

# Chapter 1

## Introduction and conduct of the inquiry

### The challenge of climate change

1.1 Climate change has become a matter of global concern. The United Nations Framework Convention on Climate Change has been ratified by almost 200 countries. The Kyoto Protocol commits most advanced economies to limit their greenhouse gas emissions. Scientists from around the world have contributed to the Intergovernmental Panel on Climate Change.

1.2 Australia has decided to play its fair share in this global endeavour. Indeed, as one of the world's highest per capita emitters of greenhouse gases, one of the world's wealthiest countries, one of the major beneficiaries of past greenhouse gas emissions, one of the countries best endowed with renewable energy sources and one of the countries that would suffer most from further climate change, there is a strong case that Australia should be willing to make a more than proportionate contribution to this global effort. It is trying to join the leading countries in action, rather than waiting for the lagging countries, in recognition of these factors.

### The Carbon Pollution Reduction Scheme (CPRS)

1.3 In many aspects, the CPRS design follows, and in some cases extends, world's best practice for emissions trading schemes.

1.4 The consultation and development process has had a long history in Australia. In 1998 the former government established the Australian Greenhouse Office, the world's first government agency dedicated to cutting greenhouse gas emissions. The Office published a series of papers setting out how an emissions trading scheme might work and invited submissions in response.

1.5 In 2004 the National Emissions Trading Task Force was established by state and territory governments, resulting in a discussion paper being released in 2006 outlining the possible design of a national greenhouse gas emissions trading system. Further extensive consultation followed with a final report being released in December 2007. The same year premiers and chief ministers announced that if there was no commitment to an ETS federally they would implement their own national scheme by 2010.<sup>1</sup>

1.6 In December 2006 the former government established its own task group on emissions trading, which reported in May 2007. Further extensive public consultation

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1 Dr Martin Parkinson, Secretary, Department of Climate Change, *Proof Committee Hansard*, 18 March 2009, p 2.

ensued and that task group also recommended that emission trading schemes should be implemented in Australia.

1.7 This has been followed by the *Garnaut Review* commenced by Professor Garnaut in April 2007 and completed in September 2008, involving its own extensive consultation process, and the release of the Government's *Green* and *White Papers* on the scheme. The result is a policy framework over a decade in the making.

1.8 The progressive public release of these reports has shown a commitment to openness and consultation.

1.9 The timetable for the establishment of the Australian Climate Change Regulatory Authority and finalising of the details of the CPRS is ambitious and reflects the seriousness of the problem and the government's determination to play its part to mitigate climate change domestically and internationally. (Table 1).

**Table 1.1: Timetable for introduction of CPRS**

Mar- April 2009	Consultation on exposure draft legislation; Senate committee inquiry
May 2009	Bills introduced into parliament
June 2009	Desired passage of bills
Sept qtr 2009	Regulator established
Dec qtr 2009	Legislative instruments tabled in parliament Copenhagen UN Climate Change Conference
Mar qtr 2010	Scheme caps to 2014-15 and gateways for 10 following years set
First half 2010	First auction of permits
July 2010	Start of first compliance year
June 2011	End of first compliance year
Oct 2011	Deadline for lodging of emissions reports for first year
Dec 2011	Deadline for surrender of permits for first year

Source: from *White Paper*, table 16.2; Minister for Climate Change, *Press Release*, 47/09, 27 February 2009

## **Outline and coverage of the scheme**

1.10 The Carbon Pollution Reduction Scheme Bill 2008 will establish a national emissions trading scheme, the Carbon Pollution Reduction Scheme.

1.11 The quantity of greenhouse gas emissions for which liable entities are responsible will be monitored, reported and audited. At the end of each year, each liable entity will need to surrender an eligible emissions unit for every tonne of greenhouse gas emissions for which they are responsible.

1.12 Emissions units will be issued by the Australian Climate Change Regulatory Authority and the number will be limited each year by a scheme cap.

