



Carbon Pollution Reduction Scheme Green Paper

Big Ask: Big Impact

Overview, October 2008

The threats posed by escalating climate change call for a sharp reduction in global emissions of greenhouse gases. Reducing these emissions will require new approaches to industrial and agricultural production, heavy investments in low-emissions sources of energy and changed patterns of consumption.

Neither the scale of the change required nor its impacts should be underestimated.

- Reducing Australia's emissions by 60% of 2000 levels by 2050 will call for a fundamental change in the direction of Australia's economic development.
- After allowing for GDP and population growth, meeting this target will require us reducing the emissions intensity of our economy by around 75%.

Ai Group agrees with the proposal to adopt an emissions trading scheme that will use market forces to identify the least expensive ways to reduce Australian emissions. We support a scheme that will have as broad a coverage as possible and we support the objective of linking the Australian scheme to similar schemes around the world.

Ai Group members want to play a constructive role in reducing global emissions. Many members have made significant inroads into their direct emissions and their energy intensities over the past decade or so. Many also are seeing opportunities for their businesses in an economy that needs to change direction so decisively.

The central challenge in striving for these objectives is the lack of momentum towards an international agreement that includes all of the world's major emitters.

- With only 1½% of global emissions, Australia acting alone will not make a significant difference to the accumulation of greenhouse gases.

- We will not make any difference at all if, by imposing costs on emissions in Australia, we merely shift economic activity to countries that do not restrain their own emissions.

Until the world's major emitters also take action, there are significant risks for Australia's trade exposed industries.

It is imperative that in implementing the Carbon Pollution Reduction Scheme (CPRS), we do not sacrifice Australia's competitiveness to countries that do not join in a global effort to address climate change.

In developing our approach to the CPRS Ai Group has consulted closely with our diverse membership.

- This includes businesses all along the emissions spectrum.
- It includes small, medium and large businesses.
- It includes businesses in emissions intensive minerals processing and energy industries; in emissions intensive industries such as paper and paper products, glass products, metals fabrication, food processing, appliances and plastics and chemicals.

“Our members are gravely concerned that Australia will move too fast and too far ahead of the rest of the world.”

Heather Ridout, Chief Executive

- It also includes businesses in the construction, contract mining and waste sectors and it includes businesses across a wide range of service industries, in utilities and in less energy intensive areas of manufacturing.



Predominantly, Ai Group's members are exposed to international competition both in export markets and in the domestic market.

Our members are particularly concerned that the proposals put forward in the Government's *Carbon Pollution Reduction Scheme Green Paper* do not adequately address the threats faced by trade exposed businesses and their employees.

It is critical that the Government's proposed approach is recast so that it addresses more adequately the threats faced by our exporting and import competing businesses. Unless business can have greater confidence in this central part of the scheme, pressures will build for alternative approaches such as specific exemptions and border tariffs.

While Ai Group understands the concerns behind these alternative approaches, we regard them as complex, risky and liable to undermine the integrity of the overall policy.

We are confident there is a better way to address the threats faced by trade exposed businesses. Our submission focuses on steps that can be taken to address these threats effectively while minimising any shift in costs onto other businesses and households and in a way that allows Australia to transition towards a low emissions future.

The central elements of a successful domestic climate change strategy are:

A Sensible Start to the CPRS

To give business and government time to iron out any bugs associated with the introduction of a new and untried system.

A Commitment to Efficiency

So we reduce as many emissions as possible for each dollar spent.

Support for Trade Exposed Industries

Avoiding carbon leakage from Australia to countries that do not constrain their emissions.

Proactive Measures

For the development and deployment of low emissions and energy efficiency processes and practices.

Skills Development

Ensuring we build the skills needed for the transformations ahead.

Best Practice Regulation

Keeping regulatory costs as low as possible.

