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SUBMISSION TO THE EMISSIONS REDUCTION FUND GREEN PAPER

Climate Change Balmain-Rozelle is a locally-based community organisation that has been campaigning for stronger action on climate change since February 2006.

Our vision is to reduce greenhouse gas emissions locally and nationally by encouraging residents, businesses and schools to switch to green energy. We aim to help create a world which is much less reliant on fossil fuels, particularly coal, thus heading off the greatest catastrophe now facing the earth, that of global warming. We have over 700 supporters who receive our monthly Newsletter.

Greenhouse Gas Emissions

We recognise that Australia is one of the largest per capita emitters of greenhouse gases in the world, and that this has arisen largely because of our high level of dependence on coal-fired electricity generation, and to a lesser extent on agriculture, transport and industrial processes. It is essential for these activities to be drastically reformed if we are to have any success in meeting our climate change abatement obligations to the world.

The Proposed Emissions Reduction Scheme

The proposed Emissions Reduction Fund is based on an incentive principle. Businesses that identify means to reduce their emissions will be subsidised by government payments, on a "bang for buck" principle: that is, the most effective reductions in emissions at the most economical cost will be the ones that are supported by the fund.

There is remarkably little detail about the costing of this fund. In fact, apart from a mention in the Minister's foreword, of forward estimates of \$300m, \$500m, and \$750m over the next six years, costs are not mentioned at all in the body of the Green Paper. We see this as a damaging omission: if there is no information or discussion about the cost of a scheme it is impossible to give it proper consideration.

The Taxpayer Pays . . .

Whatever sum of money is allocated to funding abatement schemes, two things are clear:

1. The Emissions Reduction Fund will be paid for out of government revenue: that is the general tax base. The cost of this scheme will be borne in its entirety, directly by all Australian taxpayers.
2. The fund will make payments to companies that are currently large-scale polluters who can identify relatively easy mechanisms to reduce their greenhouse gas emissions.

Will It Work?

The economic effectiveness of the proposed scheme is beyond the capacity of Climate Change Balmain-Rozelle to determine. However, we take note that:

- a great majority of economic experts doubt that the scheme is capable of reaching the desired target of 5% reduction by 2020. The Climate Institute¹ has concluded that emissions will in fact rise 8% to 10% by 2020 under the proposed scheme.
- the budget apparently allocated for the scheme will amount to only \$15 - \$20 per tonne of carbon abatement, which experience over the past few years has proved to be quite inadequate. The

¹ <http://climateinstitute.org.au/articles/publications/coalition-climate-policy-and-the-national-climate-interest.html/section/478>

Climate Institute² calculates that an additional \$4bn would be needed to achieve the target: Reputex³ suggests that as much as \$35bn is needed.

Further, we note several ways in which the fund, as presently proposed, would miss its mark.

- Companies may bid for funding regardless of the commercial viability of their project. There is nothing to prevent government (taxpayers') funds going to support projects which would have gone ahead anyway, thus denying funding to other companies who could not afford to make changes without support.
- There are difficulties in establishing a baseline to determine improvements: taking a company's recent historical emissions would make it easy for companies that have not attempted to curb emissions so far to qualify for funding, while companies that have already made easy, cost-effective changes would struggle to achieve (or afford) additional cuts.
- The reference point for performance is "business as usual". The possibility of a penalty system is unclear, and has been denied by the Minister. However, many argue that the absence of a penalty system for excessive emissions means that there is effectively no incentive for companies to make any changes.

Corporate Welfare

We submit that the Emissions Reduction Fund is effectively nothing more than a hidden subsidy for big polluters. This is completely out of line with Treasurer Hockey's recently-stated policy that corporate welfare is at an end. If this government is to be consistent then the Emissions Reduction Fund must be completely abandoned as inappropriate and inadequate, and replaced by an alternative approach that shifts the burden of abatement to the polluters themselves.

A Preferred Alternative

Climate Change Balmain Rozelle submits that the arguments above indicate that the Emissions Reduction Fund is based on completely unfair and inefficient principles and includes a number of flaws in its operation as proposed. It should be abandoned.

Polluters (Not the Public) Pay

Instead of paying existing polluters to continue polluting, simply to a lesser extent, the Government should recognise the principle that polluters should pay for the privilege of discharging damaging substances.

This is already well recognised in other areas – for example industrial discharge of waste water is monitored and companies are charged according to the quantity of damaging chemicals that are included in the discharge, with penalties being incurred if agreed levels are exceeded. The existing carbon price (referred to as a tax by the current government) works in a similar way. By imposing charges on atmospheric discharges, it provides an incentive for companies to reduce their costs by implementing emissions reduction schemes: in cleaning up their industrial processes, in greater efficiencies, and in switching to low carbon or renewable sources of electricity.

Furthermore, maintaining a price on carbon, instead of adding to the burden on the general taxpayer, actually provides funds for the development of clean energy initiatives, both as research and development projects and to support implementation of effective clean technologies.

A Realistic Emissions Reduction Target

Even if the proposed scheme achieves a reduction of 5% of emissions by 2020, climate scientists are unanimous in their agreement that this target is woefully inadequate⁴ if we are to limit temperature rises to 2 degrees centigrade (itself a pathetically modest ambition, necessarily accepted because of inaction by governments and industry for too many years already).

It is clear that no single action will be enough to achieve the reductions that are necessary. It is also clear that the Government's proposed Emissions Reduction Fund, which at best, on the government's own

² <http://www.climateinstitute.org.au/articles/publications/coalition-climate-policy-and-the-national-climate-interest.html>

³ <http://www.reputex.com/publications/behind-the-numbers-adding-up-to-the-direct-action-plan/>

⁴ <http://www.iddri.org/Publications/Developed-Countries-2020-Pledges-Fall-Short-of-IPCC-Target-What-can-we-do>

predictions, will only achieve a 5% reduction, and on most other analyses will result in a significant increase in emissions, is a remarkably inefficient tool with which to achieve climate change mitigation.

Business Confidence

The current price on carbon is well-established, is an approach used by many countries around the world, and Australia has been recognised as a pioneering leader on this strong, clear, simple and equitable action to reduce greenhouse gas pollution. Climate Change Balmain-Rozelle urges the government to abandon its proposed policy as manifestly ineffective, and maintain the status quo: a measure of consistency on which businesses large and small can base their planning.

21st February 2014

Climate Change Balmain-Rozelle