Dissenting Report from the Australian Labor Party

1.1 Labor has a clear position on climate change.

1.2 Labor understands there is a strong foundation of scientific fact underpinning the imperative to reduce global greenhouse gas emissions to reduce the risk of global warming above 2 degrees.

1.3 Labor's approach to reducing emissions is to repeal the carbon tax and keep in place the already legislated emissions trading scheme which puts a legal cap on carbon pollution. This lets business work out the cheapest and most effective way to operate within that cap and is overwhelmingly endorsed by economists as the most cost effective and efficient emissions reduction method.

1.4 The first twelve months of the carbon price has seen emissions from electricity fall with coal power generation down and renewable energy generation up. The price on carbon pollution has been effective in increasing the competitiveness of renewable energy generation. Meanwhile, Australia's economy grew at trend in 2012-13 while additional government assistance to households has more than offset any price rises caused by the carbon price.

1.5 The binding caps will ensure Australia meets its international emissions reduction targets under the second commitment period of the Kyoto Protocol (2013 to 2020) and under the United Nations Framework Convention on Climate Change.

1.6 The flexible-price would bring the Australian carbon price into line with the carbon price prevailing under the European Union Emission Trading System, which is currently expected to be around $6 per tonne of emissions. Moving to flexible-price emissions trading would ensure Australia meets its international emissions reduction commitments, reduce compliance costs and transaction costs for businesses, increase flexibility, and improve risk management.

1.7 Australia has not been alone. 99 countries, covering 80 per cent of global emissions and including all of the major emitters have pledged to reduce or limit emissions by 2020.[1]

1.8 The Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and related bills remove the necessary tools for Australia to tackle climate change.

1.9 In recommending the repeal of the price on carbon mechanism, the Coalition majority report is showing a disregard for science, a disregard for future generations and a disregard for the environment. The Coalition's plan is a recipe to do nothing, and sets Australia up for unnecessarily higher costs in years to come.

1.10 Direct action without legislated emissions reduction targets, as proposed by the Coalition Government (but not included in this legislative package) will leave Australia without a long term emissions reduction method. The repeal bills leave our nation without a path to help industry, households and business reduce emissions. As

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1 Climate Change Authority Targets and Progress Review Draft Report October 2013

many submitters to the inquiry highlighted the uncertainty around how the problem of carbon emissions will be managed into the future is damaging to business and investment decisions.

1.11 The repeal bills also do away with worthwhile independent institutions established by the former Labor Government to tackle climate change including the Clean Energy Finance Corporation (CEFC) and the Climate Change Authority. The Government has also moved to reduce funding to the independent Australian Renewable Energy Agency (ARENA).

1.12 The CEFC facilitates comprehensive commercial loans for both renewable and cleaner energy technology investments and is set to fund emissions reductions at a negative cost (turn a profit) to government. The Government's alternative plan for an Emissions Reduction Fund will consume billions from Consolidated Revenue. ARENA provides funding to improve the competitiveness of renewable energy technologies, assisting particularly at the difficult-to-fund points in the product life cycle. The Climate Change Authority provides independent advice on Australia's emissions reduction targets, its functions are proposed to be subsumed by the Environment Department removing the independent advisory role thereby lowering transparency. These are all vitally important institutions for tackling climate change and accelerating the roll out of clean energy.

1.13 The plan the Coalition Government has put forward to the Parliament demonstrates that this government isn't serious about taking meaningful action on climate change. Last month, we heard John Howard tell a London audience that those of us who accept that climate change is real are a bunch of "religious zealots", and that he'll trust his "instinct" rather than the overwhelming evidence of the world's climate scientists.

1.14 Prime Minister Abbott accused the United Nations Climate Chief of "talking through her hat", while Minister for the Environment, Hon Greg Hunt MP, used Wikipedia to contradict her opinion in a BBC interview.

1.15 Based on the Coalition Government's policies, Australia's rating has dropped to 57th out of 61 countries in its efforts to mitigate climate change as rated by the Climate Change Performance Index.

1.16 Embarrassingly, at the recent Warsaw Climate Change Conference Australia received four of five 'Fossil of the Day' "awards", recognising the Coalition's backward proposal to wind back the carbon price mechanism and abandon support for research and clean energy.

1.17 Meanwhile, the Coalition Government has not been able to come up with one credible scientist or economist who's willing to stand up and back their Direct Action plan, which is so scant on detail four years after the announcement.

