

SUBMISSION TO THE  
SENATE SELECT COMMITTEE ON CLIMATE POLICY  
BY  
GLOBAL SUSTAINABILITY AT RMIT UNIVERSITY

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Contact

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Global Sustainability at RMIT University (RMIT Global Sustainability) welcomes the opportunity to provide a submission to the Senate Select Committee on Climate Policy, which is examining policies relating to climate change.

**About RMIT GLOBAL SUSTAINABILITY**

Global Sustainability at RMIT University is located in the Research and Innovation Section at RMIT University in Melbourne, Australia.

Internally we assist colleagues within RMIT to incorporate sustainability into the teaching, research and operations of the University, through:

- Facilitation of research and consultancy opportunities;
- Targeted information provision; and
- Assistance with curriculum development and lecturing.

Externally we facilitate the understanding of sustainability by business and industry, and the uptake of sustainability strategy and initiatives, through:

- Targeted provision of information and advice;
- Sustainability research and assessment;
- Sustainability initiatives developed with business/industry.

Projects for diverse private and public sector clients include provision of strategic research, evaluation, advice and information around sustainability issues relevant to particular organisations and industries. We have expertise in relation to organisational sustainability assessments and change strategies, sustainability indicators, sustainability and Triple Bottom Line reporting, sustainable procurement, carbon markets and corporate carbon management.

Global Sustainability has been instrumental in the development of third party scrutiny of the voluntary offsets market in Australia, and has collaborated with the Victorian Environment Protection Authority to develop the Carbon Offset Guide, Australia's first independent online resource that allows consumers to compare the offerings of current offset providers: [www.carbonoffsetguide.com.au](http://www.carbonoffsetguide.com.au).

**This Submission**

RMIT Global Sustainability supports the overarching objectives of emissions trading schemes and the Australian Government's proposed Carbon Pollution Reduction Scheme (CPRS) as outlined in the CPRS White Paper, released in December 2008. RMIT Global Sustainability congratulates the Australian Government on the broad sectoral coverage of the proposed scheme and inclusion of all greenhouse gases under the Kyoto Protocol, in addition to the recognition that the scheme needs to begin as soon as possible in 2010.

RMIT Global Sustainability appreciates the opportunity to comment on some key design features of the Australian Government's proposed CPRS. We regret that, due to the relatively short timeframe for public consultation by the Senate Select Committee, we are not in a position to comment comprehensively on all aspects of the Committee's Terms of Reference. Rather, we have focused our comments on what we consider to be key aspects of the proposed CPRS which we believe could determine (or compromise, as the case may be) the overall success of the scheme once implemented – for example in relation to energy-intensive trade-exposed industries, strongly affected industries, free allocation of permits and assistance to businesses and households.

RMIT Global Sustainability acknowledges the valuable contributions to this submission by colleagues at RMIT University:

- Mr Alan Pears, Adjunct Professor to the School of Global Studies, Social Science and Planning, RMIT University; and
- Dr Stuart Thomas, Senior Lecturer in the School of Economics, Finance and Marketing.

### **Responses to the Select Committee's Terms of Reference**

RMIT Global Sustainability's responses to the terms of reference set by the Select Committee are outlined below.

- (a) the choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account the need to:**
- (i) reduce carbon pollution at the lowest economic cost,**
  - (ii) put in place long-term incentives for investment in clean energy and low-emission technology, and**
  - (iii) contribute to a global solution to climate change.**

RMIT Global Sustainability supports the overarching objectives of the Carbon Pollution Reduction Scheme (CPRS) and emissions trading in principle. Emissions trading is an important part of a suite of policy and regulatory measures that the Australian Government and other governments can and should put in place to reduce Australia's carbon pollution. It is not a "silver bullet" in and of itself and should be complemented by a range of mechanisms, including:

- mandatory minimum performance standards for buildings, vehicles and equipment;
- incentives for abatement, innovation and the development of low carbon industries; and
- a vibrant domestic voluntary abatement market.

In addition, to have maximum impact on reducing aggregate greenhouse emissions, emissions trading systems must be designed properly. As Professor Garnaut pointed out in his final report to the Australian Government in December 2008<sup>1</sup>, other alternatives, such as a carbon tax, would be preferable to a compromised emissions trading scheme.

