Tim Kelly

Adelaide
South Australia

10 March 2014

Climate Change Authority
submissions@climatechangeauthority.gov.au

RE: Submission on the Special Review to determine Whether Australia should have an emission trading scheme and any conditions for introducing such a scheme.

Thank you for providing the opportunity to comment on the Special Review.

At the outset, it is essential to highlight that emissions cap and trade schemes work in very different ways to fixed price carbon levies or taxes. One of the most fundamental differences is how the different approaches drive change.

- carbon tax schemes encourage a whole of market response for businesses, customers and communities to reduce emissions and to seek to avoid carbon pass through costs.
- cap and trade schemes rely on the Government setting the outcome and once this is done, any individual action cannot easily make any difference.

Background

Prior to 2008 the promotion of efforts to tackle climate change was largely along the lines of 'Think global and act local'. All efforts in policy or actions that resulted in tangible greenhouse gas reductions were seen as making progress towards tackling climate change.

However, as Emissions Trading was being considered as a market wide approach to tackling climate change, McKibbon and Wilcoxen (2008) identified that "the first lesson is that a rigid system of targets and timetables for emissions reductions is difficult to negotiate because it pushes participants into a zero sum game".

The Productivity Commission (2008, p.12), then made a submission to the Garnaut Review arguing that with an ETS "other abatement policies generally change the mix, not the quantity, of emissions reduction". Next followed the Roger Wilkins Strategic Review of Climate Change Programs (2008) supporting the views of Garnaut and the Productivity Commission that the ETS becomes an exclusive policy instrument for reducing emissions and all that is required is for businesses to respond to the price signals rather than looking at any altruistic objectives to play a part in emissions reduction.

The COAG Complementarity Principles put this logic into practice but were never open and transparent of the logic that individual effort to reduce emissions is futile.

The principles were crafted in a way that could be interpreted with wide variation and coupled with a strong Government desire to demonstrate efficiency; every other policy aimed at reducing emissions was called into question.

Impacts of the COAG Complementarity Principles

State Governments no longer felt a compelling need for greenhouse reduction targets and policies and often assessed that their existing policies were non –complementary, but did not automatically wind these up possibly for fear of community confusion or backlash.

- The objectives of reducing emissions were removed from many state and federal policies, programs for and websites for living greener, energy efficiency and renewable energy
- The Renewable Energy Target was no longer regarded including emissions reduction as one of its core objectives

- Whilst the COAG Principles described what complementary measures 'may' include, views emerged that if policies did not achieve all criteria they should be assessed as non-complementary.
- State based targets were considered as providing no meaningful benefit in relation to reducing emissions
- In South Australia, the established approach to develop collaborative climate sector agreements with business was wound back from mitigation to largely focus only on adaptation efforts.
- Many tangible domestic activities to reduce emissions and provide carbon offsets no longer recognised
- Despite the assurances that GreenPower would be treated as additional, State Governments still regarded GreenPower purchasing as non-complementary and began to wind back their GreenPower commitments
- Suggestions for individuals to take action on climate change such as by throwing permits in the bin were never able to be defended against counter arguments that easily explain why they would never work.

The TruEnergy submission to the 2012 RET Review Issues paper neatly captures the essence of why the intended emissions trading scheme was taken as a signal by many businesses to do nothing more than comply with any requirements:

> *"As Australia's total net emissions are determined under the Clean Energy Future policy package, there would be no change in Australia's contribution to climate change abatement from an adjustment to the RET design. There would only be change in the composition of abatement"*

The cumulative impact of the wind back of climate programs, mixed messages and built in futility of action significantly added to the deterioration of culture where everyone previously had a role to play in tackling climate change was now receiving mixed messages. 'Think Global – Act local' messaging moved progressively towards '*all we need to do is link to Europe to buy really cheap permits and our conscience will be clear*'.

Further detail on the Additionality and Complementarity of Climate Change Mitigation Policies and Programs in Australia is covered in my 2012 paper shown as Attachment 1. Whilst the Paper is becoming dated, the same issues will return if the Australian Government move to re-introduce a cap and trade scheme.

DISCUSSION

As currently designed, all three of the main proposed mechanisms to reduce emissions in Australia have significant constraints:

1. **A government set carbon price** works consistently through time creating additional incentives for all individuals, households and businesses to contribute to reducing emissions. The government may increase the price where progress to lower emissions is too slow. However, both major parties do not support a carbon levy or carbon tax.
2. **An emissions trading scheme** may work where the caps and permits are set at a level of acceptance by business and a level of effectiveness for reducing emissions. However, these two conditions are unlikely to ever be achieved.
    - The European experience has shown how excessive permits can lead to freewheeling of policy where little real action to transform businesses to low carbon technology actually takes place.
    - If Australia was to join the EU trading scheme when prices were cheap it is likely that there would be screams to exit the scheme when prices increase.
    - If internationally linked, an ETS will not necessarily reduce emissions in Australia when cheap permits to pollute are accessible from overseas.
    - Even a domestic only ETS will face calls for price caps and extra unlimited permits should scarcity really start to be experienced in the market.

3. **Direct Action** has no long term funding mechanism and is not contextualised to support deep cuts in emissions. The concept of direct action is however compatible with a government set carbon price and the coupling of these two approaches would work well. In contrast, the Direct Action Plan is methodologically incompatible with an emissions trading scheme.

