

Garnaut Climate Change Review
Level 2, 1 Treasury Place
Melbourne VIC 3002

April 17 2008

Dear Professor Garnaut,



Open submission to Garnaut on the Emissions Trading Scheme

Friends of the Earth, Australia has substantial concerns about the introduction of an emissions trading scheme in Australia.

The experience of the European Trading Scheme and the operations of trading under the Kyoto Protocol's Clean Development Mechanism reinforce the caution with which the development of such a scheme must be approached.

We are sceptical that the establishment of a trading scheme will be able to withstand the political pressures of the fossil fuel industry and other polluters who will attempt to reduce their liabilities under such a scheme.

At its worst the trading scheme may not reduce emissions and end up being a windfall for big polluters, as occurred with the early years of the European scheme.

At its best, a trading scheme has the danger of deferring or reducing the level of government leadership, resources and action that are needed to tackle climate change. The "market failure" of climate change can not be merely solved by establishing a market. Without a government program of action a trading scheme will fail.

However Friends of the Earth, Australia recognises it may be possible to develop a scheme that could be part of the solution to the growth of Australia's carbon emissions but only if it avoids the problems of previous schemes and only if it is tightly structured and managed.

The fundamental criteria for assessing any emissions trading scheme must be its effectiveness and its fairness. In other words, will it contribute to rapidly drive down emissions and squeeze carbon out of the economy and will it require the polluter to pay.

To reiterate, any emissions trading scheme will not work unless there is a real recognition of the emergency that we face and that a nationally coordinated and led plan to transform the economy must be adopted and implemented by the Federal Government. This will require substantial investment in energy efficiency, renewable energy and public transport infrastructure and regulation and prohibition of many activities and products.

The following 9 points outline the principles that must be adopted, for a trading scheme to have any hope of being effective and for Friends of the Earth, Australia to support the establishment of such a scheme.

1. The carbon budget based on the science

As has been discussed in our general submission, Friends of the Earth, Australia does not accept that a target of 60% reduction from 2000 emission levels is a credible target for Australia.

Recent scientific observations in the warming of the oceans, glacial melting, and in particular the rapid collapse of the Arctic sea ice coverage all ahead of IPCC predictions show the danger of emission levels already reached in the atmosphere.

Australia cannot and should not wait for the rest of the world to act. Indeed, as your review has pointed out, only by acting ourselves can we have credibility in international negotiations.

Therefore the emissions target must be based on a 95% reduction on 1990 levels by 2050 with year by year reductions reflecting that target.

The budget should be set and regulated by an independent body.

2. Most sources of emissions must be covered

All sectors in the economy must do their part in reducing emissions. Any sector which is left out is free-riding on other sectors. Therefore the scheme must be as comprehensive as possible in covering all sources of emissions.

Friends of the Earth, Australia recognises the particular difficulties in measuring aspects of agriculture which mean they may need to be excluded. However some sectors of agriculture are more easily measured than others and could be brought into the scheme at some point if a credible measurement regime is able to be established.

Until then consideration should be given to a greenhouse tax and regulation to address reductions in the agricultural sector.

Specific coverage issues must also be addressed, for example emissions from international air travel or international shipping are not currently measured and accounted for. These sectors must be brought into any reduction scheme.

All six greenhouse gases as defined in the Kyoto Protocol should be covered.

3. Exclusion of forest and soil sinks from the carbon trading scheme

Forests and soil, which are sinks of carbon, should not be included in the emissions trading scheme as it would undermine the scheme and emissions reductions. The factors that need to be considered include:

- Carbon stored in underground fossil fuel deposits is permanent, whereas carbon stored in the biosphere is temporary and part of the active carbon cycle;
- Carbon in trees is released by bushfire, disease and unregulated or illegal logging, and inevitably, natural decay. Forms of temporary accounting and insurance have been proposed to overcome the issue of impermanence, however, these are flawed and will not guarantee permanence for carbon sinks;
- Climate change can reduce the capacity of vegetation to store carbon;
- The amount of carbon stored as fossil fuels far exceeds the amount of carbon in living biomass. For example, trying to counteract the UK's emissions for a year would require setting up and protecting industrial plantations on all available land in Brazil for the next 40 to 50 years;
- Using forests as sinks in a trading scheme encourages rather than slows the exploitation of fossil fuels, as planting trees may be a cheaper alternative to reducing emissions for polluters.

We need to protect forests on carbon conservation principles, but they should be protected by enhancing and enforcing forest legislation; not by using market mechanisms. We need to halt deforestation and keep fossil fuels in the ground; not trade one for the other.