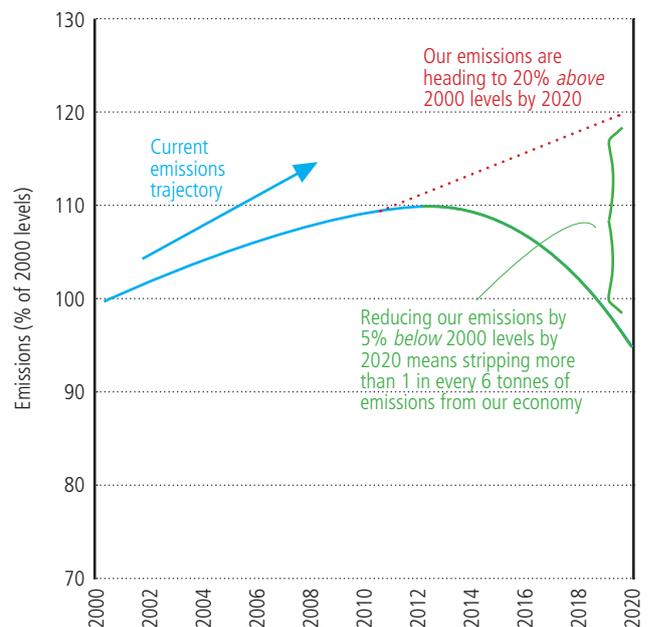
Low Income Households

Providing appropriate compensation for low-income households.

Ensuring Energy Supply

Avoiding disruption to energy supplies as we transition to a low-emissions economy.

Meeting a 5% Reduction Target in 2020 Would Not Be Easy



A Sensible Start

Ai Group urges a sensible start to the CPRS.

- A modest emissions reduction target in the early years will dampen adverse impacts on business costs and consumer prices and will help the transition to the new regulatory environment.
- It will enable teething problems to be sorted out and ensure that any unintended consequences are exposed before they can do too much damage.
- Critically, a sensible start will ease the initial pressures on trade exposed industries and strongly affected industries.

A Commitment to Efficiency

A commitment to efficiency or “least cost abatement” should be the catchcry of the Australian approach.

The task of reducing Australia’s greenhouse gas emissions will impose substantial costs on our businesses and our households. It is a task that we should not make any more expensive than it needs to be.

This commitment implies a coverage that is as broad as possible and with as few exemptions as possible. Having a broad coverage will ensure that almost all low cost abatement opportunities are explored and acted upon. This will reduce the overall cost of meeting our targets and will reduce the impacts on businesses and households.

While a broad coverage will not be possible immediately (for example agriculture presents unusual complications that will take a few years to sort out), all sectors and all sources of emissions should be included as soon as possible.

Trade Exposed Industries

While the Government’s Green Paper recognises some of the challenges facing Australia’s trade exposed industries, its preferred positions would leave many of these industries in an uncompetitive position, exposed to a substantial risk of carbon leakage and constrained from growth.

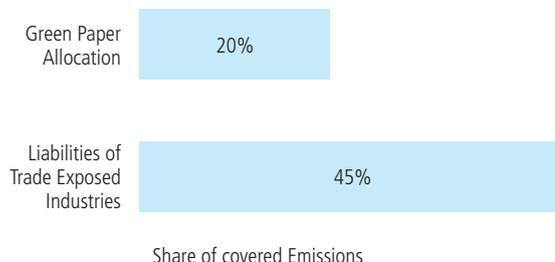
In short, as currently proposed the CPRS would damage domestic industry and employment without delivering commensurate environmental benefits.

In particular, on its own the Government’s proposal to issue 20% of all permits to emissions intensive trade exposed (EITE) activities risks a substantial erosion of competitive position and market share for our trade exposed businesses that are expected to account for around 45% of covered emissions in the early years of the scheme.

Ai Group is nevertheless confident the Government can adjust the approach to trade exposed industries to reduce the national exposure to carbon leakage to much more manageable and less disruptive levels.

The best mix of measures requires more information than is currently available. In particular, it requires greater information about the sensitivity of permit prices to increases in the quantity of permits allocated without cost. We anticipate the release of the Treasury modelling in October will assist in better assessing the appropriate trade offs.