1.13 Liable entities will compete to purchase the number of units that they require. Certain categories of entities will receive an administrative allocation of units as a transitional assistance measure. For many liable entities it will be cheaper to reduce emissions than to buy permits.

1.14 At the end of each year, each liable entity will need to surrender an eligible emissions unit for every tonne of greenhouse gas emissions for which they are responsible in that year.

1.15 The Scheme will include all greenhouse gases under the Kyoto Protocol and will include around 75 per cent of Australia emissions.

1.16 According to estimates in the *White Paper*, liable entities (those with mandatory obligations) will comprise approximately 1000 businesses. They will be, under the structure of the CPRS, principally larger companies and principally those in the energy industry and energy intensive industries.

1.17 This means the vast majority of Australia's 7.6 million registered businesses will not face new regulatory obligations as a result of the Scheme.<sup>2</sup>

1.18 The Committee commends the Department of Climate Change for designing a scheme with broad coverage and the innovative way it deals with the problem of effectively dealing with small emitters.

### **The conduct of the inquiry**

1.19 The Senate referred the exposure draft of the legislation to implement the CPRS to the Senate Standing Committee on Economics on 11 March 2009. The Senate required the Committee to report by Tuesday 14 April 2009.

1.20 The Government released exposure drafts of six bills, along with 'commentaries' (essentially a draft Explanatory Memorandum) on each;

- Carbon Pollution Reduction Scheme Bill: the main bill;
- Carbon Pollution Reduction Scheme (Consequential Amendments) Bill: covers changes to taxation and reporting arrangements;
- Australian Climate Change Regulatory Authority Bill: establishes the agency to administer the CPRS
- three technical CPRS (Charges) Bills, namely 'general', 'customs' and 'excise' bills, in case the emissions permits are considered taxation, excise or customs

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<sup>2</sup> *CPRS Fact Sheet: Scheme Coverage*, Department of Climate Change.

duties under section 55 of the Constitution, which requires that bills imposing such charges do not also deal with other matters.

1.21 There are other elements of the CPRS which were discussed in the *White Paper*, such as reforestation and the household assistance package, which will form part of the final legislation but are not included in the exposure drafts.

1.22 The Committee advertised the inquiry in the national press and invited written submissions by 25 March 2009. Details of the inquiry were placed on the Committee's website and the Committee also wrote to a large number of organisations and stakeholder groups inviting written submissions.

1.23 The Committee received over 140 submissions. These are listed in Appendix 1.

1.24 Public hearings were held in Canberra (18, 19, 25 and 30 March 2009), Perth (23 March), Melbourne (24 March) and Sydney (27 March). Some witnesses from other locations were heard via teleconference. A list of the witnesses appearing at the hearings is in Appendix 2.

1.25 The Committee thanks those who participated in this inquiry.

### **Structure of the report**

1.26 A brief description of how the underlying science makes the case for change is provided in Chapter 2. This chapter does not delve into the science in depth as it is the subject of a separate inquiry by the Senate Select Committee on Climate Policy. Their report is due to be tabled by 14 May 2009. (Some issues related to the CPRS are also being canvassed by the Senate Select Committee on Fuel and Energy.)

1.27 The reasons why the committee found the case for proceeding with the proposed timetable for introduction of the CPRS, rather than delaying, are given in Chapter 3. The Treasury modelling that underpinned the report is described in Chapter 4 along with other modelling exercises, and the specific implications for employment of the scheme in Chapter 7. The targets and gateways in the CPRS is the subject of Chapter 5. The report then turns to some of the key design issues raised during the inquiry, such as transitional assistance payments (Chapter 6), the interaction of the CPRS with voluntary abatement efforts (Chapter 8) and complementary measures (Chapter 9). The market for permits and international linkages are described in Chapter 10. A range of alternative approaches to restraining greenhouse gas emissions was presented to the committee and Chapter 11 explains why the committee believes the cap-and-trade approach (of which the CPRS is an example) is the preferable one. Legal and governance issues, including the role of the Australian Climate Change Regulatory Authority, are then discussed in the final two chapters.