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COMMENTS TO THE DEPARTMENT OF CLIMATE
CHANGE AND ENERGY EFFICIENCY REGARDING

THE PROPOSED ARCHITECTURE AND IMPLEMENTATION ARRANGEMENTS FOR A CARBON PRICING MECHANISM

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UnitingJustice Australia, the policy and advocacy unit of the Uniting Church National Assembly, appreciates the opportunity to provide comment to the Australian Government on the architecture and implementation of a carbon price mechanism.

We provide these comments as a continuation of the Uniting Church in Australia's involvement in the public discussion and policy-making around climate change. Through UnitingJustice Australia and UnitingCare Australia, the Church made comments throughout the process of developing the Carbon Pollution Reduction Scheme in 2008-09, and we welcome the opportunity to make comment to the Government during the development of a carbon pricing scheme.

The Uniting Church's commitment to the environment arises out of the Christian belief that God, as the Creator of the universe, calls us into a special relationship with the environment – a relationship of mutuality and interdependence which seeks the reconciliation of all creation with God. We believe that God's will for the earth is renewal and reconciliation, not destruction by human beings.

The Uniting Church regards human-induced climate change as a most serious threat to the future and integrity of life on earth. In 2006, the Assembly Standing Committee of the Church resolved to adopt the statement *For the Sake of the Planet and all its People: A Uniting Church in Australia Statement on Climate Change*.¹ The statement declares:

It is increasingly the case that some humans consume the earth's resources whilst other humans pay the price. Australia must acknowledge that it has a responsibility to reduce our reliance on fossil fuels. As long as we remain prepared to abuse the atmosphere and entire ecosystems for the sake of short-term economic gain for a few, we undermine our own future.

The statement also highlights the Church's particular concern with the fate of some of our most vulnerable Pacific neighbours. Our partner churches in the Pacific have called on their sisters and brothers in the church throughout the world to act in solidarity to reduce the causes of human induced climate change by reducing energy use and developing clean, renewable energy sources.

¹ This statement is available at: http://www.unitingjustice.org.au/images/pdfs/issues/living-sustainably/assembly-resolutions/11_asc_climatechange2006.pdf

For the Uniting Church, social justice and environmental sustainability are inherently connected to each other and must always take precedence over the desire for increasing profits and the amassing of wealth by a relative few. This belief informs the principles which underpin our responses to Australian climate change policy:

- We must urgently do all we can to reduce our greenhouse gas emissions.
- Australia's action domestically to reduce its greenhouse gas emissions has a major impact on our credibility in climate change negotiations in the international arena.
- As a priority we must ensure that low-income households and people affected by poverty do not suffer further as a result of the introduction of a price on carbon pollution.
- The protection of the environment for its own sake and for the sake of our children and future generations should take precedence over maintaining and growing the already large profits of big industry.
- We must begin to transform our economy from one based on fossil fuels to a 'green' economy that reflects respect for the limited resources of the planet and the need for justice and equity among all people.

In relation to a price on carbon pollution specifically, the following principles provide a frame from which we will assess any policy proposals:

- Australia's emissions should peak and begin to decline by 2013 and so the starting carbon price and any increases should be consistent with this aim.
- Compensation and energy-efficiency assistance should be concentrated towards low-income households.
- A proportion of revenue from the carbon price should be allotted to contributing to Australia's obligations internationally to assist developing countries with mitigation and adaptation.
- Compensation for business should be linked with environmental and social outcomes and targeted to help communities where an absence of compensation would lead to unemployment and hardship.
- A proportion of revenue from a carbon price should be allocated to government support for the continued development and expansion of renewable energy industries.

- A carbon price must be part of a package of measures that ensure the transformation of the Australian economy to reduce its reliance on fossil fuel-based energy and carbon-intensive production and consumption.

We believe that the primary objectives of a price on carbon pollution must be to contribute effectively and appropriately to avoiding dangerous climate change, begin Australia's transformation to a low-carbon economy and allow Australia to act with credibility in the continuing international climate change negotiations.

