Australia

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This is part of THE CLEAN REVOLUTION

The Clean Energy Plan - Analysis

Policy Briefing | 18 July 2011

Context and Overview

Prime Minister Julia Gillard announced the details of the Australian Government's **Clean Energy Plan**, on Sunday 10th July. The wide ranging package contains policies in four key areas: carbon pricing, renewable energy, energy efficiency and land use, with the first two areas the most substantial parts of the plan.

This document is designed to give an overview of the main elements of the package, as well as a brief analysis of the scheme.

It is divided into the following sections:

— Key Features of the Scheme with International Comparisons
— The Climate Group's Ten Takeaways
— Analysis by Key Area
— International Significance
— Governance
— The Politics
— What's next?
— What Other People are Saying
— Australian Emissions – Key Facts

Key Features

Price and structure:

— As of 1 July 2012, carbon permits will have a fixed price of AU$23 per tonne for three years, rising by 2.5 per cent per year.
— As of July 2015, this will switch to a cap and trade system with a market price.
— For the first 3 years post 2015, there will be a price floor of AU$15 per tonne (rising by 4 per cent in real terms each year) and a price ceiling of AU$20 above the expected international price (rising by 5 per cent in real terms each year).

Compared to:

➢ **New Zealand:** Has a fixed price of NZ$12.5 in place since 2010 which is currently under review. As of January 2013, either a cap will be set and the carbon price floated, or the fixed price will be doubled to NZ$25. This would come 6 months after the Australian carbon price begins in July 1 2012.

- **The EU:** Since 2005, an EU-wide cap is set on emissions permits with businesses trading for permits in a carbon market. Member States can also allocate permits for free to businesses that require assistance. In 2013, Member States will be required to auction at least 60% of emissions allowances. This has seen a carbon price ranging from €12 to €33 (AU$16 to AU$44). Prices in 2012 are expected to be around €17 (AU$23), rising to an average of €30 (AU$40) over the 2013-2020 period.

Targets and impact on emissions:

— Australia's 2020 emissions reduction target remains at 5 per cent below 2000 levels with room to move to up to 25 per cent should there be a global deal.

— Australia's 2050 emissions reduction target is raised from a 60% to an 80% cut on 2000.

— The government's modeling indicates that:
  - By 2020, Australia will be cutting its emissions by 159 million tonnes per year to meet this target through this scheme.
  - Domestic abatement will be almost 60 million tonnes per year by 2020, compared to business as usual.
  - An additional 100 million tonnes of abatement a year will come through international carbon credit purchases.

Compared to:

- **New Zealand:** emissions reduction target of 10 to 20 per cent cut on 1990 levels with the target currently under review. The 2050 target is a 50 per cent cut.
- **The EU:** reduction target of a 20 per cent cut on 1990 levels, with calls to go to 30 per cent. The 2050 target is 80 – 95 per cent cuts.

Coverage:

— The scheme will apply to any facility producing more than 25,000 tonnes of CO2e per year. In effect, this means the 500 most polluting businesses in Australia.

— Covers around 60 per cent of Australia's national emissions.

— Transport fuel for domestic shipping, rail, and non transport uses of fuel are included. Heavy on-road transport will be included from 1 July 2014.

— Petrol and Diesel are excluded for passenger and light vehicles.

— International aviation, agriculture, forestry and land are excluded.

Compared to:

- **New Zealand:** scheme covers 45 per cent of national emissions, including transport, industry, stationary energy, forestry and reforestation. Agricultural emissions are excluded, but will enter the scheme as of 2015 – potentially boosting coverage of the scheme up to 90 per cent of the economy.
- **The EU:** scheme covers 30 nations, including the 27 EU nations as well as Norway, Iceland and Lichtenstein. It includes approximately 50 per cent of the EU's CO_2 emissions (or 40 per cent of its CO2e emissions). Over 10,000 installations are covered, including power stations, combustion plants, oil refineries and iron and steel works, as well as factories making cement, glass, lime, bricks, ceramics, pulp, paper and board. Airlines will join the scheme in 2012. The EU ETS will be further expanded to the petrochemicals, ammonia and aluminum industries and to additional gases in 2013. Lastly, many countries within the EU also heavily tax carbon-based transport fuels within their own borders as an additional measure.

