



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

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Second Reading

SPEECH

Monday, 8 February 2010

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SPEECH

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Questioner
Speaker Turnbull, Malcolm, MP

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Mr TURNBULL (Wentworth) (12.46 pm)—I rise to speak on the Carbon Pollution Reduction Scheme Bill 2010 and related legislation. All of us here are accountable not just to our constituents but also to the generations that will come after them and after us. It is our job as members of parliament to legislate with an eye to the long-term future, to look over the horizon beyond the next election and ensure that, as far as we can, what we do today will make Australia a better place, a safer place for future generations to live in. Climate change is the ultimate long-term problem. We have to make decisions today, bear costs today so that adverse consequences are avoided, dangerous consequences are avoided many decades into the future. It is always easy to argue we should do nothing, or little or postpone action. But we are already experiencing the symptoms of climate change, especially here in Australia with a hotter and drier climate in the southern part of our nation. The rush to construct desalination plants is just one expensive testament to that.

Climate change is a global problem. The planet is warming because of the growing level of greenhouse gas emissions from human activity. If this trend continues then truly catastrophic consequences will ensue, from rising sea levels to reduced water availability to more heatwaves and fires. In December, just a few weeks ago, we had confirmation from three leading scientific organisations—the UK Met Office and, in the United States, NASA and the National Oceanic and Atmospheric Administration—that the past decade, the years from 2000 to 2009, was the hottest since record-keeping began, even hotter than the decade before which was the second-hottest decade on record and the decade before that which was the third hottest on record.

Climate change policy has to recognise these real risks, these real threats to the safety of our planet. It is an exercise in risk management and no reasonable person could regard the risk as being so low that no action was warranted. That has been the view of political leaders for many years from both sides of politics, none more eloquently than Margaret Thatcher herself. Prudence demands that we act to reduce our greenhouse gas emissions and do so in a way that is consistent with and promotes global action to do the same. Right now both sides of politics are agreed that Australia should, regardless of whether

any international agreement is reached, reduce our emissions by 2020 so that they equal a five per cent cut from 2000 levels. This is a 21 per cent cut from the 2020 business-as-usual levels. Both sides of politics agree that, depending on the nature of the international agreement reached, greater cuts of 15 or 25 per cent should be made.

It is not enough to say that you support these cuts, you must also deliver a strong, credible policy framework that will deliver them. In line with the Copenhagen Accord, the nations of the world are making commitments to reduce their emissions and those commitments will form the basis of the negotiations that will continue at Mexico City this year. Australia should be taking action now in advance of and in order to promote a global agreement. While our emissions are only a small share of the global total, we are in per capita terms one of the highest emitters. How can we credibly expect China, with per capita emissions less than a quarter of ours, or India, with per capita emissions less than one-tenth of ours, to take our call for global action seriously if we, a wealthy developed nation, are not prepared to act ourselves?

This transition from a high-emission economy to a low-emission one cannot be achieved without major changes to the way we generate and use energy and in the way we manage our landscape. This requires substantial new investment especially in electricity generation, which has increased by 45 per cent since 1990 and represents now a little more than half of our total emissions. Decisions to build new power stations and replace old ones will involve tens of billions of dollars over the next few decades and a critical element in making those decisions is being able to form a view about the direction of carbon pricing. Given that the cheapest fuels are generally the dirtiest, in the absence of a clear carbon price signal new capacity is likely to be coal rather than gas or rather than renewables.

This need for leadership and direction from government on the pricing of carbon, on the level of emissions, was one that was apparent to the previous government. That is why in 2006 Prime Minister John Howard established the emissions trading task group headed by Dr Peter Shergold, the Secretary of the Department of the Prime Minister and Cabinet. The task group also included leaders from the industries most directly affected, such as transport, aluminium,

mining, agriculture and power generation. In 2007 the Howard government adopted the Shergold task group's recommendation to establish an emissions trading scheme in advance of and in order to promote a global agreement, and we began to introduce the necessary legislation. As the Shergold report observed:

An Australian emissions trading scheme, with a carbon price set by the market, would improve business investment certainty. This is particularly the case for projects with a high degree of carbon risk. There is growing evidence that investments are being deferred due to uncertainty about the future cost of addressing climate change. Without a clear signal on future carbon costs, these investments will not be optimised. There is a risk that a higher carbon profile will be locked in for the life of the capital stock.

