SUBMISSION TO SENATE ENQUIRY ON PROPOSED 'CARBON POLLUTION REDUCTION SCHEME' LEGISLATION

Like most Australians who have spent more than a few hours researching climate change and ways of both mitigating and adapting to changes that appear to be happening at the moment on top of a rather complex set of natural trends and cycles I am sadly disappointed with the currently proposed legislation. Quite simply the proposed legislation is not as the Government has told the electorate, 'better than nothing', and it should be thrown out by the Senate.

There is a high probability that human induced climate change is happening (on top of natural trends and cycles) and that human land uses and our burning of fossil fuels are major causes of this. There is a low probability that a large body of scientists world-wide are wrong. The risks (to us and to our environments) that may arise from human induced climate change may be very considerable and we would be foolish not to try to diminish these risks.

Insofar as this probable climate change is a consequence of the affluent lifestyles and, in particular, intensive energy consumption of a small percentage of the world's people – who include most Australians – it would be irresponsible for us including our leaders to curb the economic behaviour (ie high consumption) that gives rise to these affluent lifestyles and intensive energy. Doing so via price signals appears to be at the heart of the thinking behind the currently proposed legislation

However, this legislation fails to enable the price signals needed in Australia. It fails also to establish the mechanisms necessary to help our economy both reduce its greenhouse-gas-intensive production and consumption and adapt to climate changes that will result inevitably from past as well as continuing global emissions. Rather than being 'better than nothing' the legislation offers a Claytons substitute for doing nothing.

The legislation panders to political expediency and, in so doing, it has thrown aside a year's work on the rigorously academic but practical proposals of Professor Ross Garnaut for addressing climate change and even the more recent bureaucratic watering down of these proposals by the Department of Climate Change. Quite simply, the Senate should throw out the presently proposed legislation and demand from a substantive response to the climate changes issues.

In particular, I submit that the Senate should demand a scheme that has substance rather than spin, one that will that will generate genuine price signals though emissions trading and other instruments and one that anticipates how government emissions revenues might best be spent to both reduce our emissions and to future-proof our economy against the consequences of climate change. I offer some observations on each of these, below.

1 we need substance, not spin.

The very title of the proposed 'carbon pollution reduction scheme' suggests spin rather than substance. The scheme is *not* about 'pollution' at all. Nor really is it about 'carbon', though carbon forms part of the molecules of many (but not all) greenhouse gases, particularly those implicated in radiative forcing. It is about setting up a greenhouse gas emissions trading scheme (ETS) and about allocating the government's revenue from this. Let's call a spade a spade.

Obviously questions about climate change are 'wicked questions', ones well beyond the ken of mere mortals but we do not need to pussyfoot around what we do know. In this country, we have a very substantial understanding of greenhouse gas emissions and their implications and we have the experiences of other places such as Europe to draw on. We should be able to draw up a robust ETS (and other pricing mechanisms) without starting with a silly name.

Obviously, the Claytons scheme proposed in the legislation panders to fear – fear about what emissions pricing might do to our economy and our lifestyles, about how it might intrude on efforts to offset the current global economic crisis. I seriously question whether these fears are warranted or outweigh our moral obligations and observe that widely reported economic modelling indicates that even a robust ETS would not be uncomfortable for Australia.

We have a moral obligation to curb emissions over which we have some control. Government data show that in recent years we have been implicated in (ie have some responsibility for) nearly five percent of global greenhouse gas emissions - nearly two percent of global emissions is generated here (much of which is embodied in exports), well over two further percent is embodied in our energy exports and nearly one percent is embodied in imported goods and services consumed here.

It would not be hard for Australia to curb its consumption of imports which embody emissions or to influence the ways in which its energy exports are burnt overseas. As for the emissions embodied in our domestic consumption, Australians in 2005/6 used 123% more energy than in 1960/1 and 42% more than in 1985/6, *per caput*. This suggests a considerable potential for us to reduce energy consumption and hence domestic greenhouse gas emissions without pain or even hardship.

Foregoing some of our current lifestyle should also be possible without hardship or great pain. Nationally, our final household consumption, *per caput*, in real terms in 2005/6 was 152% higher than in 1960/1 and 49% higher than in 1985/6. This suggests that we could easily divert GDP from consumption to spending on mitigation of and adaptation to climate change.

We have been told by Sir Nicholas Stern that climate change represents a challenge to the global economy comparable to the combined challenges of the two World Wars and the long Depression of the twentieth century. At a time when more than a little of our present economic crisis stems from profligate consumption of under-priced natural resources curbing our burning of fossil fuels would appear to sesible to start future-proofing our economy.