Immediate economic impacts

- Assuming the 5 per cent target by 2020, the cost of domestic abatement will be around AU$1.7 billion a year in 2020, while the cost of international permits will by AU$2.8 billion a year.
- Modeling from the Productivity Commission suggests the scheme will reduce GDP growth by 0.1 per cent per year.
- Treasury modeling shows the scheme will raise the Consumer Price Index by 0.7 per cent in 2012 - 2013 (approximately equal to one quarter's worth of inflation).
- For the average household, total costs impacts will be AU$9.90 per week.
- Sale of permits will generate AU$10 billion per year in revenue for the Federal Government.

Impacts on households

- Treasury modeling forecasts electricity to rise by around $3.30 per week. Electricity represents less than 2% of most household budgets and slightly more for pensioners – nearer to 3%.
- The Treasury figures suggest in the tax's first year, grocery bills will rise by 80 cents a week, with a litre of milk to increase by 1 cent and a dozen eggs by 2 cents.

Assistance to Households:

- Around half of the carbon price revenue will be used to compensate households.
- The average household will receive AU$10.10 each week.
- The government forecasts that two thirds of households will be better off or break even under the scheme, while the majority of the remaining third will receive some compensation. One in ten households will receive no compensation.
- Compensation will partly be delivered through a mixture of increased benefits and tax cuts. The tax-free threshold is being trebled from AU$6000 to AU$18,200. This will see over 1 million people leave the taxation system, and will see all those earning under AU$80,000 receive income tax cuts.
- A further AU$200 million will be delivered over 7 years to assist strongly affected communities such as those around brown coal fired generators, while AU$330 million will be used to support energy efficiency programs in local councils and low-income households.
- AU$40 million will be delivered to remote indigenous communities, to support the production of clean and reliable power.

Industry Compensation

- $9.2 billion assistance will be provided over the period to 2014-15 to assist the most trade exposed emissions intensive industries. They will get 94.5 per cent of permits for free.
- Strongly affected (but not trade exposed) industries will be eligible for free permits to cover 66 per cent of the industry average carbon costs.
- An Energy Security Fund, including an estimated $5.5 billion of assistance for strongly affected generators in the form of permits and assistance. This will cover around 23 per cent of coal generators liability.
- Liquefied Natural Gas projects will also receive a supplementary allocation to ensure an effective assistance rate of 50 per cent.

— $1.3 billion will go into a coal sector jobs package to help those mines most affected, the so-called "gassy" mines emitting methane gas.
— $300 million will be put aside to help the steel industry transition.
— There will be a negotiated closure of 2000 Megawatts of the most polluting power stations by 2020.

Compared to:

➢ **New Zealand:** offers free permit allocation to trade-exposed, emissions-intensive industries, which, like in Australia, will decline over time by 1.3%.
➢ **The EU:** member states can freely allocate permits to trade-exposed and emissions-intensive industries. The scheme has been criticized for over-allocating permits, reducing the carbon price and leading to windfall profits for some industries. The scheduled tightening of the cap in 2013 is expected to address this.

Support for Clean Energy and Energy Efficiency

— The scheme will provide AU$10 billion funding for clean energy, to be invested by the newly created Clean Energy Finance Corporation over five years. Carbon Capture and Storage has been specifically excluded from its mandate.
— The Australian Renewable Energy Agency will be established to manage AU$3.2 billion of existing funding for renewable energy.
— An AU$1.2 billion Clean Technology Program will provide assistance to improve energy efficiency in manufacturing industries and support research and development in low carbon technologies. The scheme is designed to leverage additional private support of AU$2.8 billion, for a total of AU$4 billion of investment. This includes AU$400 million in R & D for low carbon technologies.

Support for Land-based and Agricultural Initiatives

— AU$1 billion will be invested in land sector measures over four years, delivered partly through the Carbon Farming Initiative. This is targeted to encourage innovative technology applications and management practices and new methodologies for measuring land carbon.

Governance

— A new independent Climate Change Authority will advise on the setting of an overall emissions cap and other measures to meet emissions targets. The final decision on any future cap will rest with Parliament.
— The Clean Energy Regulator will administer key elements of the carbon pricing mechanism as well as the Carbon Farming Initiative.
— The prices watchdog, the ACCC will be given $12.8 million to monitor price "gouging" – increases in excess of or falsely attributed to a carbon price.
— The Productivity Commission will monitor and advise on assistance to industry and competitiveness.

