

SUBMISSION TO

CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

Name of organisation:

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Date:

September 9, 2008

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Green Paper Submissions
Department of Climate Change
GPO Box 854
Canberra Act 2601

Submitted by email: emissionstrading@climatechange.gov.au:

September 9, 2008



To whom it may concern,

Thank you for this opportunity to comment on the Government's Carbon Pollution Reduction Scheme (CPRS) Green Paper. After decades of ineffective responses to climate change, the CPRS Green Paper indicates that the Rudd Government understands the need to respond to climate change.

The Climate Action Network Australia (CAN A; www.cana.net.au) is the peak body of non-government organisations seeking an effective response to climate change, with over 50 member organisations. These organisations represent the faith, community, development, and environmental movements, as well as the research community. CAN A is the Australian arm of the Climate Action Network International, represented in over 80 countries. A list of member organisations endorsing this submission is included on the end page of this submission.

CAN A's key objective is to reduce greenhouse gas emissions effectively, equitably, and rapidly. CAN A will support the introduction of an Australian CPRS if it meets these criteria. CAN A commends 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 welcome the CPRS starting date of 2010 and the intention to move to 100 percent auctioning of permits. We emphasise that every sector must assume responsibility for its fair share of greenhouse gas reductions. If one sector is exempted, then other sectors will have to bear the costs of meeting the exempted sectors' shortfall.

Despite our tentative support of the CPRS, we have a number of significant concerns about the proposed design outlined in the CPRS Green Paper. We have addressed these concerns in the attached submission. This submission is presented in two parts. Part A addresses criteria specifically set out in the CPRS Green Paper. Part B outlines crucial issues for the effectiveness of greenhouse gas reductions that have not been addressed in the CPRS Green Paper.

CAN A is concerned that the CPRS will not, in the short term, achieve the necessary emission reductions on its own if the price signal is not high enough to drive large-scale, short term reductions in greenhouse gases. Given this, complementary measures will be required in all sectors to maximise emission reduction efficiencies and the speed at which reductions are initiated. The suite of complementary measures include a strong renewable energy target, energy efficiency measures and deployment at commercial scale of renewable energy technology.

CANA is happy to provide further information or clarification on any of the issues raised in this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Julie-Anne Richards'. The signature is written in a cursive style with a large, circular initial 'J'.

Julie-Anne Richards
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Submission to the Carbon Pollution Reduction Scheme Green Paper

Climate Action Network Australia

www.cana.net.au

September 9, 2008

Part A: Responding to selected issues in CPRS Green Paper

2. Coverage

2.2 *In general, the emissions threshold for direct obligations under the scheme would apply to entities with facilities which have direct emissions of 25,000 tCO₂-e a year or more. Different thresholds may be required for the waste sector and synthetic GHGs*

CANA's recommendation: The CPRS should cover all major emissions sources for which it is practical to measure emissions with the accuracy needed to support a robust CPRS. At least 70% of Australia's emissions should be covered.

2.4 *The Government has committed to cut fuel taxes on a cent for cent basis to offset the initial price impact on fuel associated with the introduction of the CPR Scheme. The Government will periodically assess the adequacy of this measure for 3 years and adjust this offset accordingly.*

CANA's recommendation: Cutting fuel excise is a concern as it will give an artificial (albeit temporary) advantage to emissions intensive personal and freight transport modes. This will also create an unintended effect on transport prices. Additionally, the proposed source of the fuel excise funding is the Climate Change Action Fund, which provides key funds to invest in areas such as public transport. It is unlikely this funding will ever be replaced.

2.19 *The Govt is disposed to include agriculture emissions in the scheme by 2015 and to make a final decision on this in 2013. Given the compliance costs that would be involved if scheme obligations were to apply at farm-level, the Govt seeks stakeholder views on the merits of an approach to coverage that would apply obligations generally off-farm, at some other point in the supply chain (for example, on fertiliser suppliers, abattoirs, dairies and beef exporters). The Govt recognises that any approach will also need to provide appropriate incentives for on-farm abatement.*

CANA's recommendation: Currently only agriculture, land use and forestry should be excluded due to a lack of robust measurement. These sectors could be covered in the future, but complementary measures are currently required urgently to begin reducing emissions from these excluded sectors. This approach will ensure every sector undertakes its fair share to reach the national emission reduction target. Reforestation efforts must be separate to the CPRS, and no 'carbon credits' from tree planting should be used to offset greenhouse pollution within the CPRS. Emissions abatement from the forestry sector should be pursued through parallel or complimentary measures. Additionally, if forestry sinks were included within the CPRS, this would prevent this scheme linking with the EU ETS.