Stern is of the view that the costs of future proofing may not be a great burden on GDP, perhaps no more than governments are currently throwing at the global economic crisis, though spread over a longer period (we hope). Widely reported modelling of the effects of a $20 price per tonne of CO_2-e emissions indicates that this would have minimal adverse effects on economic 'growth' in Australia (though we might question why our economy should need growth at all)

The point for the Senate to consider is that we can afford to have a rigorous emissions pricing scheme better possibly than any other country in the world. It may be the case that Australia is not good at demonstrating leadership in the global arena but in addressing climate change rigorously we have an opportunity to show leadership to the world without great pain to ourselves.

2 we need rigorous pricing of all human-induced emissions

While I do not agree with everything proposed by Professor Garnaut, his proposals were for a rigorous ETS which, through ambitious caps on Australian emissions and by enrolling *all* emitters of greenhouse gases into emissions pricing, would put a price on greenhouse gas emissions that could generate funds to both help mitigate and to help us adapt to what now appears inevitable.

The purpose of an ETS is, by setting progressively reducing caps on emissions allowed (or emissions targets) , 'the market' has to find prices of emissions which will be factored into production costs and consumption prices. This leaves producers and consumers both to make their own decisions about what to make, sell, buy and use. This process can be transparent, efficient and democratic.

However, given the number of points of emissions, it is impracticable to enrol all Australian emitters, producers and consumers, directly into an ETS. There may be a place as well for other means of changing Australia's emissions behaviour, including direct regulation and (especially in the early days of emissions pricing, while there is uncertainty about pricing) emissions taxation (sloppily talked of as 'carbon taxing').

The presently proposed legislation sets up an ETS but with caps so slightly below present emissions that emissions prices will be insignificant and the scheme will fail. The legislation contains no commitments to progressively lowering these caps and, worse, it gives generous exemptions and dispensations to most of the significant emitters of greenhouse gases in this country.

There is no justification for such timid legislation. With barely 10 per cent of our GDP used for energy consumption, either directly or embodied in intermediate consumption, it would take an impossibly harsh emissions pricing regime to damage even our present 'business as usual' economy. The longer we remain timid about emissions pricing the harsher it will need to become in the future , of course.

Moreover, the trading scheme as proposed offers so many exceptions and dispensations, and so many 'free passes' during its phase-in period, for Australia's major users of energy - exporters, electricity generators, agricultural producers and users of transport fuels - that it may be hard to find enough major emitters to enlist into a trading scheme.

To be blunt, Parliament is wasting its time in considering the present legislation. If the Government wants something now that is 'better than nothing' then maybe it it should introduce emission taxation with the aim of progressively raise rates to at least \$20 price per tonne of CO_2-e , sufficient to be noticed by consumers and producers in their prices charged and paid (so long as major users of energy - exporters, electricity generators, agricultural producers and users of transport fuels - aren't exempted).

A major problem with emissions taxation, however, is that taxation is a blunt instrument for achieving policy goals such as changing behaviour. Unless rates were set to reflect market-determined international emissions prices, rates would be arbitrary. Moreover, taxation often has unpredictable and unwanted consequences on producer and consumer behaviour and tax rates We really do need an ETS to set market prices for emissions, ones that could be used for emissions taxation.

It would not be difficult to have a robust national ETS in which a small number of large emitters set (and pay) emissions prices through trading, with the emissions prices being applied by way of an emissions tax to every other area of the economy, (including imported consumption which accounts for about twenty percent of our final consumption) but such a scheme would work only if it was built on the principle that all Australian production and consumption should be subject (directly or indirectly and without double impositions) to full emissions pricing,

With a universal pricing scheme it would be easy to decide who might be exempted from emissions pricing, why and for how long, in a manner less ad hoc than is currently proposed. The 'large' emitters in the trading scheme would need to include all major processors of primary produce and all major electricity generators (corporations that are well equipped to participate in an ETS). They should include also all major distributors or oil and gas fuels and all major exporters of energy exports such as coal (for which emissions potentials are easily calculable).

With emissions prices set from time to time by the large emitters, governments would have a price that could be imposed by taxation on all other emitters of greenhouse gases and emissions pricing could be rational, rigorous, robust and universal. For examples,

- Emissions from small users of fossil fuels such as individual motor vehicles could be priced at the first point of sale of the fuels (ie the refinery or point of import in the case of petroleum), applying emissions prices to factors that have been calculated and used for years for the Australia's National Greenhouse Emissions Reporting Scheme
- Emissions from livestock and tillage in agriculture (about seventeen per cent of our domestic emissions), could similarly be subjected to emissions pricing. by levying emissions taxes at the first point of sale again using the factors used in Australian National Greenhouse Inventories
- we could influence the emissions behaviour of our trade partners by taxing energy exports unless it is known that their emissions overseas will be 'costed' by an ETS or emission tax in the client country. We are in a sellers' market for energy and stand to lose little of our energy exports by bringing them into our pricing scheme.
- we could ensure that emissions embodied in our other exports would be priced, also by taxing them but exempting exporters who can furnish

certificates showing that the embodied emissions will be priced rigorously in the importing country.

