

Submission to Garnaut Review

Emission trading scheme discussion paper

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## CONTEXT

### Science

The scientific consensus seems to get gloomier with each IPCC report, and this is a worry, given that the IPCC consensus means the lowest common denominator among climate scientists. As you point out, the situation will inevitably get worse, since the scenarios used so far for IPCC do not include increased emissions from large rapidly growing developing countries, especially India, China and Brazil. Perhaps the Australian Climate Group is correct in suggesting that world emissions must peak within 2 years.

I think this means we have to treat climate change far more urgently than we are at present, and that it would make sense to make reductions in emissions sooner rather than later. It also means that overshooting emission targets and reducing emissions later could be catastrophic.

### International context

I support the emphasis on the need for international agreement, and for it to go much further than Kyoto. At very least, we need all developed countries to reduce emissions, plus we need limits on growth of emissions in the large fast growing developing countries China India & Brazil, plus any other developing country with significant emissions, such as Indonesia.

I find it encouraging that the Rudd government has already taken action along these lines, formally ratifying Kyoto, pushing for further international reductions in negotiations at Bali and elsewhere, starting talks with China and entering preliminary agreements with PNG on climate change initiatives.

I agree this also means the trading scheme in Australia needs to be capable of linking to international schemes and needs flexibility to allow for increased reduction of emissions.

### Mandated Renewable Energy

There have been criticisms of this scheme and its past & future targets, largely on the basis that it increases the cost of reductions, and that it favours technologies that are further advanced, particularly wind energy.

Of course this favours renewables that are currently well developed and those near to commercialisation. But the current position of renewables and of emission reduction technology is the product of business and government decisions over the last 20 years. All businesses and governments in the developed world have had the same information about the risk of climate change and of peak oil. Some have chosen to ignore those risks and have chosen not to invest in renewables or emission reduction. I see no reason why the expanded market should not penalise those businesses which have ignored the risks. I think it is about time we stopped big business welfare - privatising profits and socialising losses.

The accepted virtue of the MRE scheme is that it starts reductions now, and I think that the science and prudent risk management means immediate reductions are needed.

The main ways this can be achieved are through energy efficiency, reduced consumption and current renewables. This is extremely important, given that scenarios are likely to worsen, and that irreversible damage is likely to occur at CO<sub>2</sub> levels of the order of 400ppm and that tipping points might exist, and might exist at temperature increases that we are already approaching.

The range of renewables currently at pilot project stage is encouraging – geothermal, wave power, and the use of algae for biofuels (including in conjunction with carbon capture).

Other angles such as carbon geosequestration have only just reached pilot project stage, and would need a massive commitment to become a reality. Fortunately the coal industry has had windfall price rises in recent years with further massive price increases

negotiated for 2009 and can well afford a substantial increase in support to accelerate the project. After all, the industry has taken little action since Kyoto, and this is entirely its own choice. In these circumstances, I think there is little justification for any increase in promised public support for this particular research, or for the industry or generators.

Electric vehicles and better public transport also offer significant hope within a reasonable time frame.

## **EMISSIONS TRADING SCHEME**

### Setting an emissions limit

I would prefer greater reduction of emissions than proposed, but recognise the practical sense in what is proposed – go for 60% by 2050 as promised domestically, but be ready to go to 80% or even higher if international agreement can be reached, and actively seek that agreement.

### Changes to the limit

The scientific predictions are deteriorating so rapidly that 5 years notice of changes to the market is far too long. Also any international negotiations are well publicised far in advance of any treaty signing and ratification. I think it is reasonable to expect business to pay close attention to such developments.

I think that in practice, changes can be made in a year or less.

### Coverage

I am horrified that international aviation and shipping are not included in a country's emissions count.

I would prefer it if the scheme also covered agriculture and forestry, but I recognise that the difficulties of baselines, measurement and monitoring are enormous. It might be more economic to concentrate resources directly on stopping forest and other native vegetation clearance, plus revegetating and increasing carbon levels in the soil. Many of these actions can double as

adaptation to climate change. For example, increasing soil carbon through stubble retention and minimum tillage also helps to drought proof cropping land by reducing soil erosion, helping build more soil, improving soil structure and increasing water absorption and water holding capacity, and reducing evaporation of soil moisture. Shelter belts and alley farming increase carbon sequestration and reduce wind speeds, water evaporation and soil erosion. They can also provide multiple other benefits such as wildlife corridors and increased biodiversity, or can be used for timber, fencing, firewood , charcoal/activated carbon, bush tucker, oils, sandalwood or even just emergency stock feed and animal shelter. I point out that these trees do not have to be removed to serve these purposes, but can be coppiced (as is common with sugar gums in this state) or trimmed.

I recognise that forestry and native vegetation clearance and burning off are all extremely political and emotive issues. However, it seems to me that the basic position has to be that we do not allow any further native vegetation clearance unless it was covered in contracts finalised before 2008. Also where it is allowed, at least twice the area cleared should be replanted and watered for at least 3 years. I also include vegetation clearance for housing development – with increased drought and severe weather expected, there will be more pressure to remove any remnant vegetation from house sites to avoid damage from fire and shedding branches.

#### Permit issuance - Free permits

I am against any permits being issued without charge and I am also against the suggestion that any gains from these permits be tax free, whether they were issued free or not. The EU experience demonstrates that any saving is not likely to be passed on to consumers, and if savings were passed on, it would defeat the purpose of the scheme. Far better to directly compensate low

income households – most households have already been promised tax cuts and do not have a good case for additional assistance.

The books “Scorcher” by Clive Hamilton and “High and Dry” by Guy Pearse set out in some detail evidence of action by some sectors of big business in disputing the reality of climate change and generally influencing government policy away from climate change action. The irony is that this almost certainly means that Australia has large cost effective reductions available immediately through energy efficiency. Those companies that have implemented independent energy audits usually find efficiencies in the order of 25 - 30% for measures with a payback time of less than 5 years.

