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Committee Secretary  
Select Committee on the Scrutiny of New Taxes  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Committee Secretary

**RE: Senate Select Committee on the Scrutiny of New Taxes – Carbon Tax Pricing Mechanisms**

Pacific Hydro is pleased to provide its support for the development of an explicit price on carbon via comments to this Senate Committee.

We support the introduction of an explicit price on carbon and believe that it is a key plank in assisting Australia's economy to transition by driving jobs and investment towards cleaner energy and lower carbon industries.

Australia's per capita emissions are the highest of any developed nation and we rank in the top 20 polluting nations globally alongside many oil producing, resource states with limited alternative industries. Transitioning our economy away from such high carbon intensity to scientifically sustainable emissions levels will take several decades. The policy frameworks established now must look to that long-term objective and emphasise the positive effect of long-term investor certainty.

A legislated approach with appropriate market structures and incentives to encourage private sector capital towards lower emissions and lower carbon options will benefit Australia's economy, grow jobs in the clean energy sector and provide broad and ongoing benefits especially in regional and rural Australia<sup>1</sup>.

Importantly, we note that a taxation scheme applying to our domestic economy (or 'direct action' approaches per se) will be unlikely to have the same impact on emissions as it sets the price rather than the outcome. In addition, a tax-based approach – unlike a trading scheme – cannot be easily linked in future to the global carbon market.

A price on carbon will provide additional incentives for further deployment and investment in the energy sector to, renewable technologies such as solar, geothermal, biomass and wind as well as for land-based carbon sequestration and other clean energy sources. Investment interest and private capital will flow to technologies and industrial innovation to reduce carbon.

*Carbon Trading Works*

It is in Australia's economic interest to provide incentives for investment in efficiency, carbon reduction and clean energy.

As has been demonstrated by Professor Ross Garnaut and other economists, the introduction of an explicit price on carbon provides this incentive most efficiently. UK economist James Cameron notes clearly that "once carbon has a price, emitting less of it carries an incentive".

Carbon trading already exists in some 41 economic regions and is driving billions of dollars of investment and creating thousands of new jobs.

It is in Australia's interest to ensure that we can attract the maximum investment possible to grow cleaner, more efficient and less carbon intensive businesses while ensuring that our economy becomes more robust and resilient in the face of increasing climate change impacts.

Our own experience with investing in Latin America indicates that carbon trading mechanisms work. In fact, it was due to the development and investment opportunities provided under the Kyoto Protocol's Clean Development Mechanism that Pacific Hydro entered this market. These investments in Chile and Brazil are valued at more than AU \$2 billion.

### *Carbon Mechanism – The Proposed Approach*

The following comments refer to design elements as outlined by the Government over the past few months for a carbon mechanism beginning with a fixed price and moving, after a set period, to a full (floating) trading scheme.

To ensure that Australia is able to gain from opportunities as both a provider and a buyer of international carbon credits, it is to our benefit to establish a carbon trading mechanism that allows for future international linking but that also ensures we do not become a dumping ground for poor quality credits.

To guard against this potential and against carbon compliance going "offshore", the scheme will need to include a level of restriction through standards and clear quotas. Pacific Hydro supports the approach developed under the EU ETS to ensure that all offset credits are subject to standards (under law) that ensure no double counting, no temporary credits and (from 2013) no HFC or adipic acid credits<sup>ii</sup>.

While the fixed price applies, the scheme should expressly exclude international credit importation for compliance and by so doing encourage *local* investment and jobs growth.

### *Assistance and Compensation*

There are a number of issues to consider regarding transitional structures. Compensation arrangements for communities, business and industry must be identified. Equally important are details on how and when Australia will transition from a fixed-price carbon mechanism to a traded scheme with international linkages.

To the extent that a carbon price mechanism impacts (noticeably and negatively) on sectors of the community, business and industry, we support the use of revenue from that mechanism to address and mitigate hardship, improve efficiency and provide funds to adapt and mitigate the risk of major damage from climate change events – in this order of merit.

