Carbon pricing and climate change policy in Australia: a historic perspective

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The Climate Change issue in Australia

- The issue of Climate Change has been on the agenda in Australia since late 1980s. In 1989, before the 1990 Australian federal elections, both leading political parties discussed introduction of greenhouse gas (GHG) emissions reduction policy.

- The Labor Party considered a GHG emissions reduction target of 20 percent by 2005. The Liberal Party was developing similar policies.

- However, the interest over climate change issues dissipated during 1990s. Environmental issues were gradually dropped and did not appear in 1993 election campaigning.
The Climate Change issue in Australia

- Despite deteriorated attention to environmental issues in early 90s, a range of measures aimed to reduce Australia’s GHG emissions have been on the agenda at the Federal and State levels for the last decade at least.

- Successive Australian governments have been committed to the introduction of a carbon tax or emissions trading scheme (ETS) designed to mitigate climate change.

- There has been some experience with the deployment of ETSs in Australia. At a state level, for instance, the New South Wales Greenhouse Gas Abatement Scheme (GGAS) commenced in 1997 and became mandatory in 2003.
The Howard Government introduced a number of initiatives addressing climate change. For example, in 1997 the Prime Minister announced a $180 million package to reduce GHG emissions. The Australian Greenhouse Office was established in 1998 together with a $555 million package to develop systems for measuring and monitoring GHG emissions as well as energy performance standards for a range of appliances and equipment. In 2000 the Howard Government introduced the Renewable Energy (Electricity) Act 2000, which established the Mandatory Renewable Energy Target Scheme aimed at boosting the development of renewable energy sources across Australia.
Howard Government

- However, in 2004 the Howard Government produced an Energy White Paper which rejected an Emissions Trading System, refused to adopt a mandatory renewable energy target of 20% by the year 2020 and confirmed opposition to ratification of the Kyoto Protocol.

- Two years later in 2006 ‘doing something’ about global warming gathered strong political momentum in Australia.
Howard Government

- In order to ‘do something’ the Howard Government accepted the recommendations of a joint Business/Government taskforce to introduce an ETS.

- Additionally, the Government indicated that Australia would support a new agreement to limit the growth of GHG emissions, provided that it bound all emitters.

- In December 2006, Prime Minister John Howard announced that Australia would move towards a domestic emissions trading system, to start no later than 2012.

- In September 2007, the National Greenhouse and Energy Reporting Bill was introduced as a first step towards emissions trading. This Bill would have established an emissions reporting scheme that would cover around 75 per cent of total emissions in Australia.
Rudd Government

- In December 2007, Labor came to power. The Rudd Government ratified the Kyoto Protocol and proposed an Australian Carbon Pollution Reduction Scheme (ACPRS).

- The proposed ACPRS had two objectives: first, to meet Australia’s emissions reduction targets in the ‘most flexible and cost-effective way’; and second, to sustain a global response to climate change.

- In July 2008 the Rudd Government issued a Green Paper that outlined the preferred design of Australia’s Carbon Pollution Reduction Scheme (ACPRS). The corresponding White Paper was made public in December 2008, followed by the legislation in May 2009.
Rudd Government

- The ACPRS covers the same GHGs as the Kyoto Protocol. The proposed ACPRS was expected to cover around 1,000 large emitters which are estimated to be 75 per cent of Australia’s emissions.

- The Rudd Government proposed to allocate more than 30 per cent of annual permits free of charge in order to assist emissions-intensive trade exposed (EITE) industries to meet their obligations under ACPRS.
Rudd Government

- To eliminate the negative impact of ACPRS to households’ cost of living, the Rudd Government proposed to increase payments to people receiving social allowance benefits above automatic indexation.

- However, as a result of industry pressure, the Rudd Government delayed the start of the scheme (initially 2010, then 2011) until 2012.

- The ACPRS legislation was twice defeated in the Australian Parliament in 2009. As a result, at the beginning of 2010, the government put the ACPRS on hold.
In 2010, there was a change of leadership and Julia Gillard become the new Prime Minister.

The Gillard Government announced its intention to propose a temporary carbon pricing scheme, and also, set up the Multi-Party Climate Change Committee (the Committee) consisting of members of the federal government and senators.

The Committee’s intention was to establish a climate change framework outlining the broad architecture for a carbon price. The Committee issued eleven policy principles designed to provide a consistent basis for the deliberations on a carbon price.
Gillard Government

- Environmental effectiveness
- Economic efficiency
- Budget neutrality
- Competitiveness of Australian industries
- Energy security
- Investment certainty
- Fairness
- Flexibility
- Administrative simplicity
- Clear accountabilities
- To support Australia’s international objectives and obligations
The carbon price scheme (the scheme) operated from 1 July 2012 as a temporary measure designed to reduce GHG. The carbon price was $23 for the 2012–13 financial year and increased by 2.5 per cent in each of the following two years.

Under the scheme, liable entities bought and surrendered carbon units equal to their direct emissions (based on historic levels) of carbon dioxide equivalents (CO2). After the transitional period, the carbon price mechanism was to convert to a cap-and-trade ETS supplying a flexible carbon price.

