Submission to the Senate Select Committee on Climate Policy.

The white paper acknowledges the need to act decisively on climate change and the advantages of acting early. Despite this, the action proposed in the CPRS is slow, timid and conditional.

Australia has a lot to lose if climate change cannot be limited:

- Agricultural sector will lose a lot of its productivity.
- Water will become scarcer and more expensive.
- We could lose much of Australia's bush as forest fires become more frequent and more severe.
- We will lose our coral reefs, which are among the most amazing wonders of the natural world, and a source of much tourist revenue.
- We are likely to have far more environmental refugees arriving on our shores than we can possibly cope with.

There is also the possibility of serious irreversible changes to our climate and biosphere. This would severely reduce the population that the planet can support. It would lead to consequences more serious than a major world war or the most serious financial crisis.

It is in Australia's interest to reduce emissions and to do everything possible to get large emission reductions worldwide. Australia should also have a humanitarian interest in the fates of the people in the poorest countries of the world, who have done little to contribute to global warming, but who will suffer the most from its effects.

There are a number of problems with the scheme as proposed:

Size of Target

A target of 5% to 15% reduction in emissions by 2020 is really very unambitious given the size of the problem.

Even if global action does keep greenhouse gases below 450ppm CO_2 equiv, Australia will still suffer significantly from the effects of climate change. There is already much climate change that is inevitable because of past emissions, and more will occur as concentrations rise. The lower we can stabilise CO_2 concentrations, the less impact climate change will have on Australia and the rest of the world.

Evidence is mounting that we will need to keep CO_2 concentrations well below 450ppm to avoid dangerous change. The lower the CO_2 concentration, the lower the probability of catastrophic change in the climate system.

Given all the current evidence about the consequences of climate change and the future costs of adaptation, the return on investment on reduction of emissions is likely to be very high. Australia should be aiming to reduce emissions as rapidly as possible, and encouraging other countries to do the same.

With its high per capita emissions, Australia has a responsibility to reduce its emissions rapidly.
As a wealthy country, it can afford to do so.
With its large land mass, sunshine, wind and hot rocks, it has the opportunity to do so.
It seems to be just powerful vested interests that are blocking our way forward. Australia should not continue to prop up industries that are over contributing to the problem.

While it is important that developing countries limit their growth in emissions, Australia should not attempt to push most of the costs of action on climate change to countries which are struggling to provide basic food and living conditions for their people.

Comparisons with other countries

Arguments that it is harder for Australia to reduce emissions because of the high emission intensity of its industries don't stand up. The reality is the opposite.

Europe, with a lower proportion of fossil fuel electricity generation (about 47%), less sunlight, and less open space has actually less opportunity to reduce its emissions than Australia, which generates 90% of its electricity from fossil fuel. By building big solar thermal or geothermal power stations and retiring our most emissions intensive power stations, we could significantly reduce our carbon emissions relatively easily.

Conditionality of Target

Australia is too small to pressure other emitters to act by saying that it will take action only if others do. However the example that Australia sets is significant and it amplifies our negotiating position in achieving international action. Australia could show what is possible.

Australia's inaction on climate change in the past and its negotiation position in international conferences has probably slowed international action quite significantly.

By being a leader in action on climate change, Australia could have a really positive influence on other countries' actions in spite of its size.

Unlimited Offsets from Overseas

There are several problems with the unlimited use of carbon credits from overseas:

- It sends the message to other countries that Australia is not prepared to really change anything to help reduce climate change. We continue with business as usual and just pay for a few offset schemes in developing countries.
- It means that there no minimum price can be set for emissions permits. The lack of a minimum price will take away any certainty for the investment in new and renewable technologies that could reduce our emissions.
- It will reduce the opportunities to develop the new industries needed for the 21st Century
- We expect developing countries to play their part in reducing growth in emissions, but we intend buying up the cheapest options for these countries to reduce emissions. Reductions achieved overseas cannot be counted towards both countries' achievements.
- The credits bought from overseas are not necessarily subject to the same verification standards as apply locally, and it is very difficult to say that these projects would not have happened anyway.

The use of offsets from overseas should initially be very limited if allowed at all.
In the future, when most countries have emissions trading schemes with compatible restrictions, there may be advantages in allowing offsets from compatible overseas schemes. That situation does not apply yet.

Australia should be helping developing countries reduce their emissions, but it shouldn't be claiming the credit for this as a way of meeting its targets.

Effect on voluntary action to reduce emissions.

