Chapter 3

Timing

3.1 The Committee heard a variety of views about whether the CPRS should be introduced soon or delayed; and whether the legislation itself should be delayed or just the starting date.

3.2 Those urging prompt action stressed the urgency of dealing with climate change, the need for Australia to present a clear position at the Copenhagen conference in December, the benefits to business of providing them with greater certainty and possible 'early mover' advantages.

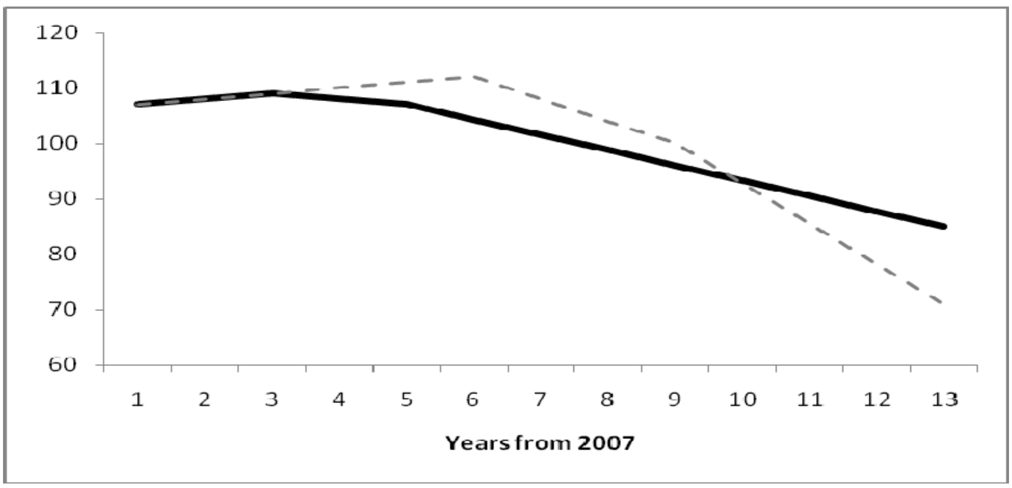
3.3 Those urging delay argued that the scheme needed further development, that Australia should not be 'acting alone' or 'moving ahead' of other countries, that industry was not ready, that the global financial crisis made this the wrong time to introduce the scheme, or just saw action on climate change as unnecessary and repeated delay a way of avoiding it.

3.4 This chapter addresses each of these arguments in turn.

Urgency of dealing with climate change

3.5 The science of climate change, summarised in Chapter 2, showed the importance of stabilising greenhouse gas concentrations. Reaching a given target of cumulative emissions by 2020 or 2050 becomes harder, and requires steeper cuts in annual emissions, the later the process gets underway. Chart 3.1 illustrates: the solid line is (roughly) the path of emissions under the conditional offer in the CPRS (measured as a percentage of 1990 emissions) and the dashed line shows a path to achieve the same cumulative emissions if action is delayed three years.

Chart 3.1: the consequence of delay on emissions reduction



Source: Secretariat.

3.6 Australia was applauded at Bali for its conversion to being a forceful advocate of action to address climate change. Building on this role at the Copenhagen conference in December 2009 will require Australia to have a clear plan for dealing with its own emissions. This approach will be more credible if it is embedded in legislation passed by the parliament:

> ..climate change problem is probably the perfect example of a collective action problem where the actions of a single state cannot possibly protect citizens from the effect of worst consequences of climate change… (this) puts a real premium on the credibility that you bring to the negotiating table, so what you are doing with your own legislation is of profound importance to the future outcome of the global agreement and people are paying attention to your efforts.[1]

3.7 It is important for Australia to be able to play this role at Copenhagen as the more countries that can be encouraged to adopt an emissions trading or similar scheme, the more effective will be the impact on greenhouse gas concentrations.

Providing greater certainty for business

3.8 There is strong evidence that failure to pass the legislation would have an adverse effect on certainty for business in making their capital expenditure decisions:

> We totally agree that the certainty is required. We totally agree that the passage of the legislation would give that certainty.[2]

> Without regulatory certainty there will be delays in investment, and security of energy supply could be compromised in the medium term.[3]

> …Prime Minister Howard's task group report noted the real costs of deferred investment, for example, where they said:"… waiting until a truly global response emerges before imposing an emissions cap will place costs on Australia by increasing business uncertainty and delaying or losing investment. Already there is evidence that investment in key emissions-intensive industries and energy infrastructure is being deferred."[4]

3.9 Mr Paul Curnow, a partner in the global climate change practice of the international law firm of Baker and McKenzie commented:

> Even some of our clients who do not fully agree with the government's scheme policy or design are now starting to realise that they still need some policy certainty in order to move ahead with key investment and operating

1 Mr James Cameron, Vice Chairman and Executive Director, Climate Change Capital, *ProofCommittee Hansard*, 19 March 2008, p. 25.