From 1 July 2015, the carbon units were to be auctioned. Hence, even though the carbon pricing mechanism has been labelled a ‘carbon tax’, the Gillard Government was committed to emissions trading.
Gillard Government

- The broad architecture of the implemented carbon price scheme resembled in some aspects the design of the previously considered ACPRS. However, the carbon price, in some respects, was a substantial improvement on the heavily compromised ACPRS.

- Compensation for affected industry was designed as a temporary measure and based on historic emissions levels. The assistance package for households was designed to compensate low and medium income earners rather than high income earners in an attempt to deal with the inequity caused by regressive nature of the measure.
Abbott Government

- In September 2013, the Coalition, led by Tony Abbott, came into power vowing to remove the ‘carbon tax’ and future ETS.

- Accordingly, the Gillard Government carbon pricing legislation was repealed by the Abbott Government in July 2014.

- Instead of the carbon pricing mechanism, the Abbott Government introduced the Direct Action Plan.

- The Emissions Reduction Fund is the cornerstone of the Direct Action Planning having come into force on 13 December 2014.
The Emissions Reduction Fund (ERF) is designed to provide incentives for GHG reduction activities across the entire Australian economy.

Under the ERF the Government will pay for projects that will reduce GHG emissions at minimal cost. Funding from the ERF is allocated through auctions.

A range of possible projects for CO2 reduction include: energy efficiency, cleaning up power stations, reafforestation and revegetation and/or improvement of soil carbon.
Abbott Government

- Under the Direct Action Plan there are no emissions caps or instruments that would insure that the polluters are limiting their GHG emissions.

- The Safeguard Mechanism would cover around 140 businesses which emit around 57 percent GHG from the electricity sector however, the Safeguard Mechanism will not be in place until July 2016 at the earliest.
Abbott Government

- The important feature of the Direct Action Plan is its voluntary nature.

- The Australia Senate inquiry on the Direct Action Plan provided the following comment:

  ‘The committee is persuaded that the Government's Direct Action Plan and the proposed Emissions Reduction Fund are fundamentally flawed. They ignore the well-established principle of 'polluter pays', and instead propose that the Australian taxpayer should effectively subsidise big polluters.’ (The Australian Senate 2014)
The Howard Government started to act on climate change soon after the election in 1996. Nevertheless, if we will look closer at the reasons behind some of the introduced policies for example, the $400m GHG abatement programme was, according to the former Treasurer Peter Costello, a trade-off for the support of the Australian Democrats (who held the balance of powers in the Senate at time) in introducing Goods and Services Tax.

According to Peter Costello: 'This was 1999. Neither Howard nor I had much of an idea of what a greenhouse gas was, let alone how to abate it…’

The Howard Government undeniably introduced some very innovative policies such as, for example, establishment of the first in the world national agency to tackle GHG emissions.
Analysis

- However, action was rather erratic on environmental issues at times with no real plan or vision for the environment and addressing global warming.

- This point is better expressed by John Howard himself: ‘I have always been something of an agnostic on global warming. I have never rejected, totally, the multiple expressions of concern from many eminent scientists but the history of mankind has told me of his infinite capacity to adapt to the changing circumstances of the environment in which he lives.’(Howard 2012).
Analysis

• The ACPRS scheme introduced by the Rudd Government was a significant improvement in terms of policy development in comparison with the Howard Government approach to climate change policy.

• The ACPRS legislation took into consideration work of the previous Prime Minister’s Task Group on Emissions Trading, National Emissions Trading Taskforce, and also the Garnaut Climate Change Review and Treasury modelling.

• There was intensive industry pressure that forced the Rudd Government to adjust initial design of the scheme. The concessions provided by the Rudd Government to polluting industries did not help to introduce the legislation but considerably influenced the ACPRS design to the point where the scheme capacity to combat climate change was greatly corrupted.
The Gillard Government chose a different approach to the introduction of policy and its development. The Government, supported by the Greens party, announced its intention to propose a temporary carbon pricing scheme, and also set up the Committee.

The utilisation by the Committee of explicit policy principles designed to provide a consistent basis for the consideration of a carbon price undeniably added extra strength to the policy development process.

Arguably, such an unorthodox approach to policy development where an authoritative committee rather than a government department has led the establishment of a climate change policy was very fruitful in many respects.
The Rudd Government was unable to resist the industry lobby.

Meanwhile, the Gillard Government, with the support of the Greens and by the Committee policy development approach, effectively overcame industry pressure.

Overall, the result was the successful introduction of the climate change policy proposed by the Gillard Government.
Analysis

- According to some commentators Tony Abbott ‘reinstates industry influence over policy.’ (Priest 2013)

- The Abbott Government did not provide details concerning the development of the Direct Action Plan. It is not clear what the basis for the introduced policy was.

- Successive Australian governments attempting to introduce climate change related policies were taking into consideration policy developments and proposals of previous Governments.
Conclusion

- It is difficult to distinguish common features of climate policy-making by the Australian Government.

- Various factors influence these processes in Australia. Examination of the Australian climate change regime indicates that different actors influence policy proposals to achieve their own goals, rather than to cooperate in a process of generating the best overall law option.

- However, the development of climate law in Australia has involved some innovative and responsive law initiatives. The failing has been in the practical implementation of various climate change laws due to the influence of various economic and political factors.