We believe that certain proposed features of the CPRS have the potential to undermine the integrity of the scheme and compromise its ability to meet the objectives of the CPRS.

The emphasis here is clearly on the *long-term* interests of the nation, which we commend. However, a number of proposed key design elements are clearly driven by *short-term* economic and political interests, which appear to be at odds with the Australian Government's own recognition of the need for urgent action:

*"The longer we wait to take action on climate change, the sharper the adjustment to the economy will be when we are forced to act. Taking earlier action will allow an orderly, gradual transition to a low-carbon economy. Delaying action will require sharper, more rapid – and thus more costly – adjustments later".*  
*(CPRS Green Paper Summary document, July 2008, page 10)<sup>2</sup>.*

We strongly believe that the introduction of features such as free permit allocations and policy interventions outside the ETS, such as the removal of the fuel tax levy are short-term political reactions to industry lobbying and perceived voter backlash. Measures such as these will operate as confounding elements, jeopardising the capacity of the CPRS to provide a carbon price signal

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<sup>1</sup> Garnaut Climate Change Review Final Report, December 2008. <http://www.garnautreview.org.au/index.htm>

<sup>2</sup> The Carbon Pollution Reduction Scheme Green Paper, Department of Climate Change, July 2008

sufficient to drive change in industry and consumer behaviour at the commencement of the scheme. This will militate against “orderly, gradual transition to a low carbon economy”.

We note the urgings of various industry bodies to avoid adverse economic impacts on those industries that face particular challenges in transitioning to a less emissions intensive future, or that are exposed to international competition. We are also extremely conscious of the potential for the introduction of the scheme to cause widespread hardship in sections of the community. In our view, such considerations are paramount in considering appropriate targets and trajectories for the CPRS to determine an appropriate initial carbon price, and in designing compensation measures to mitigate the impacts of a carbon price on those in our communities least able to avoid or absorb it. However, these considerations should not be used to dilute or detract from the simplicity and purity of the scheme; nor distract us from the overarching necessity to actually reduce emissions – from the commencement of the scheme; not for years after.

We do not oppose an incremental approach to setting targets and trajectories, yet the experience of the European Union’s Emissions Trading Scheme should serve as a warning against poor scheme design that results in a negligible carbon price. The CPRS must provide signals for both businesses and consumers to reduce their emissions.

In this regard, we agree with the *Draft Report of the Garnaut Climate Change Review*, (Garnaut Draft Report)<sup>3</sup> released in June 2008, which emphasised the need to safeguard the overall design of the scheme and to stand firm against short term market pressure, in addition to vested interests of individual industry groups.

One major perverse outcome of the CPRS, as presently designed, is that it will undermine investment in the very industries that will form a basis of a low carbon economy, drive those businesses offshore, and export Australian jobs. It will also disempower the voluntary abatement activities of many Australian households, businesses, local and state governments.

In RMIT Global Sustainability’s view, crucially important considerations are timeliness, certainty and a carbon price that is sufficiently high to drive change toward a low carbon economy. It is critical to have a price on carbon from July 2010, as the uncertainty created by delay would be very damaging to the Australian economy. For example, a lack of carbon price will delay investment in energy supply and demand side infrastructure, which will pose risks of blackouts and other crises.

If the CPRS price signal cannot be established within this timeframe, then in our view, it would be preferable to establish an interim carbon tax, with the aim of transition to a trading scheme by 2011 or 2012. This is essentially Professor Garnaut’s ‘second best’ option, as outlined in his Draft report.

**(b) the relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils.**

The relative contribution of other complementary measures will depend on the integrity of the trading scheme and its integration into a comprehensive suite of policy and regulatory measures (as outlined above) and the vigour with which they are pursued.

We note that the Australian Government intends to provide assistance to various constituencies potentially adversely affected by the operation of the CPRS – for example low income households and communities and regions surrounding “strongly affected industries”.

