

# CARBON POLLUTION REDUCTION SCHEME GREEN PAPER SUBMISSION

September 2008

## OVERVIEW

The Tasmanian Government supports the Australia Government's commitment to the introduction of a Carbon Pollution Reduction Scheme (CPRS). Climate change is a serious issue for Australia and we need to take action now. A well designed emissions trading scheme is fundamental to providing certainty and investment confidence for government, industry and the community about Australia's emissions reduction objectives and timeframes for achieving them.

Tasmania is a world leader in the generation of renewable energy and sustainable forest management. Because of Tasmania's early and substantial investment in renewable energy, our per capita emissions are already about 40% lower than the Australian average. A properly designed scheme should help reduce Australia's emissions substantially. However, it would be a perverse outcome if Tasmania, a state that already has many of the characteristics other states will need to emulate to achieve reductions in greenhouse emissions, suffered economically as a result of the introduction of a CPRS.

The Tasmanian Government is generally supportive of the design features proposed for the Commonwealth's CPRS and welcomes the opportunity to provide a submission on the Australian Government's Green Paper. The release of the modelling results and underlying assumptions will enable more detailed analysis of the proposed Scheme and its implications for Tasmania and we encourage the Australia Government to make these results available as soon as possible.

This submission provides some high level comments in relation to the following areas of interest:

- Support to low income households;
- Emissions-intensive trade-exposed industries;
- Forestry;
- National Parks and State Reserves;
- The expanded National Renewable Energy Target Scheme;
- Agriculture; and
- Shipping and Transport.

## SUPPORT FOR LOW INCOME HOUSEHOLDS

We strongly support the Paper's emphasis on supporting families, and particularly low-income families, to adjust to the increased prices that will result from a CPRS. The Tasmanian Government believes that this is the highest priority for use of CPRS revenue and that the Scheme should be designed to ensure sufficient funds are available for this purpose.

The CPRS and the pricing of carbon will change the relative prices of the goods and services that all households use, adding to the cost of living. There is no doubt that assistance needs to be provided to the most vulnerable in the community, however, the Tasmanian Government believe it is essential that it is the right kind of assistance. Assistance through the tax and payment system alone, that meets or largely meets the higher cost of energy and other essentials is unlikely to encourage households to change the behaviours that will result in a reduction in greenhouse emissions. It will also be important to ensure that any assistance to support behaviour change be provided in a timeframe to smooth the adjustment for households.

It is on this basis that Tasmania supports a combination of cash support, together with a range of measures to support adaptation including education, financial assistance and other incentives and measures that assist low income households transition to a low-carbon economy and change behaviours.

## COMPENSATION FOR COAL-FIRED ELECTRICITY GENERATORS

Tasmania is opposed to the proposal to provide assistance to coal-fired power generators, and the apparent move away from Garnaut's recommendation to auction all permits. We believe that both of these measures would undermine the CPRS by reducing the revenue available to assist low income families and the capacity to invest in research and development and impeding the price signals that are intended to alter resource allocation. Providing such assistance to coal-fired power generators effectively rewards some of the major producers of Australia's greenhouse emissions at the expense of those least able to adjust to higher prices.

However, if the Australian Government is committed to providing assistance to coal fire electricity generators then it should be in the form of transitional assistance that is designed to accelerate the structural adjustment of the coal fired power industry, not compensate it for financial loss.

In this regard, Tasmania recommends a Structural Assistance Scheme be established to help strongly affected industries adjust. The Scheme could provide capital assistance to companies to undertake projects which reduce the emissions intensity of their core business. The key features of this scheme could include:

- a percentage of the revenue derived from auctioning permits be allocated to the Structural Assistance Scheme;
- an independent expert body, with joint Government and Industry oversight, be established to distribute funding using a competitive process;
- funding rounds be conducted on a six monthly basis;
- bids be assessed and scored having regard to a range of criteria, including:
  - ⇒ the discounted stream of emissions reduction divided by the discounted value of the requested assistance (60 per cent weighting); and

- ⇒ public benefit/value, contribution to energy security, development of new technology, is it replicable elsewhere, is it relevant overseas etc (collectively 40 per cent weighting collectively); and
- successful bidders must produce their stated reduction in emissions intensity, without decline in gross product output, or surrender an equivalent number of permits.

Under this arrangement, coal-fired electricity generators would be able to access transitional funding to both facilitate and reward reductions in their carbon intensity, instead of being subsidised to maintain the status quo.

## EMISSIONS-INTENSIVE TRADE-EXPOSED INDUSTRIES

Tasmania supports the provision of transitional assistance for certain emissions intensive trade exposed (EITE) companies in order to prevent “carbon leakage” associated with the relocation of companies to jurisdictions with less stringent emissions controls and to prevent the loss of economic activity. However, in designing these arrangements care needs to be taken to safeguard against unintended outcomes and to ensure there are incentives to transition to lower carbon intensity.

The Tasmanian Government notes the proposal to use “emissions per unit of revenue” as a basis for determining the materiality of carbon cost impact across industries. As currently defined, this measure does not adequately reflect the fact that many Australian industries are price takers in the international market and experience significant volatility in their revenue base from year to year. An alternative may be to determine materiality across EITE industries by reference to emissions per unit of average input cost. The advantage of this measure is it is a direct measure of the impact of the CPRS on the ongoing profitability of EITE industries. If there is a strong preference to use “emissions per unit of revenue”, the use of a ten-year rolling average to calculate revenue may provide a more reflective measure.