Plainly stated, in the absence of a clear carbon price signal, either no new investments will be made or investments will be made in new carbon intensive infrastructure because they are more profitable in a world where there is no price on carbon emissions.

An ETS works by setting a limit, or a cap, on the amount of carbon dioxide and its equivalents which the total covered industry sectors can emit. These industries are required to acquire permits to emit CO₂ within that overall cap. I note that the government does not set the price of carbon; it sets the cap on emissions and the rules of the scheme, and then it is up to the market, the laws of supply and demand, to set the price. It does not give quotas to particular industries or firms. The cap is across the economy and is set at a level of emissions which will over the relevant period enable us to meet our target. These permits can be purchased from the government or from other permit holders, or can be offset by purchasing a carbon credit from someone, like a farmer, who is taking action which reduces atmospheric carbon.

Only a small number of businesses—around one thousand big emitters—will have to buy permits. The direct impact of the ETS, therefore, for almost all Australians is via increased energy prices. The New South Wales Independent Pricing and Regulatory Tribunal, IPART, estimates that in 2013, for example, the cost of the CPRS will comprise 15 per cent of a typical electricity bill in New South Wales. It is estimated by the Treasury overall that the CPRS will add about 19 per cent to electricity prices.

The scheme will raise a substantial amount of revenue over the period to 2020, but it is not designed—nor should it be—to raise additional net revenue for the government, as taxes do, since the funds raised by the sale of permits will be returned to compensate lower income households and assist businesses, especially those which are emissions intensive and trade exposed and cannot readily pass on

the increase in energy costs. The white paper estimates the CPRS will result in a one-off increase in the CPI of 1.1 per cent, compared to the 2.8 per cent one-off increase in the CPI caused by the introduction of the GST. Most households will be compensated for this increase in costs either in whole or in part. I should note that the largest component of increases in electricity prices in New South Wales, for example, over the next five years is in fact additional network charges to recognise the increased investment in the security and reliability of electricity infrastructure. Those increases, unlike the CPRS element, are not the subject of any compensation.

But, given we have an apparent bipartisan agreement that emissions should be reduced by five per cent of 2000 levels by 2020, is an emissions trading scheme, this CPRS, at a general level the best policy to achieve the desired outcome? Believing as I do, as a Liberal, that market forces deliver the lowest cost and most effective solution to economic challenges, the answer must be yes. Because more emissions-intensive industries and generators need to buy more permits than less intensive ones, lower emissions activities, whether they are cleaner fuels or energy efficient buildings, are made more competitive. A brown coal fired power station, for example, pumps out four times as much CO₂ as an efficient gas fired one. Gas is expensive and clean; brown coal is cheap and dirty. If there is no cost charged for emitting carbon, there is simply no incentive to move to the cleaner fuel.

Until 1 December last year, there was a bipartisan commitment in Australia that this carbon price, this exercise in reducing emissions, should be imposed by means of a market based mechanism—this emissions trading scheme. At their core, therefore, these bills are as much the work of John Howard as of Kevin Rudd. The policy I am supporting here today as an opposition backbencher is the same policy I supported as John Howard's environment minister. And why did we in the Howard government believe an emissions trading scheme was the best approach? It was because we as Liberals believed in the superior efficiency of the free market to set a price on carbon. As the Shergold report observes:

Market-based approaches have the potential to deliver least-cost abatement by providing incentives for firms to reduce emissions where this is cheapest, while allowing the continuation of emissions where they are most costly to reduce.

The Rudd government's approach has broadly embodied the same principles, although there were problems and flaws with its initial design. But extensive modifications were made in May 2009 and again in November 2009, when changes were agreed between the government and the opposition

following the negotiations between Senator Wong and the member for Groom and me.

These changes have made it into a scheme that appropriately balances environmental effectiveness and economic responsibility. In fact, the proposed scheme very closely resembles the outline of the Howard government's original 2007 proposal, in both its incidence and its timing. As we have seen in recent days, alternatives such as direct regulation or subsidies will be far more costly to the economy, no matter how hard their designers seek to argue the contrary. I quote again from the Shergold report on this topic:

An alternative to regulating emissions abatement is subsidising abatement activities from government budgets. For example, government could target specific projects, requiring estimation by government of additional abatement relative to 'business as usual'. However, if not carefully implemented, project-specific approaches can involve administrative overheads for both government and project proponents.

