

# Chapter 6

## Conclusions

6.1 This report has concentrated on the changes to the CPRS since the exposure draft. However, as the committee also received evidence on the CPRS more broadly, it may be useful to summarise the Committee's overall view of the problem of climate change and how the CPRS addresses it.

### **The global challenge of climate change**

6.2 The Committee believes the world should act to limit the concentration of greenhouse gases in the atmosphere. This is not an article of faith. It is a matter of prudent risk management. The earth is warming. If no action is taken, the overwhelming majority of expert scientific opinion holds that average temperatures will rise further, almost certainly leading to further changes in the global climate with severe consequences for humanity and terminal consequences for many other species, but that this can be limited if anthropogenic greenhouse gas emissions are restricted.

6.3 The Committee sees no reason to question the judgement of the national academies of science of all the world's leading countries on this matter.<sup>1</sup> It also notes that none of the witnesses appearing before it, even those most critical of the CPRS, argued that the science was wrong.

6.4 It is still not completely impossible that these scientific experts are misguided. But it would be folly to *assume* they *must* be wrong. Even if there were only a modest chance that the scientists are right, a prudent approach is to take out some insurance by acting now to reduce global emissions.

6.5 The most important action to take is to correct the global market failure that has led to excessive emissions of greenhouse gases. This is that for most of human history those parties responsible for greenhouse gas emissions have not had to pay for the consequences of them. This has led to a 'tragedy of the commons' on a global scale. Putting an appropriate price on these emissions, which can be done in a number of ways, is an effective response to the problem. Economic theory suggests it should be the lowest cost means of addressing the problem.

6.6 Tackling climate change has been described as 'a diabolical policy problem'<sup>2</sup>, not only because it requires a global solution, but because of the intertemporal aspect. There will be costs, albeit modest, incurred by this generation to avoid much greater costs for future generations.

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1 The joint statement by the academies, led by the Royal Society, can be found in *Science*, 18 May 2001, p. 1261.

2 *Garnaut Review*, p xviii.

6.7 The Committee believes that the welfare of these future generations matters and should be taken into account in forming current policy. It notes that for some submitters, this view is reinforced by religious convictions:

The Uniting Church's commitment to the environment arises out of the Christian belief that God, as the Creator of the universe, calls us into a special relationship with the environment – a relationship of mutuality and interdependence which seeks the reconciliation of all creation with God. We believe that God's will for the earth is renewal and reconciliation, not destruction by human beings.<sup>3</sup>

### **Australia's role in limiting climate change**

6.8 Australia should play its 'fair share' in this global endeavour. As the Senate Economics Committee commented recently:

Indeed, as one of the world's highest per capita emitters of greenhouse gases, one of the world's wealthiest countries, one of the major beneficiaries of past greenhouse gas emissions, one of the countries best endowed with renewable energy sources and one of the countries that would suffer most from further climate change, there is a strong case that Australia should be willing to make a more than proportionate contribution to this global effort.<sup>4</sup>

6.9 There is now broad political agreement that Australia's contribution to a global agreement that is likely to limit temperature rises to 2 degrees should be at least around a 25 per cent reduction in annual emissions from 1990 to 2020. A 25 per cent reduction in the context of a global agreement is the policy of the Government and the Opposition. The Australian Greens and Senator Xenophon want to do more.

#### ***What type of scheme?***

6.10 While there is an important role for complementary measures, the primary way that Australia should limit its emissions is by establishing a price on carbon. This could be done by various types of emissions trading schemes or carbon taxes or hybrids.

6.11 The Committee notes that there has already been exhaustive analyses of these alternative schemes, and a consensus established preferring an emissions trading scheme over a carbon tax or hybrid measure.

6.12 For example, the Howard Government's task force concluded:

Of the market-based instruments, emissions trading should be preferred to a carbon tax. Emissions trading will ensure that the policy focus remains on the ultimate environmental objective of reducing the output of greenhouse

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3 Uniting Justice Australia, *Submission 5*, p 1.

