



CLIMATE ACTION NETWORK AUSTRALIA (CANA)

RESPONSE TO TASK GROUP ON EMISSIONS TRADING ISSUES PAPER
MARCH 9 2007

This submission is endorsed by the following organisations:

Australian Conservation Foundation
Conservation Council of the South East Region and Canberra
Environment Victoria
Greenpeace
Nature Conservation Council of NSW
Queensland Conservation Council
Tasmanian Conservation Trust
Total Environment Centre

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Climate Action Network Australia (CANA) is an alliance of 38 regional, state and national environmental, community development, faith and research groups. CANA was formed in 1998 as the Australian branch of the global Climate Action Network, which has representative groups in over 70 nations.

CANA welcomes the Federal Government's interest in emissions trading. We note that the narrow composition and terms of reference of the Task Group (TG) may make it difficult to achieve a balanced outcome. Nevertheless, we appreciate the opportunity to meet with staff of the Secretariat, and to make this submission.

The following points summarise CANA's policy on the prospect of an ETS for Australia, as well as its response to the questions raised in the Issues Paper.

1.Environmental outcomes given priority

There is no point in creating a national ETS or joining an international ETS unless it leads to significant reductions in GHG emissions. This must be the fundamental and non-negotiable starting point for any serious discussion of an ETS. Models such as the McKibbin-Wilcoxon blueprint, which prioritise business certainty at the expense of environmental outcomes, will not produce the deep cuts required to prevent dangerous climate change.

This means legislating for deep cuts. According to the best scientific data and projections currently available, in order to avoid dangerous climate change of 2 degrees Celsius or above Australia and other industrialised nations need to reduce their GHG emissions by a minimum of 30% by 2020, and 80% by 2050 compared with 1990 levels. While the 2050 target may need to be revised in the interim, a cut of 30% by 2020 is possible and can be achieved using existing technologies.

An ETS is an important measure to achieve the 30% by 2020 goal, but it is not the only measure. Complementary measures are equally as important and are discussed in point 6 below. An emissions trading scheme on its own will not be sufficient to make the deep cuts required to avoid dangerous climate change.

2.Environment AND economy

We believe that Australia's GHG emissions can be progressively reduced at an acceptable cost to the economy. As the Stern Report, the Allen Consulting report to the Business Leaders Roundtable on Climate Change and others point out, it is likely that there will be greater costs to the economy by *not* taking early action on climate change. For Australia the costs of not developing an effective climate change response, that could include emissions trading, will include:

- Australian agriculture and tourism, together worth \$76 billion in 2003-04, are likely to be particularly hard hit by the impacts of climate change.
- Australia would lose competitive advantage as other nations develop renewable energy technologies and industries while we remain fossil fuel-dependent due to the lack of incentives for R & D and for improving energy efficiency.
- Australia is likely to be excluded from regional or global ETSs.

There are some industries (eg, aluminium and steel smelting) which will incur additional expenditure through the need to buy emissions permits, the increased cost of energy and/or the cost of cleaner and more energy efficient plant and vehicles. There are others (especially coal extraction and export) which will become less viable as the global and Australian economies move to less fossil fuel dependent energy sources. However, opportunities are emerging for other, more greenhouse-friendly industries to emerge to take their places. For instance, the Terms of Reference refer to Australia's "large reserves of fossil fuels and uranium", but neglect to mention Australia's large reserves of natural gas and geothermal energy and its potential to develop substantial solar and wind energy industries.

In other words, Australia's response to climate change should not be framed in terms of the environment versus the economy but as an opportunity to conserve the global environment while also maintaining our prosperity.

3.National AND global ETSs

The Terms of Reference ask the TG to report on "a workable global emissions trading system in which Australia would be able to participate." However, there is merit in introducing a national ETS independent of what happens internationally. While the Issues Paper (IP) is correct in calling for "the development of a pathway by which major developing countries would make contributions to the overall global effort to cut emissions", this should not take the place of unilateral national action to cut emissions, or agreements with other developed countries to collectively lower emissions.

