

Chapter 1

Introduction and conduct of the inquiry

The Carbon Pollution Reduction Scheme

1.1 The Carbon Pollution Reduction Scheme (CPRS) is the cap-and-trade emissions trading scheme designed as Australia's contribution to limiting the global emissions of greenhouse gases so as to contain global warming and climate change.

1.2 The CPRS is the result of a long process of analysis and consultation by successive federal parliaments and governments. A Senate Committee started examining the issue over two decades ago. Its report in 1991 concluded:

...the Committee supports concerted action to reduce greenhouse gas emissions...a target of 20% reductions by 2005...it is now time for action. That action must be speedy and must be a practical solution in the short term. Setting up committees to further examine greenhouse issues or putting out press releases imploring the community to be more energy conscious does not constitute action that will result in sufficiently significant reductions of greenhouse gas emissions.¹

1.3 Australia first undertook to take action in this area when it ratified the United Nations Framework Convention on Climate Change in 1992. Australia was heavily involved in negotiating the Kyoto Protocol to the Convention in 1997 (although it did not ratify it until 2007). In 1998 the Australian Greenhouse Office was established. The *Shergold Report* (Prime Ministerial Task Group on Emissions Trading) in May 2007 recommended that an emission trading scheme should be implemented in Australia, as did the *Garnaut Review* in September 2008. The current government released *Green and White Papers* on the scheme. Exposure drafts of the bills to introduce the CPRS were released in March 2009.

The Economics Committee inquiry

1.4 The Senate referred the exposure drafts of the CPRS to the Standing Committee on Economics on 11 March 2009 and the Committee reported on 16 April 2009.

1.5 The Committee was unanimous in regarding the risk of climate change as deserving a serious response. The majority of the Committee called for the Senate to approve the CPRS.² While the Coalition senators rejected the specific CPRS, they too

1 Senate Standing Committee on Industry, Science and Technology, *Rescue the Future: reducing the impact of the greenhouse effect*, January 1991. The Senate had referred the matter to the committee in November 1988.

2 Senate Standing Committee on Economics, *Exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme*, April 2009 (hereafter *CPRS ED Report*), p 19.

believed 'the planet deserves the benefit of the doubt. It is in the planet's and Australia's interests to reduce the world's, and Australia's, carbon dioxide emissions'.³ Senator Xenophon stated 'there is a sensible policy case, as well as a strong ethical one, for Australia to take early emissions reduction action...'.⁴ The Australian Greens called for a stronger response than the CPRS.⁵

1.6 There were a number of aspects of the CPRS which submissions and witnesses suggested could be improved, and suggestions for accompanying action. These opinions were discussed in the report and to varying degrees supported by Committee members.

1.7 On the issue of voluntary action by households, the Committee commented:

People want to feel that they are making a contribution, even if only in a small way, to saving the planet. The growing perception that the CPRS negates actions taken by individual households to reduce emissions is eroding support for the scheme. This must be addressed.⁶

1.8 Accordingly the Committee recommended that:

...the government develop policies complementary to the CPRS to encourage voluntary action...the wording of section 14(5) of the CPRS Bill 2009 be amended so that in making recommendations on emissions caps the Minister "shall have regard" rather than "may have regard" to "voluntary action".⁷

1.9 On the issue of employment, the Committee recommended that:

... the Government coordinates and advances a whole of government approach to jobs and skills in emerging low pollution industries. The Committee further recommends that a process be developed which ensures effective implementation of all Government programs and policies which support green jobs and skill development throughout all sectors of the economy. The Government should also develop Australia's current and future skills base to ensure it has sufficient skills to take advantage of emerging employment opportunities driven through the CPRS and other complementary climate change policies.⁸

1.10 On the issue of the emissions reductions target, the Committee noted that while some witnesses regarded the targets of a 5-15 per cent reduction in greenhouse gas emissions from 2000 to 2020 as ambitious, others argued that Australia should

3 *CPRS ED Report*, p 125.

4 *CPRS ED Report*, p 147.

5 *CPRS ED Report*, p 159.

6 *CPRS ED Report*, p 73. A similar point is made in the Coalition senators' dissenting report, which argued 'many people...would be greatly discouraged if the proposed CPRS disempowered them, allowing for emitters to benefit from their voluntary actions rather than the environment'; *CPRS ED Report*, p 132.

7 *CPRS ED Report*, pp 73-4.