4 *CPRS ED Report*, p 1.

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gases. It is also likely to be a central part of the emerging global response to climate change.<sup>5</sup>

6.13 The *Garnaut Review* for the current government concluded:

In Australia's circumstances, a well-designed emissions trading scheme is superior to a carbon tax.<sup>6</sup>

6.14 Some people may state a preference for a carbon tax, either because in its textbook form it is simpler, or just because a further investigation would be the pretext for further delaying the introduction of any scheme. However the Committee agreed with the majority of witnesses that it remains preferable to stay with the cap-and-trade model:

Our investigation of carbon tax is that the simplicity benefits are very much overstated. You have exactly the same measurement problems, exactly the same reporting issues, exactly the same issues involved as for trade-exposed, emissions-intensive industries and indeed trade-exposed businesses generally. Much of the complexity revolves around measurement and reporting and the majority of the complexity revolves around the issues that would be common to a carbon tax or an emissions trading scheme.<sup>7</sup>

...there is nothing simpler about a carbon tax than what we actually have in terms of an emissions trading scheme. If you look at the details of the bills before us, the vast majority of the bills would have to cover issues which you would have to cover in a carbon tax. So fundamentally the issue of who would be a liable party, the way in which emissions would be monitored, reported and verified, the extent to which you would provide any exemptions or removal of liability, all those questions would arise under a carbon tax as would apply under an emissions trading scheme.<sup>8</sup>

6.15 The arguments about the relative merits of a carbon tax and ETS have been discussed in the series of reports and inquiries. The Committee has not seen any evidence that would lead it to suggest that this issue needs to be examined yet again. The main piece of new information since the earlier inquiries is that other countries introducing a carbon price have mostly chosen to do so using a cap-and-trade emissions trading scheme rather than a carbon tax or other model.

6.16 Nor will the negotiations at Copenhagen on national targets provide any further guidance on the choice between a carbon tax and an ETS (see Chapter 5). While negotiations are proceeding on the exact form of the ETS in the United States, it seems clear that a carbon tax is already off the table there.

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5 Prime Ministerial Task Force on Emissions Trading, *Final Report*, (the 'Shergold report'), 2007, p. 9.

6 *Garnaut Review*, p 311.

7 Mr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 29 May 2009, p 16.

8 Mr Blair Comley, Deputy Secretary, Department of Climate Change, *Proof Committee Hansard*, 22 May 2009, p 4.

## The costs of acting or not acting

6.17 The *Stern Review*, still the major economic study on the topic, compared the short-term costs of taking action to reduce global greenhouse gas emissions with the long-term costs of allowing climate change to take its course. Its conclusion was that, if you care about future generations, there is a clear case for action:

Using the results from formal economic models, the review estimates that if we don't act, the overall costs and risks of climate change will be equivalent to losing at least 5% of global GDP each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20% of GDP or more.

In contrast, the costs of action – reducing greenhouse gas emissions to avoid the worst impacts of climate change – can be limited to around 1% of global GDP each year.<sup>9</sup>

6.18 The *Garnaut Review* looked at similar issues from an Australian perspective. It concluded:

Mitigation on the basis of 550 [ppm atmospheric concentration of CO<sub>2</sub>e] objectives was judged to generate benefits that exceeded the costs. Mitigation on the basis of 450 was thought to generate larger net benefits than 550.<sup>10</sup>

The costs of well-designed mitigation, substantial as they are, would not end economic growth in Australia, its developing country neighbours, or the global economy. Unmitigated climate change probably would.<sup>11</sup>

6.19 The Treasury modelling had a narrower focus. It concluded that introducing the CPRS could shave around 0.1 per cent off annual economic growth, but this would still imply a 60 per cent increase in real per capita incomes by 2050.<sup>12</sup> Such a small reduction in economic growth is well below plausible estimates of the costs of allowing unchecked climate change.