1.18 A recent survey showed that 86 per cent of economists back an emissions trading scheme as the cheapest and most effective way to tackle carbon pollution.[2]

2 http://www.smh.com.au/federal-politics/political-opinion/economists-remain-convinced-carbon-tax-or-ets-is-the-way-forward-20131027-2w9rv.html?rand=1382909118970

Former Treasury Secretary Ken Henry called the Coalition’s direct action policy a “bizarre” strategy, which involves the Government paying big polluters in a scheme that will cost more and will reduce productivity.[3]

1.19 This month, the OECD released a report confirming that countries could achieve higher levels of emissions reductions at much lower cost if they relied on a market-based policy.[4]

1.20 The necessity to act only grows each year. Reports show that Australia is on track for its warmest year ever, while the UN World Meteorological Organisation reports that the amount of carbon dioxide in our atmosphere is at a record high.[5] The latest Intergovernmental Panel on Climate Change report on the physical science of climate change states:

> Warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented over decades to millennia. It is extremely likely (greater than 95 per cent) that human influence has been the dominant cause of the observed warming since the mid-20th century.[6]

1.21 The Wentworth Group of Concerned Scientists highlighted that current scientific trends forecast climate change to have very negative impacts on the condition of Australia's natural resources (soil, water, biodiversity and coastal zone) and the human communities that depend on the ecosystem services provided, over the 21st century and beyond.[7]

1.22 The immediate and long term costs of allowing warming greater than 2 degrees are the core reason for acting now with a policy suite that is designed to scale up over time. Removing this policy suite for the sake of a slight reduction in utilities costs in one financial year is reckless and irresponsible.

1.23 Despite the shallow rhetoric of the Coalition stating it believes in climate change and that it supports action - it’s clear that nothing could be further from the truth. If the Coalition Government does believe in climate change then it wouldn’t be putting Australian in a position where it falls behind in playing its part in global action and leaves the Australian economy exposed to future unnecessary costs because we have failed to take adequate action.

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3 http://www.theaustralian.com.au/national-affairs/policy/tony-abbotts-direct-action-climate-policy-bizarre-ken-henry/story-e6frg6xf-1226752735032

4 http://www.oecd-ilibrary.org/environment-and-sustainable-development/climate-and-carbon_5k3z11hjg6r7-en

5 http://www.wmo.int/pages/mediacentre/press_releases/pr_981_EN.html

6 IPCC Report, September 2013

7 Submission 32, Wentworth Group of Concerned Scientists

2. An emissions trading scheme is the most rational policy choice for Australia

1.24 In its latest report on climate change policies, the OECD highlighted that those serious about tackling climate change are implementing a price on carbon.

> If governments are serious in their fight against climate change, the core message of this reform must be that the cost of CO2 emissions will gradually increase, creating a strong economic incentive to reduce the carbon entanglement and to shift towards a zero carbon trajectory. A central feature of such an approach is placing a price on carbon.[8]

1.25 For Australia to have a carbon pricing mechanism in place and remove it means we are turning our backs on the world. The rest of the world is in unison with using a carbon pricing mechanism to reduce carbon pollution except for the Current Australian Government. China, long held up by the Coalition as not acting, is implementing seven carbon pricing trials and in one its carbon price has surged higher than Europe's.[9] The President of the United States of America has outlined his desire for a national market-based solution to climate change.[10]

1.26 Dr Frank Jotzo highlighted in his submission the clear benefits to the Australian economy of a carbon price mechanism in tackling climate change.

> The carbon pricing mechanism currently in place is an economically sound basis for climate change mitigation policy in Australia. Repealing Australia's Clean Energy Legislation and related bills is undesirable if a lasting policy framework for greenhouse gas emissions reductions is to be established, and if emissions reductions are to be achieved cost effectively. If emissions reductions are to be achieved without carbon pricing, then regulatory and subsidy approaches will need to play a larger role. These are generally more costly and less effective in creating incentives for long-term investment in low-carbon options by Australia's businesses. Repeal will exacerbate policy uncertainty, with adverse effects on investment.[11]

1.27 Mr Nathan Fabian, Chief Executive Officer of the Investor Group on Climate Change noted five key elements members of his organisation consider important include:

> …a scheme cap that reflects an emissions reduction objective; broad coverage of sources of emissions in the economy; transitional assistance arrangements for trade exposed sectors; the ability to access international

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8 OECD October 2013 report, Climate and Carbon – Aligning Prices and Policies

9 http://www.bloomberg.com/news/2013-08-21/carbon-permits-rise-on-china-s-first-market-to-exceed-eu-price.html

10 President Barack Obama, 2013 State of the Union Address,

11 Submission 35, Dr Frank Jotzo

> permits to achieve least-cost abatement; and the capacity to respond to deeper reduction targets as necessary over time.[12]

1.28 While in its submission, the Wentworth Group of Concerned Scientists noted that the Productivity Commission considers "an emissions trading scheme is by far the most cost effective way for Australia to contribute to global efforts to mitigate climate change".[13]

1.29 Mr Fabian highlighted that the world is acting and the important step is to set in place appropriate policies to make the necessary emissions reductions in the long term:

> We see accelerating emissions reduction ambition in most countries around the world. As deep reductions will be needed to achieve a stable climate outcome, the policy conversation that matters for Australia and all nations now is: how can deeper reductions targets be achieved, and how quickly? We are careful to differentiate between ambition to reduce emissions and the types of instruments used. Our experience tells us that those holding out for a single global trading scheme are likely to be disappointed. Nations are implementing emissions reductions policies that make sense for their circumstances. These include cap and trade schemes in some countries, including China and Europe; industry regulation in the US; and co-financing vehicles in many countries.
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> South Africa's carbon tax will take effect on 1 January 2015, and on the same day South Korea's emissions trading scheme will start. It is our view that an emissions trading scheme with a cap makes sense for Australia's circumstances. That is because it is in the interest of Australian companies to be able to contribute to emissions reductions at least cost while reducing their own emissions from domestic plant and equipment over time, and in a time frame that makes sense to them.[14]