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<sup>3</sup> Garnaut Climate Change Review Draft Report, June 2008

In this regard, RMIT Global Sustainability emphasises the need to maintain the overall scheme design simplicity and integrity. Whilst it is legitimate to source any special assistance to any adversely affected stakeholders should from scheme revenues, the assistance itself should be distributed via policy instruments outside and complementing the CPRS, such as taxation relief and welfare mechanisms, to avoid directly countermanding the carbon price signal.

For example, we note the inclusion of the transport sector in the CPRS. We recognise that a carbon signal in this sector is likely to increase fuel prices, which may cause significant hardship to householders in urban and rural areas, to businesses and transport operators. However, we believe that it is bad policy for the Government to cut fuel taxes to offset this increase. This will effectively negate the effects of a carbon price on fuel as a mechanism to reduce emissions from the transport sector. It will therefore undermine one of the basic premises of any emissions trading scheme; namely to drive behavioural change in industry and within households.

We endorse the approach outlined in Garnaut's *Draft Report*, which recommended that compensation be provided through alternative mechanisms, which would not directly influence the fuel price, such as via taxation cuts. This approach would provide both a price signal in the sector and a choice for consumers regarding how they utilise the compensation provided.

**(c) whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change.**

RMIT Global Sustainability believes the Australian Government has failed to commit to emission reductions targets that adequately address the need for decisive action on climate change mitigation. The 2020 target outlined in the CPRS White Paper fails to heed the authoritative advice of the landmark Garnaut Review and globally accepted climate change science. Similarly, it is completely at odds with the consensus of developed nations at the Bali Conference of the Parties in December 2007, that the appropriate range of emissions reductions by 2020 is between 25% and 40%. RMIT Global Sustainability supports a commitment to stronger targets that respond to recent developments in climate science and position Australia early on its trajectory to cut 2050 emissions to 2 tonnes of CO<sub>2</sub> equivalent per capita or other level consistent with globally equitable emissions at a sustainable rate.

The CPRS legislation should also make provision for the Government to tighten the cap with less than five years notice (without a requirement for compensation) where credible research indicates that the cap fails to adequately address changes in accepted climate science.

**(d) an appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be.**

Australia's role in reducing global greenhouse gas reductions is significant since our per capita emissions are amongst the highest in the world. The Australian Government, both pre and post election, has publicly claimed leadership in climate change mitigation policy. Australia seeks to have an ongoing seat at the table in international climate change negotiations and it is therefore incumbent upon Australia to demonstrate leadership by example in combating an urgent global crisis. It is critical that Australia makes a fair and equitable contribution to the global emission reduction effort, to encourage the participation of developing countries in a global response. As noted above, RMIT Global Sustainability believes that the range of emissions reductions targets presently proposed by the Australian Government do not reflect a fair and equitable contribution by Australia, based on Australia's per capita contribution to aggregate global emissions. Nor is it consistent with Australia's stated aspirations for climate change leadership for a meaningful Australian emission reduction target (i.e. beyond 5%) to be entirely dependent on the actions of other countries.

The appropriate mechanism for determining fair and equitable contributions by individual nations in the developed and developing world is a complex task, which must be a key focus of international negotiations in the context of the UNFCCC, in particular at the next COP in Copenhagen. However, in our view, to ensure fairness and equity in global terms, the mechanism should be based upon:

- the principle of broad international coverage;
- respective per capita contributions to global emissions; and
- a fundamental principle that those countries which have made the greatest contribution to atmospheric greenhouse gas concentrations since the industrial revolution must undertake targets and actions reflecting of and proportionate to that historical contribution.

**(e) whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues.**

The comments below are provided in response to specific concerns of RMIT Global Sustainability in relation to the current design of the CPRS.

RMIT Global Sustainability believes that the scheme has been designed in a way that the Australian Government is perceived to be taking effective action to reduce emissions, but in actuality that effect will be negligible in terms of providing meaningful investment signals for green collar jobs, research and development and the manufacturing and service industries. This is because various design features such as permit allocation, compensation mechanisms, implementation of a price cap and allowing importation of unlimited international Kyoto units for scheme compliance combine to militate against a meaningful carbon price signal.

