

OFF TARGET: the fundamental flaws in the Rudd Government's Carbon Pollution Reduction Scheme

In December 2007, just weeks after being elected, Prime Minister Kevin Rudd went to Kyoto negotiations in Bali to ratify the Kyoto Protocol. He said: *"Australia now stands ready to assume its responsibility ... Climate change is the defining challenge of our generation."*

Twelve months later on 15 December 2008, the federal government released its long-awaited White Paper on the Carbon Pollution Reduction Scheme (CPRS) – their central policy on climate change.

The response from environmentalists was shock and dismay. The Rudd Government appeared to have given up on safeguarding the climate and protecting Australia's interests in favour of continuing with pollution-as-usual. The scheme is so fundamentally flawed that it represents an abandonment of the millions of Australians who voted for real action on climate change at the 2007 federal election. These flaws remain in the exposure draft of the legislation tabled on 10 March 2009.

It's difficult to know where to begin to outline the problems with the CPRS. The proposed targets of 5-15 per cent are unscientific, inadequate and destructive to international negotiations to secure a safe climate future. Furthermore carve-outs and loopholes for the big polluters mean that it is possible that under the CPRS, Australia's emissions could actually rise. The CPRS also destroys all incentives for individuals, communities, businesses and governments to take voluntary action to reduce emissions and be more sustainable. The combined impact of these flaws will mean a low carbon price, and therefore an inadequate price signal to change behaviour. In its current form, Environment Victoria cannot support the CPRS.

Over the coming months we'll be working to ensure that the CPRS is either fixed or rejected in the Parliament. We'll need your assistance to impress upon your federal and state MPs that the scheme represents a clear breach of the ALP's election promise to tackle climate change.

Below, Environment Victoria's Victoria McKenzie-McHarg and Mark Wakeham outline the fundamental flaws in the proposed CPRS.

Fundamental Flaw #1

Weak Targets

The White Paper commits Australia to a non-negotiable target of 5 per cent emissions reduction by 2020 (from 2000 levels). This weak target is the kiss of death for the Great Barrier Reef, Kakadu wetlands, the Murray-Darling Basin, and the regional economies these areas support.

The government has indicated that they would be willing to lift that target to 15 per cent, but only in the event of a strong international agreement being achieved at Copenhagen later this year. However by offering to move to 15 per cent cuts only if there is international agreement, the Rudd Government virtually guarantees that such an agreement won't be reached. The 5-15 per cent range is particularly disappointing given Treasury's own economic modelling found that a 25 per cent reduction target would have little impact on the Australian economy and would spur the growth of new industry and jobs.

The international community has already agreed to the 'Bali range' of 25-40 per cent cuts for developed countries. By undercutting this range, the government is undermining the progress made at the Bali and Poznan meetings and setting international negotiations back a year.

Critically the Rudd Government's targets undermine our chances of securing a safe climate future. While the Bali range of 25-40 per cent cuts is far better than what Kevin Rudd is offering, even these targets are a serious compromise on what scientists tell us is required for a safe climate future. Now the Rudd



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Government is compromising a compromise. The Bali Range aims to achieve an outcome of 450 parts per million (ppm) of CO₂ equivalent. Climate scientists are increasingly telling us that targets of 300-350 ppm are the only safe targets. The federal government claims that their targets are consistent with a 550 ppm target, however the ANU's Centre for Climate Law assesses them as closer to a 650 ppm plan¹. In summary the proposed CRPS targets are wildly unscientific, suggesting that the Rudd Government has abandoned the science in favour of protecting polluter interests.

Fundamental Flaw #2

Compensation for the Big Polluters.

In addition to adopting a weak target which delays the shift to a low emissions economy, the White Paper offers additional incentives to delay action on climate change. The Rudd Government is proposing to gift \$7.4 billion in compensation to polluting industries in the form of free trading permits in the first two years alone, with built in measures to continue this compensation long into the future. While some of this compensation is going to trade exposed industries that will face competition from imported products without a carbon price attached, \$3.9 billion will go directly to coal-fired power stations over the next five years against the advice of Professor Ross Garnaut.

Following the release of the White Paper, Professor Ross Garnaut strongly criticised compensation to coal-fired power stations saying: *"Never in the history of Australian public finance has so much been given without public policy purpose, by so many to so few"*². Compensating coal-fired power stations has been likened to introducing a tax on cigarettes and then exempting smokers.

Every dollar that is spent compensating the coal industry is a dollar not spent funding the shift to a low carbon future or compensating low income households by making their homes more energy efficient. While there is some assistance to low income households (and excessive assistance to middle income households) all of the assistance in the Rudd package is in the form of cash payments and tax adjustments rather than making our homes more energy efficient.

