AUSTRALIAN CONSERVATION FOUNDATION
INCORPORATED ABN 22 007 498 482

FLOOR ONE, 60 LEICESTER STREET CARLTON VIC 3053
phone 03/ 9345 1111 // facsimile 03/ 9345 1166
email acf@acfonline.org.au // web acfonline.org.au

4 June 2009

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Submission to the Senate Standing Committee on Economics:

Inquiry into the Carbon Pollution Reduction Scheme Bill 2009 and related bills

Dear Senators,

Thank you for the opportunity to provide an additional submission on the legislation to implement the Carbon Pollution Reduction Scheme (CPRS)..

ACF believes the Government's announcement on 4 May that Australia will reduce carbon emissions by 25 per cent by 2020 as part of a global agreement, improves the chances of a good outcome at the critical UN climate negotiations later this year.

A target of 25 per cent boosts Australia's credibility and ability to push for a strong international climate change agreement when world leaders meet in Copenhagen in December to determine the global response to the climate crisis.

The stronger target moves Australia from being an international climate laggard into a position that could help negotiate a successful outcome.

As a member of the Southern Cross Climate Coalition,[1] ACF played a pivotal role in getting Australia's international target range lifted from 15 per cent to 25 per cent. This is a significant improvement that would cut more than twice the CO_2 emissions that a 20 per cent renewable energy target would.

ACF has also welcomed the Coalition's support for the stronger 2020 target, however we believe the Opposition should be backing improved climate legislation this year.

The Coalition's commitment to a 25 per cent target in the context of an international agreement represents bi-partisan support for the minimum credible Australian position.

However, it is ACF's view that the proposal to delay the vote on the emissions trading scheme until next year would weaken Australia's negotiating impact at the crucial UN talks in Copenhagen in December.

---

[1] The Southern Cross Climate Coalition is an alliance of the Climate Institute, The Australian Conservation Foundation, The Australian Council of Social Service, and the Australian Council of Trade Unions.

ACF's support for the legislation is qualified and we reserve our right to make a final call as we continue to assess the legislation throughout its parliamentary passage towards a final vote.

ACF remains committed to having Australia's emissions cut by at least 40 per cent by 2020 in the context of a global agreement or – at minimum – an unconditional national target of 30 per cent by 2020.

ACF rejects the proposed unconditional 5 per cent domestic target for reducing emissions, and also the conditional 15 per cent target, as totally inadequate.

We oppose the proposed one year delay to the start of the emissions trading scheme, the large and proposed increased payments to big polluters and the low fixed starting price of carbon of $10 per tonne.

ACF will oppose any attempt to further delay the start of the scheme or to increase compensation to big polluters.

Please find attached ACF's 11 May brief on the changes to CPRS, which sets out some further changes that are needed.

Also attached is a study by Risk Metrics, released by ACF on 20 May, which shows corporate welfare for Australia's biggest polluting companies has blown out to $16.4 billion under the revamped emissions trading legislation. The blowout is due to the delay in introducing the full scheme and the decision to give the most polluting industries up to 95 per cent of their carbon permits for free.

Under the proposed arrangements:

- The top 20 companies to receive handouts would get free permits worth $2.4 billion in the first full year of the scheme (2012), and $11.7 billion in the first five years (2012–17).
- Mining and aluminium giant Rio Tinto would receive $565 million worth of free permits in the first full year of the scheme, or at least $2.8 billion over the first five years. Last year Rio Tinto made a profit of $15.8 billion.
- Bluescope Steel would receive $210 million worth of free permits in the first full year of the scheme, or at least $1 billion over the first five years.
- The two-year delay to the start of the full scheme means the Government will have foregone $1.4 billion from the six most polluting industries.

ACF has urged the Parliament to reduce assistance to polluters and put more money towards low emission technology research, development and deployment to grow the low carbon economy and jobs of the future. 20 per cent of CPRS permit revenue should be invested in renewable energy technologies.

For further information on ACF's response to the CPRS legislation please contact Owen Pascoe, Climate Change Campaigner, on 02 8270 9907 or 0437 242 950.