I see no justification for free permits at all, given the costs to government will have to bear and the experience of the EU. I see even less justification for giving free permits or any kind of compensation or tax relief to any business that has not implemented an independent energy efficiency audit in the last 5 or 10 years.

I also see no moral justification for any free permits or compensation to any company that was involved in undermining more timely climate change action.

### International linkages

It seems sensible to design the system to allow international linkages.

### Price controls - Price cap

I think that a price cap defeats the whole purpose of a trading scheme, and should not be considered. Energy efficiency measures alone are likely to cover the reductions required in the very early years and this is also likely to keep prices low.

### Intertemporality - Borrowing and hoarding

I agree that hoarding should be allowed.

I am against borrowing, particularly by any business that has not implemented an independent energy audit and made substantial efforts to support R & D efforts in recent years. If borrowing is allowed, an independent authority should make the decision in a publicly available assessment based on publicly available documents.

### Trade exposed high emission industries

Many of these already buy power at a greatly reduced price, and some economic studies have suggested that Australia subsidises some of these industries (in particular the aluminium industry) to such an extent that we would be better off without the industry. [eg H.Turton 2002 The Aluminium Smelting Industry Discussion Paper 44 The Australia Institute]

I would suggest that no compensation/assistance/subsidy in any form be given to such industries except on the following conditions

- loss of international competitiveness caused by emissions trading be demonstrated for that particular company (with the independent body to assess this after provision of documentary evidence, not just assertion by the company)
- proof of an independent energy efficiency audit done and implemented by the company within the last 5 years.

### Governance – independent authority

I strongly endorse the establishment of an independent authority with information discovery powers to make transparent (publicly available) assessments based on publicly available evidence.

### Compliance and penalty

I think it is absolutely essential to the success of the scheme to provide generous resources to monitor compliance and to take

prompt action in the event of noncompliance. This should be done by an independent authority. I also think high penalties should apply, with make good provisions as well, and increasing penalties for further breaches or failure to make good within the time allowed. I suggest that for a third breach, a company should face liquidation. The existence of a company is a legal privilege, and I suggest that continued breaches of this particular law are serious enough to contemplate removal of that privilege from the offender.

I think these last two items are particularly important given the history of climate change inaction in this country set out in the books I referred to above.

## **USE OF PERMIT REVENUE**

### Low income households

I strongly support the view that compensation should be paid to low income households through welfare and tax systems. This is the only area of compensation that I think should be started immediately, without waiting for actual proof of loss.

I agree this is the primary claim, and all other claims for compensation or assistance should be ranked against this claim in terms of equity.

### International climate change refugees

I think Australia should put more effort into assisting climate change refugees. We have spewed out far more than our fair share of greenhouse gas emissions, and I think we have a moral obligation to be particularly active in providing assistance to those affected by climate change, especially for poor countries in our Pacific region. I regard this as second ranking in equity.

### Structural adjustment assistance

If it turns out that whole industries and regions are highly affected by the emissions trading scheme, then I agree that assistance to communities and workers to adjust gets a high priority.

However, coal mining seems the most likely candidate, but it will probably take about 5 years to have a better idea whether carbon sequestration or other alternatives will be commercial.

### Stranded assets

The risk of emissions trading or carbon taxes has been well known for at least 20 years – many of us can recall then Minister Ros Kelly advocating ‘no regrets’ energy efficiency steps under the precautionary principle, well before Kyoto. Most private energy generators in Australia were either purchased or built after that, when the risk was known and ought to have been built into the purchase price or feasibility study.

If we pay compensation for such assets now, then we are rewarding poor risk assessment, or paying double compensation for anyone who paid a reduced price for the risk in the first place. I am strongly against any such payment.

Also no compensation or assistance should be payable to any company which has not implemented an energy efficiency audit.

As far as I can work out, most stranded assets would be coal fired power stations and the main hope for these is considered to be carbon geosequestration. This has only reached pilot project stage this month, and is not expected to be commercially available before 2020. There are alternative approaches – I understand there is currently a project in Australia involving carbon capture from a coal powered station and using that carbon on site to grow algae for biodiesel. I have also read that coal fired power stations have to operate overnight at 80% capacity in order to reach peak production at hours of peak demand. I have also read that this power could charge millions of electric cars overnight.

No compensation should be considered until it is clear that these assets are stranded due to emissions trading, based on evidence, not just a company assertion.

I would be a lot more sympathetic to compensation for stranded assets if the owners had been vigorously pursuing possible solutions or part solutions over the last 5-10 years.

You have stressed (referring to TEEIs) the need for evidence based decisions made transparently by an independent authority with information discovery powers, and the need to be very clear about the cause of any loss of profits so that only losses caused by the emissions trading scheme are compensated. This inevitably means waiting till after losses occur.

I strongly support this position.

Apart from compensation to low income households, all other compensation decisions should be based on an assessment by the independent authority with information discovery powers. The assessment should be publicly available and should be supported by publicly available evidence. Any claim for secrecy for any document used in the assessment should be able to be reviewed on application of any citizen through the normal FOI system

#### Company tax reduction

I do not think this is justified under any circumstances.

Australia already has a low company tax compared to most OECD countries, and few Australian companies have even gone through the energy efficiency audit process that has been available for at least 20 years. Those that have implemented energy audits generally find energy savings of the order of 30% of usage and that the costs can be recovered in 1-5 years at current energy prices.

As you have pointed out in relation to free permits, there is no guarantee that any tax cuts will be passed on to the consumer, or be used by each company to reduce or offset emissions. But if the tax cuts are used in this way, they blunt the price signals from the emissions trading scheme.