This is partly a moral issue. Developed countries have a responsibility to take the lead in reducing greenhouse gas emissions, as they have a historic responsibility for the majority of greenhouse emissions in the atmosphere, and continue to produce significantly higher per capita emissions than developing countries. Australia is in the unenviable position of polluting roughly as much as Indonesia, with 10 times our population, and with a per capita pollution level approximately 6 times that of China.

It is also a practical and economic issue. To avoid implementing a national scheme until such time as there is agreement with all other countries would place Australia firmly at the rear of new markets and opportunities. The Kyoto Protocol already includes emissions trading between countries, and includes the Clean Development Mechanism, which is a form of emissions trading between developing and developed

countries. India and China are already participating in the CDM. The European Union Emissions Trading scheme is Kyoto compliant and in operation across the 25 EU countries. Whilst it is in an early, trial phase and has experienced some teething problems, it would be possible for Australian companies to participate in this market (which was worth around \$10 billion in 2006 and is growing rapidly) by designing a market that would also be Kyoto compliant – and also, of course, by ratifying the Kyoto Protocol. The EU is already talking to a coalition of States from the US as to how their systems can trade with each other; it is expected that this will very quickly become the default global trading system.

We also note that with the recent announcement by State Premiers that they will begin a state-based scheme by 2010 unless the Commonwealth takes the lead, the Federal Government may be forced to act on a national scheme before negotiations on a global scheme are concluded.

The need for urgent action is another incentive not to wait for the emergence of a global scheme. Australia could implement a Kyoto- and EU-compliant scheme as early as 2008, and should be implemented no later than 2010 in order to reduce the long term impact of GHGs.

4. What kind of scheme?

CANA's preference is for an auction-based cap and trade system, supplemented if necessary by a carbon tax.

Cap and trade

A cap and trade scheme is the only scheme design that will ensure environmental outcomes. Caps should be on actual emissions, not on a per capita basis. Under a cap and trade system, a total cap is set on the absolute quantity of emissions over a defined period of time and the total is subsequently divided into allowances and auctioned to individual sources.

The scheme should not include offsets, which merely divert investment and resources. An emissions trading scheme must provide an incentive to restructure energy and industrial infrastructure in order to reduce GHG emissions at source, and hence reduce Australia's GHG emissions footprint permanently. Offsets will dilute this incentive, and distract from the restructure that needs to occur for Australia to follow a low emissions pathway.

The use of overseas-sourced permits should only be supplemental (5%) to domestic action and restricted to Kyoto-compliant trading schemes.

Baseline and credit

These schemes are extremely vulnerable to gaming and fraud. The setting of baselines, against which abatement is measured, is difficult and contentious, and the additionality of the reductions achieved is uncertain. The experience of both the NSW Greenhouse Gas Abatement Scheme (NGAS) and the Kyoto Protocol's Clean Development Mechanism (CDM) bears this out.

Carbon tax

The IP argues against a carbon tax on industry on the grounds that it is less flexible than emissions trading and "is not necessarily sufficient... to deliver an appropriate level of research and development." However, if a carbon tax is set at a sufficiently high level then its effect on research and development would be virtually identical to an effective cap and trade scheme. In both cases research and development is driven by the incentive to lower the tax and/or permit costs incurred by a company. A carbon tax has the advantage that it is more straightforward and more difficult for industry to "game".

A carbon tax would need to be set at a level which would provide a significant disincentive to pollute (Stern has identified the real cost of a tonne of greenhouse pollution at AUD\$110 per tonne).

5. Coverage and timing

In order to achieve the best possible environmental outcome, the scheme should be applied to most sectors of the economy – ie, to electricity generation, the transport sector (via wholesale liquid fuel sellers), industrial emissions (eg, cement and steel manufacturing) and waste disposal – with the exception of agriculture and land use change and forestry, as emissions reductions in agriculture and land use change and forestry sectors can be better achieved with other policy instruments (see 6. *Complementary measures*).

The need for equivalent CO₂ levels to peak and drop as soon as possible means that a national scheme should start by 2010 at the latest, and preferably by 2008. The need for cuts requires the use of a progressively lowering cap, meaning that fewer permits would be auctioned in each period.

The cap should be reviewed regularly in the light of new scientific data, to ensure that it continues to be set at a level that will avoid dangerous climate change.

