



Construction, Forestry, Mining and Energy Union

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Submission to the Garnaut Climate Change Review

in response to the Emissions Trading Scheme Discussion Paper

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Introduction

The Construction, Forestry, Mining and Energy welcomes the opportunity to make a submission to the Garnaut Review in respect of the proposed Emissions Trading Scheme.

The CFMEU is the principal union in the industries of its title and represents more than 100,000 working people and, indirectly, hundreds of thousands more people who compose the working families in these industries.

The industries in which the CFMEU is active are among the most energy-intensive in Australia, and in some cases are highly trade-exposed. We therefore have a major direct interest in measures that seek to reduce Australia's greenhouse gas emissions, including the proposed emissions trading scheme.

The CFMEU is broadly supportive of the model as outlined in the ETS Discussion Paper, but has a number of concerns that will be presented briefly here.

The discussion paper is notable not only for its clarity and plain English, but also for its use of broad concepts rather than stating hard numbers – prices, volumes, etc. It is expected that once hard numbers are estimated all parties will have stronger views.

Auctioning of permits

The full auctioning of permits, with no free allocation, is preferred.

We agree with the Review's view that permits that are allocated free will nevertheless have a value, and that the recipients will make commercial decisions based on the market value of those permits as to whether they will "use up" the permits or sell them. We agree that the market value of the permits will be passed through to the market price of the goods produced by the firms even if the permits are allocated free.

We recognise that full auctioning of permits may result in some firms being less profitable than before, and that this may affect asset values. However, firms in energy-intensive industries, and their investors, have had ample notice that an ETS was likely in Australia.

In the electricity-generating industry in particular, there continues to be increasing demand, and Australia no longer has significant excess capacity. In this situation, existing generators will continue to operate but some will have lower utilisation rates and higher operating costs. Such firms will need to write-down asset values to reflect the new market.

We agree with the Review that any allocation of free permits will introduce greater complexity, be subject to gaming by energy-intensive industry, and encourage rent-seeking behaviour.

Avoiding distortions for Trade Exposed Emissions Intensive Industries

While the ETS Discussion paper is in general very clearly-written and describes the proposed ETS in easy-to-understand terms, we believe that the section on TEEIs does not fully articulate the difficulty of calculating compensation / payments to firms that are adversely affected by the ETS relative to their international competitors who do not face a similar ETS.

There are a few short paragraphs on page 39 outlining the method of calculation. In practice this will be very difficult, especially for firms that are import-competing rather than exporters. While the impact of emissions permits (eg via higher energy prices) will be reasonably readily-known for Australian exporters, determining what the price of imports (that compete against domestic products) would be if a similar ETS had been applied to their production will be very difficult.

This will be a problem in the pulp and paper industry, and for many import-competing manufacturing businesses that have significant energy costs or other emissions-related costs.

Determining the level of materiality or significance at which compensation would be triggered is also highly problematic.

The Review needs to expend considerable effort to sort out this problem. Implementing the ETS and sorting out the problem for affected industries afterwards may result in unwarranted closure or winding back of certain industries.

Inclusion of Forestry

The full inclusion of forests, forestry activities and forest products from the commencement of the ETS is highly desirable.

It is understood that there are emission/ abatement measurement issues with forestry. These need to be urgently resolved via the National Carbon Accounting System, National Carbon Accounting Toolbox and other carbon profiling measures.

Australian forestry and forest products industries operate within the context of sustainable forestry management and are assisting many of Australia's regional partners to do the same. It is vital for the industry and all of its stakeholders that this work is recognised, and that further value can be generated from it.

Further, it is important for the comprehensiveness and efficiency of the ETS that all forests and forestry products be included, as they provide substantial carbon sink opportunities.

The Review has recognised that there may be significant opportunities for Australia if our ETS is linked to Papua New Guinea and Indonesia, where there are substantial abatement opportunities from forestry. The full inclusion of forestry in Australia will be necessary before international linkages can be accurately made.

The issue of distortion to TEEIIs will be exacerbated in respect of forest industries if firms that both manage forests and produce forest products are not allowed to include emissions abatement from their forest management – even though they will be required to buy permits for emissions from their forest product activities.

Inter-temporality, speculative activity and interest rates

It is agreed that it will be important for market flexibility that market participants be able to hoard permits and engage in various ways of trading them in order to manage their risks and fluctuations in activities and technology development.

At page 39 the discussion paper refers to lending by the authorities, and also to the application of an interest rate to lent permits.

It is not clear whether the interest rate would apply only to initial lending by the authority, or also to hoarded permits.

There is concern that speculative participants in the ETS may increase the overall cost of the system substantially, and impose higher burdens than necessary on those who actually need to expend/use permits.

There is ample evidence from the current state of financial markets that activities originally designed to help manage and reduce risk – such as hedging and the use of derivatives – have been manipulated by speculators to make windfall profits. In doing so they have also increased systemic risk and exacerbated rather than reduced market volatility.

There is now anecdotal evidence that numerous financial institutions regard the impending ETS as an opportunity for substantial profit-taking. There is grave concern that this will increase the overall cost of the ETS beyond that required to achieve the intended emission reductions.

The use of some kind of interest rate or other transaction charge may help reduce the incentive to heavily speculate in permits. The Review needs to make clear what measures will be taken to limit speculative / financial intermediary activity to a level that actually helps rather than hinders those who have the task of reducing emissions.

Compensation for changes in income distribution - expenditure of ETS revenues

The ETS will be one of a number of measures to redirect Australian society and the economy along a low-emissions trajectory. The degree of restructuring over coming decades will be substantial.

The ETS will generate substantial revenues, but it is important that these be directed to further facilitating the adjustment of society and economy to the new trajectory.

As outlined in the discussion paper and elsewhere, there are substantial market failures and other impediments to the achievement of a low emissions society. The lack of take-up of energy efficiency measures despite clear economic benefits is one

obvious case. Distributing the ETS revenues as general tax cuts will not solve these problems – they might even exacerbate them.

The CFMEU agrees with the Review on page 54 that facilitating the rapid deployment of CCS technologies is an important means by which coal-dependent communities may retain viability and prosperity in a carbon-constrained world.

In addition to this social justice aspect, the facilitation of CCS technologies will enable the energy industries to respond more rapidly to the emission-reduction challenge than will be caused by the price of emission permits alone.

CCS technologies require more than a decade of further development before they will be commercially-available technologies. But even that timeframe will not be sufficient if the CCS industry has to be dependent on price signals caused by the ETS. There are substantial “first mover” barriers to CCS deployment, plus many logistical and regulatory issues to do with concurrent development of carbon capture points, pipelines and storage sites.

CCS will be critical to a least-cost reductions approach in the post-2020 period. It is widely acknowledged that global emission reductions will be considerably more difficult in the absence of CCS. But to get CCS to the point where it is commercially-available to assist with the challenge will require considerable assistance.

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