#### ***Assistance for emissions-intensive trade-exposed Industries (EITEs)***

RMIT Global Sustainability notes the Australian Government's rationale for providing assistance to emissions-intensive trade-exposed industries (EITEs), in order to:

- Address some of the competitiveness impacts of the scheme on EITE industries in order to reduce carbon leakage;
- Provide transitional support to EITE industries that will be most severely affected by the introduction of a carbon constraint; and
- Support production and investment decisions that will be consistent with a global carbon constraint.

However, we have a number of concerns in relation to assistance to EITEs, as presently proposed in the CPRS design.

We note the claims of a number of potential EITEs in relation to significant international competitive disadvantage and carbon leakage in the event that they are not provided with direct relief from an immediate carbon price under the CPRS.

It is our contention that industry has had ample time to anticipate and plan for a carbon price to be factored into their planning and operations. In this regard, we refer to the comments of Grant King, CEO of Origin Energy Limited<sup>4</sup>, in following the release of the CPRS Green Paper:

*"Since signing the Kyoto Protocol in 1998, Australia has been committed to the principle of addressing climate change. Companies like Origin have been preparing for the transition to a lower-emission economy by investing over time in gas-fired generation and renewables, and by offering products and information to our household customers to help them reduce their carbon footprint".*

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<sup>4</sup> Origin Energy Media Release, published 16 July 2008

*“Not all of Australia’s companies have been preparing for the transformation in this way, and we recognise that this raises complex issues. We support a limited amount of compensation for generators particularly hard hit by the trading scheme, though only as a way of transitioning them to a lower-emissions economy”.*

The European Union has a mandatory ETS and it is likely that many other economies will introduce ETS regimes in the near future. New Zealand, Canada, Japan, Taiwan and Korea are currently at various stages of planning and implementation of an ETS, in addition to California and eight mid-Atlantic US states known as the “regional greenhouse gas initiative”.

In 2009 in Copenhagen, the international community will commence a new round of negotiation with a view to setting global emission reduction targets and related agreements.

In these circumstances, claims of significant international competitive disadvantage to Australian EITE industries can be easily overstated, since many international counterparts will be similarly positioned to Australian enterprises. Competitive disadvantage is based on a multitude of factors, such as labour price, tariffs, tax and royalty regimes. As such, isolating carbon price as a single determinant is convenient for EITEs and overly simplistic.

Similarly, in the context of a global marketplace that appears to be positioning itself for a multitude of interlinked national emissions trading schemes, together with global climate change negotiations, it is extremely unlikely that large, well established enterprises would relocate their operations to other developed or transitional economies solely as a result of an Australian carbon price. Developing nations without ETS regimes generally pose too many sovereign risk issues to warrant relocation on a substantial scale.

As Professor Garnaut stated in his Draft Report in June 2008, to the extent that competitive disadvantage in global markets is an issue, it can be addressed by international sectoral agreements that “subjects the main producers in each industry to a carbon tax if they do not have an effective national emissions limit.” (page 322). There are many compelling reasons for multi-national companies operating on a global scale to enter into such international sectoral arrangements, to provide a commercial level playing field. Likewise there are sound arguments for government advocacy of such schemes as developed nation governments would gain revenue through taxes or emissions trading revenue and developing nation governments could gain access to international climate change funds by participating in sectoral agreements.

The CPRS Green Paper released noted on page 292 that such sectoral agreements are an effective means of addressing issues of international competitiveness and carbon leakage; however they are not yet in place. If the Australian Government provides assistance to EITEs in the form contemplated in the Green Paper, it will remove any incentive for EITEs to negotiate and / or enter into such international sectoral agreements.

The Green Paper stated (at page 295):

*“The design of the EITE industry assistance policy will have an impact on non-assisted industries and households for two principal reasons:*

*First, to the extent that carbon pollution permits are freely allocated to EITE industries, the number of permits that are auctioned will be lower, reducing scheme revenue and the Government’s capacity to assist other industries and households.*

*Second, assisting EITE industries may increase the emissions reduction effort required of the rest of the economy to reach emissions reduction targets. The size of this impact will depend on the way EITE assistance is provided to industries and on the extent of international linking that is allowed”.*

We commend this incisive analysis and contend that these are fundamental reasons not to provide EITE assistance in the first place.