3. The Coalition is creating investment uncertainty for Australia

1.30 The Coalition Government's repeal bills and Direct Action policy are undermining investment certainty in renewable energy and energy efficiency measures. If there is bipartisan recognition that climate change is a serious concern and we must limit Australia's emissions, we need a long term framework with which to provide some certainty to investors, business, the community and other nations. The Australian Conservation Foundation eloquently highlights this concern in its submission:

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12 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

13 Submission 32, Wentworth Group of Concerned Scientists

14 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

> Long term targets are important. Business and the broader Australian community must be given clear signals that decarbonisation will occur, in order to allow for investment decisions to be made in the context of awareness of the declining availability of permission to pollute.[15]

1.31 Direct Action has a 5% from 2000 levels by 2020 emissions reduction target and a limited four year budget. The 5% target is not legislated. It is not binding. The Government has insisted that there will be no further expenditure across the four year budget. However, everything is unknown until the Government's review processes are finalised sometime in 2014. The submission from the Responsible Investment Association Australia noted that the scant level of detail on Direct Action is making it difficult for the community to assess the merits of the policy.[16]

1.32 Together, this is an impediment to long term investment in the Australian renewable energy sector. Institutional investors such as the Investor Group on Climate Change suggest that it is easier and more secure to invest in countries such as Ireland, the UK and USA because of policy certainty than it is in Australia now. Investors like long term certainty with the lowest possible risk and reasonable returns.

1.33 Mr Fabian provided the committee of the scenario that his members would prefer to see from climate change policy.

> We are affiliated with other institutional investor groups around the world that collectively represent $20 trillion of investment funds. Our groups around the world have similar aims—that is, transparent, long-term and relatively certain policies that can assist us to allocate capital to low-carbon activities. In the absence of an alternative policy proposal that is likely to be at least as effective and efficient as the carbon-pricing framework we do not support repealing Australia's carbon legislation and recommended the repeal bill not proceed.[17]
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> ….I think the pension community globally realises that, as it has invested across the global economy, it desperately wants to see a staged reduction in emissions around economies. We do not want to see radical policy action at any time to catch up to a gap. That is our biggest concern. The risk of systemic events affecting financial markets are well documented and clear. I do not think there is any doubt about that. Were there to be a broad devaluation of emissions-intensive assets around the world because of radical policy action, which may happen,—we would prefer that it did not happen—is why we argue for steady policy change over time. [18]

1.34 While, Mr Wood, Energy Program Director with the Grattan Institute highlighted the shortcomings of this short term outlook.

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15 Submission 28, Australian Conservation Foundation

16 Submission 22, Responsible Investment Association Australia

17 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

18 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.9.

> Industry, I would suggest, is faced with a continuing period of significant uncertainty, because until the government has decided what it is going to do beyond 2020 or beyond five per cent—and my understanding is that that is going to be decided in the lead-up to 2015—there is significant uncertainty for industry in how it invests in the long term. Even the current funding that has been announced under the Emissions Reduction Fund is not in the long term. So if you are looking to invest in low-emission technology, particularly if you want to keep up with your competitors overseas—such as companies who are already working under emissions trading schemes in China, where they have pilot schemes in place—then you are going to be having some difficulty in working out what sort of carbon price you build into your business model. So I think that uncertainty will pertain until the government decides how it is going to address its actions either beyond five per cent or beyond 2020. I think that uncertainty is quite a bad situation for business, and I am sure that is one of the issues business would be raising.[19]

1.35 It is not just big institution investors that have been hit by the investment uncertainty created by the Coalition Government. In its submission, Hepburn Wind, noted that at the time its 2000 members invested in 2008-09, there was bipartisan support for a carbon price mechanism.

> Many of our members are 'mum and dad investors' and contributed personally significant funds, including personal superannuation, based on unambiguous support for carbon pricing from across the political spectrum. Our earnings before depreciation for the 2012/13 financial year was 4.1c / share. Without the estimated positive uplift attributed to the carbon price, our equivalent earnings before depreciation would have been just 1.1 cents / share.[20]

4. Impact of Repeal on energy prices

1.36 The Coalition's main purpose for this policy package is to reduce utility bills and overall costs on households and business. In his second reading speech on the repeal bills, the Prime Minister was unambiguous in the reductions Australians can expect, using an average figure on overall costs but exact specifics for electricity and gas costs.

> The first impact of this bill will be on households, whose overall costs will fall $550 a year on average. Thanks to this bill, household electricity bills will be $200 lower next financial year without the carbon tax. Household gas bills will be $70 lower next financial year without the carbon tax.[21]

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19 Mr Anthony Wood, Energy Program Director, Grattan Institute, Committee Hansard, 26 November, 2013, p.4.

