

26 March 2009

Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Committee Secretary

The Investor Group on Climate Change Australia/New Zealand ('IGCC') would like to thank you for the opportunity to provide comment on the exposure draft Carbon Pollution Reduction Scheme Bill.

Introduction

IGCC strongly supports the introduction of the CPRS and emphasises strongly its view that passing this legislation with a start date of 2010 is vital for the Australian economy.

IGCC represents mainstream Australian investors, with total funds under management of over \$500 billion, and other key participants in the investment community. IGCC believes that climate change is one of the most significant issues facing industry, the economy and society.

Members of IGCC are part owners of many of Australia's largest companies; those companies that are arguing narrow self interest over longer term economic and environmental prosperity. IGCC does not support the views of many of these companies that the CPRS will be damaging to the Australian economy and to Australian jobs.

On the contrary IGCC is of the view that the costs of the CPRS to the Australian economy are manageable. This view is supported by a wide variety of research including research undertaken by IGCC. Further the IGCC is of the view that the costs to the economy and society of further delay to the introduction of the CPRS will be significant in terms of:

- Increased and ongoing investor uncertainty which results in a reduction in investment and economic activity;
- Inability to harness the opportunities from transitioning to a low emissions economy;
- Higher costs associated with the physical impacts of climate change eg agriculture, tourism and adaptation; and
- Australia's position in the international community which is committed to addressing climate change.

In relation to the opportunities to be resulting from the transition to a low emissions economy, IGCC is of the view that the CPRS will result in job creation by providing certainty for private sector investment. The CPRS provides the essential policy for investment certainty in technologies and industries that facilitate the transition to the low carbon economy.

General Outline

IGCC fully supports the principles of the CPRS. While there has been recent speculation regarding a carbon tax, IGCC is firmly of the view that the most efficient and effective mechanism to tackle climate change at least cost to the Australian economy is through the CPRS.

IGCC also supports many of the design features of the CPRS as outlined in the draft Bill. The design features of the CPRS supported by IGCC are summarised in Table 1 below.

While there are some design features of the CPRS that IGCC does not support, IGCC is of the view that the passing of the legislation should not be blocked or the introduction of the Scheme delayed due to disagreement in relation to various aspects of the Scheme. Rather the legislation should be introduced and should contain sufficient provision for the review and amendment of the Scheme once it is in operation to ensure the most effective operations.

The design features of the CPRS that IGCC does not support and believes need to be amended are outlined in Table 2 on 4 below.

CPRS design features supported by IGCC

Table 1: CPRS design features supported by IGCC.

Design Feature	IGCC support
Liable entities and covered emissions	
Coverage	<p>The inclusion of all 6 Kyoto gases is supported.</p> <p>IGCC supports the inclusion of all different categories of emissions (combustion, industrial process, synthetic, fugitive etc).</p> <p>IGCC supports the broadest possible sector coverage including stationary energy, transport, fugitive emissions, industrial processes and waste sectors.</p> <p>The ability for forestry to opt-in to the CPRS is supported by IGCC.</p> <p>IGCC supports the inclusion of emissions from agriculture and deforestation, as soon as practical.</p>
Threshold	IGCC supports the threshold for liability under the CPRS of 25,000 tonnes or more per year of carbon dioxide equivalence emitted from a facility.
General liability	The general point of liability, being the entity that emits 25,000 tonnes or more per year of carbon dioxide equivalence from a facility, is supported.
Liability transfer certificates (LTC)	<p>IGCC supports the introduction of LTC which allow liability to be transferred from the controlling corporation to an entity that has financial control of the facility.</p> <p>However, IGCC strongly supports the extension of the liability transfer certificates to allow liability to be transferred to an entity who owns the liable entity.</p>
Upstream liability	Where there are large numbers of small emitters, IGCC supports the transfer of liability to another point along the supply chain eg the importer or manufacturer of the fuel or synthetic greenhouse gas.