In RMIT Global Sustainability's view, a disproportionate focus on providing "transitional support" for EITEs effectively means that the entire economy will need to make a sharper and more rapid adjustment, which we submit is ultimately a much more costly – and fundamentally inequitable – outcome.

In this regard, we reiterate our remarks above in relation to the need to maintain the overall scheme design simplicity and integrity. While any special assistance to EITEs (and any other adversely affected stakeholders) should be sourced from scheme revenues, it should be distributed via policy instruments outside and complementing the CPRS, such as taxation relief and welfare mechanisms, to avoid directly countermanding the carbon price signal.

As will be apparent from our above comments, we oppose the introduction of EITE assistance in the form contemplated in the current CPRS design. However, even in the event that such EITE assistance is provided, we contend that the period for such assistance must be clearly defined and limited to the absolute minimum necessary to provide "transitional support" for EITEs, as opposed to windfall gain.

### Free Allocations

We note that the current CPRS design allows for assistance to be provided to emissions-intensive trade-exposed industries in the form of free allocations of carbon pollution permits at the beginning of each compliance period, contingent on production. Up to around 25 per cent of Australian carbon pollution permits would be freely allocated to emissions-intensive trade-exposed (EITE) activities. At the outset of the scheme, if agricultural emissions are included in scheme coverage, this would be up to around 35 per cent of permits.

We contend that the introduction of features such as free permit allocations will compromise the CPRS's capacity to provide a carbon signal necessary to drive change in industry at the commencement of the scheme. This is at odds with the stated premise of the CPRS to facilitate an "orderly, gradual transition to a low carbon economy".

We do not believe that free allocations are a legitimate means of providing assistance to EITEs and they undermine the very purpose of the CPRS in seeking to reduce emissions at the lowest cost to the economy overall. While large emitters will be privileged through free allocations, the costs of providing such assistance will ultimately be borne by non-assisted sectors and Australian households.

Free allocations result in no incentives for change by our largest polluters to undertake abatement activities and no incentive for the creation of new industries and jobs that will drive the transition to a low carbon economy.

We urge the Select Committee on Climate Policy to consider the lessons from the EU ETS, where the first phase emphasised the importance of maintaining the simplicity and integrity of overall scheme design. A combination of free allocations, an overestimation by participants of their emissions, and the passing on of the carbon cost to consumers resulted in a windfall gain for the biggest polluters and a negligible carbon price. Overall, the integrity of the scheme was severely compromised by failure to get key design elements right.

We recognise that, unlike the EU scheme, the current CPRS design does not propose a model for total allocation of permits. However, any level of free allocation has the potential to distort the market and create unintended consequences for the carbon price.



Thus we concur with Professor Garnaut that 100% of permits should be sold through a competitive process:

*“As well as having lower implementation and transaction costs, auctioning of permits is supported by the scheme design principles of credibility, simplicity and integration. Australia, with its well-established legal, regulatory and administrative structure, is in a favourable position for full auctioning of permits. This would maintain government discretion over the disbursement of the rent value of permits in the Australian economy in transparent and accountable manner. A sound auction design is important to avoid introducing new inefficiencies or distortions in the market”.*

*(Garnaut Review Draft Report, page 372)*

### **Strongly Affected Industries**

We note that the current scheme design allows for direct assistance to be provided to “strongly affected industries” – and as defined, this provision targets coal fired electricity generators. The assistance is to be provided in the form of administratively allocated permits, and is based on claims by coal fired electricity generators that they will incur stranded assets and may face insolvency in the event that they are not provided with direct relief from an immediate carbon price under the CPRS.

RMIT Global Sustainability disputes such claims, as any electricity generator in the Australian marketplace will clearly be able to pass carbon costs onto consumers downstream. This is evidenced by the EU experience, where electricity generators passed the full cost of the carbon price to consumers.

In addition, electricity demand is inelastic, as the CPRS Green Paper pointed out on page 346. Further, the cost of electricity produced from coal fired power stations is the lowest in the Australian Energy Market Operator marketplace and the margins are the largest.