2.20 All reforestation (as defined for the first commitment period of the Kyoto Protocol) would be included, on a voluntary basis, from scheme commencement in 2010, with design details to be determined.

CANA's recommendation: Opt-in options for plantations should not be allowed, as this will encourage fast-growing forests or forestry operation that create carbon 'debits' to stay out of the scheme, resulting in asymmetric accounting. Of a broader concern, the CPRS should seek to account for all emissions, rather than selecting and excluding specific sectors or industries. CANA is further concerned about a scheme design that includes a sector on the understanding of "design details to be determined", as such a design is potentially based on minimising the cost, and possibly effectiveness, of reaching the target. Instead, the CPRS must be designed to ensure Australia's emissions are reduced in a robust and effective way.

3. Carbon Markets

Feedback sought (p.145): The Govt seeks specific feedback on whether the scheme regulator should publish the following information that would assist in the development of the permit market:

- **quantities and prices of carbon pollution permits auctioned by the regulator;**
- **the quantity of free carbon pollution permits received by each entity and/or by industry sector;**
- **total shortfalls in permits surrendered by liable entities; and**
- **extent and nature of non-compliance with the scheme.**

CANA's recommendation: No permits should be given away for free. The penalty rate must be set to encourage scheme compliance, be well above the anticipated market price of permits, and increase over time. The EU emissions trading scheme, the world's largest such scheme, has set a rate of 100 Euros per tonne carbon dioxide equivalent (CO₂^e), with make-good provisions, and this provides a benchmark for the CPRS. The penalty rate should not be used as a safety valve. Inclusion of a safety valve would automatically exclude trade with the EU emissions trading scheme. To preserve the environmental integrity of the Australian CPRS, a make-good provision is required in addition to a penalty for any emissions incurred without surrender of sufficient permits.

3.4 Unlimited banking of permits would be allowed under the scheme.

CANA's recommendation: Banking of permits for future use should be allowed, but this must be limited. Limited permit banking will enable the Government to recalibrate the CPRS towards achieving stronger emissions reductions without being constrained by large amounts of banked permits. Additionally, to prevent erosion of environmental effectiveness, borrowing must not be allowed. This ensures that urgent emission reductions occur now, rather than being postponed to become the burden of future generations.

4. Emissions targets and scheme caps

4.1 At the end of 2008, in the context of the white paper, the Government would announce a medium-term national target range for 2020 that provides upper and lower bounds to give investors and market participants information on directions and retains sufficient flexibility for the Government.

CANA's recommendation: Australia's reduction targets must be based on the best available science and aim to avoid the worst impacts of climate change. This means that the (now inevitable) global warming must be kept as far below 2°C as possible. To give us the best chance of achieving this, greenhouse gas concentrations in the atmosphere must be stabilised at or below 400 parts per million of CO₂^e.

Australia must do its fair share to achieve global stabilisation of the climate. The IPCC has identified that to keep warming between 2°C and 2.4°C developed countries emissions must peak by 2010 and then fall 25 to 40% below 1990 levels by 2020. This was recognised by the Australian Government at the United Nations' Climate Change Conference in Bali in December 2007. If we are to keep warming at a safe level, as far below 2°C as possible, then Australia must aim for at least the top end of this range, and we need the IPCC to identify new below 2°C pathways. Large early cuts towards medium term targets will mean less overall volume of greenhouse gases entering the atmosphere from Australia over the intervening four decades.

CANA calls for the caps under the CPRS to be consistent with reducing national emissions by at least 40% by 2020 (compared to 1990 levels), taking into account any exempted sectors. There must be a long-term, science-based emissions reduction target with which short-term targets are consistent. CANA proposes that this long-term target seeks to reduce emissions by at least 95% by 2050 (compared to 1990 levels).

5. Reporting and compliance

5.1 NGERs would be the starting framework for monitoring, reporting and assurance under the scheme, and elements of that system would be strengthened to support the scheme.

CANA's recommendation: CANA supports the CPRS proposal to ensure ongoing and effective monitoring of emissions reductions and compliance.

6. Linking the scheme to international markets

6.1 The scheme would be designed so that it can link with international markets and schemes, with a preference for open trade within an effective global emissions constraint.

- ***All targets for the scheme, as well as the commitment to reduce national emissions by 60% below 2000 levels by 2050, will be defined in terms of net national emissions that is, imported units would be counted towards our national target, and exported units would be excluded from the national target.***

CANA's recommendation: The Australian scheme should allow linkage to Kyoto Protocol compliant carbon markets and the Protocol's flexibility mechanisms. However, limits on the amount and type of these credits allowed into Australia's emissions trading market must be implemented. The large majority of effort should be directed at reducing Australia's domestic emissions by at least 40% by 2020 and at least 95% by 2050 (on 1990 levels). There should be limits to the amount and type of credits allowed, or if more credits are to be allowed the targets should be increased commensurately.