Design Feature	IGCC support
Obligation transfer number (OTN)	<p>IGCC supports the OTNs which allow liability to be transferred from upstream fuel suppliers to intermediate suppliers and end users. IGCC also supports the mandatory quotation of an OTN on:</p> <ul style="list-style-type: none"> • large users of eligible upstream fuels • re-suppliers of natural gas • re-suppliers of liquid petroleum gas • feedstock users of liquid petroleum gas (including refinery grade propene). <p>The public availability of information including the identity of the OTN holder and the OTN holder's last known address on the electronic OTN register (web based) is supported.</p>
Scheme caps, gateways and emissions units	
Scheme caps and gateways	IGCC supports the rolling forward of scheme caps and gateways by 1 year each year.
Inter-temporality	The unlimited banking of permits is supported. IGCC supports borrowing of permits limited to 1 year and not more than 5% of the entity's emissions liability.
Compliance and enforcement	
Penalties	IGCC strongly supports the pecuniary penalty for failure to surrender sufficient permits and the 'make good' obligation.
Public information	
Price discovery	<p>IGCC supports the regular publishing of price-relevant information to enable Scheme participants to make informed decisions about the price of emissions units including.</p> <ul style="list-style-type: none"> • the emissions number for each liable entity • the details of the number and types of units surrendered by each liable entity • the shortfall of units surrendered by each liable entity • any unpaid administrative penalties • the charge per unit issued as a result of an auction and the number of units issued for that charge • the identity of recipients and the number of units provided free of charge under the EITE program, for coal-fired electricity generation, reforestation or the destruction of synthetic greenhouse gas
Subsequent draft bills	
Independent authority	IGCC supports the establishment of the Australian Climate Change Regulatory Authority.
Other matters	
Complementary measures	Additional measures and funding are needed to encourage low emissions processes and energy efficiency.

CPRS design features not supported by IGCC

As mentioned above, there are some design features of the CPRS that IGCC do not support.

However, IGCC is of the view that the passing of the legislation should not be blocked or the introduction of the Scheme delayed due to disagreement in relation to various aspects of the Scheme. Rather the legislation should be introduced and should contain sufficient provision for the review and amendment of the Scheme once it is in operation to ensure it is efficient and effective.

Some of the particular design features which IGCC does not support and argues should contain sufficient provisions to allow review and amendment once operational are described below.

Table e: CPRS design features not supported by IGCC.

Design Feature	IGCC does not support
General outline	
Emissions reduction targets	The CPRS legislation should include the provisions to allow for a higher 2020 emissions reduction target should, as a result of international negotiations, Australia agree to take on an emissions reduction target higher than the currently stated commitment.
Liable entities and covered emissions	
Coverage	IGCC is of the view that provisions in the legislation should allow the inclusion of agriculture in the CPRS as soon as practicable. Where there is robust measurement and methodology for the creation of offsets from agriculture these should be allowed in the CPRS until such time as agriculture is included in the CPRS.
Liability transfer certificate (LTC)	IGCC advocates for an extension to the liability transfer certificates to allow liability to be transferred from the controlling corporation to the <u>owner</u> of the liable entity. IGCC also seeks disclosure in relation to the liability transfer certificates to allow the liable party to be clearly identified.