20 Submission 34, Hepburn Wind

21 Hon Tony Abbott MP, Prime Minister, House of Representatives Hansard, 13 November 2013.

1.37 There appears to be evidence to suggest the Coalition Government has overestimated the impact of removing the carbon price on household expenses.

1.38 In evidence before the committee the Mr Wood said,

> …It means therefore that when you remove the carbon price at just over $24 a tonne of CO2 equivalent, the savings that will be generated whenever that occurs will be less than if they would have been than when the cost was first imposed. Secondly, the correct comparison of the removal of the carbon price would be against what would have happened otherwise; namely, if there had been a continuity of this legislation in place then the carbon price almost certainly would have gone down significantly once it moved to a market based mechanism.[22]

1.39 In its submission, ACOSS highlighted the increased network expenditure as a factor that would impact any reductions in electricity bills:

> Based on currently available evidence, it remains unclear whether repealing the carbon tax will lead to a significant decrease in household living costs. ACOSS has been advocating for low income energy consumers in energy market reform processes for the past seven years. The drivers of energy price rises are much broader and more complex than the introduction of the carbon price alone including, for example, increased network expenditure.[23]

1.40 While industry group COzero noted that some businesses would not see any impact from repeal because of the length of hedging contracts entered into.

> Electricity contracts, in particular, hedged contracts, have been entered into by Liable Entities and Counterparties until the end of the 2015 financial year. These contracts have an implied carbon price in them. Regardless of whether the Carbon Tax is removed, or not, these contracts will have to be honored with a carbon component that will have to be either absorbed by Liable Entities, or passed on.[24]

1.41 In designing the Clean Energy Future Package, Labor was acutely aware of the impacts on industry, particularly emissions intensive, trade exposed industry and the need to smooth this over time. As such, the Jobs and Competitiveness Program was designed to provide the most emissions-intensive trade-exposed businesses with assistance to cover 94.5 per cent of industry average carbon costs in the first year of the carbon price and less emissions-intensive trade-exposed businesses with assistance to cover 66 per cent of industry average carbon costs. To encourage industry to cut pollution, assistance was forecast to be reduced by 1.3 per cent each year and reviewed regularly to ensure effectiveness.

1.42 In its submission, the Australian Industry Group praised the Jobs and Competitiveness Program as "of great importance", no doubt as it saw the most

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22 Mr Anthony Wood, Energy Program Director, Grattan Institute, Committee Hansard, 26 November, 2013, p.1.

23 Submission 10, ACOSS

24 Submission 16, COzero

emissions-intensive trade-exposed businesses with an effective carbon price of $1.27 per tonne and less emissions emissions-intensive trade-exposed businesses with an effective carbon price of $7.82 per tonne.[25] Relative to increases in distribution costs, repealing the carbon price will have a small impact on the power bills of Australia's most emissions-intensive trade-exposed businesses, which in 2013-14 rose to effective price of approximately $1.70 per tonne.

1.43 The Clean Energy Future Package also contained significant co-investment funding to encourage business to become more energy efficient and/or reduce carbon emissions. Since July 2011, the Clean Technology Program has seen over $246 million of government investment leverage over $500 million of private sector investment. Many of these projects were financed by industry on the basis of increasing costs over time from the carbon price mechanism. Removal of the carbon price reduces the savings per annum from energy efficiency measures, pushing out payback periods from investment.

1.44 Given the Prime Minister's penchant for absolute honesty in this space, Labor Senators await the outcome of research into changes in costs if the repeal bills pass.

5. Direct Action sets Australia up to fail on its commitment to addressing Climate Change

1.45 Labor is concerned that the Coalition Government has no intention of ensuring Australia meets our internationally committed target of a 5 per cent reduction on 2000 levels by 2020, let alone our maximum of 25 per cent.

1.46 Australia's climate policies must be capable of achieving Australia's maximum internationally committed targets of up to 25 per cent reductions by 2020. Notably a failure to demonstrate a credible plan weakens our ability to play a constructive role in the new agreement that will cover all major emitters from 2020. [26] Australia’s existing policies give certainty in this regard.

> …Australia's carbon price and limit on emissions can achieve our 25 per cent target and stronger reductions through post-2020 decades. The key features of the existing carbon pricing legislation ensure that Australia can meet its targets and stronger post-2020 targets if it chooses to do so. [27]

1.47 Australia’s existing carbon reduction policy suite has a greater capacity to meet our current and future targets because it features a legally binding cap on emissions.

> These features are the ability to set legally binding annual caps on carbon emissions and for liable entities to access international carbon permits to

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25 Submission 26, Australian Industry Group

26 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

27 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

> comply with these caps. These features provide confidence that Australia's carbon policy framework is sufficiently robust to manage the risks and uncertainty of future emissions drivers and deliver emission reductions at reasonable cost. These features also allow significant flexibility. The government can choose to adjust Australians emissions trajectory through the caps or companies can choose within certain limits how best to fulfil their obligations, whether by reducing emissions or by purchasing domestic and international permits or a combination thereof. [28]

1.48 Meanwhile, direct action has no commitment to targets beyond 2020 and there is uncertainty within the policy about how it can even achieve these 2020 targets.