1 | STARTING PRICE AND COVERAGE

The Uniting Church is supportive of a carbon price during the fixed price period which is consistent with ensuring that Australia's carbon emissions peak during this term of the Federal Parliament and decline in the short term. We note that a recent working paper from ANU's Centre for Climate Economics has stated that a starting price of \$36 per tonne in 2012 rising to \$60 per tonne by 2020 would be consistent with this aim.

We strongly support a long-term goal of moving Australia to a zero-emissions energy sector, and do not support calls for an initially low carbon price, which would not reduce our economic dependence on carbon-intensive energy sources and production methods or Australia's projected emissions growth. Without significant investment from governments, Australia's full abatement potential may not be realised, and a weak price would also deliver less revenue to support energy efficiency programs, renewable energy expansion and assistance for low-income groups.

We are concerned that a delay in the transition to a cap and trade scheme increases the risk that Australia will not achieve the domestic emissions reductions necessary to reach the targets we have committed to internationally without a substantial purchase of international permits (which will come at a significant cost to taxpayers). Given this, we would not support stretching the fixed price period to five years, and allowances for the government of the day to defer transition to a cap and trade at its discretion.

It is crucial that all industrial sectors are covered from the outset of the scheme, including coal and gas mining and other sectors with fast-growing emissions.

2 | SUPPORT FOR HOUSEHOLDS

The Uniting Church seeks to assist the most marginalised and vulnerable people in our community. It is the needs of the most disadvantaged that we are called to champion in the climate change debate. The Church is therefore particularly concerned with the potential impact of a carbon price on low-income households. We appreciate that the Government has committed to compensating households and fully support this commitment.

Assistance should prioritise the needs of low-income and vulnerable households, and should partly occur through assistance to improve the efficiency of their energy use. However we believe direct compensation

through the tax and transfer system will also be necessary. Compensation should be consistent with the intent of the carbon price (that is, reducing Australia's carbon emissions) and take account of the different characteristics of various types of households and their consumption of goods and services.

It is crucial that assistance for households in improving their energy efficiency, such as programs to retrofit housing stock and upgrade appliances occur before a carbon price is implemented so that these households do not experience additional financial hardship before the benefits of improved energy efficiency are realised.

Access to energy

In relation to the provision of energy in particular, our response to regulation, assistance and other policies in this area will be based on the principles of:

- **Fairness:** setting responsible and reasonable rights and responsibilities that apply to all customers and a shared responsibility with the energy industry, specifically retailers, distributors, regulators and government. Fairness encapsulates equality of access, recognition of the essential nature of energy.
- **Sustainability:** governments, consumer groups and increasingly businesses across Australia (and indeed internationally) are implementing steps to curtail greenhouse emissions and encourage innovations which will particularly impact upon the Australian energy industry and its consumers.

Recognising that there is no simple solution to the challenge of maintaining affordable and prudent use of energy, the Uniting Church is committed to an energy affordability framework that includes four broad policy and program instruments that, in combination, can help to make energy affordable particularly for classes of customers who may struggle to maintain reliable supply. This energy affordability framework applies across the energy market, with different elements having differing areas of responsibility for implementation.

The four elements of the energy affordability framework are:

Consumer Protection

Regulation and compliance arrangements are needed to ensure that energy provision is safe. Consumer protection requires standards to be made in areas including: billing, information provision, metering, supply, marketing complaints.

Energy efficiency

This element relates to promoting behaviour change via supplying directly relevant information about energy use and efficiency options (via household audits) and through demand management strategies, namely consumer's ability to use energy more efficiently, and to energy-efficient design, particularly for housing but also for electrical appliances, including air-conditioning and hot water.

We support setting targets for improve energy efficiency in household sector, with a focus on at risk households (e.g. private rental, lowest income quintile, rural and remote).

Pricing

This element includes tariff design and tariff structure as they relate to individual consumers and their bills. We recognise that tariff design will always be a compromise between the generally competing objectives of:

- efficient collection of revenue for both regulated and competing energy businesses;
- price signals to reflect the real cost of energy division, including environmental costs; specifically, the current circumstances, the cost of carbon in all elements of energy supply, but particularly in the generation of electricity; and
- affordability for the essential service of energy, specifically for consumers who may face difficulty in maintaining reliable supply.