While a case can be made for some assistance for trade exposed manufacturers and polluters, the White Paper package represents a cash bonanza for some of Australia's wealthiest and dirtiest industries. An assessment of the package by Innovest³ found that in 2010 alone Rio Tinto would receive \$462 million, Bluescope Steel \$174 million and Alcoa \$170 million from the federal government. This assistance continues and increases over time without requiring that these industries improve their efficiency, which should be a basic condition of any assistance.

Fundamental Flaw #3

Unlimited International Offsetting

The White paper proposes no limits to the amount of permits that could be purchased on international markets and surrendered under the scheme. This means that polluting industries in Australia can pay for projects that reduce emissions overseas, while still increasing their pollution at home. While global emissions would be reduced, Australians will be paying for the emissions reductions but not seeing any of the green jobs and industry transformation we need to make stronger targets in the future possible. Environment Victoria supports some limited international trading in the order of 10 per cent of permits.

¹ <http://www.crikey.com.au/Politics/20081216-Macintosh-This-looks-more-like-a-650-ppm-plan-.html>

² <http://www.theage.com.au/national/australia-counts-itself-out-20081219-72ei.html>

³ http://www.acfonline.org.au/uploads/res/Innovest-Recipients_of_CPRS_assistance-White_Paper_update-Dec08.pdf



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However allowing 100 per cent of permits to come from international sources weakens the scheme and delays Australian action.

Fundamental Flaw #4

Undermining Small Scale and Large Scale Voluntary Action

Under the proposed CPRS, the government will set a cap on the amount of pollution that the top 1000 biggest polluters in Australia are allowed to emit. But in setting that cap, they are also setting a floor – a lower limit to how much we're able to reduce Australia's pollution. This means that any time a company builds a new wind farm, your neighbour puts solar panels on their roof or you replace your old refrigerator with an energy efficient one, the associated drop in emissions will free up an extra polluting credit for the big polluters to fill.

This undermines voluntary action from all parts of the community, from individuals right through to large corporations who want to offset their emissions. A state or local government that wants to set tougher emissions reduction targets than the Rudd Government will merely be creating space for other jurisdictions to increase their emissions.

The Australian public has shown themselves willing to take personal actions to reduce emissions. The latest audit of the GreenPower program found that 877,875 households and 34,103 commercial customers are currently choosing to pay more for their electricity to support renewable energy and reduce emissions⁴. The proposed CPRS will gut the GreenPower program and cut Australians out of solving climate change. This seems bizarre when we are constantly being told by our governments that we all need to be part of the solution to climate change. Why then is voluntary action being kneecapped?

The CPRS needs to be rectified so that the number of pollution permits is reduced each year directly in line with the amount of pollution saved by voluntary action.

Other major flaws

While the above flaws are in our opinion the major ones, there are other serious weaknesses in the proposed scheme:

- Transport receives a free ride in the early years of the scheme as the Rudd Government didn't have the political courage to allow the price signal to flow through to petrol prices despite the fact that petrol prices have plummeted over the past 12 months.
- There are legitimate concerns that pollution permits are defined under the scheme as property rights rather than licences or allowances which subjects future governments to compensation claims as targets are tightened in the future.
- Plans to include reforestation in the scheme without including deforestation are flawed. Tree plantations can help reduce emissions but given their vulnerability to fire and drought they are no substitute for emissions reductions in energy and transport.
- The White Paper proposes a price cap of pollution of \$40 per tonne. While the combination of weak targets and loopholes in the scheme makes such a price highly unlikely, setting a cap undermines the ability of the market to accurately price carbon.

⁴http://www.greenpower.gov.au/admin/file/content13/c6/greenpower_quarterly_report_q408.pdf





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Conclusions

Environment Victoria cannot support the CPRS

Let's remember why economists have proposed emissions trading as a means to reduce greenhouse pollution. The theory is that a price signal across the whole economy will encourage the shift to a low carbon future at the lowest possible cost. Let's also remember why we need to reduce emissions: we have a global emergency that threatens all life on the planet. And yet the Rudd Government is proposing feeble steps to reduce emissions and then undermining all price signals to change behaviour through a compromised scheme.

Because of the fundamental flaws in the CPRS Environment Victoria cannot support the proposed CPRS. We will be campaigning with the broader climate movement for the ALP to go back to the drawing board to fix the CPRS and for other parties to use their influence to improve or, failing that, block the CPRS legislation.

This year is the big one. If the CPRS is legislated in its current form ahead of the Copenhagen meeting, Australia will be back to its old tricks of preventing global progress on climate change. We need to reach out to the millions of Australians who voted for real action on climate change and ensure they understand that the Rudd Government has broken their pre-election promises. We also need to ensure that all MP's understand that government's who fail to act on climate change will be rejected at the ballot box.

Victoria Mc-Kenzie-McHarg and Mark Wakeham

To stay up to date and get involved with our activities including electorate based campaigning, sign-up for our fortnightly climate change e-bulletin on our website Alternatively contact Victoria McKenzie-McHarg at victoria@envict.org.au or on 9341 8112 for more information.