If the Australian Government is to allow CDM credits within the CPRS, CANA recommends that:

- The majority of a 40% reduction target by 2020 (on 1990 levels) for Australia should be achieved with domestic effort.
- Australian Government through the Carbon Pollution Reduction scheme should ensure all external credits meet strict environmental, social and additionality criteria. Therefore, only credits which, as a minimum, come from projects which meet the Gold Standard accreditation and/or equivalent quality criteria should be allowed entry.

The Gold Standard certifies credits only from renewable energy and end-use energy efficiency projects. Indeed, the goal of the Gold Standard is to mitigate climate change, promote (local) sustainable development and contribute towards a transition to non-fossil energy systems.

6.8 CERs generated by the Kyoto Protocol CDM would be accepted (for the period 2010–11 to 2012–13), with the exception of those that have associated contingent obligations and high administrative costs: currently, temporary CERs and long term CERs from forestry-based projects.

CANA's recommendation: Rules are required to ensure any credits accepted into the Australian CPRS from the Kyoto Protocol flexibility mechanisms are from high quality sources that achieve permanent and additional abatement. As a minimum, Clean Development Mechanism credits must be required to meet the CDM Gold Standard, and the Australian CPRS must disallow 'hot air'.

7. Auctioning of Australian carbon pollution permits

7.1 Allocations would, over the longer term, progressively move towards 100% auctioning as the scheme matures, subject to the provision of transitional assistance for EITEs and strongly affected industries

CANA's recommendation: The fairest, most economically efficient and transparent approach is for 100% of permits to be auctioned from the outset of the CPRS.

7.5 The first auction would take place as early as is feasible in 2010, prior to the start of the scheme.

CANA's recommendation: The CPRS must start no later than 1 July 2010. To achieve this, the CPRS legislation must be passed in the first parliamentary session of 2009. The CPRS should seek to ensure that greenhouse emissions peak then begin to decline by 2010.

8. Household assistance measures

8.1 The Government has committed that every cent raised for the Australian Government from the CPRS will be used to help Australians – households and business – adjust to the scheme and to invest in clean energy options.

CANA's recommendation: Addressing climate change requires major restructuring of our society and economy, and the windfall revenue from the auction of pollution permits provides the funds for these opportunities. 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.
- Land stewardship payments to reduce land-based emissions.
- Addressing other market failures in areas such as energy efficiency.
- 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.

- Contributing to the international effort to reduce emissions from deforestation and degradation in developing countries (REDD).
- Assisting developing countries follow a low emissions growth pathway, including through technology transfer and capacity building.

9. Assistance for emissions-intensive trade-exposed industries (EITEs)

9.2 The proposed assistance would be provided to EITEs industries in the form of free allocations of carbon pollution permits at the beginning of each compliance period, contingent on production.

CANA's recommendation: To avoid market distortions and 'windfall gains', free permits should not be given away or 'grandfathered' to energy-intensive trade-exposed industries. Any adjustment assistance should be separated from the CPRS system. There are two particular problems with free permits as currently proposed. Firstly, it is likely there will be no carbon price signal for domestic consumers of emissions-intensive materials such as steel and cement, so there will be no incentive for substitution to low emission alternative industries. Secondly, the free permits necessarily must be withdrawn in the event that an EITE activity is closed down (given that the purpose is to maintain competitiveness and local production, not to transfer wealth from the Government to shareholders).

Border tax adjustments are a more equitable, effective and transparent method of avoiding leakage of emissions internationally than free allocation of permits. The advantage of this approach is that the free permits only apply to exports, where they have to compete with other producers from countries that have not applied the polluter pays principle to carbon dioxide pollution. As other countries adopt a carbon cap, the border adjustment mechanism would cease to be necessary as other overseas producers would be paying a similar price for emission permits.

9.3 The proposed EITE assistance would be provided on the basis of the industry-wide emissions from a process or activity to ensure that assistance is well targeted and is equitable both within and between industries.

CANA's recommendation: The need for any adjustment assistance should be subject to a rigorous, transparent assessment process with clear conditions and take into account any existing subsidies or favourable tax treatment. Any adjustment assistance should be conditional on the industry funding and participating in a long term, low carbon transition plan. The assistance must be in the form of cash, not permits. Any adjustment assistance should only be available until international competitors face similar carbon constraints.