6.20 The conclusions of the modelling is now accepted by the business community:

We agree with the issue that the costs of not acting on climate change at a global level are greater than the cost of acting on global climate change. I do not think very many people seriously dispute that.<sup>13</sup>

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9 *The Economics of Climate Change: the Stern Review*, Cambridge University Press, 2007, p xv.

10 *Garnaut Review*, p xxv.

11 *Garnaut Review*, p 268.

12 Treasury, *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, October 2008, p. xi.

13 Mr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 29 May 2009, p 17.

## The employment implications of the CPRS

6.21 The main argument put by opponents of the CPRS during this inquiry was its alleged adverse impact on employment.

6.22 The Minerals Council of Australia, in its evidence to the committee and in the media more generally, drew on modelling it had commissioned from Dr Fisher from Concept Economics to make the following alarmist claims:

Carbon plan will cause jobs carnage ... a steady drain of jobs out of the industry and out of the regional communities that depend on them.<sup>14</sup>

The Concept Economics modelling shows that 23,510 direct jobs will be lost...[the CPRS] will eliminate jobs.<sup>15</sup>

6.23 However, as was pointed out to the Committee:

Even if you have the modelling that I think was reported by the Minerals Council in the paper today, which talks about there being an aggregate effect and which talks about a loss of jobs, you have to understand that that does not necessarily imply that employment in absolute value is going down; it is just that the growth of employment is lower than it would have otherwise been.<sup>16</sup>

6.24 Earlier evidence from the Council implied that, in the business-as-usual case, the mining sector would have employed an additional 80,000 workers by 2020.<sup>17</sup> So even taking the modelling results at face value, after the introduction of the CPRS, there would be an increase of over 50,000 jobs in mining. Pushed on this point, the Minerals Council conceded:

...we are not suggesting this is scorched earth. We know we are going to continue to grow.<sup>18</sup>

6.25 Downplayed by the Minerals Council, and ignored totally in their calculations of employment multipliers, are the increases in jobs in other parts of the economy. Many of these would be 'green jobs', such as producing renewable energy or

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14 Mr Mitch Hooke, Chief Executive, Minerals Council of Australia, *The Australian*, 22 May 2009, p 12.

15 Minerals Council of Australia, Media Release, 22 May 2009.

16 Mr Daniel Price, Managing Director, Frontier Economics, *Proof Committee Hansard*, 22 May 2009, p 36.

17 Mr Mitch Hooke, Chief Executive, Minerals Council of Australia, *Proof Select Committee on Climate Policy Hansard*, 22 April 2009, p. 27. Mr Hooke from the Minerals Council described the 'business as usual' case in the modelling as 'pretty damned close' to this; *Proof Committee Hansard*, 29 May 2009, p 50.

18 Mr Mitch Hooke, Chief Executive, Minerals Council of Australia, *Proof Committee Hansard*, 29 May 2009, p 51.

retrofitting buildings to make them more energy efficient. Like mining jobs, a large proportion of these will be located in regional Australia.<sup>19</sup>

### **The implications of not passing the CPRS**

6.26 Delaying action is not economically responsible. Rather, delaying action will have a range of negative effects on the Australian economy, including deterring investment decisions and delaying business planning decisions where the price of carbon is a feature of those decisions.

6.27 In 2007, the *Shergold Report* expressed the fear that '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.'<sup>20</sup> Evidence before the committee indicates this fear was fully warranted.

6.28 Business is fully cognisant of these difficulties, understands that they affect a wide range of both low-carbon and emission intensive industries, and expects the Australian Parliament to take action to resolve them this year:

The issue that we face is that there is a strong political will and popular will to have Australia act on climate change. In view of that we assess that business needs to know for investment certainty reasons and business planning reasons—it needs to get a better picture of what that policy direction will be in order to make investments. This applies in for example the renewable area; it applies in the electricity generation area; it applies in a whole lot of areas ... Our position is that we ought to have legislation this year.<sup>21</sup>

6.29 Emission intensive industries need the benefit of a framework within which they can acknowledge their carbon liabilities in order to move forward. In particular, the business community is concerned that a failure to act could have adverse implications for the security of Australia's electricity supply:

We think that in order to secure ongoing electricity supply in Australia we need to make investments very soon. That has been quite apparent for some time.<sup>22</sup>

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19 Also ignored in the modelling commissioned by the Minerals Council are the jobs created by the payments to households in excess of the increase in their electricity and gas bills. Slower growth in the minerals sector is also likely to be associated with an exchange rate depreciation (the 'Gregory thesis' in reverse) which will increase rural and manufacturing exports and hence employment in these industries.