Design Feature	IGCC does not support
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Scheme caps, gateways and emissions units	
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Scheme caps and gateways	
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	Major investment decisions require long range planning and analysis and as such rely on market certainty. This is recognised by the objective of providing future scheme caps and gateways which is to 'provide a degree of market certainty'.
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	IGCC recognises that until international emissions reduction obligations under the United Nations Framework Convention on Climate Change have been established 5 year scheme caps may be appropriate. However, once international obligations have been established IGCC believes that the objective to 'provide market certainty' can best be achieved with 10 year scheme caps.
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	Therefore, the legislation specifying scheme caps should include provisions to allow the possibility of 10 year scheme caps (and gateway at least 10 years beyond scheme cap). This would ensure that the draft legislation 'is designed to provide the maximum feasible level of certainty'.
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Allocation of units – introduction, auction and fixed charge units	
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Fixed charge units (Scheme Price Cap)	
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	IGCC does not support the proposed price cap in the form of access to an unlimited store of additional Australian emissions units, issued at a fixed charge, for the first five financial years (\$40 per tonne in 2010, \$43 in 2011, \$46.23 in 2012, \$49.69 in 2013 and \$53.42 in 2014).
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	Entities have the ability to manage and spread permit costs through the provision for banking and borrowing of permits. Further, the import of emissions units will also assist entities to manage permit costs (where the price of international permits is less than the price of Australian permits). These factors will also limit the degree of price shocks in the permit market
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	Given this ability for liable entities to manage and spread permit costs, IGCC is of the view that the need to protect liable entities by setting a maximum cost of compliance or protect against major price shocks is not warranted.
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	IGCC is of the view that the problems created by providing access to an unlimited store of additional Australian emissions units, issued at a fixed charge will outweigh any possible benefits. In particular, the price cap will create inefficiencies by interfering with the free workings of the permit market. Fixing the maximum permit price has the potential to slow the necessary transition of the Australian economy to a low emissions economy. For example, the proposed permit price cap is unlikely to provide sufficient incentive for fuel switching from coal to gas and the development of carbon sequestration technology. Depending on gas prices, it also unlikely to provide the incentive for the development of base-load CCGT that will be essential if the structural change in the electricity generation sector, which is needed for Australia to undertake any significant domestic abatement is to be achieved.
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Design Feature	IGCC does not support
Fixed charge units (Scheme Price Cap) cont...	<p>Should access to an unlimited store of additional Australian emissions units, issued at a fixed charge be retained in the CPRS legislation it is necessary for the identity of recipients and the number of units issued at a fixed charge to be regularly published (as part of the public information provided under Part 12 of the draft Bill).</p> <p>As such IGCC advocate for provisions in the legislation to amend or remove the fixed charge units should the operation of the CPRS result in the issues identified above.</p>
Emissions-intensive trade-exposed (EITE) assistance program	<p>IGCC agrees that there is a need for transitional assistance for EITE entities to avoid carbon leakage and believes that the proposed scheme will achieve this. However, there remain are a number of problems with the transitional assistance outlined in the draft Bill.</p> <p>The draft Bill reflects the ‘significant increase’ in the number of EITE entities likely to receive assistance as outlined in the White Paper through the inclusion of the value-added-based measure for determining the level of emissions intensity of an activity and therefore its eligibility for assistance and by reducing the emissions-intensive threshold for entities to qualify for compensation (ie an expansion of the 60% assistance category).</p> <p>The arbitrary nature of the thresholds above which assistance is provided and the selection of ‘activities’ for which assistance is provided will lead to rent seeking behaviour to change the criteria (thresholds and activities) so a particular industry or company is provided with assistance (or a higher level of assistance). This creates inequities in the CPRS which leads to inefficiencies.</p>
Coal-fired electricity generation	<p>IGCC does not generally support direct assistance for industries that are not trade exposed including coal-fired electricity generation.</p> <p>While IGCC recognises that the CPRS will significantly impact emissions intensive companies and assets, it is of the view that these impacts have (or should have) already been incorporated into investment decisions since the mid 1990s.</p> <p>Further, IGCC is of the view that providing assistance to existing coal-fired generation assets:</p> <ul style="list-style-type: none"> • does not change the risk for future investments in the industry; • distorts the broader investment environment, thereby creating inefficiencies; • disadvantages the remainder of the economy including those that have taken early investment action on climate change; and • encourages rent seeking behaviour. <p>If direct assistance is to be included under the CPRS the legislation should be careful drafted to avoid these potential problems.</p>



Design Feature IGCC does not support

Subsequent draft bills

Reduction in fuel excise	<p>While not covered in the draft Bill, the IGCC would like to register its opposition to the reduction in the fuel excise to offset the impact of a carbon price. Offsetting the price impact on fuel will dampen the incentive to change fuel use patterns and accordingly reduce the overall efficiency of the CPRS.</p> <p>In particular, the IGCC is opposed to insulating heavy road users from the CPRS. Compensating heavy vehicle road users directly disadvantages other less greenhouse intensive transport sectors such as rail freight.</p> <p>IGCC believes that the impact on low income families from increased fuel prices should be dealt with the same as for the impact from electricity price rises (ie through the household assistance package).</p>
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IGCC appreciates the opportunity to discuss these matters with you at the Senate Standing Committee on Economics hearing on Friday 27th March in Sydney. In the meantime, please do not hesitate to contact IGCC on 1300 794 047 or by email secretariat@igcc.org.au if you would like any more information on any of the issues raised.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Frank Pegan', with a long horizontal line extending to the right.

Frank Pegan
Chair
Investor Group on Climate Change Australia/New Zealand