Existing EITE industries are currently based in Australia due to stable institutional and political structures, access to a skilled workforce, access to resource deposits, and some of the cheapest energy prices on earth (even after carbon pricing through a CPRS). It is highly questionable that EITEs will bear the double cost of decommissioning plants and rebuilding plants overseas simply to avoid a carbon cost that is likely to emerge in most countries within the next decade. Additionally, EITE companies have been well aware of the prospect of carbon pricing for over a decade now and have likely already factored in a future price of carbon into their long term investments. Any 'compensation' will be a wealth transfer and will limit the amount of money available for alternative purposes.

10. Assistance for strongly affected industries

10.4 The Govt would address particular impacts of the scheme on workers, communities and regions.

CANA's recommendation: CANA supports the CPRS proposal for adjustment assistance for affected communities and workers.

10.5 To ameliorate the risk of adversely affecting the investment environment, the Government proposes to provide a limited amount of direct assistance to existing coal-fired electricity generators.

CANA's recommendation: Non-trade-exposed industries should not receive any compensation for reduced profits or asset value due to carbon pricing. In particular, any 'compensation' to coal-fired generators is a pure wealth transfer and will delay the transition to clean energy sources and detract from resources that can be better allocated towards renewable energy, R&D, infrastructure and other low-carbon initiatives. Burning coal for domestic power generation is currently the single biggest source of greenhouse pollution within Australia. It will be impossible to stabilise or reduce Australia's greenhouse pollution in the near term if new coal-fired power stations are built.

13. Governance arrangements and implementation

13.1 Elected representatives (the Parliament and the Govt, acting through the responsible minister) would be given responsibility for policy decisions with significant and far-reaching implications, and an independent regulator would be responsible for decisions that are essentially administrative in nature or that involve individual cases. The guiding approach to governance arrangements would be to provide as much certainty and predictability for regulated entities and the market as is practicable, while retaining a legitimate degree of flexibility for the Govt to adjust the scheme in response to changed circumstances.

CANA's recommendation: An independent regulator should be established with sufficient powers to ensure the CPRS rules are enforced, audits are conducted and penalties paid. This independence will ensure that CPRS caps and gateways are set by suitably qualified individuals who should be resistant to political compromises.

13.2 A non-binding reference to the medium- and long-term national targets would be included in the objects clause of the Act establishing the scheme. Factors that the Govt may consider when making decisions about the national targets over time could also be set out in the objects clause. The scheme caps and gateways would be set out in delegated legislation.

CANA's recommendation: The implementing legislation must include the CPRS reduction targets. These targets must be binding (not non-binding). The CPRS should allow flexibility for the caps and gateways to be moved downwards if science indicates that more stringent targets are required.

13.3 The broad principles of industry assistance would be set out in the establishing Act. Further detailed criteria for determining eligibility and the quantum of assistance would be set out in delegated legislation. This would be administered by the regulator, which would have a high level of operational independence in determining individual cases in accordance with the legislatively prescribed criteria.

CANA's recommendation: An independent regulator should be established at arm's length from government with sufficient powers to ensure the CPRS rules are enforced, audits are conducted and penalties paid.

13.5 An independent expert committee would be constituted every five years to conduct public strategic reviews of the scheme. The responsible minister would be provided with the power to bring forward a review. More frequent 'care and maintenance' reviews may be necessary in the early years of the scheme to assess the operation of administrative arrangements. To improve market certainty, the scope of those early reviews would be tightly defined.

and

13.8 The regulator would be required to report on its operations each financial year to the responsible minister for presentation to the Parliament. The regulator's decisions would be subject to sound appeals processes, including judicial review pursuant to the Administrative Decisions (Judicial Review) Act 1977 and merits review by the Administrative Appeals Tribunal.

CANA's recommendation: The CPRS legislation must ensure that the CPRS is reviewed every three years, similar to the Petrol Review. These reviews will enable the targets to be tightened in response to new evidence in climate science dictates. These periodic reviews should not allow targets to be weakened for financial or political reasons.

Part B: Additional issues not covered, or not adequately covered, in the CPRS Green Paper

Complementary measures: The CPRS won't address all emissions

The CPRS is unlikely to address all issues of carbon (greenhouse gas) pollution. Complementary measures will be required in both covered and non-covered sectors to maximise emission reduction efficiencies and the speed at which reductions are initiated. A suite of complementary measures are necessary and should include a strong renewable energy target, energy efficiency measures, deployment at commercial scale of renewable energy technologies, direct regulation, informational provision (including energy and carbon rating labeling), and research, development and deployment (of renewable energy technologies, structural adjustment and adaptation planning).