In response to claims of investment risk and the potential for sunk or stranded assets, we contend that coal fired generators have had ample time to anticipate and plan for a carbon price to be factored into their planning and operations. In this regard, we refer once again to the abovementioned comments of Mr Grant King, CEO Origin Energy, in a media release published on 16 July 2008.

RMIT Global Sustainability believes that there are a number of reasons not to provide direct assistance to strongly affected industries, such as:

- To the extent that direct assistance is provided to strongly affected industries, the revenue collected from permit auctioning will be lower, reducing the Government’s capacity to meet its stated objectives to assist other industries and households.
- Providing direct assistance to strongly affected industries may increase the emissions reduction effort required of the rest of the economy to reach emissions reduction targets. The size of this impact will depend on the way assistance is provided to strongly affected industries.

A disproportionate focus on providing direct assistance for strongly affected industries means that the entire economy will need to make a sharper and more rapid adjustment, which we submit is ultimately a much more costly – and fundamentally inequitable – outcome.

We believe that direct assistance to strongly affected industries undermines the very purpose of the CPRS in seeking to reduce emissions at the lowest cost to the economy overall, as the costs of providing such assistance will ultimately be borne by non-assisted sectors and Australian households.

## **Price cap**

According to the CPRS White Paper, for the first five years of CPRS operation, there will be a price cap, which means that the Government can theoretically issue an infinite number of permits for the first five years of the Scheme.

The rationale for the application of a price cap in the scheme is to provide a means of setting the maximum cost of permits (and therefore compliance) under the CPRS, and to ensure that the permit price is not subject to excess volatility. However, RMIT Global Sustainability is concerned about the potential implications of the operation of the price cap.

The fundamental problem with a price cap is that it artificially suppresses the permit price at a predetermined level. This feature renders the Scheme cap practically ineffective since the price cap will override the Scheme cap if prices increase, so that there is no longer a limit on the level of emissions. This fundamentally compromises the integrity of the CPRS as an emissions reduction scheme and in turn, obviously emasculates the effect of the CPRS in providing meaningful investment signals for green collar jobs, research and development and the manufacturing and service industries.

The European Union ETS operates without a price cap, the New Zealand Government does not support inclusion of a cap regime in their forthcoming ETS and the Garnaut *Draft Report* does not support the inclusion of a price cap in Australia's ETS. While the New South Wales Greenhouse Gas Reduction Scheme, Australian Capital Territory Greenhouse Gas Abatement Scheme and the Queensland Gas Scheme all feature price caps of one form or another, neither of these caps has been tested in the market and their true effect is unknown. Thus the presence of a price cap within the CPRS jeopardises linking opportunities with international emissions markets as a global market develops.

## **OTHER COMMENTS**

### ***Impacts of the CPRS on the Australian economy***

The impact of the CPRS on the economy depends to a great extent on how it is managed. Treasury modelling, and many other studies, show small net impacts that are really 'in the noise' of the range of uncertainty of the models.

That said, RMIT Global Sustainability believes that some fundamental points can be made about the likely impacts of the CPRS on the Australian economy.

Revenue from a carbon price flows through the economy as the government assists with adjustment, encourages low emission development and creates more demand for products and services that help to abate. The carbon price is not an indicator of the cost of emissions trading to the economy, but it is an indicator of the scale of price signal required to shift behaviour. This may have impacts on individual entities, but their loss is another entity's gain.

A shift from high carbon to low carbon economic activity typically shifts activity from high capital intensity, low employment intensity industry to higher employment intensity activity, particularly services and light manufacturing. For example, extra labour in building more complex solar-efficient buildings replaces investment in power stations and transmission lines. Effective policy can enhance this shift and capture additional benefits. For example, driving demand for double glazed windows reduces their price through economies of scale, thus improving the net economic outcome. So overall, the employment impact of CPRS should be positive, particularly if effective policy measures are applied to support retraining and expansion of new businesses in affected regions.