The Church has a particular interest in the last of these objectives – we see the provision of electricity as an essential service which cannot be left without government intervention in ensuring supply for the most vulnerable households in Australia.

We note that the St Vincent de Paul Society has proposed, in line with the principle of ‘the more you use the more you pay’, a ‘life-line price cap’² which would provide a fixed price per kWh, set at a level of consumption that would equate to a minimum household usage to provide hot water, space heating, refrigeration and minimum lighting. As such, all energy consumed within the “life-line” cap is protected from the pass through of costs associated with carbon trading and excessive profiteering by the electricity retailers.

This price cap would

- partially protect many low-income energy consumers from the cost of carbon pricing being incorporated into the first block or the fixed charge of electricity consumption
- provide a reward for those households with low electricity usage
- serve as an incentive for all households to reduce consumption to a particular level, thus supporting and rewarding those households that have sound environmental practices.

Concessions

Concessions should be adjustments that occur to ensure affordability for small customers, once energy efficiency and pricing factors have been utilised as effectively as possible.

² St Vincent de Paul Society (2008), ‘Submission to the Garnaut Review’, available: http://vinnies.org.au/files/pdfs/National/SocialJustice/20080411-SJ_Gaurnet_Report_submission.pdf

3 | INDUSTRY ASSISTANCE

We believe that the “polluter pays” principle is fundamental to ecologically-sustainable development. It should be the largest polluters who foot the bill for the investments needed for renewable energy, for mitigation and adaptation assistance for developing countries, and for any adaptation needed here in Australia.

Any assistance which is allocated to relieve initial economic hardship should be tied to social and environmental outcomes.

Treatment of the electricity generation sector

We are concerned that the new carbon pricing scheme will replicate the overly-generous Electricity Sector Adjustment Scheme which was proposed under the CPRS.

Direct assistance should not be given to existing coal-fired electricity generators. This will only reduce the incentive for consumers to switch to renewable energy generators and hinder the expansion of the renewable energy sector in Australia. Compensation will only allow the coal industry to continue to conduct its operations in its current manner, rather than assisting with the movement of the Australian economy away from carbon-intensive activities. It will give coal-fired electricity generators a subsidy that allows them to be more competitive against renewable energy generators than they would be if full market forces were allowed to operate, hindering the development and expansion of the renewable energy industry in Australia.

The coal industry has had nearly 20 years of advance warning that governments would in the future need to implement some form of regulation of carbon pollution, going back to the IPCC First Assessment Report in 1990. This was acknowledged in the Department of Climate Change CPRS Green Paper in 2008.³ Firms in all industries regularly make decisions which are subject to unknown and uncertain future market developments and we do not see any reason to specifically single out investors in the coal industry for special (and inappropriate) support. To provide further assistance to coal-fired electricity generators rewards those investors who made reckless investment decisions, gambling that Australia would continue to make a minimal contribution to the global effort to mitigate greenhouse gas emissions.

Rather than compensating coal-fired electricity generators, the Government should instead prioritise support for Australia’s renewable energy sector and the provision of additional support to assist affected workers and regions with structural adjustment. Renewable energy projects should be particularly supported in these strongly-affected regions.

In relation to complementary measures in addition to the carbon price, we are concerned that the proposed Emissions Performance Standard be low enough to ensure that new or expanded coal-fired power stations are not able to be constructed.

³ Department of Climate Change (2008), *Carbon Pollution Reduction Scheme – Green Paper*, available: <http://www.climatechange.gov.au/~media/publications/green-paper/greenpaper.pdf>, p.30

Support for emissions-intensive, trade-exposed industries

The Uniting Church has been supportive of assistance to Australia's most emissions-intensive, trade-exposed industries, on the grounds of avoiding 'carbon leakage', however these industries and firms should not be exempted entirely from requirements to reduce their emissions. Any assistance should be publicly and transparently reported.