> The government is currently yet to demonstrate that its alternative policy can achieve Australia's minimum commitments, and all independent analysis to date indicates that emissions will continue to increase under its currently proposed framework. [29]

1.49 The Coalition Government's lack of long term funding commitments for Direct Action further confirms Labor's view that the Coalition Government has no long term commitment to meaningful action to address climate change. The Grattan Institute in evidence before the Committee highlighted how Direct Action can have no longevity as a policy without further significant budget appropriations.

> My understanding from every conversation I have had with the senior representatives of the government is that direct action has been targeted directly to achieve the five per cent target by 2020; that is shorthand, obviously. Many have criticised whether it might even do that. But, just focusing on your question, there is fundamentally no reason why the Emissions Reduction Fund, which is the centrepiece of direct action, could not be expanded. But because it is funded on budget, which is by the very nature of the instrument different from an emissions trading scheme or a renewable energy target, it would require additional budget appropriations in future times to be able to achieve that outcome. [30]

1.50 The source of funding for the Direct Action policy was raised as a concern by the Australian Council of Social Services. Its submission highlighted that there is no benefit for low income Australians from one year of reduced power prices if the Direct Action policy is funded by reducing programs on which these people rely. [31] Of course, programs that low income Australians rely upon are right in the Coalition's sights with moves already to scrap the School Kids Bonus and Low Income Superannuation Co-contribution.

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28 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

29 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

30 Mr Anthony Wood, Energy Program Director, Grattan Institute, Committee Hansard, 26 November, 2013, p.1.

31 Submission 10, ACOSS

1.51 A 2010 Auditor-General's report into the Administration of Climate Change Programs raises serious concerns about the effectiveness of a Direct Action policy.

> The Emissions Reduction Fund is a grant/tender scheme similar in structure to several previously implemented in Australia. The 2010 ‘Administration of Climate Change Programs’ report of the Auditor-General evaluates the success of a range of programs aimed at reducing Australian greenhouse gas pollution.6 The assessed greenhouse gas pollution reduction policy that most closely resembles the ERF was the Greenhouse Gas Abatement Program (GGAP). The Auditor-General’s finding is that the actual abatement achieved by the GGAP program was substantially less than originally planned, with only 30 per cent of planned emissions abatement being achieved. This underperformance was partly due to delays in finalising funding agreements, but also because of the termination of 40 per cent of funded projects – largely due to organisations bidding in with unsustainably low quotes for pollution reduction, before abandoning projects when costs were higher than anticipated.[32]

1.52 While the OECD considers that capital subsidies, as per the Direct Action policy, were among the most expensive ways of reducing emissions.[33]

1.53 The CEO of the Clean Energy Finance Corporation, Mr Oliver Yates, in evidence to the Committee highlighted concerns with financing emissions reduction programs with grants rather than loans.

> Our experience is that providing people with debt creates discipline and ensures that the person who is borrowing from the state uses that money carefully. Our own view is that, if you are given money for taking an action, you are less likely to be as cautious as you would be if you were borrowing the money to achieve that outcome.[34]

1.54 This evidence highlights the major concern that the Coalition is not serious about reducing Australia's carbon emissions. The Direct Action policy has no guarantees of funding and no guarantees of reducing emissions.

> If it passes into law, the Clean Energy Act Repeal Bill will remove Australia’s legislated cap on pollution. Government has indicated the replacement Emissions Reduction Fund scheme will have no legislated cap on pollution, nor any mechanism to ensure that Australia’s pollution reduction targets are satisfied. Government has also committed to capping spending on the ERF scheme.[35]

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32 Submission 28, Australian Conservation Foundation

33 OECD, Effective Carbon Prices, November 2013, www.oecd-ilibrary.org/environment/effective-carbonprices_9789264196964-en

34 Mr Oliver Yates, Chief Executive Officer, Clean Energy Finance Corporation, Committee Hansard, 26 November, 2013, p.60

35 Submission 28, Australian Conservation Foundation

1.55 With no guaranteed funding and no guaranteed emissions reductions, ClimateWorks Australia's submission notes that the current repeal bills leave Australia vulnerable to a shock in future years.

> Any replacement legislation needs to both retain a 2050 target and provide a mechanism for enabling an achievable pathway to the 2050 target and adjusting the 2020 target to one that will not impose higher and unnecessary costs in the future.[36]

1.56 ClimateWorks Australia further argues that the current architecture of the Clean Energy Future legislation should be retained in order to avoid unnecessary cost and delay in establishing new architecture.

1.57 The Senate inquiry also made clear that the Coalition Government has no clear policy rationale or evidence base to support its Direct Action Policy. The policy is being developed in the absence of economic modelling. This was made clear by both officials from the Treasury and Environment Departments during hearings for this inquiry.

