

## **Submission to the Senate Select Committee on Climate Policy.**

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### **The target**

The importance to industry of setting a binding realistic emissions target is well summarized by the Greens:

‘One of the key problems with setting a weak target is that the only certainty business has is that it will need to be changed. Business needs long-term investment horizons in order to make multi-billion dollar decisions. A target of 5% by 2020 set now is likely to lead to many bad investment decisions being made, as business invests in ‘low pollution’ infrastructure which, in only a few years, will need to be moth-balled, dropped as sunk costs and replaced with zero emissions alternatives. Setting an ambitious, science-based target now will avoid these costly mistakes by putting us on the right path from the outset.’ (*Greens senators, March 2009*)

I do not accept that there is some need to make the target dependent on the decision at Copenhagen. It is necessary for the greatest per capita emitters- Australia, along with the US, Australia, EC and Canada and the other G20 countries - to take the lead and set hard targets of around 25% by 2020. This submission outlines ways in which the Government could easily mandate and enable emissions reductions of 20% by 2020.

### **Why the target is too low**

The EEC has already mandated substantial targets. ‘The EU is now formally committed to cutting its emissions by 20% below 1990 levels by 2020, and by 30% if other industrialized nations make similar commitments. It is also committed to increase renewable energy use to 20% of all EU energy by 2020’ (*London (Platts) 6Apr2009*)

The EU should serve as Australia’s benchmark. Common excuses given for Australia not following the EU’s lead and instead setting a target as low as 5% are:

- Our economy differs from EU countries in its high proportion mineral and agricultural commodities. This is no excuse for a low target because very significant emissions reductions are easily achievable by mines and mineral processing as in any other sector by adopting energy efficiencies. Efficiencies of about 20% are achievable at low or no cost (see below).
- Europe has already achieved significant reductions during the ‘Kyoto period’ whereas Australia’s emissions have been increasing slightly due to increasing commodity exports. This is also a poor excuse for such a low (5%) target because:
  - It has been falsely assumed that energy prices will remain low and GDP growth will continue at post WW2 boom rates.

- Incentive / disincentive schemes for emission reduction in Australia have been restricted, limited measures such as a low (2%) RECS scheme and the recently enacted Mandatory Energy Efficiency Assessment regulations for large operations using > 0.5 petajoules of energy p.a. In comparison the EU has had an ETS since 2005. Many other measures such as generous feed-in tariffs and higher fuel taxes have applied for years without damage to the European economy and could just as easily be applied in Australia.

### **Evidence for achievability of at least 20% emissions cuts by 2020.**

#### *Example 1. Mining:*

As an energy auditor, I have conducted an audit of a typical large mine in WA that shows 12% emissions reductions are possible for the existing operation with low or no cost measures (simple payback time less than 2 years) and a further 18% reduction could be achieved by using more efficient mining methods. If the Committee requires, I may show the results of this audit, but the results are of course confidential and cannot be published.

#### *Example 2. City offices:*

The average low or no cost emissions reductions I identified in 17 audits of office operations of 40-120 employees was over 25%. The Government could provide a 20% subsidy for audits of smaller companies who would not fall under the proposed ETS. Government could also remove the 'perverse incentives' – tax deductibility, fringe benefits etc. that currently encourage companies to provide their staff with large inefficient vehicles. Transport usually accounts for over 50% small companies' emissions.

#### *Example 3. The RECS Scheme:*

The recently enacted RECS scheme with 20% renewable energy target by 2020 is good legislation and is already assisting in improving sustainability of stationary energy generation. It would contribute significantly to a 20% by 2020 reduction in national emissions. However, as with the previously proposed CPRS it only applies to less than 50% of Australia's emissions. Measures to reduce emissions from all sectors of the economy are needed quickly.

### **Need for action to reduce emissions occur across the whole economy**

Time is being lost in establishing fiscal incentive / disincentives to reduce emissions across the economy, not just by the 200 large companies who would fall under a carbon cap and trade scheme or utilise the RECs scheme. Measures need to be extended to include agriculture and transport, which account for about 40% of national emissions as soon as possible.