8 *CPRS ED Report*, p 63.

offer a larger reduction as part of a global agreement to stabilise atmospheric concentrations at around 450 parts per million (CO₂ equivalents).⁹

1.11 On the issue of assistance to emissions-intensive, trade-exposed industries, the Committee noted:

Payments of assistance can be justified to guard against carbon leakage and support emission intensive trade exposed industries during the transition...The Committee notes the persistent advocacy of industry groups for further assistance under the scheme.¹⁰

1.12 On the issue of the timing of the scheme's introduction, the Committee noted that there were:

...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.¹¹

1.13 The Committee believed the importance of providing certainty for business and the need to present a clear position at the Copenhagen conference in December 2009 justified passing the legislation this year, regardless of the starting date.¹²

The Government's response to comments about the CPRS

1.14 In response to these reactions to the exposure draft of the CPRS legislation, the Government announced a number of changes, mostly on 4 May. These changes have been embedded in the CPRS bills. The main changes are:

- an increase in the conditional target for emissions reductions to a 25 per cent reduction from 2000 to 2020;
- a 'global recession buffer' of additional transitional assistance for emissions-intensive trade-exposed industries;
- changed treatment of 'legacy emissions' for landfill operators;
- recognition of household purchases of Green Power in the setting of targets;
- other recognition of households' voluntary emissions reductions;
- deferral of the operation of the scheme until July 2011; and
- a fixed permit price of \$10 a tonne for the first year of operation.

1.15 The CPRS package is essentially self-funding over the next four years. Table 1.1 shows how the potential revenue from the sale of permits is distributed to households and (including by allocation of free permits) to businesses.

9 *CPRS ED Report*, pp 35-40.

10 *CPRS ED Report*, pp 49 and 58.

11 *CPRS ED Report*, p 9.

12 *CPRS ED Report*, pp 9 and 19.

Table 1.1: Fiscal impact of CPRS package

(\$ billion)

	2009-10	2010-11	2011-12	2012-13
Potential revenue from permit sales	0	0	4.5	13.0
Assistance for households	0	0	-1.5	-5.1
Fuel tax offsets	0	0	-0.9	-2.2
EITEs assistance (free permits)	0	0	-1.2	-3.6
Other payments to industry	0	0	-1.5	-4.3
Climate change action fund	-0.2	-0.3	-0.7	-0.6
Total impact on budget	-0.2	-0.3	-0.1	0.8

Source: *CPRS Amendment (Household Assistance) Bill 2009 Explanatory Memorandum*, p. ii.

The conduct of the current inquiry

1.16 The Senate referred the CPRS bills to the Economics Legislation Committee on 14 May and required the Committee to report by Monday 15 June 2009.

1.17 There are eleven bills in the total package:

- Carbon Pollution Reduction Scheme Bill 2009 (the primary bill);
- Carbon Pollution Reduction Scheme (Consequential Amendments) Bill 2009;
- Australian Climate Change Regulatory Authority Bill 2009;
- Carbon Pollution Reduction Scheme (Charges – Custom) Bill 2009, Carbon Pollution Reduction Scheme (Charges – Excise) Bill 2009 and Carbon Pollution Reduction Scheme (Charges – General) Bill 2009;
- Excise Tariff Amendment (Carbon Pollution Reduction Scheme) Bill 2009 and Excise Tariff Amendment (Carbon Pollution Reduction Scheme) Bill 2009;
- Carbon Pollution Reduction Scheme (CPRS Fuel Credits) Bill 2009 and Carbon Pollution Reduction Scheme (CPRS Fuel Credits) (Consequential Amendments) Bill 2009; and the
- Carbon Pollution Reduction Scheme (Household Assistance) Bill 2009, which was introduced into the house on 28 May.

1.18 As there had been an extensive report on the exposure drafts, the Committee decided that this report would concentrate on the changes made since the exposure drafts.

1.19 The Committee advertised the inquiry in the national press and invited written submissions by 4 June 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.

1.20 As this was the fourth Senate committee inquiry into the issue of climate change and the CPRS in recent months,¹³ it was unsurprising that it received fewer submissions. However the 48 submissions received is well above the median number for a senate committee inquiry. The submissions are listed in Appendix 1.

1.21 Two public hearings were held in Canberra on 22 and 29 May 2009. A list of the witnesses appearing at the hearings is in Appendix 2. These two hearings concentrated on peak industry, environmental and social organisations and the relevant government departments as these were better placed to focus on the changes since the exposure draft. A representative from the landfill industry was called as there had been specific changes pertaining to the treatment of this industry announced since the exposure draft.

1.22 Half the senators on this Committee are also members of the Select Committee on Climate Policy and participated in its hearing on the changes to the CPRS exposure draft at which evidence was taken from further industry, environmental and social organisations and a number of individual companies. In addition, the views of many companies on the CPRS were canvassed during the extensive hearings into the CPRS exposure drafts.

1.23 The Committee thanks those who participated in this inquiry.

Structure of the report

1.24 There are four main areas where the CPRS bills differ from the exposure drafts, and each is allocated a chapter. Chapter 2 discusses the higher conditional target for emissions reductions. The responses to concerns expressed by business, notably the increased number of free permits, is the subject of Chapter 3. The recognition of voluntary action is the topic of Chapter 4. The deferral of the operation of the scheme in light of the global economic crisis is the topic of Chapter 5. Chapter 6 concludes.

13 The Senate Standing Committee on Economics tabled a report on 16 April 2009 and the Senate Select Committee on Fuel and Energy tabled a report on 7 May 2009. The Senate Select Committee on Climate Policy is reporting on 15 June 2009, and has received over 8,000 submissions.