> **Senator Pratt:** In terms of the bills that are in front of us today, part of that bill is to repeal the Clean Energy Finance Corporation, and, in the future, we are supposed to look to an Emissions Reduction Fund and we are supposed to take it at face value that that fund is coming in the future. We have not had modelling done that enables us to compare the existing policy with the future policy. You are telling us that you have not been asked to do that modelling.
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> **Mr Campbell (Treasury):** We have not. That is not to say that work has not been undertaken or is proposed to be undertaken within the taskforce, but there is nothing today I can comment on.[37]
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> **Senator Pratt:** What is the policy rationale from Treasury regarding the abolishment of the CEFC and the carbon pricing bills overall?
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> **Mr Haigh (Treasury):** The Treasury's role with regard to the CEFC is to implement the government's policy to wind up the CEFC. We have responsibility for doing that, subject to the bill passing parliament. The government's position on the CEFC or the reason for its abolition is, as I understand it, the CEFC either crowds out possible private sector investment or takes risks that are not appropriate with taxpayers' money.[38]
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> **Senator Pratt:** What is the evidence base to uphold that statement? I appreciate that is the government's position. Is there an evidence base from Treasury's point of view to substantiate that?

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36 Submission 13, ClimateWorks Australia

37 Mr Russ Campbell, General Manager, Macroeconomic Modelling Division, The Treasury, Committee Hansard, 26 November, 2013, p.61.

38 Mr David Haigh, General Manager, Infrastructure, Industry, Environment and Defence Division, The Treasury, Committee Hansard, 26 November, 2013, p.66.

Mr Haigh (Treasury): We have not looked into an evidence base to support or review that suggestion. [39]

Ms Broadbent (CEFC): I think we have got evidence that there has certainly been crowding in rather than crowding out, because new financial institutions have come to participate in the market, being encouraged by a government owned entity's participation. [40]

Senator Pratt: What work is being done from a policy point of view to compare efficient outcomes between different policy platforms?

Dr de Brouwer (Environment): The government has undertaken, through a release of terms of reference and a green paper process, to go through what the Emissions Reduction Fund would look like and also within that the various elements of Direct Action, which include other things like the million solar roofs, 20 million trees and those other policies. The other step that is involved in this is being clear about what the abatement challenge is. So the government has been very clear about its commitment to reduce Australia's domestic emissions by five per cent by 2020. It is really then understanding what the abatement challenge is, given where that goes, and setting out a very clear public process to go through a terms of reference, green paper and white paper process to draw that out in public. [41]

Senator Pratt: About halfway through your statement, you talked about the submissions process around the Emissions Reduction Fund. Will any of that work compare the efficiency of an emissions reduction fund with an emissions trading scheme?

Dr de Brouwer: It is very hard, when the green paper has not been released, to talk about what is going to be in the green paper. [42]

Senator Pratt: But it has not been covered in the terms of reference, though, has it?

Dr de Brouwer: I do not think that is explicitly in the terms of reference. I could go through the terms of reference if you wish. [43]

Senator Pratt: Is there any work going on within government—I know it has been done in the past—to compare the cost of abatement under direct action with that provided for under the existing legislation that we are operating under?

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39 Mr David Haigh, General Manager, Infrastructure, Industry, Environment and Defence Division, The Treasury, Committee Hansard, 26 November, 2013, p.66.

40 Ms Jillian Broadbent, Chair, Clean Energy Finance Corporation, Committee Hansard, 26 November, 2013, p.66.

41 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

42 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

43 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

> **Dr de Brouwer:** The government has been very clear about its policy stance and policy priorities in this area. The abatement that is associated with the Emissions Reduction Fund will come out as that fund operates. It really depends, in the reverse auction process, what the bids are for abatement and the cost of that abatement. That is revealed through the auction process; it is not revealed in advance. The government has been clear that it wants to have an auction process that goes across all parts of the economy—that is in the terms of reference—and purchase the lowest cost abatement from that exercise. Those answers are revealed in the exercise of the auction in that market process. [44]

> **Senator Pratt:** Can you point the parliament to any information or evidence base that would enable us—in terms of being the ones who are asked to answer this question of whether or not to repeal—to make those comparisons?

> **Dr de Brouwer:** We are going through a design process now and it is a properly designed process. So that will be the source of the material. [45]

> **Senator Pratt:** So, in other words, yes, the parliament is being asked to repeal these bills before that information is available to us.

> **Dr de Brouwer:** I think you are asking me to give personal views about things, Senator, and I do not think that is appropriate. [46]

1.58 Labor Senators note that Treasury has previously done extensive work examining emissions trading schemes but has done no work under this Government looking at Direct Action. Previous work done by Treasury supported emissions trading as the most efficient policy framework for Australia, over and above that of direct action policies.[47]

6. The Coalition's policy removes access to international abatement

1.59 The repeal bills remove the opportunity for international abatement to be utilised as a part of Australia's carbon reduction policy suite. A number of witnesses provided evidence that the use of domestic only abatement will increase the cost of reducing emissions and make it more difficult to reach our emissions targets.