The Climate Group's Ten Takeaways

1 **An end to the log jam**. If passed, the package will put a price on carbon after almost ten years of policy paralysis in Australia. It sends a long term signal that emitting carbon will now comes at a cost.
2 **Walking a tightrope**. The initial price of $23 a tonne is a good balance between a starting point that means something and one that is politically feasible.

3 **Certainty at last.** Businesses now have the detail they need to look at the costs and opportunities that this presents. Once it is passed, it will deliver long overdue certainty and confidence to the market, unlocking crucial investment. The transition to a market based price is "hard wired" into the scheme and a price collar and ceiling will provide a buffer against price fluctuations.

4 **More than a carbon price**. The complementary measures and funding contained alongside the price on carbon will encourage the growth of innovative, green technologies and jobs.

5 **A long term target**. The new 2050 target of 80 per cent emission reductions on 2000 levels is a welcome reminder of where we are ultimately heading and is in greater alignment with international targets. However, the current 2020 target of 5 per cent cuts is too low, and we need to establish a strong interim target for 2025.

6 **A joined up approach**. Using tax cuts as a major way of protecting people against price rises is smart policy on a number of levels: economically, it will encourage a flexible labor market and reduce the administrative cost of the scheme, while politically, it will make the package tougher for the Coalition to oppose and potentially repeal.

7 **Communication is key.** Julia Gillard still has a tough battle to convince the Australian public that this package is a good idea. The government has not sold the idea well so far, reflected by the fact that 58per cent were opposed to a carbon tax, with 14 per cent unsure just prior to the announcement. The change in language from the government from talking about a carbon tax to a clean energy future is a good start.

8 **Politics is crucial.** While the public pitch has gone badly to date, the PM seems to have judged the politics of it well, given the vagaries of minority government. Key rural Independents and the Green MP in the Lower House are on board and if they and Labor backbenchers hold the line, the government has the numbers in the Lower House (just!). With the Greens holding the balance of power in the Upper House, the scheme could be passed into law later this year. Prime Minister Julia Gillard's falling popularity is a risk, but Labor is banking on the next election being more than 2 years away. Even if the poor polls continue, the Labor caucus has limited options – the public would be unlikely to forgive the removal of a second Prime Minister after Kevin Rudd. Labor will need to hold its nerve.

9 **Australia may surprise itself.** The fixed price may lead to more abatement than the treasury modeling predicts. Research from the Grattan Institute shows this was the case in the NSW Greenhouse Gas Abatement Scheme and the world's first emissions trading scheme in the US, which applied to sulphur dioxide and nitrous oxides in the 1990s. Treasury modeling also doesn't include the extra impact that the negotiated closure of power stations in the scheme will have.

10 **Carbon market growth**. The scheme represents a boost to international carbon markets with AU$2.8 billion forecast to be spent on overseas offsets by 2020.

Analysis by Key Area

Price and structure

— Once passed, the scheme will provide businesses with much needed certainty, critical to domestic and overseas investment. Businesses now have the details they need to start looking at how to best reduce their emissions and to explore the opportunities presented by a carbon price.

— Investor groups have broadly welcomed the announcement.

- The fixed price is within the range recommended by the Garnaut Review and is roughly equivalent to the carbon price in New Zealand. Whilst this is above the current EU price, recent analysis by Barclays Capital forecasts that the EU price will recover to be at around $23 at the time that the Australian fixed price starts in July 2012.
- It represents a strong outcome given the tightrope it needed to walk between providing a reasonable signal to the market while still being politically feasible in Australia. It is significantly higher than the $10 starting price recommended by a number of industry associations, including the Business Council of Australia and the Australian Industry Group.
- The price is high enough to provide some continuity with the expected price in international carbon markets once the scheme is fully market based.
- The effective price collar provided by the price floor and ceiling in the first 3 years past 2015 is pragmatic and will guarantee stability and business certainty in the price in the short to medium term.