Sincerely,

Tony Mohr

Manager Climate Change Program

AUSTRALIAN CONSERVATION FOUNDATION

MEDIA BRIEF

11 May 2009

Changes to the Carbon Pollution Reduction Scheme

ACF believes the Government's announcement that Australia will reduce carbon emissions by 25 per cent by 2020 as part of a global agreement, improves the chances of a good outcome at the critical UN climate negotiations later this year.

A target of 25 per cent boosts Australia's credibility and ability to push for a strong international climate change agreement when world leaders meet in Copenhagen in December to determine the global response to the climate crisis.

The stronger target of 25 per cent – an increase from the 15 per cent that was previously on offer – moves Australia from being an international climate laggard into a position that could help negotiate a successful outcome.

As a member of the Southern Cross Climate Coalition,[1] ACF played a pivotal role in getting Australia's international target range lifted from 15 per cent to 25 per cent. This is a significant improvement that would cut more than twice the CO_2 emissions that a 20 per cent renewable energy target would.

ACF's support for the legislation is qualified and we reserve our right to make a final call as we continue to assess the legislation throughout its parliamentary passage towards a final vote.

ACF remains committed to having Australia's emissions cut by at least 40 per cent by 2020 in the context of a global agreement or – at minimum – an unconditional national target of 30 per cent by 2020.

ACF rejects the proposed unconditional 5 per cent domestic target for reducing emissions, and also its conditional 15 per cent target, as totally inadequate.

We oppose the proposed one year delay to the start of the emissions trading scheme, the large and proposed increased payments to big polluters and the low fixed starting price of carbon of $10 per tonne.

---

[1] The Southern Cross Climate Coalition is an alliance of the Climate Institute, The Australian Conservation Foundation, The Australian Council of Social Service, and the Australian Council of Trade Unions.

Climate change policy action in Australia – where things are at

Key issues	Govt position *then* (in the White Paper and exposure draft legislation)	Govt position *now*	Govt *should* be
Global position	Only willing to support a 510ppm international agreement with Australian 2020 targets. Lagging behind, impeding international progress.	Willing to make contribution recommended by Prof Garnaut to a 450ppm international agreement. Playing a constructive role. Supportive of EU level of ambition.	Supporting an international agreement to stabilise greenhouse gas levels well below 450ppm.
2020 target	No further cuts beyond 15 per cent until after 2020, even if the world reaches a 450ppm agreement.	25 per cent cuts conditional on a 450ppm international agreement.	Cutting carbon pollution by at least 30 per cent by 2020 and increasing our commitment to 40 per cent if other developed countries do the same in the context of an international agreement.
Start date	1 July 2010	1 July 2011, with a one-year fixed price. Full start 1 July 2012.	2010.
One year fixed permit price	Full trading start with a rising price cap starting at $40 for the first 5 years.	Fixed price of $10/tonne for one year. Price cap of $40 starts in second year.	No fixed price period or price cap. Market should set the price.
Global recession buffer	Emission-intensive trade-exposed industries (EITEs) get 90 or 60 per cent of permits free. Five years notice for any changes.	EITEs get 95 or 66 per cent of permits free. Five years notice for any changes. Review when international agreement is reached.	Any assistance conditional on industries investing in carbon pollution reductions. Independent review every two years, to ensure no 'windfall gains' to big polluters, with recommended changes implemented immediately.
Voluntary and additional action	Minister 'may' consider voluntary action.	Only *new* Green Power purchases recognised after 2009. 'Pledge bank' set up requiring individuals and businesses to pay twice to reduce emissions.	All voluntary and additional actions by households, businesses and governments should reduce emissions above and beyond Australia's national targets.
Additional measures	20 per cent renewable energy target election commitment, household insulation package.	20 per cent renewable energy target and foundations for national energy efficiency strategy agreed by COAG on 30 April.	Immediately implementing commitments and making major investments to improve energy efficiency boost large-scale renewable energy projects – like geothermal and solar thermal – and improve and extend public transport.