2 Dr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 27 March 2009, p 82.

3 Mr Tim Nelson, AGL Energy, *Proof Committee Hansard*, 25 March 2009, p 1.

4 Mr John Connor, Climate Institute, *Proof Committee Hansard*, 27 March 2009, p 42.

decisions…delay in the longer run is just going to lead to higher costs for a lot of businesses.[5]

3.10 Renewable energy firms would be particularly adversely affected by delay.

> The one thing that kills investor confidence, and we are seeing this at the moment in the global financial crisis, is uncertainty…We will always look to invest where the resource is aligned with the best economic incentives available. So we would be obliged to move to wherever those factors align themselves and, certainly, Western Europe has some very attractive regimes at the moment.[6]

> Hydro Tasmania supports a scheme design that ensures the full cost of carbon is reflected in all investment decisions as soon as practically possible, providing investment certainty.[7]

> …I would have to question why you would want to further delay it. It is not just the geothermal industry that needs that certainty, it is anybody operating in the clean energy sector.[8]

3.11 The Committee also heard from financial institutions that this uncertainty was a deterrent to investment in companies with significant greenhouse gas emissions:

> We would argue that the uncertainty that is created by not proceeding from our experience and our perspective would be worse because it will stifle the flow of capital…without legislation passing, the level of uncertainty would simply add such a degree to the risk profile of any investment that sits within that carbon scheme impact that we simply would not allocate capital because we cannot understand the metrics around the impacts of that scheme.[9]

> AFMA supports the existing timetable for the start of the CPRS on 1 July 2010. It is very important that certainty be provided as soon as possible to other existing markets that are currently being affected by the proposed Scheme. In particular, the market for term electricity contracts (for both electricity supply and electricity derivatives) is hindered by an inability to properly factor in a carbon price. Likewise, the extension of term finance facilities has the added difficulty of not knowing with any precision how and when a carbon price may affect credit terms.[10]

5 Mr Paul Curnow, *Proof Committee Hansard*, 27 March 2009, p 15.

6 Mr Ottaviano, Carnegie Corporation, *Proof Committee Hansard*, 23 March 2009, p 36.

7 Mr Andrew Catchpole, Hydro Tasmania, *Proof Committee Hansard*, 24 March 2009, p 15.

8 Ms Susan Jeanes, Chief Executive Officer, Australian Geothermal Energy Association, *Proof Committee Hansard*, 25 March 2009, p, 50.

9 Ms Amanda McCluskey, Colonial First State Global Asset Management, *Proof Committee Hansard*, 25 March 2009, p, 50.

10 Australian Financial Markets Association, *Submission 114*, p, 4.

> IGCC supports the introduction of the CPRS,…and emphasises its view that placing this legislation with a start date of 2010 is essential for the Australian economy and in particular for investors. For investors to invest, we need to know the rules.[11]

3.12 Concerns were expressed that delay could be destabilising:

> Delaying action also runs the risk of locking us into longer term carbon pollution and inefficiency. This can expose the Australian economy and in particular vulnerable communities to the impact of higher energy prices when the economies rebound. Artificially pumping up high carbon and inefficient industries and ignoring portfolio climate risks will create a 'subclime' bubble that is sure to burst…[12]

Rule certainty versus scheme commencement

3.13 The Australian Industry Group argued that investment certainty could be provided by passing the CPRS legislation this year, even if commencement of the scheme were delayed.

> But the certainty would apply whether the start date was 2010 or 2012 because people would then be certain about the start date. So the certainty will be achieved when the legislation is passed regardless of the start date.[13]

3.14 A counterargument was that businesses had already made significant investments on the assumption of a 2010 start date. Those companies that have done most to prepare for the introduction of a carbon price will have the most to lose from a delay in scheme commencement.

> …there is an underestimation, I believe, of the amount of investment that has already gone into this. There are thousands of people working in companies around the country and have been for quite some time preparing for it. To delay it would be to have all those people sitting idle… Most of the work and preparation that has been done has been geared towards the start date of the scheme… there is also potentially a lack of understanding about how much the price of carbon has already been factored into investment decisions made. So if you delay the start date of the scheme by one or two years, those investment decisions will be undermined—the foundations will be removed.[14]

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11 Mr Steve Gibbs, Investor group on Climate Change, *Proof Committee Hansard*, 27 March 2009, p 86.