Transparency of scheme governance and data

Greenhouse gas emissions data, permits surrendered and any shortfall should be made available to the public through a central registry. This provides transparency and will assist in engendering the market and public confidence fundamental for the effective operation of the CPRS. It will ensure that important information about facilities and emissions are available to potential purchasers and financiers.

Forest carbon sequestration

Emissions abatement from the forestry sector should be pursued through parallel or complimentary measures.

The potential for carbon sequestration in native forests ('biosequestration') should be investigated.

Biosequestration is a large scale mechanism available to significantly 'draw down' atmospheric concentrations of carbon. Credits should not be allowed to be generated under the cap by forestry. If any form of biosequestration is allowed to generate credits under the cap the opportunity for 'draw down' will be lost, as one unit of emissions will be swapped for unit of biosequestration and atmospheric stocks of carbon will remain unchanged. This approach prevents emission opportunities being traded off against each other, and builds a broad approach to emissions reductions.

Incentives for biosequestration should be driven by national level reforestation and revegetation programs. Such an approach would also serve as an adaptation strategy and promote biodiversity and ecosystem restoration, according to a recent report, 'Green Carbon', by the Australian National University. South-east Australia's forests are very carbon dense and store three times more carbon than Australian and international experts previously calculated. The largest stocks of carbon are found in the tall wet eucalypt forests of Victoria and Tasmania. The report calculated that the average amount of carbon stored in unlogged natural eucalypt forests is about 640 tonnes per hectare (t/ha), compared to the average carbon stock in temperate forests calculated by the Intergovernmental Panel on Climate Change to be only 217 t/ha (The report is available at http://epress.anu.edu.au/green_carbon/pdf_instructions.html).



About the Climate Action Network Australia

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The Climate Action Network Australia (CAN A) is the peak body of non-government organisations on climate change, with over 50 member organisations. These organisations represent the faith, community, development, and environmental movements, as well as the research community. CAN A, in turn, belongs to the global Climate Action Network (CAN) which has representative groups in more than 80 nations, in every continent. Since 1998, CAN A has been working in Australia to increase the understanding of climate change and to encourage governments, businesses and individuals to undertake actions to reduce greenhouse gas emissions and their climate change impacts. For further information, visit

www.cana.net.au.

CAN A member organisations that have endorsed this submission include:

Environment and Climate Organisations (international)

[Climate Action Network - Global](#)

[Friends of the Earth](#)

[Greenpeace Australia Pacific](#)

[Rainforest Information Centre](#)

[WWF - Australia](#)

Environment Organisations (national)

[Australian Marine Conservation Society](#)

[Australian Student Environment Network](#)

[Australian Youth Climate Coalition](#)

[GetUp!](#)

[Mineral Policy Institute](#)

[The Wilderness Society](#)

Aid and Development Organisations

[Aidwatch](#)

[Caritas Australia](#)

[Jubilee Australia](#)

[Oxfam Australia](#)

[Tear Australia](#)

[World Vision Australia](#)

Faith-based Organisations

[Catholic Earthcare Australia](#)

[Edmund Rice Centre](#)

[Sisters of the Good Samaritan](#)

[Sisters of Mercy - Earth Link](#)

[Social Action Office](#)

Renewable Energy and Energy Efficiency Organisations

[Australian & New Zealand Solar Energy Society](#)

[Moreland Energy Foundation](#)

[Urban Ecology Australia](#)

Legal and Research Organisations

[Environmental Defender's Office New South Wales \(Ltd\)](#)

[Institute for Sustainable Futures](#)

Environment Organisations (state-based)

[Cairns and Far North Environment Centre](#)

[Conservation Council of South Australia](#)

[Conservation Council of the South East Region and Canberra](#)

[Conservation Council of Western Australia](#)

[Environment Centre of the Northern Territory](#)

[Environment Victoria](#)

[National Parks Association of NSW](#)

[Nature Conservation Council of New South Wales](#)

[Sustainable Living Tasmania](#)

[Tasmanian Conservation Trust](#)

[Total Environment Centre](#)

Environment Organisations (regional)

[Arid Lands Environment Centre](#)

[Central West Environment Council](#)

[Environment East Gippsland](#)

[North Coast Environment Council](#)

[Sunshine Coast Environment Council](#)

Environment and Climate Organisations (grassroots)

[Association for Berowra Creek](#)

[Climate Action Newcastle](#)

[Climate Action Tomaree](#)

[Climate Action Now Wingecarribee](#)

[Climate Change Australia](#)

[Climate Change Balmain Rozelle](#)

[Locals Into Victoria's Environment \(L.I.V.E\)](#)

[Rising Tide Newcastle](#)

[Wollongong Climate Action Network](#)