

# **CARBON POLLUTION REDUCTION SCHEME BILL 2009 AND RELATED LEGISLATION**

**Senate Standing Committee on Economics Inquiry**

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## 1. Introduction

Engineers Australia is the peak body for engineering practitioners in Australia, representing all disciplines and branches of engineering. Membership is now approximately 86,000 Australia wide and Engineers Australia is the largest and most diverse professional engineering association in Australia. All Engineers Australia members are bound by a common commitment to promote engineering and to facilitate its practice for the common good.

Engineers Australia has had in place sustainable development principles to guide members in the conduct of their engineering practice for over 20 years. Sustainable development is an integral component of Engineers Australia's code of ethics which are agreed by all members. Engineers Australia has also formally endorsed a Sustainability Charter and a comprehensive policy on Australia's energy future and climate change.

Engineers Australia believes that a portfolio of measures must be employed to deal with the necessary greenhouse gas emissions reduction to avoid the worst impacts of climate change. Engineers Australia strongly supports the introduction of the proposed Carbon Pollution Reduction Scheme (CPRS) as the economic backbone for a climate change policy portfolio. However, the scheme will only cover approximately 75% of Australia's emissions and market failures will further reduce the effectiveness of a carbon price.

Engineers Australia believes that a range of complementary measures must be used in conjunction with the CPRS. These measures are not the subject of the present inquiry, which is specific to the Draft CPRS Legislation. However, in setting the CPRS emissions caps, it is vital that the inter-action between the CPRS and complementary measures are well defined and provided for. Engineers Australia believes that the relevant Section of the Draft Legislation (Section 14 (5)) requires further clarification to more adequately deal with the provisions of this Section. Failure to do so could adversely impact on overall Australian efforts and possibly lead to another round of States and Territories program accommodations such as the energy efficiency trading schemes now being implemented. A single national approach is what is needed.

Climate change policy begins with Government acceptance of the problem and setting greenhouse emission reduction targets, based on the recommendations of climate scientists and consistent with international events. The government has ratified the Kyoto Protocol and has set a long term greenhouse emissions reduction target for 2050. However, the medium term targets for 2020 announced by the Government have become controversial because few in the community appreciate the relationship between them, the Government's long term target and the Government's position in respect of the possible need to accommodate a more stringent long term target. Engineers Australia believes there has been a fundamental communications break-down on these matters and while the statement of the objects of the Draft Legislation is consistent with the Government's objective, other interpretations are possible and the Government must urgently clarify its intentions.

Australia's greenhouse annual emissions are accelerating and the plethora of Commonwealth, State and Territory programs seeking to reduce emissions do not appear to have made much impression. Delays in addressing emissions simply make the task of avoiding the impacts of damaging climate change more difficult. The debate in Australia is characterized by short term arguments that disregard the long term damage that will come as the climate changes. Engineers

Australia believes that a 2010 start to emissions trading is imperative. The changes that Australia must make to move to a carbon constrained world are complex and involve the fundamentals of our way of life. Endless debates about getting right every detail for a change process involving decades should give way to focus on the fundamental problem.

## 2. General Issues

Engineers Australia has argued that a comprehensive climate change mitigation strategy requires a portfolio of measures built around a mechanism which puts an end to the uncosted emission of greenhouse gases into the atmosphere. The Government has ratified the Kyoto Protocol, announced a long term greenhouse emission reduction target and in the Draft Legislation proposes the legal framework for emissions trading to put a cost on greenhouse emissions and to establish its long term emissions reduction target and associated targets for 2020 in legislation.

Engineers Australia welcomes and strongly supports these developments. Engineers Australia has long argued that Australia should implement emissions trading as quickly as possible and the arrangements proposed seek to do this. However, Engineers Australia believes that emissions trading is a means to an end and not an end in itself. CPRS thresholds and sectoral coverage mean that the scheme will target only 75% of Australia's emissions and strategies and policies are needed to deal with the remaining 25%. Not all economic activities are price responsive and the measures foreshadowed to deal with market failures have not all yet been defined, nor is it clear how they will inter-relate with the CPRS. As well, a number of communication issues have arisen concerning greenhouse gas reduction targets and how they relate to Australia's international negotiating stance.

Engineers Australia sees little merit in revisiting alternatives to the CPRS. The policy debate on how best to reduce Australia's greenhouse gas emissions has been underway since the early 1990's. In recent years major inquiries have been undertaken by both sides of politics to settle the issue of alternatives. While there have been some differences in detail, the substantive conclusions of these inquiries have been support for cap and trade emissions trading. Cap and trade emissions trading is recognised in the Kyoto Protocol, it has implemented in Europe and is also the mechanism proposed by the new USA administration<sup>1</sup>.

Engineers Australia believes that Australia's climate change mitigation strategy requires multi-party support. Most countries which have, or have proposed, long term greenhouse emissions reduction targets focus attention on 2050 and beyond. In Australia there could be 13-14 parliaments between now and 2050. The character of the changes needed to the fabric of the Australian economy will require consistency, persistence and sufficient flexibility to discard options that are not working in favour of new ones that will. Without strong support from all sides of politics it will be difficult to meet these conditions and the cost to Australia and Australians will be very high.