Under a market based mechanism, like an ETS, if a firm reduces its emissions intensity by acquiring more efficient equipment or, for example, by generating power from burning gas rather than coal, it will need to buy fewer permits per dollar of output. There is a clear, transparent and immediate incentive—a clear price signal—encouraging investment in lower emissions technology. However, if a scheme operates whereby the government pays the firm to reduce its emissions intensity, leaving aside the impact on the budget and the demand therefore for higher taxes, there is firstly going to be a substantial and contentious debate about what the correct baseline is, and then whether it will actually be reduced. Because most capital equipment, especially in the energy sector, has a life running into many decades, as long as 50 years in some cases, the business sector is going to require assurance that any government subsidy will match the life of the asset—so running well beyond 2020. In other words, any scheme has to have a lifetime which matches the lifetime of the investment. If government wants business to make long-term investments to lower emissions, its commitment must be long term as well, which is why a subsidy scheme which terminates in 2020 will achieve very little. Arguments of considerable ferocity will arise as to whether a new piece of equipment would have been bought anyway, with the risk that the government ends up funnelling billions of dollars to companies to subsidise their profit without achieving any real additional cuts in emissions.

All of us in this House know that industries and businesses, attended by an army of lobbyists, are particularly persuasive and all too effective at getting their sticky fingers into the taxpayers' pocket. Having the government pick projects for subsidy is a recipe

for fiscal recklessness on a grand scale, and there will always be a temptation for projects to be selected for their political appeal. In short, having the government pay for emissions abatement, as opposed to the polluting industries themselves, is a slippery slope which can only result in higher taxes and more costly and less effective abatement of emissions. I say this as a member and former leader of a political party whose core values are a commitment to free markets and free enterprise. The Shergold report went on to say this about this very issue:

Financing subsidies and specific project-based interventions also impose costs on society from their use of taxation. If these approaches were to be used extensively to achieve large-scale abatement, the economy would suffer losses in economic and administrative efficiency. In contrast, market-based approaches to emissions abatement involve the explicit pricing of emissions, allowing the market to determine the cheapest source of emissions reduction.

As the Productivity Commission observed in its submission to the Garnaut review in 2008:

Unlike prescriptive command and control approaches, an ETS leaves it to producers and consumers—who have better information about their own production costs and preferences than governments—to work out the most cost-effective way to reduce emissions. In this way, the targets are most likely to be achieved at lowest cost to the economy and community.

Before I leave the question of non-market based approaches to emissions reduction, I should note that I was very pleased to see the recognition of soil carbon, carbon forestry and biochar in the coalition's alternative policy. One of the key achievements of our negotiations with the government last year about the CPRS of course was to secure the recognition of this type of agricultural offset, the potential for which, as I have argued for some time, is very considerable. However, there are a couple of points I should make about soil carbon in particular.

While it is possible to increase the level of organic carbon in soils by changing the management of the land in question, it is quite another thing to ensure that this increased carbon level is permanently maintained. Soil carbon levels fluctuate with the season, with rainfall and of course depending on the use of the land. There is a great prize here, but before billions of dollars are invested in soil carbon credits there will be considerable work required to agree on appropriate measurement and management methodologies. If in fact there are hundreds of millions of tonnes of very low-cost agricultural offsets capable of generating carbon credits then they are all potentially available in the ETS—

The DEPUTY SPEAKER (Ms AE Burke)—Order! May I ask the member for Wentworth to resume his

seat. The Parliamentary Secretary for Employment on a point of order?

Mr Clare—I move:

That the member's time be extended.

Question agreed to.

Mr TURNBULL—I thank the parliamentary secretary for his courtesy. As I said, if in fact there are hundreds of millions of tonnes of very low cost agricultural offsets capable of generating carbon credits then they are all potentially available in this ETS, in the CPRS proposed here in this legislation, and they will lower the cost of permits. In other words, if polluters can buy carbon credits for \$10 a tonne from farmers, permit prices will adjust down to that level. Of course, the great virtue of a market based scheme is that instead of the government decreeing what the best and cheapest offsets are, the participants in the market work it out for themselves. That is why, once agricultural offsets are recognised under the emissions trading scheme—and that is the plan with this legislation—there is enormous potential for farmers and other landowners to generate real revenue. However, it should be noted that until those offsets are recognised internationally, they will not be of assistance in meeting our five per cent 2020 target.