- we could ensure similarly that the embodied emissions in our imports would be priced If our imports are not subjected to some form of rigorous emissions pricing either on arrival in Australia or before departure from the exporting country we risk driving consumers to more, rather than less, imported goods and services, hardly a good outcome for our economy.

In rejecting the presently proposed legislation, the Senate should urge the Government to phase in an emissions tax as an interim measure while it finds the time to develop a robust and rigorous ETS. Emissions taxing should not be seen as a substitute for market pricing. Stringent emissions caps are needed for the market to find levels of emissions prices but a low tax rate moving up to say $20 per tonne of CO_2-e, might be applied while a comprehensive pricing scheme is being established.

3 Emissions revenues need to expended on fixing a market failure

Sir Nicholas Stern has described human-induced climate change as the most serious failure of the market economy in human history. He has quantified the costs of this failure to the future economy, globally, and has also quantified the costs of fixing the failure – which appear to be comparable with the amounts currently being thrown at the global economic crisis which, not coincidentally, is partly a consequence of over-consumption.

In providing for 'compensation' to emitters and offsets for 'hardships' that may be experienced by consumers, the presently proposed legislation quite simply avoids an urgent need which is to find and allocate capital funding to reduce the economic behaviour that leads to emissions and to replace this behaviour with, eg different ways of capturing and storing energy, new ways of managing land uses that give rise to human-induced emissions and, generally, reduced consumption..

In his advice to the Government, Professor Garnaut indicated areas in which emissions revenues (whether from ETS or taxation) might be used to help fund eg replacing our present dirty coal power generators and transport systems that are inefficient because of their reliance on private motor vehicles. The present legislation does not appear to attempt to pride a rationale for the allocation of emissions revenues, let along mechanisms for what effectively will have to be an restructuring of our economy.

In his advice, Professor Garnaut did not give much attention to the matter of changing our economic behaviour. Relying on price signals (eg higher energy prices and higher costs and goods and services because of embodied energy) to change producer an consumer behaviour will not be a quick or comfortable way of transitioning us to what might be described as a 'greener' economy. People and companies will need help, a lot of it, in order to curb their own consumption behaviour and to spend on technologies that may capture or conserve energy.

Individuals, households and corporations will not change their behaviour without education and support. They need to 'own' the contributions they can make toward both mitigation of and adaptation to climate change. That suggests a national program of community education such as the British *Transition Towns Movement* and similar initiatives. Such community education - not cheap - could be funded from emissions revenues, but the present legislation offers nothing for this.

Another area that needs funding from emissions revenue is assistance to international neighbours who need to escape their present dependence on fossil fuels for their energy and to cope with a world with increasingly unpredictable weather and probably rising sea levels. Many of our international neighbours, from Bangladesh to islands in the Pacific, have not the means to adjust to these and, because we are so deeply implicated in greenhouse gas emissions we do have a moral obligation to help them.

Fixing the market failure may need large capital expenditures over many years. This argues for a comprehensive and rigorous scheme for pricing emissions and expending their revenue. The present legislation gives no assurances that this wont become an opportunity for pork-barrelling and makes no provision for any independent body to overseeing pricing and expenditure (comparable with the Reserve Bank, Future Fund and Building Australia Fund)

The argument for an independent body to oversee the setting of emission prices and to set the principles for allocation of emissions revenues is not an argument for central planning. Mixed economies have successfully restructured in the past using market forces in tandem with government intervention. The 1940s post-war reconstruction in Australia is one example. Implementation (albeit slow) of recommendations from our Vernon report of 1965 began the process whereby Australia moved from being a highly protected economy to being an open one.

In short, while emissions revenues will be needed to offsets some hardships, our serious need is for them to be spent on long term projects to repair and redirect economic, social and economic capital within our economy. It may not be possible to commit to programs for this within the annual budgets of government, so we must hope that Australia has politicians brave and visionary enough to commit to long term programs of spending at arms' length from governments.

A robust, rigorous and rational set of principles is needed – urgently – to underpin the spending of emissions revenues, lest these be squandered on projects not clearly connected with Stern's market failure. The presently proposed legislation does not provide these.

Concluding comment

The proposed legislation before the Senate fails utterly to set up an emissions pricing scheme that might enable our country tot tackle our own problems of mitigation and adaptation to climate change. The legislation should be dumped by the Senate and let us hope that, having taken Australia more than fifteen years to acknowledge that global greenhouse gas emissions are a serious problem, it will not take as long to find enough moral fortitude and leadership to address the problem seriously.

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8 April 2009