Outstanding issues – and what ACF thinks the Govt should do about them

International financing: Allocate at least $1 billion per year from CPRS permit revenue to help developing countries cut emissions and prepare for the impacts of climate change.

Renewable energy financing: Invest 20 per cent of CPRS permit revenue in renewable energy technologies. Immediately implement the election commitment to a renewable energy target.

Building resilience to climate change: Allocate at least $1 billion per year from CPRS permit revenue to build resilience to climate change – for people and ecosystems – and provide stewardship payments to land managers in rural Australia to reward carbon pollution abatement.

Flexibility: Ensure the CPRS does not set a limit on the most action Australia would be willing to take by 2020, which would limit the Government's policy flexibility in response to new science, new technology and international developments. Ensure independent review committees include climate science expertise.

International permits: Set quantitative limits on use of international permits to ensure the majority of the abatement effort occurs in Australia in every year. For example, with a reduction target of 25 per cent by 2020, only around 15 per cent of permits should come from international sources in that year.

No assistance for coal fired generators: Do not provide any direct assistance to coal-fired electricity generators and instead divert this funding to assisting households to improve energy efficiency and investment in climate change solutions such as large-scale renewable energy projects and improved and extended public transport.

Fund revegetation through permit revenue: Do not allow reforestation and land use changes to gain credit under the CPRS and instead develop complementary policy packages to promote protection of native forests, ecological restoration and other forms of land-use based sequestration funded by permit revenue.

Contact: Owen Pascoe, climate change campaigner, 02 8270 9907 or 0437 242 950

Research Note: The impact of industry assistance measures under the CPRS -Scheme deferral update

18 May 2009

Report prepared by:
Drew Fryer
drew.fryer@riskmetrics.com

Mark Barraclough
mark.barraclough@riskmetrics.com

Innovest is now part of RiskMetrics Group

INTRODUCTION & BACKGROUND

On 4 May 2009 the Australian government announced a one year delay in the implementation of its planned Carbon Pollution Reduction Scheme (CPRS), along with changes that include a phased start and increases in industry assistance, designed to take account of pressures on Australian industry created by the global recession.

This brief note provides analysis of the changes to industry assistance. It is the third such note on CPRS industry assistance that RiskMetrics Sustainability Solutions (previously Innovest Strategic Value Advisors)[1] has undertaken since the release of the CPRS Green Paper. Once again, it has been prepared on behalf of the Australian Conservation Foundation.[2]

The key changes announced on 4 May consisted of:

- Deferring the start date of the scheme from July 2010 to July 2011;
- A 'soft start' in 2011-12 with unlimited permits available at a fixed price of \$10 per tonne CO_2-e for one year, with full trading starting in 2012-13;
- Increases in emissions-intensive trade-exposed (EITE) industry assistance for a period of five years from the commencement of the scheme (a 'Global Recession Buffer'). This raises the top tier of assistance from 90% of industry average emissions to 94.5% for activities that emit 2,000 tonnes or more of CO_2-e per million dollars of revenue, and from 60% to 66% for activities that emit 1,000-1,999 tonnes of CO_2-e per million dollars revenue;
- A widening of the 2020 emission reduction target range from 5-15% to 5-25%. The possibility of a more ambitious emission reduction target of up to 25% less than 2000 levels by 2020 is triggered if a global agreement in Copenhagen makes a commitment to stabilise greenhouse gases at a concentration of 450ppm. However, if the requirements of other countries to activate the higher commitments are not met, the government's prior target of a 5-15% reduction may still stand.