12 Mr John Connor, Chief Executive Officer, Climate Institute, *Proof Committee Hansard*, 27 March 2009, p 42.

13 Dr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 27 March 2009, p, 40.

14 Mr Geoff Rousel, Executive Director, Global Head Commodities, Carbon and Energy, Westpac, *Proof Committee Hansard*, 27 March 2009, p 27.

Possible 'early mover' advantages

3.15 Delaying action here risks Australian industry making further investments that will prove inappropriate in a carbon-constrained world. There were also suggestions that delay would mean missing the benefits could accrue to 'early movers':

> …if we delay then we will also miss some of the economic opportunity that this change will actually create.[15]

3.16 This view was supported by some of the econometric modelling, which suggests there are benefits in commencing the transition to a low carbon economy sooner rather than later:

> In the scenarios modelled, economic costs in 2050 for early movers are around 15 per cent lower than when everyone acts together, while costs for late movers are around 20 per cent higher.[16]
>
> …the Treasury modelling finds that early action is in Australia's interests if we expect emissions constraints to expand gradually across the world over time, and this gradual expansion was a key conclusion of the previous government's task group.[17]

Need for further analysis

3.17 Some submitters supported timely action on climate change in principle, but argued that introduction of the CPRS should be delayed to allow for more analysis of different aspects of scheme design, and further economic modelling.

> What worries me in the case of the CPRS is that I am not totally convinced that there is enough information or a strong enough information base to understand some of the particular design decisions that have been made.[18]

3.18 Origin Energy expressed scepticism about such views

> We are concerned to ensure the debate about choice of scheme design does not get used as a reason to defer tough decision that will need to be made eventually. The current government has invested significant time and resources into developing a sophisticated, comprehensive and detailed scheme design, which is reflected in draft legislation. Similar effort – and

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15 Dr Ray Wills, Chief Executive Officer, Western Australian Sustainable Energy Association, *Proof Committee Hansard*, 23 March 2009, p 45.

16 Dr David Gruen, 'The economic costs of reducing greenhouse gas emissions: understanding the Treasury modelling', Treasury *Economic Roundup*, no. 4, 2008, p 27.

17 Dr Martin Parkinson, Secretary, Department of Climate Change, *Proof Committee Hansard*, 18 March 2009, p 4.

18 David Pearce, Executive Director, Centre for International Economics, *Proof Committee Hansard*, 25 March 2009, p. 87

> similar time – would be required in relation to any alternative scheme design.[19]

3.19 The claim that there has been insufficient discussion is hard to sustain given that the design of an emissions trading scheme has been debated in Australia for at least twelve years. (See Chapter 1 for a chronology). Indeed, one witness referred to being 'inquiried out'. [20]

Regulations

A related argument was that there were still details to be specified in regulations, and that these should either be included in the legislation or that consideration of the legislation should await the preparation of these regulations. Others thought the legislation could be introduced but the starting date needed to allow sufficient time for developing the regulations:

> We have no problem with the 2010 deadline as long as it allows time for the regulations to be developed properly.[21]

3.20 These aspects are discussed in more detail in Chapter 13.

Australia 'going it alone'

3.21 It is sometimes suggested that Australia would be acting alone if it introduced an ETS starting in 2010:

> Do we want to do that [mitigate climate risk] alone and put our businesses at risk if others are not?[22]

3.22 However, the evidence shows that Australia is not leading on climate change.[23] Twenty seven European countries have had an emissions trading scheme in place since 2005. Twenty-three US states and four Canadian provinces currently participate in regional trading schemes.

> Australia is not taking the lead. Australia is following the actions of others and it is certainly not acting alone because the European Union is several years ahead, other governments have put in place national legislation that is broadly equivalent, and you see in the US, finally now in Canada, Japan and indeed in many of the developing

19 Origin Energy, *Submission 113*, p,2.

20 Dr Paul Simshauser, AGL Energy, 27 March 2009, p 9.

21 Mr Gregg Rowley, Group Executive, Clean Energy, Santos Limited, *Proof Committee Hansard*, 24 March 2009, p 31.

22 Mr Ben Fargher, Chief Executive Officer, National Farmers' Federation, *Proof Committee Hansard*, 19 March 2009, p 12.