The “electricity factor” used in calculating the level of assistance provided to emissions-intensive, trade exposed companies needs to be carefully considered. The Green Paper states that the electricity factor is:

“...designed to relate the increase in electricity price faced by EITE entities as a result of the CPRS to the price of permits.”

Tasmanian companies primarily use renewable electricity generated by Tasmania’s hydro based electricity assets. As a result, the electricity factor of the electricity they use is about 15 per cent of the mainland average. Nevertheless, Tasmanian EITEs will see an uplift in their electricity price equivalent to that experienced by interstate competitors, as a result of our participation in the National Electricity Market.

In other words, if existing state-based electricity factors are used when calculating assistance levels then Tasmanian companies will be disadvantaged relative to their mainland counterparts even though they will experience almost identical increases in input costs. This issue may be addressed by expanding the definition of “electricity factor” to include the impact of the carbon price on electricity, whether directly or indirectly through the market.

The Tasmanian Government also notes that the Green Paper does not detail how, or if, assistance is to be provided to EITE entities that may be established in the future. We believe that consideration needs to be given to this issue and acknowledge it may be appropriate for eligibility to be based on different criteria to ensure that new EITE entities develop processes that meet environmental best practices.

## **FORESTRY**

Tasmania supports the Green Paper's positive approach to forestry and the recognition that forests will play a key role in reducing Australia's emissions.

We strongly support the "opt-in" approach proposed in the Green Paper. If coverage of forestry was made compulsory, a broad cross section of the industry may be required to account for activities with little or no net benefit to the objective of the CPRS. The opt-in approach will reduce unnecessary transaction costs for industry.

The Tasmanian Government also supports the commitment to seek international recognition for the role that wood products and pre 1990-forests can make in capturing and sequestering carbon. However, given the inherent challenges of global governance and difficulties in reaching consensus on these matters, international agreement is likely to be some way off. A failure to act in the absence of international agreement would be a wasted opportunity for Australia to put in place initiatives that could have a real and immediate impact on carbon emissions.

The term "forestry" is sometimes incorrectly used in the paper to describe land use change arising from deforestation or land clearing for activities such as urban or agricultural development. "Forestry" has a more specific and widely recognised definition; the long-term management of forests.

Afforestation and deforestation are land use change components. That is, they add or subtract from the pool that is available for forestry, just as they add or subtract to the pool available for agriculture. Tasmania believes that it is important that these terms are used correctly and unambiguously to ensure the intent of the CPRS is clearly understood.

The Tasmanian Government has received representations from industry participants outlining concerns regarding detailed accounting and compliance issues. We appreciate the Australian Government is undertaking consultation with the forest industry directly and envisage that these issues are being addressed in that forum.

## **NATIONAL PARKS AND STATE RESERVES**

Both the Green Paper and the Garnaut Climate Change Review recognise the importance of large reserved tracts of land including World Heritage Areas, National Parks and State Reserves as carbon sinks and for maintaining biodiversity. However, the Green Paper does not address whether any revenue from the CPRS will be assigned to assisting with the management of these areas, which will become increasingly important as a result of the impacts of climate change. Tasmania is keen to see this issue addressed further in the White Paper.

## EXTENDED RENEWABLE ENERGY TARGET SCHEME

The Tasmanian Government believes that increasing renewable energy generation is an integral part of responding to the challenge of reducing carbon emissions levels and strongly supports the Australian Government's intention to increase the amount of renewable energy generated in Australia through an expanded Renewable Energy Target (RET) Scheme.

There are many benefits to be derived from an expanded RET Scheme, including:

- transforming Australia's stationary energy sector, which is where a high proportion of the nation's emissions currently originate;
- driving a rapid but sensible and sustainable development of renewable energy technologies and infrastructure in Australia; and
- developing new supplies of electricity and helping them to achieve economies of scale.

We believe that the expanded RET will complement a properly designed CPRS by driving the necessary rate and pace of change toward greater use of renewable energy.

The Tasmanian Government believes the RET Scheme should build on the successes of the Mandatory Renewable Energy Target (MRET) Scheme.

## AGRICULTURE

The Tasmanian Government supports the position not to initially include the agriculture sector in the CPRS. However, the primary industry sector has the potential to make a significant contribution to the reduction of greenhouse emissions in Australia. Tasmania believes that outlining a framework for the inclusion of the agriculture sector, together with a date for inclusion is a necessary first step. Providing certainty about coverage will encourage investment and research into a range of issues including measurement, management practices, the potential for carbon sequestration in vegetation and soils. The Tasmanian Government would support appropriate complementary measures to provide incentives for emission reduction actions until this sector is covered by the CPRS.

## SHIPPING AND TRANSPORT

The Green Paper states that transport emissions account for approximately 14 per cent of Australia's emissions, and of that road transport makes up 90 per cent with the remainder coming from rail, domestic aviation and shipping.

On this basis, Tasmania questions the proposed fuel excise offset for heavy vehicle road users and motorists which appears to provide concessions to user groups creating the greater proportion of transport emissions at the expense of transport modes that contribute significantly lower transport emissions. This will not send contemporary messages to motorists regarding fuel use or encourage better use of public transport.

The Green Paper states that fuels used for international shipping and aviation, including domestic sections of international voyages will be netted out from the CPRS. This exclusion is likely to have a negative impact on domestic shippers where freight is contestable, as international shippers will not be exposed to the same costs.

The competitive disadvantage the CPRS may bring to shipping and aviation is of particular concern to Tasmania as an island state dependant on sea and air for transporting goods and people to and from the mainland.