Clean technology development:

- Public Support for low carbon technologies has risen from around $3 billion to a total of $11.2 billion over five years. It is important to note that the industry still has a year to wait until this kicks in.
- This complementary support for clean technology development is welcomed. While admittedly expensive in terms of abatement at the moment, renewable technologies will have to do a great deal of heavy lifting in the future to reach an 80 per cent emissions reduction target by 2050. Government support is necessary to fund R & D into new technologies and to bring them down the cost curve, making them more cost effective in the long term. This is not a case of government picking winners but of ensuring there are enough winners for the market to choose from in the medium to long term.
- Using revenue for clean technology funding has attracted some criticism beyond the obvious sources. The Productivity Commission, The Grattan Institute and some other economists have pointed out that the cost of emissions abatement from renewables is relatively expensive, arguing that a carbon price alone will be the most efficient strategy for emissions reduction.
- Australia is currently well behind countries like China in terms of R & D expenditure on clean tech – but it has world class research institutions which will be a major enabler to the sector.
- Additional funding will also help support the creation of new industries and jobs that will be profitable in the low carbon markets of the future.
- While welcome, the increased funding for renewables will only be as good as the amount of money that is dispersed - new institutions will need to work hard to ensure that this funding is spent! If that sounds easy, it has not been the case previously. A Grattan Institute study revealed that only 18 per cent of announced government funding is typically actually spent within ten years.
- The renewables industry has not had a consistent experience of government intervention. There have been a lot of changes to various incentive schemes at Federal and State level, such as in the REC market and solar feed-in tariffs. The industry will be keen for policy stability, which this package has the potential to deliver.

Agriculture

- The AU$1 billion agricultural program represents a needed investment in a sector that, while immature, has the potential to play a big role in reducing emissions and improving the health of Australia's soil and habitats. Developing accurate and affordable ways of measuring land carbon sequestration and improving strategies for increasing its capacity offer huge potential for Australia.
- Ultimately agriculture should be included within any cap and trade scheme and research in these areas can provide a bridge for that to occur.
- There will be opportunities to learn from New Zealand's approach when its scheme expands to cover agriculture in 2015.

Stationary Energy and Coal

- Australia's grid mix is dominated by coal, which provides around 75 per cent of our current generation. The carbon price will impact the direct cost of electricity generation by a factor of its carbon intensity as well as raising electricity cost inputs indirectly, through pricing the emissions of coal mines themselves.
- The price is not high enough to make renewable energy sources competitive with coal or gas in the short to medium term - or to make changes to existing electricity generators stack up financially. For example, Frontier Economics states that a price of at least AU$40 per tonne is needed to justify replacing existing coal fired generators with gas. However, it does provide a long term signal to investors for new projects which will affect the grid mix in the future.
- Overall, the impact on electricity prices is expected to be AU$3.30 per week, or a 10% increase on business as usual prices, which is covered for most families by household compensation arrangements. This is in the context of much larger prices rises in Australia, the majority of which are because of overdue infrastructure upgrades (poles and wires).
- The carbon price is expected to add around AU$1.90 per tonne to the price of coal – that is roughly 1.6 per cent of the current average price.
- Coal generators, like Macquarie Generation and International Power, have already been vocal about their opposition to carbon pricing even warning of the potential for blackouts. This was dismissed by Professor Ross Garnaut who argued against compensating the coal industry.
- The proposed closure of 2000 MW of coal generation will be one of the most significant impacts on the sector until 2020.New coal fired power stations are unlikely to get finance - replacement power stations are likely to be a combination of renewable energy and efficient gas turbine technologies.
- The Government expects AU$20 billion to be attracted to renewable energy projects over the next decade, partly spurred on by the Mandatory Renewable Energy Target of 20% by 2020.
- Long-term projections expect AU$100 billion investment in renewables to 2050, reaching 40% renewable energy in the system. Given the scale of price reductions we are already seeing in renewable energy technologies such as solar PV, this prediction may well be conservative.