[1] See the News Release 'RiskMetrics Group to Acquire Innovest' at http://www.riskmetrics.com/press/riskmetrics_acquires_innovest
[2] The previous two pieces of research are available at http://www.acfonline.org.au/articles/news.asp?news_id=2032

EXECUTIVE SUMMARY

The changes to the CPRS announced by the Australian government on 4 May, including a one year delay in start-date for the scheme, a softer start with a fixed $10 carbon price in the first year, and increased EITE industry assistance would have a number of implications:

- Net permit liabilites (after assistance) for the six largest EITE industries would fall by $638 million in 2010-11 and by $504 million in 2011-12, a total of $1,142 million compared to the White Paper proposal;
- The increase in EITE assistance offered by the five year ‘Global Recession Buffer’ gives 94.5% instead of 90% assistance at the top tier for activities like aluminium smelting, cement making and integrated steelmaking, and 66% instead of 60% at the second tier for activities like alumina refining, liquefied natural gas and petroleum refining. In 2012-13 this would see total assistance for these six activities rise to an estimated $2,574 million, an increase of $194 million from the White Paper proposal. Their permit liabilities net of assistance fall to $616 million, down from $810 million in the White Paper;
- EITE assistance for aluminium smelting, the largest recipient of assistance, rises to $1,139 million in 2012-13, up $68 million from the White Paper proposal. Carbon liabilities net of assistance provided fall from an estimated $151 million to $82 million;
- The largest three recipients of EITE assistance - Rio Tinto, Alcoa of Australia, and Bluescope Steel - receive $565 million, $350 million, and $210 million respectively in 2012-13. Over the first five years of the scheme, the period of additional assistance under the ‘Global Recession Buffer’, total assistance is $2,759 million for Rio Tinto, $1,711 million for Alcoa and $1,028 million for Bluescope;
- Over the five years from 2011-12 to 2015-16, total EITE assistance for the six industries is estimated at $12,568 million, of which $11,736 million goes to the 20 largest recipients.

CHANGES TO INDUSTRY ASSISTANCE

The key change in industry assistance announced as part of the deferral of the CPRS applies to emissions-intensive trade-exposed (EITE) industries. On top of existing assistance, the government plans to apply a 'Global Recession Buffer' (GRB) for the first five years of the scheme. This would provide:

- A further 5% assistance for activities already set to receive assistance at the 90% rate, which will apply to aluminium smelting, cement making, integrated steelmaking, and possibly other activities. This provides effective assistance of 1.05 x 90% = 94.5% at scheme commencement;
- A further 10% assistance for activities already set to receive assistance at the 60% rate, which will apply to alumina refining, liquefied natural gas (LNG), petroleum refining, and possibly other activities. This provides effective assistance of 1.10 x 60% = 66% at scheme commencement.

Other CPRS assistance remains largely the same, with some changes to timing in line with the broader scheme, and increases in funding for the business and community sector to undertake energy efficiency improvements.

The following table and graph provide estimates of the revised degree of assistance provided in the EITE compensation package in 2012-13, the first full year of trading under the revised CPRS, to six key industries.

TABLE 1 Emissions-intensive trade-exposed industry assistance

Industry sector	Assistance in 2012-13 (nominal $million at $29 permit price)			Assistance rate*
	Green Paper	White Paper	New Proposal	New Proposal
Aluminium smelting	1,071	1,071	1,139	94.5% (90% from 2016-17 onward)
Cement	179	179	190	
Steel	297	297	316	
Alumina refining	287	287	319	66% (60% from 2016-17 onward)
LNG	0	208	231	
Petroleum refining	0	339	378	
Total - six largest EITE industries	**1,834**	**2,380**	**2,574**	