Economic studies tend to overstate the net costs of transition to a low carbon economy for several reasons:

- economic models typically focus on the costs of economic impacts, and ignore the economic costs of failure to abate.
- as described by Professor Garnaut in his Final Report, economic analysis considers only some of the costs of failure to abate, even where they are considered at all. Garnaut's Final Report (at page 10) identifies currently measurable market impacts, market impacts not readily measurable, insurance value against high damages, and non-market impacts. Of these, only the first has typically been considered in economic analysis.
- economic analysis typically discounts future costs. Further, as Professor Garnaut points out, the costs of delay are high, yet these kinds of costs are difficult to estimate.
- economic models are based on the assumption that the economy is quite efficient at allocating economic resources, so that a shift to other activities may be modelled as more costly than it actually is in practice, particularly where there is innovation, 'learning by doing' or a shift in community values. For example, a person who buys a locally made Camry hybrid and invests \$30,000 in making her/his home carbon neutral may spend the same amount of money as (s)he would have spent to buy an imported luxury car. So the cost of this abatement example is actually infinitely negative. Such options are extremely difficult to model. Similarly, some studies (such as McKinsey & Co<sup>5</sup> and the CIE for the Australian Sustainable Built Environment Council<sup>6</sup>) have identified significant abatement at negative cost, yet modelling has generally failed to incorporate such profitable abatement.

It is essential that claims by individual businesses implying that any impact on their business success will damage the economy are critically analysed. Garnaut's reports challenge such claims by the LNG and coal-fired electricity industry, and have not been refuted by public evidence. All government policies have winners and losers: the challenge is to maximise the benefit while minimising the pain to society.

Claims that the present financial crisis is justification for delay simply do not stand up: now is the time when old, inefficient and polluting plant may be shut down and replaced by modern efficient plant and infrastructure that will underpin the transition to a low carbon future. The certainty that will come from a timely start to emission pricing will underpin investment that would otherwise be delayed or diverted to other countries.

### ***Impacts on the Australian voluntary abatement market***

According to the current design of the CPRS, options for voluntary abatement or offsets that will reduce Australia's overall level of greenhouse gas emissions are limited to:

- Voluntary purchase and surrender of Australian Emissions Units (AEUs);
- Voluntary purchase and surrender of internationally traded permits eligible under the CPRS – which does not include privately certified offsets such as Gold Standard and Voluntary Carbon Standard, as they are not recognised under the Kyoto Protocol; and
- Under some circumstances, domestic offsets from uncovered sectors.

This creates pressures to shift voluntary abatement activity offshore; resulting in loss of investment in low carbon industries and loss of Australian "green collar" jobs. These are the industries that should be actively encouraged if Australia is to transition to a low carbon, economically successful, future.

The level of the investment signal to the economy will depend on the carbon price set by the emissions trading scheme in both the short and longer term. As noted above, the carbon price must be sufficiently high to drive investment in green collar jobs, research and development, and the manufacturing and

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<sup>5</sup> "An Australian Cost Curve for Greenhouse Gas Reduction", McKinsey and Company, February 2008.

<sup>6</sup> "Capitalising on the Building Sector's Potential to Lessen the Costs of a Broad- Based GHG emissions cut", prepared for Australian Sustainable Built Environment Council by the Centre for International Economics, September 2007.

service industries. If the design of the emission trading system militates against this general principle, the whole purpose of the scheme is undermined.

The issue of voluntary abatement is relevant to all of the Committee's terms of reference, as outlined above.

Voluntary action is critically important as a means of galvanising community and business support for Australian abatement activity, to reduce global greenhouse gas emissions. Voluntary action does not run counter to the objectives of the CPRS: rather it complements and enhances them.

RMIT Global Sustainability is a member of the Voluntary Carbon Markets Association (VCMA) and accordingly, we refer to and endorse the VCMA's *Submission to the Senate Select Committee on Climate Policy*, which considers the implications of the current design of the CPRS on the voluntary carbon abatement market in Australia and outlines how the Australian Government can overcome the perverse outcome of disempowering individuals and organisations by adjusting Australia's emission reduction targets to recognise independently verified voluntary action.

RMIT Global Sustainability is grateful for the opportunity to provide this submission to the Senate Select Committee on Climate Policy. We would be pleased to provide further information on any of our comments.