Industry Assistance

— Some compensation of trade exposed industries makes good sense given the uneven spread of carbon pricing across the world. However, the AU$9.2 billion industry assistance package for trade exposed industries is higher than it needs to be. Revenue used in compensation is money that could have gone to driving quicker emissions reduction or research and development. Ultimately though, it is one of the political prices of passing this scheme in Australia. The Labor Government's past experience with aggressive and pretty effective industry campaigns in areas like the "mining super profits tax" has reaped dividends for industry here.
— AU$300 million in support for the steel industry, above and beyond the 94.5 per cent free permits, is particularly generous. This is reflected in the fact that the CEOs of two major players, BlueScope Steel and OneSteel, have stopped their campaign against the scheme since the details were released and have now registered quiet support, calling the package "appropriate and sensible".
— Experience in the EU suggests carbon leakage has been limited, with few trade exposed industries relocating to regions where carbon is not priced.
— Despite the booming of coal in Australia, the Australian Coal Association has made loud complaints. The coal industry is not protected with the 94.5% free permit allocations, and the $1.90 average cost per tonne of coal produced will cost the industry AU$18 billion over the next 9 years. Given the profitability of the industry and spiraling demand for coal internationally, the majority of coal mines will suffer only a minor reduction in profits.
— A AU$4.7 billion takeover announcement of the MacArthur Mine which followed closely after the carbon price announcement has forced a change in the Coal Association's narrative and has been interpreted by most commentators as a sign of the long term health of the Australian coal Industry (MacArthur's share price rose by 37%).
— One significant improvement over the previous CPRS scheme will see industry assistance guaranteed for only 5 years instead of 10. After this period, the assistance will be reassessed by the Productivity Commission – a politically neutral Federal agency that should ensure that future industry support measures are based on evidence rather than politics.

Governance

— The plan contains strong, well fleshed out governance arrangements with an emphasis on introducing a degree of independence into arrangements.
— The new Climate Change Authority (CCA) will provide independent advice to the Government on pollution caps, the performance of the carbon price, Australia's progress towards meeting targets and other elements. This will remove this function from the day to day political pressures that affect any government and will ensure that science and economics get a fair hearing in the advice to parliament past 2015. This is a crucial. Similar arrangements in the UK are working well and have led to an upping of the UKs emissions reductions targets to a 50 per cent reduction by 2025, which has attracted bipartisan political support.
— The ultimate decision on Australia's emissions targets will rest with parliament, which is as it should be.

— The CCA will be an independent Statutory Authority, made up of nine experts with a focus on climate science, economics, emissions trading and business. The first Chair, Bernie Fraser is a well respected figure and was a previous Governor of the Reserve Bank of Australia for seven years.
— The set up of the CCA has a number of similarities with the Reserve Bank of Australia which suggests it will be a robust organization with sizeable influence over policy. For example, although the government is not compelled to take its advice, if it doesn't, it has to provide a written statement to both houses of Parliament from the CCA itself, outlining its response to the government's decision not to follow its advice!
— Similarly, the $10 billion Clean Energy Finance Corporation and the Australian Renewable Energy Agency will remove the core delivery agencies of government support for clean energy away from immediate partisan political pressure and influence.
— The use of the Productivity Commission to monitor the economic impacts of the scheme and the effectiveness of the industry assistance package is appropriate and well judged.
— The Clean Energy Regulator will administer key elements of the carbon pricing mechanism as well as the Carbon Farming Initiative.
— The Prices watchdog, the ACCC will monitor price increases from companies to ensure that any rises are not over and above those directly caused by a carbon tax. The PC has performed similar functions successfully in the past, most notably when the GST was introduced in Australia. However, as in the case with GST, the ACCC will need to have beefed up powers to make this work.

International Significance

— The announcement means that Australia's current 5 per cent target is for the first time, underpinned by serious policy which can actually get us there. This has to be good news.
— Importantly, the establishment of the Climate Change Authority leaves room for Australia to raise its 5 per cent by 2020 emissions reduction target, which is well below where it should be. The Greens have indicated that they expect the Authority to examine this target, in line with the latest science.
— The announcement adds to the number of countries that either have a price on carbon already, or are planning to bring one in. This will add momentum to the policy process in other countries currently considering a price on carbon, especially those in the region, such as such as South Korea and Japan.
— The impact of this for international negotiations will be limited, as our current target is lagging behind the commitments of other countries, like those in the EU.

Politics

Background

— Climate change and climate policy have been highly contentious issues in Australian politics for a decade. Various state governments investigated emissions trading schemes and the Howard Government examined the appropriate market mechanism prior to its defeat in 2007.

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- Action on climate change was a major factor in the election success of Kevin Rudd in November 2007, followed by significant public support for Australia's ratification of the Kyoto Protocol. At that time, there was considerable public support for action on climate change.
- Climate change policy has been a major factor in political casualties: the challenge and replacement of Opposition (Coalition) leader Turnbull in 2009 and Labor Prime Minister Rudd in 2010.
- Since the 2007 election, there has been a strong split on the issue down party lines (with one or two notable exceptions). There has been a prominent streak of climate change denial in the conservative Liberals-Nationals Coalition. Polls show Coalition voters are much more likely to be against action on climate change (as are older voters).
- Australia has large, profitable and influential mining and minerals industries, an electricity generation sector dominated by coal, as well as significant steel and aluminium industries. In general, these sectors have campaigned strongly against pricing carbon.
- Besides climate skepticism, the most common arguments against action on climate change in Australia are that it should not be acting before other countries, given the country's small share of global emissions (around 1.5 per cent), and that Australia's relatively emissions intensive economy will suffer under a price on carbon.