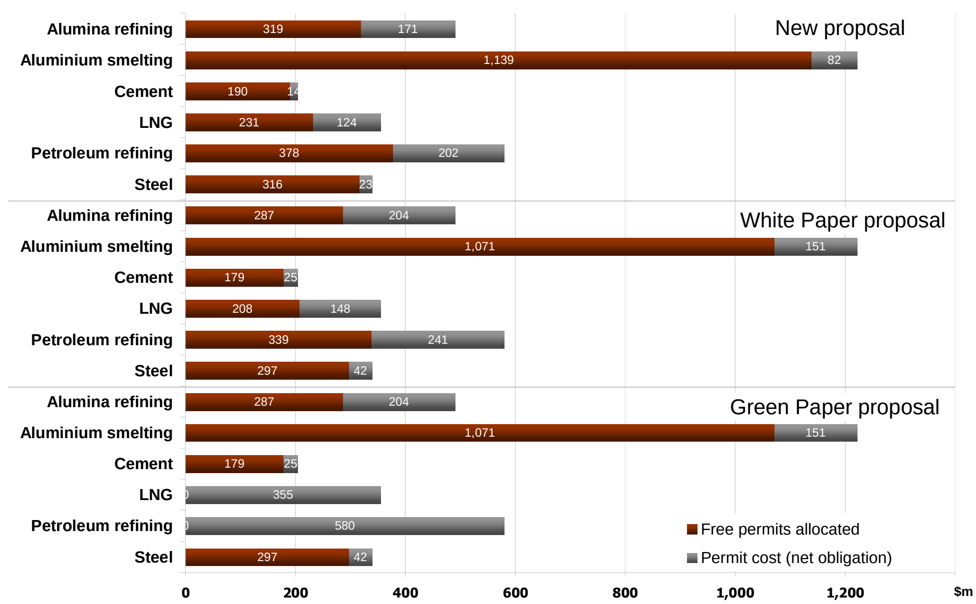
Source: Department of Climate Change, Green Paper, White Paper & supplementary documents; Centre for Integrated Sustainability Analysis, University of Sydney; Company reports

* Initial assistance as a percentage of industry average baseline emissions.

This level of assistance will provide a significant buffer against carbon liabilities for eligible EITE sectors. In practice the changes mean that facilities with emissions at or above the top tier for EITE assistance (2,000 tonnes per million dollars revenue) will have to pay only around one-half of what their net obligations after assistance would have been under the White Paper proposal (see Graph 1). For the largest recipient of EITE assistance, the aluminium smelting industry, EITE assistance rises from $1,071 million to $1,139 million, and carbon liabilities net of assistance provided fall from an estimated $151 million to $82 million in 2012-13.

Overall, for the six industries our analysis covers, EITE assistance rises $194 million from $2,380 million under the White Paper proposal to $2,574 million, and carbon liabilities net of assistance drop an equivalent amount, from $810 million to $616 million in 2012-13. Comparing the new proposal to the earlier Green Paper proposal, EITE assistance rises $741 million and carbon liabilities net of assistance fall by an equivalent amount in 2012-13, the large difference because LNG and petroleum refining did not meet the Green Paper criteria for eligible EITE activities.

GRAPH 1 EITE industry assistance, 2012-13



Source: Department of Climate Change, Green Paper, White Paper & supplementary documents; Centre for Integrated Sustainability Analysis, University of Sydney; Company reports

Our analysis for 2012-13 assumes a carbon price of $29.26, used in the White Paper and consistent with the minimum unconditional 5% emission reduction trajectory. Though the government may announce a more ambitious target of up to 25%, the 5% target and associated government price forecasts were chosen on the basis of being the most conservative assumptions. We also assumed constant output in each industry at 2007-08 levels, average industry emissions intensity baselines from the Green Paper (sourced from the Cenre for Integrated Sustainability Analysis at the University of Sydney), and 2004-2008 average commodity prices. We also take account of the 1.3% p.a carbon productivity contribution.

If we assume a more ambitious 25% emissions reduction instead of the 5% unconditional emissions reduction, it would instead be appropriate to use a carbon price of around $52 in 2012-13 (using the Garnaut -25 scenario in the Treasury's 'Australia's Low Pollution Future' paper from October 2008), which in turn is reduced to the $40 price cap. In this case, the six industries analysed would receive EITE assistance of $3,519 million in 2012-13 and have net permit liabilities of $841 million.

Under the changes announced, industry also benefits considerably from not having to acquire permits in 2010-11, and from the 'soft start' fixed permit price of $10/tonne CO_2-e in 2011-12. Table 2 highlights these reductions in permit costs relative to the White Paper proposal for the six largest EITE industries, net of free permits received. In total, these six industries reduce their net permit liabilities by $638 million in 2010-11, and by a further $504 million in 2011-12, taking their total reduction in carbon liabilities for the two years to $1,142 million.

