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RESPONSE TO THE EMISSIONS TRADING SCHEME DISCUSSION PAPER

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Introduction.

This submission is made by CANWin, a climate action group located in the Southern Highlands of New South Wales.

The Interim report, Issues papers and the ETS discussion paper all show a profound and gratifyingly deep understanding of Climate Change.

We welcome the actively inclusive strategy being used to address the economic implications of climate change and, in so doing, to fashion our Nation's ecological modernisation.

This engagement is long overdue and we heartily endorse it.

In reviewing the ETS Discussion paper we have arrived at a number of hopefully constructive comments that are intended to encourage the author and provide feedback on community views.

These are provided under eight section headings each finishing with a recommendation which are compiled in the following summary.

Summary of our recommendations

1. *We endorse simplicity in the design and implementation of the ETS. Care will need to be exercised in meeting the needs of pressure groups to prevent the construction of layers of complexity.*
2. *We consider that a detailed and costed modelling of the impact upon families over the following decades would go a long way to diffusing the misleading observations contained in the media and also underline the significant challenges that lie ahead. Continued vigilance needs to be maintained to prevent sectoral lobby groups of any persuasion from complicating the ETS.*
3. *We consider the establishment of a non-partisan Environmental Accord is required to inform and educate the Australian public if the independence of the Independent Carbon Bank is to be guaranteed.*

4. We recommend a broad brush estimate of the likely future carbon emissions required to construct our carbon constrained infrastructure.
5. We accept that the review has well founded and well researched reasons for delaying the inclusion of agriculture and forestry in the first round of tradeable sectors. We urge that every effort be made to include these sectors to enable Australia's credible role in assisting Indonesia in particular and New Guinea in stopping land clearing.
6. We consider that taxation concessions should be used to compensate those at the margin to preserve the higher relative prices of emissions intensive products. Compensation to consumers to maintain excessive levels of carbon emissions is to be avoided. Compensation should always be recognised as transitional assistance.
7. We consider that payments to TEEI's should only be made as a short term transition strategy and the historical awareness of risk to their enterprise should be taken into account in assessing any payments. Some ETS auction income should be used as export enhancements to place pressure on countries without ETS's in place.
8. We consider that the ETS should be implemented in as short a time frame as possible. Because otherwise the potential for poor investments in uneconomic renewables by Australians attempting to show real leadership places them at risk.

1. Simplicity

We endorse the discussion paper's objective of scheme simplicity. In this regard we look at ideas that have philosophical merit but which would be very difficult to implement such as:

- The UK scheme for a personal carbon allocation and credit card. This concept incorporates individual responsibility and choice but would be very expensive to set up and operate. Most of what it sets out to achieve can be delivered by setting the points of obligation at suitably high levels.
- Smart metering of power supplies. As with the carbon card proposal from the UK this sets out to give consumers greater choice at a personal level. Tariffs for power supply should be struck between essential demand and discretionary

demand. The simple device of returning income to consumers on a per capita basis via taxation concessions to compensate them for increases in the essential component is preferable. It is cheaper to administer and escapes the significant cost in retrofitting smart meters.

We endorse simplicity in the design and implementation of the ETS. Care will need to be exercised in meeting the needs of pressure groups to prevent the construction of layers of complexity.

2. Societal Acceptance

Leadership on Climate Change and broader environmental matters has long been provided by groups who have come to be disillusioned by the capitalist enterprise. By not bowing to sectoral pressures the model for the ETS outlined in the discussion paper will have great support from long term environmental champions as well as from those who understand the need for economies to minimise distortions inherent in protecting these interests. The ETS is not however a panacea for all the earth's environmental woes. Emissions pricing may well have significant benefits for matters such as resource depletion, environmental degradation, species extinction and waste disposal. The need will remain for these to be further addressed via environmental and societal mechanisms other than emissions pricing.

A significant hurdle to the ETS model outlined in the discussion paper will be the acceptance of the need to preserve the higher relative prices of emissions intensive processes. At the heart of an ETS we are adding the cost of a hitherto unaccounted externality – namely CO²-e, to our economy in such away as to eventually and optimally reduce its emission by 80 to 90 percent by 2050.