#### *Example 3: Agriculture - replace some grazing with biomass fuel production:*

As a rural sustainability professional working for WA Dept of Agriculture for 14 years in the fields of rangeland livestock and high rainfall agroforestry and horticulture, I know there is great potential for dry land farmers to move out of grazing and into forestry and or grain crops. Many WA farms are already moving out of livestock into 100% cropping. If the Federal Govt were to fiscally stimulate the

establishment of the wood biomass energy industry through tree plantations on farms and wood pellet plants and wood biomass power stations strategically located in wheat and grazing belts, many farmers could diversify into tree plantations with their existing cropping operations. This would reduce our emissions by providing a sustainable alternative to coal fired base load power, decentralize power sources on the grids saving hundreds of millions in distribution costs to provide peak load power in rural areas and reduce the reliance of graziers on beef and sheep, reducing the 20% of total greenhouse emissions that are attributable to agriculture. This could not happen without Federal Government fiscal incentives and disincentives:

1/ 'Internalize the externalities' – place a real value on decentralized biomass power by factoring in savings in grid upgrades to rural areas and the cost of carbon. Apply a generous feed in tariff to biomass power to make it viable.

2/ Set and implement meaningful caps on electricity and large industry emissions (at least 20%) to maintain a high carbon price of > \$30 tonne as a meaningful incentive along with the RECS scheme for investment in renewable power generation

3/ Fund development of charcoal and oil by-products from farm grown wood.

4/ Introduce an ETS or carbon tax applicable to agriculture as soon as possible.

### **Why has there been delay and confusion over the CPRS?**

The debate leading up to the rejection of the first CPRS proposal was poorly informed and the Government has thus far done a poor job of putting together and explaining to the public a comprehensive integrated carbon pollution reduction strategy. There appears to be confusion in the Government and Opposition as to why, where and how emissions reductions can be obtained. Politicians need to be informed qualitatively and quantitatively by experts as to the emissions sources and reduction options. The public needs to be properly informed by means of TV and radio and fact sheets. The Australian public is slowly becoming aware but needs to be better informed of facts such as:

1. At least 20% emissions reduction is easily achievable in the transport, electricity generation and most resource based industries at low or no cost by means of efficiency measures with simple payback time less than 2 years.
2. The aluminium industry alone accounts for up to 15 % of our emissions (*Australia Institute*). There are viable options for this industry and other energy intensive export industries other than being given free permits to go on polluting. The public having been rightly asking "How have lobbyists from trade exposed industries pushed the Government into such lenient treatment, and anyway, are such industries really going to suffer from 'trade exposure'?" It is not a matter of if but when aluminium smelting moves offshore to countries such as Africa and Iceland with hydro and geothermal power. Australian companies can form liaisons in these countries and expand their overseas smelting operations. It is essential that a carbon cost be imposed on aluminium with the outcome that it will move offshore and this will not impose a significant cost on Australians. Emissions from shipping bauxite are negligible compared with smelting in Australia using brown and black coal fired electricity. (*figures can be supplied if need by the Committee*). Under the previous proposal the smaller, more jobs intensive manufacturing industries were to be required to bear the carbon cost burden while the big 'trade

exposed' polluters were to get off almost 'Scott free'! The real reason for their crying 'trade exposure' is that they can get electricity more cheaply in Australia at 2-5c per kWh, (*Australia Institute*) than anywhere else.

3. About 20% of our emissions come from agriculture, mainly livestock and particularly beef. Huge reductions can be made here by farmers shifting to less emissions intensive (indeed carbon reducing) industries such as tree crops.
4. Revenue neutral fiscal incentives and disincentives for energy efficiency are possible without hardship. Revenue neutrality of taxation on direct and indirect fossil fuel consumption can be achieved simply by way of decreasing employment taxes, e.g. reducing or abolishing payroll tax and increasing the income tax free threshold. Energy taxes are consumption taxes and can therefore be avoided by being energy efficient. This would need to be clearly explained to all taxpayers so that they know it is not a cynical 'tax grab'.

## Conclusions

The Australian public increasingly wants energy efficiency and emissions reduction for all Australians, both corporations and households. They want incentives for their own household measures and they do not want their emissions reductions to merely be offset by allowing large corporations to take no action or even profit by selling excess emissions permits.

Nearly all effective emission reduction measures are dependent on the Government taking aggressive, equitable fiscal action in a 'multi-pronged' approach, including all of the following:

- CPRS applied without significant free permits to 'trade exposed' industries, with caps to achieve at 20% reductions on 2000 emissions by 2020 in all of the industries to which it applies.
- Increased electricity charges, which must apply all industrial as well as residential consumers
- Uniform and substantial national 'RE feed-in tariffs' for all renewable energy and continuing incentives to install solar PV and water heating.
- Vehicle efficiency standards and increased (approximately doubling) of fuel taxes to the EC average.
- Carbon tax on farmers and incentives for farmers to move from beef and sheep into low carbon and carbon sequestering industries such as dry land grain and tree crops.