TABLE 2 Changes in net permit obligations for EITE industries*

Industry sector	2010-11 obligation ($m)				2011-12 obligation ($m)				2010-12
	Green Paper	White Paper	New Proposal	Change^	Green Paper	White Paper	New Proposal	Change^	Total Change^
Aluminium smelting	104	104	0	-104	123	123	23	-100	-205
Cement	17	17	0	-17	21	21	4	-17	-34
Steel	29	29	0	-29	34	34	6	-28	-57
Alumina refining	168	168	0	-168	181	181	57	-124	-291
LNG	304	121	0	-121	321	131	41	-90	-211
Petroleum refining	495	198	0	-198	524	214	67	-146	-344
Total - six largest EITE industries	**1,117**	**638**	**0**	**-638**	**1,203**	**703**	**199**	**-504**	**-1,142**

Source: Department of Climate Change, Green Paper, White Paper & supplementary documents; Centre for Integrated Sustainability Analysis, University of Sydney; Company reports.

* Net permit obligations refer to the value of permits that must be acquired by industry after subtracting permits received for free through EITE assistance. Calculations use a permit price of $25/tonne CO_2-e in 2011-12 and $26.43/tonne CO_2-e in 2011-12, figures sourced from the White Paper.

^ Columns labelled 'Change' and 'Total Change' refer to the difference between the White Paper proposal and the new proposal in May 2009.

Graph 2 (on page 7) shows the increased levels of EITE assistance at a company level for the largest twenty recipients in the industries covered by our analysis. The changes in assistance have little effect on the order of recipients from largest to smallest, but have material financial benefits for many parties. The largest recipient of EITE assistance, Rio Tinto, receives $38 million more in free permits in 2012-13 than under the White Paper proposal (taking its total EITE assistance to $565 million), and the second largest recipient, Alcoa of Australia, receives an additional $27 million in free permits (taking its total EITE assistance to $350 million).

Relative to the White Paper proposal, the largest ten recipients have their EITE assistance rise by $141 million to a total of $1,868 million, and the largest twenty recipients have theirs rise by $181 million to a total of $2,404 million. Relative to the earlier Green Paper proposal, the largest ten recipients have their EITE assistance rise $470 million and the largest twenty recipients have their assistance rise by $683 million.

Table 3 shows estimated EITE assistance for the first five years of the scheme, and by way of comparison, the total Electricity Sector Adjustment Scheme (ESAS) assistance over the same period. Across the industries analysed in this paper, EITE assistance over the first five years is $12,568 million, including $11,736 million in free permits to the twenty largest EITE recipients. Rio Tinto receives an estimated $2,759 million in free permits over the five years from 2011-12 to 2015-16, Alcoa of Australia receives $1,711 million, and Bluescope Steel $1,028 million.