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44 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

45 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

46 Dr Gordon De Brouwer, Secretary, Department of the Environment, Committee Hansard, 26 November, 2013, p.67.

47 Australia’s Low Pollution Future; The Economics of Climate Change Mitigation, Commonwealth of Australia, 2008

> …any proposed policy framework in Australia, the one that is going to be the least costly and gives the greatest level of confidence that we have to achieve our targets is going to include international abatement. [48]

> …the difference between the $38 and $60 I mentioned is if you do not allow international permits. You get the lower price if you do allow international permits.[49]

> There is no real scenario, unless you have effective carbon prices in the order of $65 to $75 a tonne by 2020, that you could achieve our targets all domestically. That is obviously a much higher cost than is currently accessible on the international market and we should be examining those opportunities too, at least as an insurance policy. The type of policy framework that the coalition or the government is proposing does not get us there; as it currently stands it is unlikely. [50]

> Because the cost of reducing emissions may be lower internationally, this is a significantly cheaper way to reduce emissions than if all the effort occurred domestically.[51]

1.60 Labor Senators are concerned that the Coalition is unnecessarily raising concerns about the efficacy of international abatement as a means of dismissing international action on climate change. Mr Jackson from the Climate Institute highlighted in evidence to the Committee that the Kyoto Protocol's clean development mechanism is supporting renewable energy investment and the international rules and markets have become more stringent, not less.[52]

1.61 Labor Senators believe Australia should participate in the international carbon market because one tonne of emissions has the same impact on climate change regardless of its country of origin and as such we need to support all countries in their efforts to move to lower their emissions. Further, international abatement unlocks an opportunity for Australia to reduce emissions at almost half the cost of doing so purely using domestic abatement.

7. Support for the Clean Energy Finance Corporation and Australian Renewable Energy Agency

1.62 Australia has not only priced carbon to reduce carbon pollution; we have been pro-active in setting up a policy suite including the Clean Energy Finance Corporation (CEFC), and Australian Renewable Energy Agency (ARENA). The CEFC facilitates

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48 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.31.

49 Mr Tony Wood, Energy Director, Grattan Institute, Committee Hansard, 26 November 2013, p.6.

50 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.31.

51 Submission 14, Investor Group on Climate Change

52 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.30.

comprehensive commercial loans and is set to fund emissions reductions at a negative cost (turn a profit) to government; its functions are to be replaced with the Emissions Reduction Fund that will consume billions from Consolidated Revenue. ARENA provides funding to improve the competitiveness of renewable energy technologies, assisting particularly at the difficult-to-fund points in the product life cycle.

1.63 In its first months of operation, the CEFC has been successful in providing loans to organisations. Over time, the CEFC has the capacity to make investments that would account for 50 per cent of the 5 per cent emissions reduction target by 2020 at a profit to the taxpayer of $2.40 per tonne.[53]

> By working with private sector co-financiers, the CEFC multiplies the total amount of funding available for investment. Through investing $536 million of CEFC funds and $1.55 billion in private sector co-financing, the CEFC has facilitated over $2.2 billion in projects, delivered approximately 4 million tonnes of abatement, and achieved it at negative cost (i.e. net return or benefit) of $2.40 per tonne of abatement.[54]

1.64 Despite its successful operations, the repeal bills seek to abolish the Clean Energy Finance Corporation. Coalition Senators have been unable to see past their free market blinkers and appreciate the role the CEFC plays in facilitating investment in renewable energy that would otherwise be missed by normal commercial banks.

1.65 Many stakeholders gave evidence regarding the important work of the Clean Energy Finance Corporation and argue strongly that it should be retained.

1.66 Mr Nathan Fabian, Chief Executive Officer, of the Investor Group on Climate Change summarised the need for the CEFC in evidence:

> The CEFC is one example of what are now 14 co-financing institutions around the world. These organisations are needed for five reasons. Firstly, governments cannot sufficiently finance low-carbon alternatives to meet a two-degree outcome and private capital is needed. Secondly, the low-carbon investment market is relatively young and so deal flow needs to be supported. Thirdly, capacity in the finance sector must be increased through the experience of financing investments. Fourthly, financial participants welcome investment opportunities presented in a new market by an objective third party, even more than by investment banks. Lastly, co-financing organisations can actually earn financial returns for governments, delivering abatement at negative costs—and we think this is appealing and makes sense to all parties. Given the government's infrastructure agenda, we think that dismissing co-financing as a useful policy instrument may be premature.[55]

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53 Mr Oliver Yates, Chief Executive Officer, Clean Energy Finance Corporation, Committee Hansard, 26 November, 2013, p.60

54 Submission 30, Clean Energy Finance Corporation

55 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.8.

1.67 Mr Fabian went on to highlight that the role played by the CEFC is only possible because it also brings funds to the table.

> Investors do not turn up for chat; they turn up when there is a deal to be done. If we know that the counterparty can make the investment more attractive, then we are interested. We are not just going to come along for a bit of a chat about what might occur or what investment might take place.[56]

1.68 In its submission, the renewable energy company Epuron noted the importance of the CEFC in facilitating finance for its renewable energy projects.