I ask the Climate Change Authority to review the effectiveness of Australia's Carbon Pricing Mechanism which was in place for a year with the effectiveness of the European Union emissions trading scheme that has been in place for a decade. The difficulty experience with the EU scheme has been in the failure to predict the appropriate level of emissions permits and reduction pathway required, resulting in the over allocation of permits and low permit prices. It might be discovered that Australia's fixed price carbon pricing scheme was more effective to act as a dis-incentive for emissions and to induce low emissions solutions for every day that the scheme was in place.

Conditions for introducing a cap and trade scheme

I propose that should an emissions trading scheme be recommended, that the Climate Change Authority, advises against any return of the COAG complementarity principles.

I would request that the CCA reject the narrow thinking that it is only the setting of a cap that reduces emissions (making all individual efforts are therefore futile) and endorse the alternative logic that: ***All efforts that reduce emissions make it easier for the national target and emission caps to be reduced through time***. This logic was encouraged by the former Minister for Climate Change Penny Wong, (2008) in an opinion piece stating that "Strong household action also helps make it easier for governments to set even more ambitious targets in the future".

I disagree with the economic arguments provided by the Productivity commission, Wilkins, Garnaut and COAG because they overlook the important step of everyone contributing to makes it easier to tighten targets through time. In my view, The COAG Complementarity Principles contributed to the destruction of culture necessary for all market participants to play their part in reducing emissions and transitioning to a low carbon economy.

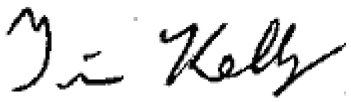
I also disagree with artificial concepts such as throwing permits in the bin as a means to reduce emissions as all this does is create scarcity making it more difficult for the national target and scheme caps to be tightened.

Recommendations

It is recommended that the Climate Change Authority:

- Advise against an emissions cap and trade scheme based on:
  - its ineffectiveness when permits are over allocated
  - risk of abandonment should the market price of permits increase
  - Harm to voluntary action and exclusion of market participation for most of the economy
- Advise against any return of the COAG Complementarity Principles that harmed economy wide climate responses.
- Endorse the alternative logic that all tangible efforts that reduce emissions should be recognised and supported as making it easier for Government to tighten Australia's national target and scheme caps through time
- Advise that the use of permits that do not relate to greenhouse reduction activities be disentangled from offsets that are directly connected to reduction activities.
- The use of any forms of carbon permit to be disallowed as a greenhouse offset due to the risk that such an approach increases scarcity without any reduction making it harder for Governments to tighten caps through time.

Yours sincerely



Tim Kelly

REFERENCES

COAG (Council of Australian Governments). (2008). COAG principles for jurisdictions to review and streamline their existing climate change mitigation measures.

COAG (Council of Australian Governments). (2012). COAG principles for jurisdictions to review and streamline their existing climate change mitigation measures.

Garnaut, R. (2008). The Garnaut Climate Change Review.Cambridge University Press, Melbourne.

McKibbin, W., & Wilcoxen, P. (2008). Building on Kyoto: Towards a realistic global climate agreement. *Centre for Applied Macroeconomic Analysis*.

Productivity Commission. (2008). What role for policies to supplement an emissions trading scheme?

Wilkins, R. (2008). *Strategic review of Australian government climate change programs* Canberra ACT.

Wong, P. (2009, February 23). ETS better than a tax, *The Australian*.

ATTACHMENT 1

Kelly, T., (2012) Additionality and Complementarity of Climate Change Mitigation Policies and Programs

http://www.adelaidehillsclimateaction.org/ahcag-articles.html

APPENDIX 1

COAG Complementarity Principles
(As amended by SCCC, 4 May 2012)

Complementary measures should be assessed against the following principles.

1. The measures are targeted at a market failure that is not expected to be adequately addressed by the carbon price or that impinges on its effectiveness in driving emissions reductions.

    - *For example, research and development failures, common use infrastructure issues, information failures and excess market power.*

    Complementary measures should adhere to the principles of efficiency, effectiveness, equity and administrative simplicity and be kept under review. They may include:

    a) measures targeted at a market failure in a sector that is not covered by the carbon price.
    b) measures for where the price signals provided by the carbon price are insufficient to overcome other market failures that prevent the take-up of otherwise cost-effective abatement measures.
    c) measures targeted at sectors of the economy where price signals may not be as significant a driver of decision making (e.g. land use and planning).
    d) some measures in (a) or (b) may only need to be transitional depending on expected changes in coverage or movements in the carbon price.

2. Complementary measures should be tightly targeted to the market failure identified in the above criteria that are amenable to government intervention. Where the measures are regulatory they should meet best-practice regulatory principles, including that the benefits of any government intervention should outweigh the costs.

3. Complementary measures may also be targeted to manage the impacts of the carbon price on particular sectors of the economy (for example to address equity or regional development concerns). Where this is the case, in line with regulatory best-practice, the non-abatement objective should be clearly identified and it should be established that the measure is the best method of attaining the objective.

4. Where measures meet the above criteria, they should generally be implemented by the level of government that is best able to deliver the measure. In determining this, consideration should be given to which level of government has responsibility as defined by the Constitution or convention/practice, the regulatory and compliance costs that will be imposed on the community, and how the delivery of the measure is best coordinated or managed across jurisdictions.