23 This point is made by, among others, Mr James Cameron, Executive Director, Climate Change Capital (UK), *Proof Committee Hansard*, 19 March 2009, p 23 and Dr Martin Parkinson, Secretary, Department of Climate Change, *Proof Committee Hansard*, 18 March 2009, p 5.

countries, China included, significant efforts to reduce greenhouse gas emissions through a variety of methods.[24]

It is seriously misleading to pretend that Australia is somehow ahead of the rest of the developed countries[25]

3.23 Australia is part of a group of fast following developed countries, including Canada, New Zealand, the United States and Japan that are currently developing and implementing emissions trading schemes to meet emissions targets. The Canadian Government is working to introduce a national scheme, and US President Obama has confirmed that he will introduce a cap-and-trade scheme. Japan has trialled a voluntary scheme and is discussing the introduction of a full-scale domestic scheme. New Zealand's government will review the design of its emissions trading scheme by late 2009, but has affirmed its commitment to the introduction of emissions trading.

3.24 The Scandinavian countries have long had carbon taxes and South Africa has announced that it will peak its emissions between 2020 and 2025, stabilise them for a decade, and then reduce them towards 2050. In China they have mitigation policies which include promoting greater energy efficiency and reducing emissions in the energy sector. China has a target of reducing energy consumption per unit of GDP by 20 per cent on 2005 levels by 2010, and a renewable energy target of up to 10 per cent by 2010. Other policies include promoting greater energy efficiency in China's top 1000 enterprises, reducing energy use through more stringent National Building codes for residential and commercial buildings and establishing energy efficiency appliance standards. China will also impose fuel economy standards for motor vehicles higher than those of many other countries including the US.

3.25 Impact of the global financial crisis

3.26 Some witnesses cited the global financial crisis as a reason to delay either the passage of the CPRS legislation or the starting date for the scheme:

> The other reason [for delaying the starting date] is the impact of the global financial crisis on businesses—businesses cash flow and businesses ability to access credit. These are putting obstacles in the way of businesses preparing for a 2010 start date.[26]
>
> [the CPRS] it should be implemented fully when economic times return to normal.[27]

3.27 However, other witnesses saw at least as many advantages as disadvantages in starting during a period when the economy is likely to be emerging from recession:

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24 James Cameron, Climate Change Capital, *Proof Committee Hansard*, 19 March 2009, p11

25 Dr Martin Parkinson, *Proof Committee Hansard*, 18 March 2009, p11

26 Dr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 27 March 2009, p 76.

27 Caltex, *Submission 128*, p 1.

> Is it a good or a bad time in a recession to introduce mitigation measures? It is a very good time to introduce support for new low-emissions technologies because the opportunity cost of labour and capital is low... my judgment would be that, by the time an ETS was introduced in the middle of next year, we would be beyond a recession; we would be in an expansionary phase. We do not know that for sure, but if this were the case then that is actually a good time for structural change.[28]
>
> As to whether it is a good time or bad, I do not think that an economic slowdown or a recession is in itself a good reason to postpone those kinds of forward looking policies, in particularly because of the point about the investment. If you hold back the scheme you will also be holding back investment in the newer lower carbon technologies and industries.[29]
>
> It is a good time to make long-term investments. Asset prices are low. Interest rates are low. The capital costs of the clean energy infrastructure, which we must invest in around the world, are lower than they have been for some time.[30]
>
> … as we come out of the recession, we are going to have a lot of new investment in the energy sector, and that provides a golden opportunity for the government to introduce policies to ensure that a very large portion of that new investment goes into low- and zero-emission forms of energy generation.[31]

Industry readiness

3.28 The committee heard a range of views about industry readiness. The Australian Industry Group suggested:

> There are considerable administrative difficulties imposed by the proposed 1 July 2010 start date that are becoming increasingly apparent.[32]

3.29 However these concerns about preparedness may be overstated. The Australian Industry Group presented evidence that some firms that may not feel ready for the Scheme may not even be required to participate:

> Interestingly, we are currently doing a survey of our members and a very large proportion of them—much larger than we would expect—have an expectation that they will have a direct liability. We think a lot of businesses think they will have a direct liability when they will not.[33]

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28 Professor Ross Garnaut, *Proof Committee Hansard*, 23 March 2009, p 64.

29 Dr Frank Jutzo, *Proof Committee Hansard*, 19 March 2009, p 34.

30 Mr James Cameron, Executive Director, Climate Change Capital, *Proof Committee Hansard*, 19 March 2009, p 20.

31 Professor Clive Hamilton, *Proof Committee Hansard*, 25 March 2009, p 19.

32 Australian Industry Group, *Submission 90*, p 2.

33 Dr Peter Burn, Associate Director Public Policy, Australian Industry Group, *Proof Committee Hansard*, 27 March 2009, p 81.

3.30 As mandatory obligations will only apply to around 1,000 businesses the majority of registered businesses, who have concerns regarding readiness, will not face regulatory obligations as a result of the scheme. The companies that are covered will mostly have specialists within the organisation who have been building expertise on various aspects of emissions trading over some years.