Emissions trading is a major structural change for the Australian economy. The complexities of the arrangements required are reflected in the detail contained in the Draft Legislative package and the foreshadowed complementary regulations. Although Engineers Australia broadly supports the arrangements proposed, it notes how difficult this process is. Pragmatism suggests that future amendments based on experience are inevitable. With this in mind, Engineers Australia

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<sup>1</sup> See the President's Energy and the Environment Agenda at [www.whitehouse.gov](http://www.whitehouse.gov)

encourages the Government to seriously and actively consider matters raised in the consultation process to minimize the need for future changes.

Australian emissions continue to increase each year. While it has been important for Australia to ratify the Kyoto Protocol, there is little comfort in assurances that Australia is likely to meet its Kyoto greenhouse emissions target. Internationally the character of Australia's target is widely and well understood. Until Australian annual greenhouse emissions stop increasing and start to fall, the country is not well placed to influence the directions of international negotiations. Engineers Australia believes that Australia's position would be enhanced by the passage of the Draft Legislation before the Copenhagen climate conference, including the Government's starting date of 1 July 2010 for the start of emissions trading.

Chapter 19 of the White Paper deals with policies and programs complementary to emissions trading. The general principle announced was that complementary policies and programs should be targeted at market failures and their design should be consistent with the principles of efficiency, effectiveness, equity and administrative simplicity. Engineers Australia supports this principle *providing all market failures* are actively considered and this is not yet clear. The discussion in Chapter 19 is brief and provides scant detail about complementary policies and programs. Some details about the expansion of the mandatory renewable energy scheme are available; similarly some information about research, development and deployment programs are available; but energy efficiency measures are to be announced later, before the commencement of the CPRS.

### 3. Targets and CPRS Objects

Since the release of the White Paper there has been some controversy about the stringency of the Government's medium term greenhouse emission reduction targets. In this debate little has been said about how the medium term targets relate to the Government's long term greenhouse emissions reduction target for 2050. It is also clear that Australia's greenhouse reduction targets have been confused with the Australian negotiating position for forthcoming international negotiations.

The Government has expressed determination to meet its electoral commitment to reduce Australia's 2000 greenhouse emissions by 60% by 2050. It is not generally understood, in the Australian community and by some participants in the debate, that the Government's announced medium term target to unilaterally cut Australia's 2000 emissions by 5% by 2020, in conjunction with the indicative national emissions trajectory, as announced in the White Paper<sup>2</sup>, simply gives effect to the Government's electoral commitment. Although this connection was made by the Prime Minister in response to questions at his National Press Club launch, it has been lost in the claims and counter-claims made in the media since.

At the National Press Club launch of the White Paper, the Prime Minister indicated that the Government would seek electoral endorsement of greenhouse reduction targets for Australia that are more ambitious than the present 60% target. Although both extremities of the announced medium term target range relate to achieving a 60% cut to 2000 emissions by 2050, the

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<sup>2</sup> Australian Government, Carbon Pollution Reduction Scheme: Australia's Low Pollution Future, White Paper, Volume 1 December 2009, p4-23, [www.climatechange.gov.au](http://www.climatechange.gov.au)

conditional medium term extremity of 15% by 2020 is more ambitious than the election commitment. The Treasury's Report on the economic impact of the CPRS associates the 5% medium term target with greenhouse gas stabilisation in the atmosphere at 550 ppm and the 15% medium term target with greenhouse gas stabilisation at 510 ppm<sup>3</sup>. Engineers Australia accepts that the annual emissions reductions necessary for a 15% cut by 2020 leaves open incremental adoption of an even more ambitious target beyond 2020.

Indeed the Government has flagged the importance of this next step. At various points in the White Paper and in the Commentary to the Draft Legislation, the Government states its acceptance of the Garnaut Review finding that "stabilizing concentrations of greenhouse gases at around 450 ppm or lower would be in Australia's interests"<sup>4</sup>. It was in this context that the Prime Minister at the National Press Club indicated that the Government's long term greenhouse gas reduction target may not be enough and he may take a more ambitious target back to the electorate depending on the outcome of international negotiations.

Although the objects of the Draft Legislation can be read as supporting this strategy, other interpretations are also possible because key connections are poorly understood. Engineers Australia believes that widespread community support is essential for the CPRS to succeed and the basis of this support depends on clear community distinction between present Government greenhouse targets, its international negotiating stance and its intentions regarding future targets. Accordingly, Engineers Australia recommends that the Government issues a statement to clearly distinguish these elements of its strategy.

#### 4. The Relationship between the CPRS and Complementary Measures

There has been considerable controversy in the media concerning the relationship between the expanded mandatory renewable energy scheme, energy efficiency measures and additional voluntary actions<sup>5</sup>. The main claim made by protagonists is that emissions reductions which result from these complementary measures will simply drive down the carbon price and subsidize large scale polluters. Minister Wong sought to deal with these interpretations in an ABC interview without success<sup>6</sup>.