One of the leading Australian biochar advocates wrote to me the other day and said:

While I worked in Government for a significant part of my life I am horrified by the prospect of a 'fund' from which public servants give handouts to grow trees—it just does not work—we have to have a market price and a market system ...

Is the ETS proposed in these bills the right design and is this the right time to act? The answer here, too, is yes. Most other large emitters have also committed to substantial quantitative reductions in their greenhouse gas emissions over the next decade. Many have already acted to achieve those targets. The European Union has had an ETS since 2005 and in phase 3 of its scheme is enforcing it with increasing stringency. In line with the Copenhagen accord, China has committed to a 45 per cent reduction in emissions per unit of output by 2020 and the Chinese are already investing massively in cleaner energy sources, both of which point to a 'shadow' price on carbon already in force across the Chinese economy.

I note that the Chinese commitment is to reduce emissions from their 'business as usual' rate. They recognise that business as usual is not good enough and that they must reduce their emissions intensity and then reduce the absolute level of emissions. Japan has pursued lower emissions and higher energy efficiency

for three decades. Brazil has committed to lowering its emissions by more than a third against its projected business-as-usual 2020 emissions. I note again that our commitment to reducing our emissions by five per cent from 2000 levels is equivalent to a 21 per cent reduction from our projected 2020 emissions without a CPRS.

While Copenhagen was disappointing, it did nonetheless for the first time see the developing nations—particularly the major ones, such as China and India—make commitments to reduce their emissions. That was an enormous breakthrough. There is a global commitment to act so as to keep temperature rises this century below two degrees Celsius. The notion that this ETS would put Australia out in front of the world is, sadly—I wish it were not so—completely wrong. Far from being in front of the world in action to reduce emissions, we start behind because our per capita emissions are so large and because our sources of energy are overwhelmingly dependent on burning coal. We should not forget that when the Howard government committed to an ETS in 2007 the world was much further away from concerted global action than it is today. Indeed, the Shergold report noted:

The prospects for comprehensive global action in the near future look poor.

But the Shergold report, in recommending an ETS, observed:

...waiting until a truly global response emerges before imposing an emissions cap will place costs on Australia by increasing business uncertainty and delaying or losing investment.

This legislation is the only policy on offer which can credibly enable us to meet our commitment to a five per cent cut to emissions by 2020 and also has the flexibility to enable us to move to higher cuts when they are warranted. So for those reasons I support this bill. The arguments I have made for it are no different to those I have made, and stood for, for the last three years.

During my time as Leader of the Opposition I often defended the right of my colleagues from time to time to cross the floor and vote in accordance with their strongly held personal beliefs. This is a longstanding and treasured principle of the Liberal Party and very different to the tradition of the Labor Party. In that context, I commend the courage of my colleagues Senator Troeth and Senator Boyce who crossed the floor to support this bill and effective action on climate change late last year. The importance of this issue, the expectation that Australians have that their parliamentarians will lead on it, the fact that the emissions trading scheme being considered is nearly identical to the proposal put to the electorate by

the Howard government in 2007 and my strong and longstanding personal commitment to effective action on climate change make it impossible for me to vote against this bill, amended in terms as agreed between the coalition and the government last year.

The proposed ETS is a balanced, substantive and timely step forward on an issue of immense importance. By relying so heavily on market forces to address this very severe challenging problem, the ETS is far more in the great traditions of modern liberalism than any other available policy response. After all, I have always believed that Liberals reject the idea that government knows best and embrace the idea that government's job is to enable each of us to do our best. This ETS allows Australian businesses to make their own decisions as to how to reduce their emissions. Government sets the rules and, in particular, sets the cap on total emissions and then lets the market work out the most efficient and effective outcome. Schemes where bureaucrats and politicians pick technologies and winners, doling out billions of taxpayers' dollars, neither are economically efficient nor will be environmentally effective. For those reasons, I will be voting in favour of this legislation.

The SPEAKER—Order! Before I call the member for Higgins, I remind the House that this is the first speech of the honourable member for Higgins. I ask the House to extend to her the usual courtesies.