> Our own experience in securing funding for projects underlines the key role of the CEFC. Epuron has secured ground-breaking commercial lending facilities with a major Australian bank for the solar power stations we operate in the Northern Territory. To achieve this both parties have been on a long journey because, despite the high quality nature of the projects and established track record of solar PV globally, such projects constitute a new asset class for the Australian banking community and the transaction sizes can be relatively small. Globally the market for financing of renewable energy markets, including solar and wind, is mature whereas the debt terms we have been able to achieve for our Australian projects are comparatively conservative.
>
> The role of the CEFC is pivotal in enabling renewable energy projects, particularly solar PV, to reach financial close so that more are built and the market in Australia matures at a faster rate. In our own experience, the CEFC has not been providing concessional loan finance that undercuts the market but rather debt that fairly reflects project quality on market terms from a global perspective and in a way that does not crowd out the local banking community. In this way it appears that the CEFC has consistently exceeded its statutory benchmark lending rate.[57]

1.69 The Responsible Investment Association of Australia's submission highlighted that the CEFC is not a novel idea, with many other countries deploying similar financing models.

> The CEFC co-investment model is a prudent and cost effective way to allocate limited public funds to leverage private investment to do the heavy lifting in the investment into a low carbon transition. A testament to this model is that global trend by many countries to put in place such public finance institutions to help catalyse investment flows into low carbon assets, including the UK Green Investment Bank, Germany’s KfW, China’s Development Bank, the US Department of Environment’s Loan Program Office, the New York Green Bank, California Clean Energy Fund, European Investment Bank and many of the multilateral development banks such as the Asian Development Bank.[58]

56 Mr Nathan Fabian, Chief Executive Officer, Investor Group on Climate Change, Committee Hansard, 26 November, 2013, p.12.

57 Submission 7, Epuron

58 Submission 22, Responsible Investment Association Australia

1.70 While, Dr Frank Jotzo noted that the Clean Energy Finance Corporation would complement the Coalition's Direct Action Policy and support Australia's climate change policy irrespective of whether there is a carbon price. [59]

1.71 The Australian Conservation Foundation noted that the strategic government support corrects the market failure known as the "Valley of Death" - the research phase after proof of concept but before commercial production - when companies often need continued funding to survive.[60]

8. Support for an independent Climate Change Authority

1.72 As climate change has been one of the most overtly political issues of the past decade, it is vital that the scientific targets and policy that underpins our response is conducted by an agency independent of Government. Subsuming the functions of the Climate Change Authority into the Department of Environment is likely to lead to less transparency in this highly political area of public policy. We believe that the risks are too great to abolish this independent institution.

1.73 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute noted the political record of climate change policy and highlighted the need for climate policies based on evidence not the political agenda.

> … the Climate Change Authority plays an essential role in informing that climate policy should be retained. Australia has a track record of highly politicised approaches to climate policy. This has produced policies that are often inefficient and continually readjusted, which in turn has resulted in significant business uncertainty, higher costs associated with investments and inadequate emission reductions. To achieve a sustained emission reduction consistent with our national interest, Australia needs climate policies that are based on a sound foundation of evidence rather than political agenda. [61]

1.74 In his submission, Dr Frank Jotzo highlighted that the Climate Change Authority could still function under the Coalition's Direct Action policy.[62]

1.75 The submission from the Investor Group on Climate Change noted that the investment community values the analysis from the Climate Change Authority.

> Regardless of the policy tools that Australian governments choose to implement, the CCA’s analysis assists investors to interpret the likely future emissions reductions trajectory for Australia and the scale of policy response that will be required.[63]

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59 Submission 35, Dr Frank Jotzo

60 Submission 28, Australian Conservation Foundation

61 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, Committee Hansard, 26 November, 2013, p.29.

62 Submission 35, Dr Frank Jotzo

63 Submission 14, Investor Group on Climate Change

1.76 Investor Regnan noted the risks to Australian business from the abolition of the Climate Change Authority.

> Abolition of the CCA increases the risk that Australian regulatory settings will move increasingly out-of-step with emissions reduction developments emerging at the international level in response to new science and global carbon budget commitments. The implications for Australian businesses would be to increasingly fall behind in carbon-competitiveness, risking large and disruptive value impacts in the future. We see implications particularly for carbon intensive companies with long-lived assets in the absence of regulatory settings which provide sufficient signalling to influence capital investment programs and technology choices.[64]

1.77 Finally, the submission from the Australian Conservation Foundation noted that the repeal bills do not reallocate the responsibility for consideration of renewable energy targets from the abolished Climate Change Authority.[65] Labor Senators consider this oversight to be consistent with the short sighted approach to climate change policy taken by the Coalition Government.

Recommendation 1

1.78 **Labor Senators consider that it is irresponsible to pass these Bills in the absence of a credible alternative emissions reduction policy.**

Senator Anne Urquhart **Senator Louise Pratt**

64 Submission 29, Regnan

65 Submission 28, Australian Conservation Foundation