Second Time Lucky?

- This is the Labor Government's second attempt to put a price on carbon. The previous Prime Minister, Kevin Rudd, championed the Carbon Pollution Reduction Scheme (CPRS) which was designed as an emissions trading scheme. During the course of 2009, the passage of the bill was blocked three times in the Upper House by an unlikely alliance of The Coalition (who believed the scheme went too far) and The Greens (who thought the scheme did not go far enough).
- Then Opposition Leader Malcolm Turnbull supported the CPRS in principle and negotiated amendments with the Rudd Government. He was challenged and replaced in December 2009 by Tony Abbott based on his support for the CPRS (Turnbull is now a Shadow Minister for Communications and still publicly supports a price on carbon).
- Kevin Rudd had the chance to call a double dissolution election on the issue but despite reasonable levels of public support at the time, chose not to, deciding to postpone the CPRS until 2015. This was one of the factors that triggered a collapse in his public support, along with the so-called Mining Super Profits Tax, and led to his eventual challenge and replacement by Julia Gillard – then the Deputy Prime Minister – in June 2010.
- Since Julia Gillard led the Labor Party to the Federal Election in 2010, public support for specific action on climate change has significantly waned in light of the protracted political negotiations and the stalled attempts at pricing carbon.

Recent History and current context

- The issue has been a thorny one for Julia Gillard who explicitly promised before the 2010 election that her government would not introduce a carbon tax.
- At that 2010 federal election, neither the Labor Party nor the Coalition won an outright majority. Labor eventually formed government with the support of the Green member and three independents (Andrew Wilkie, Tony Windsor and Rob

Oakeshott) in the Lower House. The Greens also secured the balance of power in the Upper House, which took effect as of 1st July 2011.

— The details of the overall package have been negotiated by the Multi Party Committee for Climate Change, which was set up by Julia Gillard after the 2010 federal election. The Prime Minister chairs the committee which includes the Minister for Climate Change, Greg Combet, two members of The Greens and the independent MPs, Oakeshott and Windsor. The Coalition was invited to participate but refused saying the outcome was pre-determined.
— The carbon package (comprising the tax, the transition to the ETS, the complementary measures and the tax reform measures for household assistance), is being characterized by the government and commentators as being the most significant structural adjustment to the economy since the introduction of the GST.
— The fixed term, fixed price phase before moving to an ETS has been characterized by the Coalition (without challenge by the Government) as a tax and the Prime Minister has defended the policy u-turn by emphasizing that she has always supported an action on climate change but that negotiation and compromises have been necessary as Labor is in a minority government.
— Under Tony Abbott's Leadership, the Coalition has been totally opposed to a price on carbon and has conducted a critical and effective public campaign against it, on the basis that (1) it is a "great big tax on everything" and (2) the Prime Minister lied in promising not to introduce a tax.
— A key plank of the coalition's policy platform is to rescind the scheme should they win the next election (including the household and industry assistance contained in the package). The Coalition regularly calls on the Prime Minister to call an early election, on the basis that she does not currently have a mandate for such a significant, economy-wide reform.
— The Coalition's policy is a "direct action" approach which would be based on issuing publically funded tenders for emissions reductions from big companies. A major problem for the Coalition is that its plan has failed to attract the support of any mainstream economists and commentators on the basis that it is giving taxpayers' funds to polluters with no guaranteed emissions reduction outcomes.
— There is bi-partisan agreement on a five per cent cut in emissions by 2020 (based on 2000 levels).
— The Multi Party Committee for Climate Change has agreed to increase the 2050 target to 80% (up from 60%), which has not attracted much media attention but is a welcome step.

