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The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
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email to: economics.sen@aph.gov.au,

Exposure drafts of legislation to implement the Carbon Pollution Reduction Scheme

HIA is the largest building industry organisation in Australia with over 42,000 members. Our membership also includes Australia's leading building product manufacturers.

We would like to thank the Committee for the opportunity to comment on the exposure drafts of legislation to implement the Carbon Pollution Reduction Scheme (CPRS).

Expenditure in the residential construction industry in Australia exceeded \$71 billion in 2008 hence the importance of this sector of the economy to Australian business and employment. The introduction of a CPRS is expected to have significant implications for the future activities of the residential building industry. These implications do not in themselves provide an argument against the introduction of the CPRS. However, the potential ramifications for this important sector should be understood so that appropriate mechanisms and measures can be implemented to offset negative and unintended consequences.

To date, the focus has been on support for directly affected companies, short-term financial support for households (consumers) affected by higher energy and petrol prices and financial support for business to be more energy efficient. There has been no detailed economic assessment of the scheme's impact on building material pricing, or the flow on cost for new housing. HIA urges the Government to commission quantitative assessments on the potential downstream cost implications of emissions trading on the residential construction industry.

HIA has identified in previous submissions to the Federal Government concerns relating to the 'downstream' impact(s) on the residential construction industry. These include:

1. The potential for 'carbon leakages' through an increase in the use of imported building products;
2. Implications for business and investment arising from the CPRS by building product manufacturers;
3. Complexity in reporting obligations;

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4. The predictable increase in building costs; and
5. Consequential reduction in housing affordability.

These concerns can be remedied by appropriate provisions within regulation(s) along with targeted compensatory measures.

As mentioned in previous HIA submissions, it is vital that any complementary environmental regulation or measures linked to the CPRS be considered in greater detail. In respect to the building products and residential construction industry, there remains a lack of detail on the potential impact for businesses and on the cost of housing. Furthermore, to date, there has been no attempt to assess the impact on building processes or methods of construction. Whilst HIA has provided preliminary estimates without greater detail on the proposed operation of regulation required to administer the scheme it is difficult to provide definitive advice.

Coincidentally it should be noted that proposals to improve energy efficiency in new dwellings are scheduled to commence on or around the time of implementation of the CPRS. This will alter significantly the impost of the CPRS on the industry along with the design and construction processes associated with new housing.

For example, to achieve expected higher energy ratings in new residential dwellings a greater percentage and quantity of building products subject to the CPRS are expected to be used in construction. HIA recommends that greater industry consultation be undertaken to assess the potential impact of complementary environmental measures and their interaction with the CPRS on business activity and the cost of supplying new housing product.

From this assessment the residential construction industry will have more detail and information on the most appropriate responses to minimise or avoid negative unintended consequences.

In respect to the operation of the scheme itself, it is noted in the exposure draft and supporting material that regulation is being developed which will provide more detail on the operation, purchase, auctioning process and eligibility for permits. HIA urges the government to consider limiting eligibility to purchase these permits wherever possible to those entities that are deemed to be emitters. HIA proposes that only emitters or incorporated entities with a direct association with an emitter be permitted to purchase permits so as to aid transparency.

HIA considers it would be highly desirable to limit price fluctuations and distortions that may arise from allowing commercial third parties to purchase permits at a reserve price and then have these permits offered somewhere below the capped price to a specific section of Australian business. Without stringent restrictions based on a direct association with an emitting activity or need, HIA fears that internal monopolies, speculation and profiteering on the sale and redirection of these permits may occur. Limiting the purchase of permits to entities that require them to operate their primary business activity and not for the purposes of on-selling or trading would assist in providing greater transparency and assist the government in setting future caps on permit price and volume.

The potential for 'carbon leakages' remains a major concern for industry. Leakages threaten both jobs and investment for the Australian residential building industry. To assist in reducing the incidence of 'carbon leakages' it is proposed that existing and future Free Trade Agreements be modified to ensure recognition of the CPRS. This may involve limiting free trade in some areas where a commensurate ETS has not been ratified by a proposed FTA partner. Furthermore, HIA recommends that the list of Emissions Intensive Trade Exposed industries be reviewed on a regular basis to ensure existing and anticipated trade activity is captured.

Yours sincerely

HOUSING INDUSTRY ASSOCIATION LTD

A handwritten signature in black ink, appearing to read "Chris Lamont". The signature is written in a cursive style with a large initial 'C' and a long horizontal stroke extending to the right.

Chris Lamont
Chief Executive - Association