6. Complementary measures

An emissions trading scheme is only one of a range of measures that Australia will need to implement in order to make the deep cuts required to avoid dangerous climate change. On its own an emissions trading scheme will not drive the deep reductions in greenhouse gases required to avoid dangerous climate change.

Australia should ratify the Kyoto Protocol, for several reasons: as an “act of good faith”; in order for Australia to be involved in the existing Kyoto-based ETS, with benefits for Australian businesses; and in order for Australia to participate more effectively in negotiations towards a stronger, more global post-2012 strategy.

The national ETS should be complemented by a range of other greenhouse gas abatement initiatives, including:

- Reform of the National Electricity Market and electricity network regulation away from its current bias towards energy supply and towards the provision of energy services, including energy efficiency and demand management.
- Increase market incentives for renewable energy through increasing the Mandatory Renewable Energy Target to 25% by 2020, and other market development schemes.
- Provide tax concessions for renewable energy research and development.
- Provide tax concessions for industrial, commercial and domestic energy conservation and renewable energy usage.
- Set an energy efficiency target to reach and exceed world’s best practice energy efficiency in the residential, commercial, industrial, agriculture and government sectors, including incentives for the greater use of renewables or retrofitting plant, offices and dwellings and plant for better energy efficiency.
- Require businesses to implement energy efficiency opportunities that have a payback period of less than 10 years.
- Implement a comprehensive, national scheme for encouraging public and active transport, with funding similar to the national roads funding.
- End incentives for pollution such as the FBT regime which encourages high motor vehicle usage and the diesel tax rebate for extractive industries.
- Set mandatory world’s best practice vehicle emission standards.
- A price of carbon should be applied to emissions from land clearing and logging. This should be in the form of a carbon tax. With remote sensing and standard carbon models it would be relatively easy to calculate the tax liabilities of land clearing and also possible to calculate the tax liability from logging native forests.
- Provide tax concessions and other incentives for large-scale reforestation of Australia’s 80 million hectares of cleared land.
- Prohibit logging of old growth forests and phase out logging of high conservation value native forests in order to help reach necessary reductions in greenhouse pollution.
- Introduce and enforce clear, defined legislation banning broad-scale clearing of remnant native vegetation across all states.
- Remove native forest bioenergy from the MRET definitions of renewable energy, since it is neither greenhouse neutral nor sustainable.
- Ensure that timber plantations for biofuels are subject to strict environmental considerations and have Forest Stewardship Council certification.

7. Administration of the scheme

- Permits must be auctioned rather than administratively allocated.
- So called “grandfathering”, or allocation according to historic emissions is the worst form of administrative allocation as it discourages early action and rewards polluters. “Grandfathering” is also the most expensive form of allocation as it has high transaction costs, is open to manipulation and rorting, and does not provide a transparent cost of carbon. “Grandfathering” is equivalent to a property right being given away and represents a transfer of wealth from the community to polluters. “Grandfathering” would make it much harder to guarantee emission reductions.
- The major bonus of auctioning is that revenue raised can be recycled through energy R&D spending or structural adjustment schemes.¹ Consumers will face cost increases whether permits are auctioned or administratively allocated, but only auctioning provides revenue for governments to use to compensate and assist dislocated workers and the community, and to assist industrial transition
- Revenue raised from the scheme should be allocated to renewable energy and energy efficiency incentives, programs to provide transition assistance to affected communities, including coal communities and farmers whose land may become unviable, compensating low-income consumers and providing support to Asia Pacific countries who will be adversely affected by climate change.
- To avoid comparative economic disadvantage, some revenue from the auctioning of permits could be allocated to States to assist with structural adjustment in the same way that GST revenues are distributed. However, the ETS should have one total cap and one auction scheme across states to prevent companies and states from gaming the system.
- Permits should be short-term licenses, not property rights.
- As a market-based approach, any ETS should not allow opt-outs such as the recent deal between the NSW Government and BHP Billiton.
- The regulatory body established to oversee the functioning of the ETS must be independent, transparent and accountable to the public. The Board or Committee overseeing the regulating body should include representatives from the environmental and social NGO sectors as well as scientists and business representatives.