The Interim Report and the various discussion papers clearly demonstrate that the enormity of this challenge is understood by the authors. Conveying this to society at large is the great political challenge.

This is already being poorly handled by the media and politicians from both major parties who have been reported as calling variously for electricity generators and petrol companies to be excluded and for the use of auctions revenue to cut land tax.

We consider that a detailed and costed modelling of the impact upon families over the following decades would go a long way to diffusing the misleading observations contained in the media and also underline the significant challenges that lie ahead. Continued vigilance needs to be maintained to prevent sectoral lobby groups of any persuasion from complicating the ETS.

3. Non-partisan political engagement

A mechanism ensuring the continued optimal operation of the ETS unencumbered by short term political pressures is critical to addressing the decadal time frames of climate change mitigation. The discussion paper highlights this concern in Section 3.9 dealing with institutional arrangements and recommends the use of the Independent Carbon Bank. The establishment and independence of the Independent Carbon Bank over decades will require a non-partisan political commitment.

Such a commitment is required as much from our Liberal, Labour, Greens and minor parties as from the left and right factions of all parties. Tools similar the Hawke era's Accord are needed in the form of a Climate Change Accord.

An accord on the ETS is also required to reduce initial prices fluctuations due to disputed fairness of the scheme. This is highlighted in Section 5.7.

Perhaps the Garnaut brief could be extended to:

- Promote an accord process between political parties, business groups and environment organisations.
- Encourage the Australian Greenhouse office to carry out a more detailed public education and information role about the ETS using television, news media and mail outs.

We consider the establishment of a non-partisan Environmental Accord is required to inform and educate the Australian public if the independence of the Independent Carbon Bank is to be guaranteed.

4. Resources for a carbon constrained infrastructure

Finally we make the observation that the construction of carbon constrained infrastructure will be limited by its own carbon emissions.

Each technology varies in its carbon intensity and in the aggregate, some point will be reached when the carbon emissions created by manufacturing the new infrastructure may exceed the available allocation.

This could rule out certain technologies such as the current generation of solar photovoltaic cells (PV's) for example where the remedy just could accelerate the disease.

We consider some accounting of the future allocation should be made and would include, just for starters:

- Future stock of public transport systems

- Future stationary power generating and storage systems. Look at solar thermal and wind, followed by solar PV etc.
- Retrofit of all homes with solar hot water.
- Replacement of fossil fuel based shipping
- The replacement of air-conditioned energy intensive high rise buildings – with what?

~~We recommend a broad brush estimate of the likely future carbon emissions required to construct our carbon constrained infrastructure.~~

5. Agriculture and Forestry

We understand the need for accurate monitoring of emissions from all sectors of the economy if the credibility of the ETS is to be maintained. Carbon inputs to agriculture and forestry through fuel and fertilisers can be readily assessed. Less so are emissions for releases from sources such as topsoil cultivation or methane production from animals. We would have thought that “rules of thumb” could be agreed upon fairly promptly on a regional basis. We accept that methane production would vary significantly according to feed source and moisture conditions so clearly these parameters need to be developed by experts.

With around 20 per cent of global greenhouse gas emissions (six billion tonnes of CO₂ per year) coming from deforestation and forest degradation the reduction in land clearing is clearly a top priority. As the discussion paper notes most clearly the use of CSIRO developed National Carbon Accounting System (NCAS) is a vital tool in protecting the forests of Indonesia and Papua New Guinea.

We accept that the review has well founded and well researched reasons for delaying the inclusion of agriculture and forestry in the first round of tradeable sectors. We urge that every effort be made to include these sectors to enable Australia’s credible role in assisting Indonesia in particular and New Guinea in stopping land clearing.

6. Compensation to Consumers

The auctioning of permits to enable the development and reconstruction of our stationary energy sectors together with all other measures to throttle back carbon emissions will increase the cost of living. We consider it a certainty that some reduction in consumer consumption will occur while a long term expansion in public infrastructure will be required. Discretionary spending patterns may of necessity revert to behaviours

similar to the mid twentieth century if the required level of carbon emissions is to be achieved.