Influential reports

— There have been a number of influential reports in the lead up to the government's announcement this year, including:
— The Garnaut Climate Change Review, an update of Professor Garnaut's pivotal 2008 Climate Change Report. The Review argued for strong action on climate change in Australia, recommending a price on carbon and a market based mechanism, increased expenditure on low carbon R & D, reform of the electricity market and income tax reform (among other things). Many of the recommendations from the Review have contributed to the government's current scheme. The major difference has been in the level of industry compensation, which is significantly higher than Garnaut recommended in his report.
— The Productivity Commission was tasked with analyzing climate action taken by seven of Australia's major trading partners. The brief was to assess to level of

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action taken to date in other countries and the cost of abatement achieved in each country. The report concluded that Australia was well behind the UK and Germany in terms of the percentage of GDP spent on abatement, and was at roughly the same level as China, South Korea and the US. (The report flattered Australia's position somewhat since, due to the timeframe and scope of its terms of reference, it did not include either R & D spending, or China's most recent 5 Year Plan, for example).

Government Poll Numbers

— The Government's popularity has been declining significantly since it announced its intention to tax carbon at the start of the year. In the first poll since the carbon price announcement, Labor's primary vote had fallen to 26 per cent from 38 per cent in August 2010. This is the lowest levels on record during the Nielsen poll's 39 year history.
— The Coalition has mounted a vigorous opposition to the scheme and, without many of the details of the plan available until 12 July the government has found it difficult to defend the scheme publically. On a two party-preferred basis, Labor trails the Coalition by 39% to 61%.
— Since the announcement of the carbon package, Prime Minister Gillard's approval rating has dropped a further 3 points to 34% (her worst to date) and her disapproval rating has risen to 62%.
— Primary support for the Greens is down 1% to 11%.
— 56% of people were opposed to a carbon price and compensation package, and said the Prime Minister had no mandate for the carbon plan. The same proportion wants an early election before a carbon price is introduced.

Will the scheme pass through parliament?

— The agreement of both the greens and key independent MPs through their involvement in the MPCCC means that the government already has the numbers in the Lower House to pass the bill into law at the end of this year (if that support is maintained). Passage through the Upper House appears assured with the Greens holding the balance of power.
— The only threat to this is if the government's popularity continues to decline, as pressure from the backbenches will increase. However, neither a leadership challenge nor a substantial change in policy is likely as Labor has suffered considerable electoral damage from these actions already in the recent past. Labor would also struggle to hold onto the independent MPs that give the government a majority which would trigger an early election. There is too much political capital invested in the scheme as it stands.
— The government is seeking to entrench as much as possible of the scheme into legislation, to make it harder for a Coalition government to pull it apart should it win the next election.
— The next election will occur sometime in 2013 (Federal Parliament has three year terms but they are not fixed).
— Labor will also have a year of its term left once the carbon tax starts, and will be hoping that a relatively minor impact on the economy will re-assure voters that it has handled a tough issue well.

For and Against

- Recently a number of influential businesses have come out in favor of a market mechanism to reduce carbon such as Westpac, National Australia Bank and AGL Energy.
- The Climate Group has been involved with a number of other NGO's facilitating an initiative called "Businesses for a Clean Economy", which urges Australian businesses to sign a statement in support of a carbon price: http://www.b4ce.com.au. Around 210 businesses have signed up including TCG members GE, Alstom, Johnson Controls, Origin Energy and Arup, in addition to IKEA and local major construction company Grocon.
- A survey of 500 members of the Economic Society of Australia (across a range of current issues) found that that 59 per cent regard the government's scheme as "good economic policy" compared with only 11% support for the Coalition's direct action alternative.17% "agreed strongly" that the government's scheme is good policy compared with 4%for the Coalition's.
- There has been a strong push from mining and big industry associations against a carbon price in Australia. The Australian Coal Association, The Minerals Council of Australia, The Business Council of Australia and more recently the Australian Food and Grocery Council have all strongly criticized the scheme. There has also been strong resistance from aluminum producers and some parts of the energy sector.
- The CEOs of two major steel manufacturers have expressed support for the $300 million steel industry compensation mechanism, despite previous opposition to a carbon price. They have indicated they will lobby the Opposition Leader not to dismantle this support if it wins government in future.
- Large retailers have added the carbon price to the list of factors driving plummeting consumer confidence and leading to their profit downgrades, citing direct impacts from a carbon price despite the household compensation potentially spurring consumer spending power.
- Domestic airlines such as Qantas and Virgin Australia have expressed their disappointment that their inclusion in the scheme has not been "phased in" to protect the aviation and tourism industries, which they claim are vulnerable and volatile.
- Unions have expressed mixed responses, with some voicing cautious support and others opposing the scheme on the basis of potential loss of jobs and conditions. On 18 July the head of the powerful Australian Workers Union, whose members work in mines and the steel industry, expressed support for the government's package, stating that the Union is confident that no jobs would be lost because of it, especially due to the significant industry compensation.