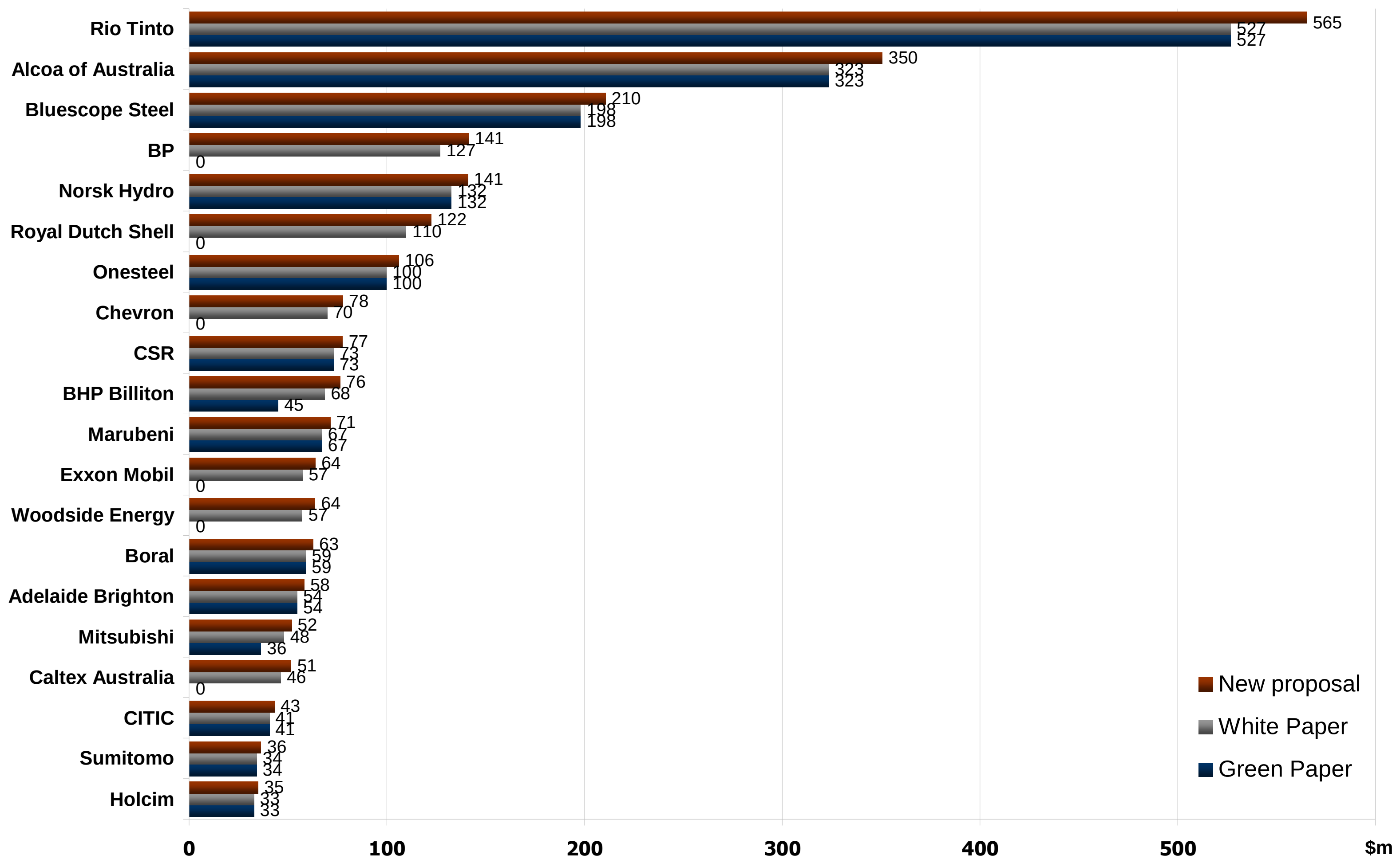
TABLE 3 Annual CPRS industry assistance

	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2011-16
EITE assistance ($m)						
Rio Tinto	196	565	616	665	716	2,759
Alcoa of Australia	121	350	382	413	444	1,711
Bluescope Steel	73	210	229	248	267	1,028
Total - top 20 recipients	832	2,404	2,621	2,831	3,048	11,736
Total – six largest industries	891	2,574	2,807	3,032	3,264	12,568
ESAS assistance ($m)	261	765	845	925	1,009	3,804
Permit price ($/tonne CO_2-e)*	10	29.26	32.32	35.37	38.58	

Source: Department of Climate Change, Green Paper, White Paper & supplementary documents; Centre for Integrated Sustainability Analysis, University of Sydney; Company reports.

* Assumed permit prices are government estimates sourced from the White Paper through to 2014-15 (see page 13-32), followed by an assumed 9% annual rise in 2015-16, the average annual rise for the earlier years.

GRAPH 2 Top 20 recipients of EITE industry assistance, 2012-13



Source: Department of Climate Change, Green Paper, White Paper & supplementary documents; Centre for Integrated Sustainability Analysis, University of Sydney; Company reports

Note: Alcoa of Australia refers to the operating entity owned 60% by Alcoa Inc and 40% by Alimina Ltd, which were listed separately in our prevous two notes on CPRS industry assistance. They have been combined here to more accurately represent the combined nature of their operations and in response to feedback on the earlier reports