

Carbon war not over

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VALE the carbon tax and welcome to the brave new world of “direct action” or, depending on the attitude of the Senate next month, perhaps next to nothing.

Seven years to the day since then prime minister John Howard announced he would implement a “cap-and-trade” emissions trading scheme if he won the 2007 election, the Senate yesterday voted to scrap the carbon tax, described by Bill Shorten this week as a “second best” option.

The political battle will now turn to the Coalition’s direct action program and the \$2.55 billion emissions reduction fund at its centre. And in two years it promises to return to whether to restore an ETS, after the Opposition Leader committed Labor to taking the policy back to the people at the next election.

Shorten’s commitment is courageous. Howard lost the 2007 election taking an ETS to the people. Malcolm Turnbull lost his leadership trying to implement former PM Kevin Rudd’s ETS after Tony Abbott tore him down on a platform of opposing it.

Rudd lost his leadership in 2010 after walking away from an ETS, and his successor Julia Gillard lost her leadership in 2012 amid continuing poor polling after breaking her promise not to introduce a carbon tax if Labor won the 2010 election.

When Rudd returned as prime minister last year, he promised to “terminate” the carbon tax, only to lose the election promising to introduce an ETS.

Big business groups yesterday called on the Senate to quickly pass the Coalition’s emissions reduction fund, which is tied to amendments to legislation covering a program called the Carbon Farming Initiative.

The government remains confident of passing the emissions reduction fund.

But it is facing opposition from Labor and the Greens, who reaffirmed yesterday they would not support it. The Palmer United Party has linked support for direct action to the government supporting an ETS, something Abbott won’t do.

Under Environment Minister Greg Hunt’s plan, the emissions reduction fund will provide taxpayer funding to the lowest cost greenhouse gas abatement projects, such as energy efficiency programs, cleaning up power stations and carbon farming, to a total value of \$2.55bn across the next four years.

The government also plans a “safeguards mechanism”, which will ensure emissions reductions in one sector are not offset by emissions growth in other sectors. This is due to take effect from July 1 next year and will be the subject of separate legislation to be introduced early next year.

The policy has been heavily criticised by supporters of the just scrapped clean energy policy.

The Climate Institute says direct action “is not a credible, sustainable or effective climate policy”. It argues the safeguards policy does not constitute binding limits on emissions and this removes responsibility from major emitters to factor in climate change to their investments.

Unlike the just abolished policy, which was due to convert to an ETS in July next year and would have been linked to international carbon trading schemes, the Coalition plan calls for Australia's 5 per cent emissions reduction target to be achieved entirely from domestic abatement.

But Hunt says it is a long-term policy that will achieve genuine emissions reductions.

Hunt has options in the event of a total blockage by the Senate. The \$2.55bn from his emissions reduction fund is attached to an appropriation bill and is available to the government.

Hunt has the option of bypassing the Senate if the government fails to win support for its amendments. One option is to use direct funding to the states under section 96 of the Constitution.

If direct action ultimately is blocked, many climate change commentators will argue that the nation is without a central emissions reduction policy, apart from the renewable energy target and remnants of the clean energy package designed by the Gillard government, the Greens and then independent MPs Tony Windsor and Rob Oakeshott.

While yesterday's repeal cut the heart out of the policy with the scrapping of the carbon tax, significant parts of the original framework remain.

After Clive Palmer's intervention in the debate, the Climate Change Authority, set up to provide independent advice to the government on climate change policy, will remain.

It will report periodically on how deeply Australia should cut emissions and pressure the Coalition to go beyond its present target of 5 per cent below 2000 levels by 2020.

So too the Clean Energy Finance Corporation, the \$10bn "green bank" to provide concessional finance to up-and-coming renewables projects.

The CEFC received a reprieve after Palmer's meeting with former US vice-president Al Gore.

But the CEFC is likely to be redirected under the Coalition to play a role in direct action, such as entering the solar leasing market to finance a higher take-up of solar hot-water systems and energy-efficiency programs, rather than backing wind-farm projects.

The Australian Renewable Energy Agency, which funds development of new technologies, also remains. But it largely will manage projects it has already committed funds to, as its funding was essentially gutted in yesterday's vote.

The RET, designed to drive more investment in power generation from sources such as wind and solar, will also remain.

But it will be at the centre of a new political battle if the government wants to make changes pending a review being conducted by a panel headed by businessman Dick Warburton that will hand its findings to the government next month.

Debate centres on whether the 41,000GWh large-scale target by 2020 should remain.

When the target was set in 2008, the 41,000GWh was expected to equal 20 per cent of energy demand by 2020.

But a combination of deindustrialisation through the exit of an aluminium smelter and a raft of manufacturing plants hit by a high dollar, and lower residential demand sparked by higher prices and the take-up of solar rooftop panels, means the target may now represent more like 26 or 27 per cent.

There is significant support in the government to reduce the 41,000GWh target to a “true” 20 per cent, based on lower demand forecasts, but Palmer has indicated he won’t back changes to the RET before 2016 — after the next election.

The Climate Change Authority found the RET had achieved 20 million tonnes in emissions reductions between 2001 and 2012, and modelling by ACIL Allen for the RET review found it would achieve 25 million tonnes of abatement to 2040 under a no-change scenario, at a cost of \$186 a tonne.

While yesterday’s vote ended a five-year quest to axe the tax for the Prime Minister, political risks remain for both sides.

Shorten’s decision to commit Labor to an ETS at the next election risks another anti-carbon tax campaign from Abbott.

Coalition frontbencher Christopher Pyne promised Shorten’s pledge would hang like a “dead carcass” around his neck.

There are also risks for the Prime Minister.

Inaction on climate change was one factor that contributed to Howard’s demise in 2007. His concern at the public mood was made evident by his adoption of a cap-and-trade scheme seven years ago.

There are two important international summits on climate change before the end of next year: a UN meeting in New York later this year, and the critical Paris summit where the next major round of commitments on emissions reductions are likely to be made. While it is likely Paris will fail to produce binding commitments, any further significant leaps by China and the US towards significant emissions reductions will ramp up international pressure for Australia to lift its targets.

Ross Garnaut, Labor’s climate change adviser as it put together the clean energy package that was repealed yesterday, once described global warming as a “diabolic problem”.

One of the elements of this is because carbon dioxide emissions must be reduced across the globe to have any chance of mitigating the rise in temperatures caused by greenhouse gases.

If the world acts, Australia should do its proportionate part; but if the world does not act, it is not in Australia’s interests to take action to cut emissions.

The other political difficulty is that action requires policies that reduce economic growth in the short term by forcing a transition away from fossil fuel and towards renewables to combat a threat that could be decades away.

Gillard’s package failed, partly because of her pledge before the 2010 election that “there will be no carbon tax under a government I lead” and partly because the fixed price of \$23 a tonne was imposed as the European price collapsed to about one-fifth of that level.

Business argued Australia’s scheme was more onerous than that of our international trading partners.

Rudd's decision in early 2010 to shelve Labor's carbon pollution reduction scheme also eroded public support after he had described climate change as "the greatest moral, economic and social challenge of our time".

A drought and water shortages drove some of the public anxiety about the climate under Howard. It rained heavily after Gillard introduced the climate package.

With yesterday's vote, Abbott has won a decisive victory. But is only one battle in what promises to be a long war over climate change policy. Political fortune could swing on something as fickle as another change in the weather.