Alongside the ETS there needs to be separate legislation that will ensure that there is a reduction in emissions from forestry. In Australia, this means an end to clearing of remnant native vegetation and logging of old-growth forests alongside increased funding for projects which both sequester carbon and increase biodiversity and shift away from mono-cultural regimes.

4. No free riders – permits must be auctioned

Friends of the Earth, Australia welcomes your support for the auctioning of all permits and agrees that to not auction the permits would represent a significant distortion of the scheme. If the purpose of the scheme is to squeeze carbon intensive goods and production out of the economy by setting a price on carbon, the giving away of permits will reduce the cost of carbon to polluters and undermine the effectiveness of the scheme.

In addition, it is important to recognise that the establishment of an emissions trading scheme is in one sense the privatisation of a public asset or common good – the atmosphere (and other carbon sinks?). In creating a licence to pollute, the atmosphere is being enclosed and commodified. To not auction permits would be akin to privatising a public asset, such as a public utility, by giving the asset away rather than selling it.

5. Trade-exposed emission-intensive industries should not be given free-permits.

However, your strong support and advocacy for auctioning is undermined by the suggestion in the Discussion paper that Trade-exposed emission-intensive industries might be given free-permits.

Friends of the Earth, Australia strongly opposes such a suggestion as it will clearly undermine the scheme. Any compensation to such industries should be limited in scope and be focused on assisting transition to low-carbon economy, particular for workers in such industries. For example the aluminium industry as one of the most energy intensive industries in Australia, must substitute energy efficiency, major programs of recycling and the use renewable energy if it is to continue to operate. Free permits will not encourage such a transition.

6. No international linkage – CDM and other offsetting failures must avoided

To reduce Australia's emissions we must reduce emissions in Australia. Any international linkage of the trading scheme threatens to undermine this fundamental goal.

Friends of the Earth, Australia welcomes your review's recognition of the dangers of international linkage and in particular the failures of the Clean Development Mechanism. We remain concerned however that you are in favour of some form of international linkage.

In addition to concerns about the problems of measurement and creditability in relation to emission permits generated in other countries, the experience of the CDM has highlighted how offset schemes can hurt people and the environment in the Majority ("developing") world.

7. No borrowing of permits – undermines goal of driving down emissions

Emissions must be driven down quickly and every sector must play its role. Allowing the borrowing of permits will delay action to reduce emissions and undermine the scheme. Opening the door to borrowing also opens up the scheme to possibly gaming of the scheme, undue political pressure on the regulators, and possible corruption. These problems already exist, allowing borrowing will just enlarge these problems.

8. Revenue and Compensation – no hand-outs to polluters

As recognised in the Discussion paper the scheme will raise substantial revenue. It is important that such revenue is not then used to undermine the effectiveness of the scheme.

The revenue should be spent in five areas:

Ensuring fairness

A price on carbon will raise the costs to consumers of energy intensive goods particularly, utilities and transport but also many other goods in the economy. Simply recycling money to low-income consumers can undermine the effectiveness of the price and therefore the scheme.

Compensation should be primarily focused on assistance for energy efficiency, subsidies to low-income public transport users and other programs aimed at lowering energy compensation.

Consideration could also be given to including individual tradable permits or rationing within the trading scheme which could improve effectiveness and fairness.

Driving the development of renewable energy

A large proportion of revenue from the scheme should be invested in the research and development, commercialisation and infrastructure for renewable energy – wind, solar and geothermal. In particular the development of a new national electricity grid.

Just Transitions

A range of industries will go through substantial transformation as we shift to a low-carbon economy. For example, the transition away from coal will impact on communities in the Hunter Valley region, La Trobe valley and the Bowen Basin. Compensation should be aimed at a genuine just-transition for workers in those regions, not subsidies for coal companies or the funding of false-solutions like so-called "clean coal."

Funding clean development and adaptation in the Majority World

Any solution to climate change will need to be global. Only by fulfilling our responsibility and capacity to assist the majority world with mitigation and adaptation will Australia contribute to a global solution. Revenue should be orientated towards such a task.

Funding for forest protection and rehabilitation

Increased funding for bush regeneration projects which both sequester carbon and increase biodiversity (ie not monocultures) within Australia.

Internationally, Australia should contribute financing for Reducing Emissions from Deforestation and Degradation (REDD) into a fund which is not incorporated into a trading scheme.

Friends of the Earth Australia would be happy to provide further information on the issues raised in this submission.

Yours sincerely

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