independent expert committee. The targets should be referenced in the Act to signal their durability.

Again, thankyou for the opportunity to comment. We hope the formation of the scheme can be driven by government desire to achieve genuine and effective environmental outcomes.

Yours sincerely

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On behalf of Climate Change Australia - Clarence Branch