What's Next?

Public Campaigns

- A number of industry Associations including Minerals Council of Australia and The Business Council (among others) have pledged to fight the scheme with a public advertising campaign. Similar tactics have proved effective against the Rudd government's proposed Minerals Resources Rent Tax, which was significantly amended after a public advertising campaign from mining companies.
- The Government has committed $12 million to fund an advertising campaign arguing the case for the carbon package. This is not a big advertising budget and is

unlikely to go that far, but will provide a counter point to industry adverts. The adverts began on Sunday July 17.

Timeline

— 31 July – Draft legislation is produced
— August – Legislation is tabled in the House of Assembly (Lower House)
— September – Legislation is tabled in the Senate (Upper House)
— Late November – Passage of the legislation is secured.
— 1 July 2012 – Fixed price on carbon for three years (Carbon tax) takes effect

What other people are saying

Kane Thornton, Director of Strategy, The Clean Energy Council
"The carbon price scheme proposed should give renewable energy companies and investors the long term certainty that investment in clean energy is an investment in the future. It will support the accelerated roll out of proven clean energy technologies like solar power, wind power and bioenergy while also allowing Australia to develop new technologies like geothermal, ocean and large scale solar."

Nathan Fabian, Director, Investor Group on Climate Change (Australia)
"This scheme gives the market a transparent carbon pricing framework for the long term. We also wanted to see the transition to a flexible price locked in and it has been."

Yvo de Boer, KPMG's Special Global Advisor, Climate Change and Sustainability
This is an intelligent and well thought through initiative, which adopts a cautious and progressive to implementing a massive but necessary change to Australia's economy. Australia is uniquely vulnerable both to climate change and to inevitable international changes in demand and pricing for high carbon materials. The proposals draw from experience elsewhere in the world and allow future linking to wider carbon pricing and trading regimes."

(From the KPMG's review of the package: http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Documents/Australias-Climate-Change-Plan.pdf)

Professor Ross Garnaut
"It is only through a sustained and effective iterative effort over a considerable period of time that the world will achieve the levels of reductions in greenhouse gas emissions that avoid four degrees and worse."

"The Australian announcement last Sunday places us in a position to contribute our fair share to early stages of the required iterative global effort."

Bankers Trust Chief Economist, Chris Caton
"As I listen to the industry assistance package, my feeling was that it was if anything too big. If anything the industry assistance package strikes me as generous."

Australia

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Queensland University Professor and economist Paul Frijters:
"In the international debate about global warming, economists have argued that the best approach is to ensure polluters pay for the damage they do. We have won that debate".

"It is little wonder we support governments who have adopted the standard economic approach. It's like cheering ourselves".

Grant King. Managing Director of Origin Energy:
"Generators generally say they don't believe they have enough assistance.... but I don't see anything in the package that would cause any particular shock to electricity generation or to investment in the future".

"The way the market works is there will be a reliable supply of electricity. The question is how much it will cost".

Australian Emissions – Key Facts

— Australian emissions in 2009 were 564.5 Mt, around 1.5 per cent of global emissions.
— Of this, 38 per cent is from electricity, gas and water, 30 per cent from primary industries (agriculture and mining), 12 per cent from manufacturing, 11 per cent from construction, transport and services, and 9 per cent residential.
— Australia's emissions per capita are among the highest in the world at 28 tonnes per person.
— Around 75 per cent of Australia's electricity mix in the national grid is powered by coal; 15 per cent from gas; 8 per cent from renewable; with the remaining 2 per cent provided by oil.
— Australia's Kyoto target was 108 per cent of 1990 emissions during 2008-2012. It is on track to meet that target. The target was widely criticized both because it is an increase, and because 1990 was a huge year for Australian emissions due to massive land clearing.
— Uniquely for OECD countries, Australia's business as usual emissions are set to grow considerably without serious policy intervention. The Department of Climate Change and Energy Efficiency estimates in early 2011 indicated that Australia's emissions are projected to rise by 24 per cent above 2000 levels by 2020 without major policy intervention (not including this carbon package).

Contact

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