Care will need to be exercised in differentiating between perceived disadvantage to consumers and the actual level of constraint required to provide power for the essentials of living. For example, if today it takes 6 manhours per week at average weekly earnings to pay for the essential power to cook, refrigerate and provide hot water, then should this not be the basis for compensation after the establishment of an ETS? On the other hand, debt overhang from the last few decades of excessive housing investment and the attendant costs of running air-conditioners, spas and plasma TV's in these homes should not be compensated any more than propping up businesses that failed to foresee the inevitable.

In a carbon constrained world we will see small efficient, well designed and insulated homes situated close by public transport and jobs having significantly more worth than the McMansions of our outer urban areas. These homes are likely to stagnate or diminish in value in the same way that large six cylinder cars are now worth less than efficient high quality small vehicles.

Hence, we may expect a raft of claims from politicians pressuring for financial relief on behalf of the unwise and straight out greedy rather than the truly low income earner. For those with valid cases for income support, the discussion paper already flags the use of income from permit auctions. This could be returned through taxations concessions or negative taxation though payments would need to be made more frequently than the yearly tax refund.

Finally, compensation should exist only to provide relief from the transition away from a carbon profligate to a constrained economy. It will probably be required for many decades and its base may have to increase as caps on carbon emissions are steadily tightened. It should however always be seen as transitional assistance. Should long term reliable alternative sources of energy be achieved then it should be phased out over a shorter period.

We consider that taxation concessions should be used to compensate those at the margin to preserve the higher relative prices of emissions intensive products. Compensation to consumers to maintain excessive levels of carbon emissions is to be avoided. Compensation should always be recognised as transitional assistance.

7. Trade Exposed Energy Intensive Industries (TEEI's)

Companies currently having the status of TEEI's will have had at least two decades of warning that their enterprises are at risk by the time an ETS is operating and their case for support is very weak.

Payments either in cash or by way of free permits represents the same market failure as linking Emissions Trading Schemes with dissimilar levels of free permits. Support of TEEI's represents the provision of "cheap carbon" using free permits to economies which have not embraced carbon trading. This enables all sectors of those economies to have a comparative advantage due to our subsidy transfer.

The best case for payments to TEEI's is in fact to companies trading into other countries with effective ETS's in place as export incentives to keep out competition from countries without ETS's. For example, Australian exports of iron ore to China (assuming they have an ETS) should be subsidised to maintain an advantage over countries selling iron ore to China without an ETS.

We consider that payments to TEEI's should only be made as a short term transition strategy and the historical awareness of risk to their enterprise should be taken into account in assessing any payments. Some ETS auction income should be used as export enhancements to place pressure on countries without ETS's in place.

8. Impact on Voluntary Market

A voluntary market for renewable energy currently exists in its infancy which serves the needs of highly motivated individuals. We are concerned that their efforts and leadership will be further frustrated and also see their efforts dissipated. "Green power" aside, this market has been frustrated by a lack of clarity in Government initiatives and therefore they have turned to small scale technologies.

Anecdotally, currently the most cost effective small scale renewable energy is probably provided by solar hot water though people of profound social responsibility spend significant sums on solar PV systems with little hope of ever recovering their costs. Through the ETS mechanism it may be that consumers are best served by solar hot water with electricity being provided by large scale wind and solar thermal with possibly geothermal.

It is unfortunate therefore that the optimum mix of renewables under the ETS may not be that which the fledgling market currently provides. The German love affair with solar PV cells may not be repeated in Australia.

We consider that the ETS should be implemented in as short a time frame as possible.
Because otherwise the potential for poor investments in uneconomic renewables by
Australians attempting to show real leadership places them at risk.

In conclusion we thank Professor Garnaut for taking on this vital role and offer our whole hearted support. We endorse his robust approach to pressure groups. We will continue to monitor further Garnaut reports and appreciate the opportunity for this inclusive involvement

A handwritten signature in black ink, appearing to read 'Rob Parker', with a long horizontal flourish extending to the right.

Rob Parker

CANWin Convenor