3.31 Some other witnesses suggested that industry were well prepared:

> We have been in dialogue with companies for a long period of time about their preparedness for emissions trading and for climate change as a whole… I certainly get a sense that companies understand the scheme. Companies generally tell us that they have a good understanding of the abatement cost curves across their organisation. That signals to us that they are ready for the scheme, they know how it is going to impact their business and they know how they need to respond. So I think some of those calls for delay are perhaps misguided.[34]

> So we do not support the view that the scheme should be delayed because of issues with data or data management. We think those things are readily surmountable and have already been overcome by most of the companies that are targeted under the scheme.[35]

Overall opinions

3.32 Taking these factors into account, many experts believed the stronger case was established for moving forward rather than delaying:

> …it is important to get it running for next year…There is a lot of learning…And the sooner we get everything in place, the sooner the learning begins.[36]

> My personal recommendation is that you pass this scheme for all of its faults… get our industry into the best shape we can early by making it value energy and assisting it in whatever ways we can to make that transition but do not delay, because delay is dangerous.[37]

> … there is no justification for delay in setting the policies in place.[38]

3.33 The Australian Council of Social Service, while not happy with every detail of the scheme, also wanted to start moving:

> …the longer we wait, the more expensive it is going to get. Early action is better than delayed action. While we certainly see flaws in the CPRS as it is

34 Ms Amanda McCluskey, Colonial First State Global Asset Management, *Proof Committee Hansard*, 25 March 2009, p, 55.

35 Mr Sibley, Energetics, *Proof Committee Hansard*, 25 March 2009, p 70.

36 Professor Ross Garnaut, *Proof Committee Hansard*, 23 March 2009, p 65.

37 Professor Tim Flannery, *Proof Committee Hansard*, 27 March 2009, p 112.

38 Dr Frank Jotzo, *Proof Committee Hansard*, 19 March 2009, p 34.

> proposed, and with the measures that sit alongside it, notably in support of low-income households, we think that it is about making a start. Our concern is that if we do not make a start in the short term, we will not be making a start for a long time to come.[39]

3.34 There are divided views among environmental groups, although generally even those who would like to see the bill amended do not want it delayed. The Climate Institute said:

> …failure to pass effective legislation this year and delay further action on climate change would be economically irresponsible…[40]

3.35 This was also the view of the World Wildlife Fund who stated:

> We would support a 2010 start date.[41]

3.36 An exception was the Australian Conservation Foundation who in their evidence to the committee said:

> …we do not support the introduction of the scheme as it currently stands[42]

Committee comment

3.37 The Committee appreciates the urgency of addressing climate change and the additional costs of delaying doing so. It does not accept that Australia is acting in advance of other countries, but feels we should take responsible action now to reduce Australia's carbon pollution and contribute to a global agreement. This would leave Australia better placed to argue in Copenhagen for other countries to take the bolder action that will be in the world's, and particularly Australia's, interests. Being in a strong position to strongly argue for international co-ordinated action is in the national interest and will contribute to reducing the threat of damaging environmental, economic and social implications within Australia.

3.38 There are arguments on both sides about when in an economic cycle is the best time to introduce an ETS and, as always, it is difficult to predict whereabouts in an economic cycle Australia will be two years hence. But the Committee does not view this as a reason for delay.

3.39 The Committee notes that while the exposure draft has only been available for a short period, it is essentially just a legislative expression of the *White Paper*, which business has had for months, and this in turn builds on discussions about emissions

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39 Mr Tony Westmore, ACOSS, *Proof Committee Hansard*, 23 March 2009, p 19.

40 The Climate Institute, *Submission 105*, p 6.

41 Mr Paul Toni, World Wildlife Fund, *Proof Committee Hansard*, 27 March 2009, p 68.

42 Mr Owen Pascoe, Australian Conservation Foundation, *Proof Committee Hansard*, 24 March 2009, p 46. The reasons for this are that ACF view the targeted emissions reductions are too small, the number of free permits as excessive and the support for renewable energy and voluntary action as inadequate.

trading schemes have been continuing for years. The evidence shows that the firms which will face obligations under the scheme, mostly large companies, have had staff working on the matter for a considerable period and are well prepared. The current timetable does not require lodging of emissions reports until October 2011 (Table 1.1).

3.40 Reducing carbon pollution at least cost, providing business certainty and the potential for green jobs are overwhelming reasons for putting the legislative framework in place promptly.

Recommendation 1

3.41 The Committee recommends that the bills should be passed without delay.