Liabilities of Trade Exposed Industries* and EITE Permit Allocation *Not including agriculture*



Source: based on the data presented in Figure 9.2 of the Green Paper (see pages 312-4 and Appendix D).

* The industries included all have emissions intensities greater than 200 tonnes per \$ million of sales revenue.

“My business would not be considered emissions intensive and would not get close to any permits. Nevertheless our margins could be eroded quite severely. We have been actively reducing our energy use over a number of years and it is not clear there would be anything in the Climate Change [Action] Fund for businesses like ours.”

Metal Products Manufacturer

Trade Exposed Industries

Pending the release of Treasury Modelling, Ai Group proposes:

- The quantity of permits allocated to trade exposed industries could be raised to at least 25% without impacting disproportionately on the permit price.
- The approach to permit allocation should allow for the growth of emissions intensive trade exposed industries.
- Particularly in the early years of the scheme, the Climate Change Action Fund (CCAF) should have a clear focus on measures for trade exposed industries - particularly those not eligible for allocated permits.
- For businesses close to the eligibility thresholds for permits, the CCAF should be targeted to provide comparable treatment with that provided by permit allocation.
- CCAF measures should not be confined to developing abatement opportunities.



Ai Group also believes there is scope to improve on the approach to the allocation of permits proposed in the Green Paper. While this is an area that requires ongoing consultation, some ingredients of a better approach appear to be using an emissions intensity measure based on value added rather than revenue; using a baseline that is broader than the 2006-7 to 2007-8 period; smoothing the sudden death thresholds in the current proposal and including indirect emissions from sources other than electricity in emissions intensity measures.

Avoiding Over Regulation

The market-based approach of the CPRS should contain regulatory costs. There are however two significant risks that could easily compromise the overall effectiveness of Australia's climate change strategy. These are the risk of duplicating, overlapping and uncoordinated regulation; and the risk of poorly designed law or supporting regulation giving effect to the CPRS.

Best Practice Regulation

The Government should release the Wilkins Review to better inform debate about the identification of unnecessary measures and to provide a rigorous basis for assessing measures that were genuinely complementary to the CPRS.

All governments should combine under the leadership of the national government to make serious efforts to deliver a coherent approach to climate change policy.

Regulatory arrangements additional to the CPRS (such as the proposed Renewable Energy Target) should be confined to those that reduce greenhouse gas emissions at a cost that is no higher than the market-established carbon price.

Ai Group urges the adoption of a best practice regulatory approach both for the initial design and ongoing operation of the CPRS.

Proactive Measures

Ai Group supports the Government's proposal to recirculate all the revenue raised by auctioning permits to businesses and as compensation to low income households. In the period to 2020, a priority should be given to keeping carbon leakage from trade exposed industries as low as possible.

In addition the Government should support proactive measures encouraging greater energy efficiency and reducing direct emissions. As part of the longer term strategy there should be strong support for research and development into ways to reduce greenhouse gas emissions.

Skills Development

A particular emphasis should be placed on skills development. This will require thorough assessments of skills requirements with training providers working closely with industry in identifying emerging demands for training.

It will also involve the Commonwealth and state and territory governments coordinating policy and funding initiatives across traditional lines of education and training responsibilities.

Skills Development

Data projecting new and emerging skills needs should be improved together with data on current skill levels with a view to identifying broad skills gaps.

Linkages between the training and higher education sectors and business need to be improved to facilitate greater communication between researchers and training stakeholders and organisations and to support efficient up-skilling and re-skilling of existing workers who will increasingly move between the sectors.

To accelerate the development of appropriate skills, Ai Group supports:

- the development of national training products;
- the development of the skills of trainers and identification of appropriate facilities; and,
- the delivery of training in new and emerging areas in anticipation of broad based demand.

Consideration should also be given to establishing a *green skills audit fund* for companies working in industries designated as 'high environmental impact' to determine their future skills needs.