- Consumers: There is merit in addressing hardship through direct financial support, or tax offsets (as suggested by Garnaut earlier in 2011). Research conducted by AGL<sup>iii</sup> has shown that energy efficiency actions can significantly reduce, but may not eliminate, the costs associated with higher electricity prices. ACOSS also recently outlined the existence of hardship for low income households particularly regarding electricity and the importance of targeted assistance<sup>iv</sup>. How and to what extent revenue from a carbon price can be allocated to support consumers in mitigating the financial impact and to support changes that reduce energy consumption over a longer period directly, or through parallel measures such as a national energy efficiency initiative, needs to be clarified.
- Industries and Workers: We accept the need to provide some form of transitional assistance to businesses with (noticeable<sup>v</sup>, as opposed to little<sup>vi</sup>) exposure to a carbon price with limited ability to reduce that exposure and/or trade structures that limit their capacity to pass through these costs. In these particularly affected sectors<sup>vii</sup>, we support the use of revenue to re-train and redeploy and support affected workers to transition to new employment. Broader compensation to affected businesses should be conditional on that support driving improvements in energy efficiency and/or reductions in carbon emissions.

- Coal Fired Power Generators: We acknowledge the need to ensure a managed transition away from the highest emitting coal fired power generators to ensure energy security is maintained and that clear signals are sent to investment markets. Any potential for perverse environmental and financial outcomes should be avoided by establishing a clear process with specific mechanisms and institutional arrangements such as those described by Professor Ross Garnaut<sup>viii</sup> in 2011.
- Innovation and Adaptation: Transforming the Australian economy away from high emissions intensity will take decades and require strong, long investment signals such as the carbon mechanism. A clear proportion of revenue from the carbon scheme should also be allocated to supporting technology innovation in key industries. Adaptation to climate change including managing and mitigating extreme weather events (such as the 2009 Victorian Bushfires and the 2011 floods across Queensland, NSW and Victoria) will require an ongoing infrastructure and disaster management funding. A portion of revenue from the carbon mechanism could be allocated to such a fund and drawn on particularly in times of emergency.

It is expected that although some industries that are affected will see a drop in employment, increasing employment and demand for skills will increase in the renewable and low carbon industries, leading to overall economic and employment growth. As noted in the Climate Institute's renewable energy jobs report earlier this year the establishment of a price on carbon in concert with the large-scale Renewable Energy Target would drive strong jobs growth in regional areas. With many of the renewable energy jobs in project construction and delivery requiring similar skill sets to those in existing construction, manufacturing, and other heavy industries, there is a clear opportunity to identify, encourage and facilitate the transfer of 'affected' workers into cleaner industry jobs.

*Transitional measures to smoothly phase in the carbon price mechanism*

Other options to direct compensation and or provide more medium-term support to drive transitions and efficiency improvements across industries could be managed through institutional arrangements regarding the transition gateway(s), international linking and interaction with other policy mechanisms such as the Carbon Farming Initiative.

- Fixed price transition: The current proposal to incorporate a short-term fixed price before moving to a mid to longer term floating price is a sensible pathway as it provides immediate certainty (once the price is known), and enables (covered) firms a reasonable opportunity to begin to manage and report on their carbon liability. This is broadly similar with the phased approach developed in the EU which started with a three year 'pilot' phase, a five year second phase and will enter an eight-year third phase as of 2013.
- International linking: The scheme design needs to maximise the probability and effectiveness of linking with other international carbon pricing schemes, but at the same time ensure that the environmental credibility and integrity of the scheme is preserved and that genuine transformation of the Australian economy occurs. As noted above, while the fixed price applies, the scheme should expressly exclude international credit importation for compliance. Once the price cap is removed, however, the scheme design, and trading rules should ensure that we do not accept poor quality credits rejected by other jurisdictions. Further, and particularly in the early years, there is a clear need to ensure Australia's domestic offsets from the Carbon Farming Initiative or other sources, provide high quality credits with sound methodologies. Pacific Hydro considers that establishing standards and protocols which accord with those set in the EU would be an appropriate starting point.
- Clarity: While a number of elements need further clarification the fundamental signals can be delivered through clear and certain frameworks. Both the market and investors need ETS these phases (and the thresholds which will apply) to be clearly identified in the policy objective and, subsequently, in legislation. Of particular importance, in our view, is setting out through clear policy announcements the timeframe applying to the initial phase (three or four or five years); the approach and quality controls applying to the import/export of international project credit mechanisms (CDM and JI) for the initial and subsequent phases; and the approach to institutional structures and market arrangements for the non-fixed price period.