The proposed CPRS cancels out the effects of voluntary action by individuals, businesses, and government bodies reducing their carbon footprints. This problem is definitely serious, but quite difficult to address. It would be much less of a problem if the reduction targets were high enough, because then many of these actions would continue to happen for purely financial reasons. With the currently proposed targets, much of these available reductions will just be lost. One approach could be to try to identify these voluntary activities, and remove carbon credits from the system corresponding to the savings achieved.

Assistance to emissions-intensive trade-exposed industries

The assistance proposed to emissions-intensive, trade-exposed industries is very generous despite the modelling that shows the risk of carbon leakage is low. This is a big cost to government budget and to the resources available for encouraging new industries and adapting to inevitable changes.

If the targets were stronger, there may be more risk of carbon leakage, but assistance should only be just enough to prevent significant leakage, and should be withdrawn as a carbon price becomes incorporated into the world price.

Assistance to emissions-intensive coal-fired electricity generators

The free permits to the coal-fired generators are worth $3.9 billion assuming a price of $25-per tonne of CO_2. There seems to be two justifications for such generous assistance in the white paper.

The first is the loss of profitability and asset value to the industries. This is really not a valid reason. I don't remember banks being compensated for loss of profitability when their sector was opened up to competition, or manufacturing being compensated for loss of profitability as tariffs were reduced. The coal-fired electricity generators have known for a long time that we were moving to a carbon constrained world, and should have already factored this into their asset valuations.

The second justification seems to be a concern that generators may cut capacity prematurely, endangering the security of our energy supply.

The free permits to generators and the condition that they maintain their level of generating capacity as at 2007 may protect against premature withdrawal of capacity before 2015. However, the scheme as proposed is unlikely to substantially reduce our dependence on coal fired electricity by this time, and there seems to be no mechanism to prevent the generators requiring extra assistance after 2015 as a condition of continuation of supply. I'm sure that cheaper and more effective ways of ensuring the security of our energy supply can be devised.

We should also stop funding attempts to make clean coal look possible. Carbon capture and storage at the scale required to significantly reduce the problems of coal fired power stations is not going to be possible. The subsidies to the coal industry planned as part of the CPRS and CCS programs are like pouring money into the tobacco industry at the same time as trying to reduce the disease burden of smoking.

We should remember that the only reason coal appears to be a cheap source of energy is that most of its costs are excluded from its price; they are externalities – costs that we and future generations all have to bear.

Exclusion of fuel from the scheme for three years

The cent for cent reduction in fuel tax for the first three years of the Scheme means that petrol is effectively excluded from the CPRS for that time. This will delay the outcomes that the ETS is trying to achieve. It gets rid of the incentives to switch to more fuel efficient means of transport. It also reduces the overall efficiency of the CPRS and puts higher costs on to other areas of the economy.

Employment

Unfortunately, many people have come to believe that the only way to ensure full employment is to have never ending economic growth. This is simplistic economics.

Our large mining exports have probably cost us a lot of manufacturing jobs, even if they have improved our terms of trade and given us cheaper consumer goods via a high Australian dollar.

Resource constraints, like a carbon cap, can create a lot of new employment as people shift to the new industries that develop and take advantage of the new opportunities that arise. Many of these new industries will be more labour intensive than the industries that they replace, and will provide more employment.

Jobs are more important than economic growth. A habitable planet is far more important than either.

Conclusion

It is definitely in Australia's interest to be a leader in developing and implementing new renewable energy sources, energy efficiency technology, etc. Current policies are tying us into technologies and industries that have very poor prospects and which are damaging our country and our planet.

The CPRS as proposed will do little to address climate change. Appropriately amended, it could make a significant contribution to reducing climate change and be influential in encouraging other countries to also take serious action:

- The targets for emissions reduction should be much larger. We should be aiming for at least a 40% reduction by 2020 – about 5% per year.
- The targets should not be contingent on actions by other countries.
- The purchase of permits from overseas should be very limited.
- There should be a minimum price for emission permits, to provide more certainty for investors in low emission technologies.
- Assistance to developing countries to help them reduce their emissions should be quite independent of the CPRS.
- Assistance to the high emitters should only be sufficient to avoid significant risk of carbon leakage and should be withdrawn as this risk reduces.
- Fuel should not be excluded from the scheme, as it is for the first three years by the cent for cent reduction in fuel tax
- Enough flexibility should be kept in the scheme so that the rate of reduction can be increased if new evidence shows that this is necessary.
- There needs to be restoration of the benefits that can be gained from voluntary actions to reduce emissions.
- Agriculture and land use should be kept out of the CPRS, and independent schemes developed to reduce emissions from this sector.
- Australia should work towards becoming a leader in the new technologies of renewable energy, energy efficiency, energy storage and demand management.

John McDonald