The Government needs to ensure that the threshold levels for assistance do not provide incentive for an industry to hang-back on reducing their emissions. If an industry calculated that crossing the emission intensity threshold for assistance by reducing their emissions would cost more, by the loss of the assistance, than is saved by reducing the costs of paying for emissions then it will be in the interests of an industrial sector to collude to not reduce their emissions to below the emission intensity threshold.

We were concerned about the level of EITE industry assistance proposed under the CPRS, and would be strongly opposed to a similar level of assistance being provided under a new carbon price arrangement. Under the CPRS, the assistance proposed for EITE industries could have resulted in them receiving an increasing share of carbon pricing revenue over time, placing an increasing burden on the rest of the economy, given that free permits were linked to output in these sectors.⁴

This could be avoided under a new scheme by limiting overall industry assistance to a given percentage of total revenue and/or setting a higher rate of decrease over time for assistance.⁵

In assessing industries' claims for assistance, it needs to be considered that mitigation policy action in many other countries, including developing countries, has increased significantly over the last few years.⁶ As such, an EITE industry assistance should be subject (in legislation) to a regular, independent review which takes new international policy developments into account.

4 | OUR INTERNATIONAL OBLIGATIONS

Addressing climate change is an issue of justice and equity, internationally as well as within the Australian community. The Uniting Church believes that a proportion of revenue from a carbon price must be allotted, through legislation, to climate change assistance for developing countries. We are concerned that such an allocation appears to have been excluded from the Government's deliberations around a carbon price.

Rich nations, including Australia, have for decades emitted a disproportionate share of greenhouse gases

into the atmosphere, and yet it will be the poorest and least responsible countries and communities that will be worst affected by the effects of climate change caused by these emissions. Climate change is already beginning to undermine poverty reduction and sustainable development objectives under the Millennium Development Goals (MDGs), and is set to deteriorate even further. It cuts across all development issues and seriously threatens the lives and livelihoods of poor people around the world. It affects all sectors of development from food and water security, to health and sanitation, to displacement and migration, and conflict and disasters. Developing countries are more vulnerable to climate change because they are more dependent on their natural resources than developed countries, and have a lower capacity to cope with environmental hazards and shocks.⁷

On our own doorstep, low-lying Pacific communities need support in adaptation. The small island states of the Pacific are especially vulnerable to the impacts of climate change, sea level rise and extreme weather events. As a rich, developed country in our region, Australia has a particular obligation to ensure that these nations received the funds they need to adapt to their changing environment, and as such we appreciate the funding allocated specifically to Pacific Island countries as part of Australia's \$599 million fast-start finance commitment and urge for this commitment to continue to be strengthened.

At Cancun, the international community achieved significant outcomes with the establishment of the Green Climate Fund and the Technology Mechanism and steps forward in the REDD process. We are eager to see global arrangements proceed for the raising of funds for the Green Climate Fund and for further progress in relation to REDD and technology transfer. We urge the Government to be ambitious in its involvement in these international discussions. In the absence of a global tax on financial transactions⁸ or other innovative finance sources, dedicating a proportion of the revenue from a pollution price will ensure the Australian Government is able to meet its commitments in relation to the Green Climate Fund.

⁴ Jotzo, F. (2011), *Carbon pricing that builds consensus and reduces Australia's emissions: Managing uncertainties using a rising fixed price evolving to emissions trading*, CCEP Working Paper 1104, available: <http://ccep.anu.edu.au/data/2011/pdf/wpapers/CCEP1104Jotzo.pdf>

⁵ *ibid.*

⁶ Garnaut, R. (2011), *Progress towards effective global action on climate change*, Garnaut Climate Change Review Update, available: <http://www.garnautreview.org.au/update-2011/update-papers/up2-progress-towards-effective-global-action-climate-change.pdf>

⁷ UNDP Human Development Report 2007, UNDP: New York

⁸ UnitingJustice Australia is a member of the Australian *Robin Hood Tax* campaign, and as such is supportive of such a tax.