### *Transformative Measures*

A price on carbon alone – at least in the short to medium term - is unlikely to deliver the optimal level of deployment of proven clean energy technologies. Even with the most optimistic forecasts of a price on carbon, the Renewable Energy Target will remain the main impetus for growth in renewable energy.

Australia's renewable energy target already plays a critical role in bringing on a range of clean energy resources that would be further supported, but not exclusively supported, by a clear price on carbon. A number of recent reports including those from Professor Garnaut, the Grattan Institute and the Climate Institute as well as numerous reports from Europe show strong evidence that rapid deployment of renewable energy requires long-term policy support.

One of the primary drivers of the renewable energy policy is to build clean energy industry capacity and create new job opportunities. The Climate Institute report "Clean Energy Jobs in Regional Australia" estimated that well over 30,000 new jobs will be created in the clean energy sector out to 2030 – more than twice the amount expected in the mining sector. Both mining and clean energy industries will play an important regional employment role into the future as both continue strong trade engagement with the burgeoning economies of North and South Asia.

More than 70 governments across the OECD group have established renewable energy targets to encourage the deployment of renewable technologies in their nation and expand the number of clean energy jobs. A recent IEA report notes that "even where CO<sub>2</sub> emissions are duly priced, specific incentives for supporting the early deployment of renewable energy technologies are justified." Further, the IEA says that providing incentives to deployment for renewable technologies "reduces costs in the longer term and makes renewable energy affordable when it needs to be deployed on a very large scale to fully contribute to climate change mitigation and energy security".

### *Other Policies*

In parallel and to ensure the directions of policy are clearly defined across multiple policy areas, we strongly urge the Committee and the Government to recommend that the National Energy Law incorporate an explicit environmental objective. Establishing such a clear objective for the energy sector will provide for the environment and protect the long-term interests of consumers.

We urge the Members of this Committee to make a strong commitment to the continuation of the Renewable Energy Target for utility scale projects – as this policy (which has had strong bipartisan support) will deliver on emissions reduction, industry investment and jobs growth.

A recent Grattan Institute analysis of Australian emissions reduction policies highlighted the success of the renewable energy target in reducing emissions at a cost ranging between \$30 per tonne to \$70 per tonne. This aligns with similar analysis conducted by others such as the Federal Treasury and the Australian Industry Group that show that the renewable energy target, when focused on delivering utility scale energy projects, has *not* driven a significant inflationary effect on retail electricity prices.

Even the most recent IPART report has reflected that the large-scale component of the RET is one of the smaller components in the price rises affected NSW consumers. IPART went on to conclude that the long-run marginal cost of L-RET is around \$30/MWh.

In summary, Pacific Hydro strongly supports policies and mechanisms that ensure we can avoid dangerous climate change (greater than 2 degrees of warming) and mitigate and manage the impacts. We support the swift development of legislation and institutional arrangements for a carbon trading mechanism including clear directions regarding the fixed price and non-fixed price trading terms and assistance to affected households and genuinely affected industries.

We strongly support and urge continued large scale renewable energy investment through the RET.

Yours sincerely

Lane Crockett  
General Manager, Australia

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<sup>i</sup> The Climate Institute (2011) *Clean Energy Jobs: Regional Australia* report demonstrates the key job opportunities in renewable energy developments. NSW and Victoria stand to gain the most from these new opportunities.

<sup>ii</sup> For further information, see the CORE summary at <http://www.co2offsetresearch.org/policy/EUETS.html>

<sup>iii</sup> Nelson, T, Kelley, S, Orton, F, Simshauser, P. (2010) *Delayed carbon policy certainty and electricity prices in Australia*.

<sup>iv</sup> ACOSS (2011). *Pricing carbon pollution: supporting and engaging low income households*.

<sup>v</sup> Daley, J and Edis T. (2010). *Restructuring the Australian economy to emit less carbon*. Grattan Institute

<sup>vi</sup> Alan Pears Swinburne Uni paper on carbon impacts; also see AIG report outlining manufacturing preparedness.

<sup>vii</sup> Daley, J and Edis T. (2020). *Restructuring the Australian economy to emit less carbon*. Grattan Institute. See particularly Figure 2.2, page 15.

<sup>viii</sup> See discussion on energy security covered in Garnaut, R. (2011). *Update Paper 8: Transforming the Electricity Sector*.