SENATE INQUIRY

The Government's Direct Action Plan

Submission

Introduction and Summary

The following submission addresses some of the terms of reference for the above inquiry.

It addresses:

- the capacity of the direct action plan (DAP) to deliver abatement,
- the complexities and difficulties of setting numerous baselines,
- the short time frame for abatement costs to be recovered,
- the counter intuitive structure of the payment policy for abatement and
- the lack of business certainty created by the structure of the policy.

It finds that:

- the capacity of DAP to deliver abatement is likely to be under 15% of its target and at a higher abatement cost than expected,
- baseline setting and verification will cause considerable time delays in implementation,
- the five year maximum for recovery of abatement costs will increase costs of abatement, reduce the number of actions implemented and reduce abatement quantities,
- the policy structure is counter to the polluter pays principle (in fact the tax payer pays)
- history shows us a similar policy adopted by the Howard Government in 1999 was abandoned in favour of emissions trading after the four year program had run for ten years and only expended 36% of its funds allocation and
- the policy gives no certainty to business to invest in abatement.

Comments on the Government's direct action plan (DAP)

Terms of reference TOR a(i) and a(ii) – capacity to deliver abatement

The DAP is very similar to the Greenhouse Gas Abatement Plan (GGAP) introduced by the Howard Government in 1999 as that plan also called for a reverse auction process for abatement action funding. It failed to deliver over a ten year period and was originally intended to be a four year programme. Ultimately despite the increase in implementation period only 36% of the funds were expended and the amount of abatement achieved was considerably less than was expected at tender and at a greater cost per tonne of abatement. It effectively delivered under 15% of its target in its original programme term.

It would therefore be expected that DAP will suffer from similar problems, that is, it will have a considerably extended implementation period, an inability to disburse funds quickly and have increased abatement costs over those tendered for any abatement it does encourage.

The current national target for abatement is a 5% reduction in emissions by 2020. It is unlikely that DAP will be able to achieve the quantum of abatement required by this target within the requisite timeframe. History shows us GGAP was regarded by the Howard Government as a failed experiment as they then adopted an emission trading scheme as their preferred mechanism to address climate change.

TOR a(iii) - baselines

DAP requires setting baselines for a diverse set of projects over a wide variety of sectors. This is a very difficult and highly specialised task that should not be under estimated. It is highly site and geographical location specific, extremely resource intensive and often exposes a lack of firm data from which baselines can be set.

The Government claims that the DAP system will be simple, straight forward and streamlined to make it "easy for businesses to participate".

The reality is the baseline system proposed is extremely complicated, detailed and data intensive, if it is to be credible and accountable, as it will have to be for the grants system proposed for allocating public money. History also tells us the system will inherently take a lot of time to reach decisions because of the baseline process and consequently the timeframes for abatement will be reduced from the maximum of five years and costs per tonne will inevitably rise further.

The DAP as described in the ERF paper (see Figure 1.5 p12) gives a cost abatement curve for emissions from a variety of sectors and actions over the economy. Approximately 60 actions are identified.

Each one of those actions may occur in a wide range of geographic locations, in different states and territories and within those jurisdictions too. For each action there might be ten or more geographic locales in which those actions might occur. For example a baseline for a seawater cooled power plant on the coast, will be different from one cooled by a lake or using dry cooling and at each location the range of ambient temperatures for the location will be site specific too.

As a consequence perhaps six hundred or more baselines might be called for in the bidding process with each being proposed and having to be independently verified. This alone is an enormous task.

But in addition, by the voluntary nature of participation in the measure, not all these actions shown will be able to be bid for under DAP for reasons such as too short a period for a return to be made or risks associated with reliability of any innovation being proposed. Other more costly actions will have to be invoked to achieve the abatement required to meet the full quantum of the target.

This issue was revealed in the GGAP programme and consequently any abatement cost curve produced in this form will represent a ***lower*** bound on cost and an ***upper*** bound on abatement quantity. In other words actual abatement costs will be higher and total abatement quantity less than expected.

Under emissions trading schemes such cost abatement curves represent an ***upper*** bound on cost and a ***lower*** bound on abatement quantity. In other words there are more abatement options identified, costs are lesser and total abatement quantity can be higher.

This reversal is because the incentive to reduce costs under emission trading lies with the polluter and more options for abatement will be revealed as development and further innovation occurs. History shows us more abatement options have been revealed in many similar existing market based mechanisms, such as the US sulphur dioxide reduction scheme.

Examples of the operation of DAP quoted by the Government are very misleading. For example, in the transport sector, the Government states "fleet operators could be rewarded for reducing emissions per tonne of freight per kilometre" (p54 of Emissions Reduction Fund Green Paper - ERF).

This example has been widely and publicly referenced back to a major transport company by the Government purporting to show how DAP will work. While the emissions intensity of that company may have dropped, National Greenhouse and Energy Reporting data published by the Government for that company shows its total emissions have risen 11%, not fallen. The atmosphere is not concerned about ***emissions intensity*** and neither are Australia's international target commitments framed in such terms - ***total emissions*** are the only issue at stake here.

TOR a(iv) – no policy/business certainty

DAP is structured counter-intuitively. Under it, the tax payer pays the polluter that they may, or may not, reduce their emissions. Further there appears to be no legislative power to encourage compliance with abatement proposals.

An intuitive structure would be preferable, such as under an emission trading scheme, whereby the 'polluter pays' and the total quantity of abatement is set as an objective target.

The DAP provides no certainty for business in terms of long term investment as it offers, at most, five years of payment for abatement. Most abatement actions would require longer investment periods of perhaps ten, fifteen, twenty or more years to amortise any capital and operating costs. Trying to recover abatement costs over periods as short as five years will mean tendered abatement costs will be prohibitively high.

The Government has a cap set on its DAP funding regardless of whether or not it can reach its abatement target, yet the abatement target is the international commitment Australia has made.

The DAP is effectively a new wider form of carbon tax in that the polluter no longer pays, but instead all tax payers pay the polluters from the Government's budget funds.

The Government has made it clear DAP is a short term policy that has no capacity to meet any increase in the abatement target for 2020, regardless of international pressure, or capability to continue beyond 2020. It consequently provides no certainty for industry or the electorate that abatement will occur or continue into the future.

The DAP cannot be described as a transitional policy from the current highly detailed and legislated Clean Energy Acts. It is a complete change of direction back to an old Howard Government policy experiment that failed to deliver in terms of time and abatement.

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Note on author's experience relevant to this submission:

The author was involved in the RET policy development and legislation preparation for Parliament from 1997 to 2000 and was appointed the Inaugural Renewable Energy Regulator for the RET legislation from 2001 to 2008 setting inter alia all the baselines. The author was also appointed the inaugural regulator for the Greenhouse and Energy Reporting Act from 2008 to 2011. That Act collects all the data for the major emitters in Australia and sets up the comprehensive measurement, reporting and verification processes for the data. This experience and other private and public sector experience, underlies the comments made on DAP in this response.