20 Prime Ministerial Task Force on Emissions Trading, *Final Report*, (the 'Shergold report'), 2007, p. 6.

21 Mr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 29 May 2009, p 15.

22 Mr Peter Burn, Australian Industry Group, *Proof Committee Hansard*, 29 May 2009, p 17.

6.30 Those with an interest in the development of low carbon industries are also concerned that business opportunities will be missed if the Australian Parliament fails to provide a framework to guide investment decisions in those industries:

In many ways, if Australia does not get on board this train soon, we will be left behind. Our tragic history is one of coming up with the good ideas, but allowing that to go overseas for jobs and profit. We have seen that in solar technology and other technologies.<sup>23</sup>

6.31 The dangers of uncertainty for business were clearly identified by the Australian Bankers' Association's late submission to the committee:

Climate change has considerable economic, social, environmental and business risks. Continuing uncertainty is disrupting the efficiency of existing markets as well as creating difficulties with regards to financing terms and investment decisions. Australia needs leadership and early action to provide business, investment, operational and market certainty. It is important for Australia to take action now and minimise the impacts of uncertainty.<sup>24</sup>

6.32 The Australian Bankers' Association also clearly identified business opportunities that will be lost if action is not taken now:

Climate change also presents considerable opportunities. Trading, product creation and ancillary services (including risk consulting, funds management, legal and accounting) should be developed as export services regionally and globally... It is important for Australia to take action now and take advantage of the opportunity to position itself as a 'carbon hub' within the Asia-Pacific region.<sup>25</sup>

6.33 Ongoing uncertainty about how carbon will be priced will have a deadening effect on our industrial innovation and competitiveness. Australia will lack a coherent framework to guide the economy through the transition to a low carbon economy. Rewards could be distorted – industries of the future will struggle to get off the ground while those that must adapt will put off essential changes.

6.34 The alternative is to give Australian industry every opportunity to adapt swiftly and seamlessly to the reality of a carbon-constrained future by encouraging and supporting industry to continue to improve its performance in relation to emissions and to take advantage of emerging opportunities in a carbon-constrained environment, while maintaining its competitiveness.

6.35 If the CPRS is not passed, the problem of climate change will not go away. It just means that second-best, more costly, measures will have to be adopted to meet any targets to which Australia agrees at Copenhagen and/or more drastic cuts will have to be made to emissions at a later date:

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23 Mr John Connor, Chief Executive Officer, The Climate Institute, *Proof Committee Hansard*, 29 May 2009, p 53.

24 Australian Bankers' Association, *Submission 45*, p 4.

25 Australian Bankers' Association, *Submission 45*, p 4.

One of our fears is that there will be a further proliferation of other regulatory measures if a scheme is not introduced.<sup>26</sup>

6.36 The Committee understands that some environmental groups do not regard the CPRS as going far enough. But it asks them not to, in Voltaire's words, 'make the perfect the enemy of the good'. Rejecting the CPRS will not lead to the passing of a much stricter scheme – it will lead to a less effective approach to meeting the Government's targets. And it will weaken Australia's ability to push for serious action at Copenhagen.

6.37 If the case is made for stronger targets, and there is international will to pursue them, then under regulations – or if necessary by amending the legislation – the targets under the CPRS can then be tightened. But if there is no CPRS, and no targets, there is nothing to be tightened and no response to be made.

### **Recommendation 1**

**6.38 The Committee recommends that the Senate pass the bills.**

**Senator Annette Hurley**

**Chair**