The CPRS cap is essentially a rolling 5 year average updated by one year each year. The intent of a 5 year cap is to inject flexibility into the system to accommodate large capital assets. Engineers Australia supports that intention but notes the difficulty of explaining this arrangement in the media. The cap is to be set in regulations supporting the proposed Legislation. Section 14 (5) in Part 2 of the Draft Legislation does, however, specify the matters which the Minister may consider in setting

<sup>3</sup> Australian Treasury, Australia's Low Pollution Future; The Economics of Climate Change Mitigation, 2008, p76, [www.treasury.gov.au](http://www.treasury.gov.au)

<sup>4</sup> Senator the Hon Penny Wong, Carbon Pollution Reduction Scheme Bill 2009, Commentary, [www.climatechange.gov.au](http://www.climatechange.gov.au), pp 7 and 14

<sup>5</sup> For example see Municipal Association of Victoria, Brief for Members, Carbon Pollution Reduction Scheme and the Role of Voluntary Emissions Reduction, December 2008, [www.mav.asn.au](http://www.mav.asn.au) and John Quiggan, The Uselessness of Additional Action under the CPRS, 23 March 2009, <http://johnquiggan.com>

<sup>6</sup> ABC TV, The 7.30 Report, Wong defends emissions trading scheme, 23 February 2009, [www.abctv.com.au](http://www.abctv.com.au)

the scheme cap. In principle, (5) (c) (iv) provides for the scheme cap to be lower by the extent of additional voluntary action to reduce emissions. This was the point Minister Wong was trying to make in her ABC interview. Similarly, the generality of (c) (v) and (vi) could provide for the interaction between the mandatory renewable energy scheme and energy efficiency and the CPRS, but a better approach would be to explicitly provide for these interactions.

Engineers Australia supports the concept of an annually updated rolling 5 year cap for the proposed CPRS. However, there was no discussion in the White Paper about how the interactions between the expanded renewable energy scheme, energy efficiency and additional voluntary emissions reductions and the CPRS would be handled. This is the reason for the unhelpful speculation. The situation has not been helped by the absence of express reference to the renewable energy scheme and energy efficiency in Section 14 (5). Engineers Australia believes that it is essential for these matters to be clarified.

Engineers Australia strongly supports the expanded renewable energy scheme and aggressive energy efficiency measures to reduce Australia's greenhouse emissions. Engineers Australia's support for expanding the mandatory renewable energy scheme is based on the need to assist new technologies to expand their market shares so that learning by doing and economies of scale can drive down unit costs. Existing electricity generating technologies, especially coal-fired generation, developed their present market shares under government ownership operating to developmental rather than to market based policies. Engineers Australia believes this created significant incumbency advantages which further disadvantages renewable energy.

Engineers Australia's fails to understand why unnecessary energy use due to inefficient practices and technologies is in Australia's interests and this is not treated as a misallocation of resources. The IEA<sup>7</sup>, McKinsey<sup>8</sup> among others, have demonstrated the significant capacity for energy efficiency to reduce greenhouse emissions, and to do so at a cost saving or at costs well below other solutions. Engineers Australia believes that aggressive pursuit of energy efficiency measures can significantly reduce the cost of moving to a low carbon world for many energy intensive activities and would substantially allay many fears expressed by industry. However, the dividend of energy efficiency measures should be lower Australia's greenhouse emissions and cost savings to those who implement them. Energy efficiency and emissions trading are not alternatives. Both are required in a comprehensive climate change mitigation strategy.

Several States and Territories have implemented energy efficiency trading schemes. The developmental work for these schemes predate the Green and White Papers and contain a presumption of compatibility with the CPRS. Given the confusion about how these schemes may relate to the CPRS, there is a danger that needless competitive arrangements could develop. Lack of clarity in Commonwealth policy gave rise to the plethora of greenhouse emissions reduction programs that now exist throughout Australia. Industry has rightly complained about high compliance costs and the confusion created by multiple accountability obligations. Part of the rationale for a national emissions trading scheme is to not repeat this problem. Clarifying the interrelationship between the CPRS and complementary measures will help avoid this.

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<sup>7</sup> International Energy agency (IEA), Energy Technology Perspectives 2006, Scenarios and Strategies to 2050, In Support of the G8 Plan of Action, OECD Paris, 2006, [www.iea.org](http://www.iea.org)

<sup>8</sup> McKinsey and Company, An Australian Cost Curve for Greenhouse Gas Reduction, 2008, [www.mckinsey.com](http://www.mckinsey.com)

Engineers Australia urges the Government to clearly state its intentions on the matters raised in this Section. Several parts of the Draft Legislation use examples that illustrate the intent of specific provisions. Engineers Australia believes that examples illustrating how the scheme cap might be set and how inter-actions between the scheme and other measures might work are essential.