The carbon price framework

Briefing Paper No. 3

This paper has been prepared by the Climate and Health Alliance in response to the framework for the carbon price legislation and associated mechanisms being developed by the Multi-Party Climate Change Committee (MPCCC). This response will be forwarded to the MPCCC, and the Department of Climate Change and Energy Efficiency, and shared with other stakeholders as the recommendations/responses of the Climate and Health Alliance.

The starting price and rate of increase:

The Climate and Health Alliance is supportive of the introduction of carbon price. It is the view of the Alliance that the starting price is less important than the establishment of a framework that will deliver sustained and substantial increases in price over the medium term (3-5 years) and a subsequent emissions reduction trajectory that is consistent with the scientific advice about reductions necessary to avoid the risks arising from anthropogenic climate change. An independent expert agency should be established to administer the carbon pricing framework and emissions trading scheme, both of which should include a review mechanism that provides for evaluation on progress towards effective emissions reductions, including advice from a climate and Earth Systems scientific committee on the appropriate trajectory to avoid the risks arising from climate change.

Compensation arrangements – for community and business:

The Climate and Health Alliance supports the provision of compensation for low income and vulnerable people who are adversely affected by the introduction of a carbon price. This includes workers in high emissions industries for whom compensation should include transitional support and retraining packages to enable these workers to obtain jobs in new low or zero emissions industries. The provision of compensation is important from both an equity as well as a political viewpoint, since equity demands that people working in high emissions industries are not individually disadvantaged by a community decision to reduce emissions, and the provision of compensation to low income and vulnerable people is more likely to lead to broader support for climate policy across all demographic groups (e.g., evidence from the University of Technology Sydney suggests that when given a choice, people support the redistribution of revenue to low income households and seniors rather than reducing business tax, for example).[1]

The Climate and Health Alliance does not support compensation to high emitting industries, in particular electricity generators, and sees no reason for compensation to emissions-intensive industries that have not taken any steps to reduce emissions, despite the understanding at a global level that emissions reductions were necessary as far back at 1994, when Australia ratified the United Nations Framework Convention on Climate Change. The Grattan Institute has suggested that much of the protection proposed under the Carbon Pollution Reduction Scheme for the major emissions-intensive industries was "unnecessary or poorly targeted", and would "delay the structural adjustment required to move to a lower carbon economy", and it is vital that this is avoided in the current carbon pricing framework.[2]

Corporate directors have a fiduciary duty to act honestly, in good faith and to the best of their ability in the interests of the company *in perpetuity*, which obliges the development of appropriate risk management strategies.[3] Given the substantial and long term evidence regarding global warming, a deliberate strategy of continuing to invest in and develop high emitting industries and technologies has been and remains a breach of fiduciary responsibility for many corporations and represents a gross failure of corporate risk management, for which compensation is inappropriate.

Revenue expenditure apart from compensation:

The Climate and Health Alliance supports the distribution of revenue for investment in zero emissions technology research, development, and deployment as well as technologies and strategies to draw down emissions, as well as for measures outlined below.

Complementary measures that are appropriate and necessary to drive transformation:

While a price on carbon is an important measure in reducing greenhouse gas emissions, it is only one of a suite of mechanisms needed for achieving substantial and sustained emission reductions.[4] A comprehensive suite of policies is required in addition to the price mechanism.[5] This includes stronger regulation of emissions, with tougher emissions standards, mandated energy efficiency standards, removal of the current perverse incentives that favour fossil fuels, and investment in zero emissions energy, transport and transmission infrastructure.[6] Strict energy performance standards should be applied to all new power stations, and limits established that will rule out further development of fossil fuelled power generation. Strategies to reduce energy demand are also vital, and the Climate and Health Alliance supports the implementation of a national energy efficiency target and national energy savings initiative as recommended by the Prime Minister's task group to enhance energy efficiency improvements.

Other important climate policy measures include funding for the development and deployment of clean renewable energy technologies and bio-sequestration projects (to discourage deforestation and encourage reafforestation); and investment in electricity transmission infrastructure to establish a national electricity grid that would allow for geographically dispersed energy resources such as solar and wind to be developed and fed into the grid.[7]

A gross feed in tariff that is tiered in order to expand the development of a range of renewable energy generation technologies is an important part of the climate policy suite and has been demonstrated to be very effective in the widespread roll out of renewable energy technologies in Europe, in Germany in particular.[8]

Funding is also needed for measures to promote innovative carbon emissions reduction strategies and technologies through research and development as well as for strategies to help attract significant private sector investment in clean technologies and infrastructure.

The development of effective and sustainable public policy also requires the support of the community, and too little has been done to build understanding in the community regarding the need for an extensive range of climate policy measures, nor regarding the urgency and magnitude of the problem of global warming and its impacts. The provision of resources is needed to support the development of a series of measures to improve climate literacy in all sections of the community – this is vital in order to ensure the necessary electoral support for urgent and effective climate policy.[9] Other important investments are needed in funding research to assist in revealing and understanding what is one of the most confounding issues associated with global warming - the unwillingness of so many to accept the overwhelming evidence that exists with regard to the science of climate change. Further research into these psychological responses will assist in developing strategies to assist the community to come to terms with the threats posed by climate change as well as better understand the benefits of climate action.

International linkages:

Access to international offsets or carbon trading schemes must only occur if there is no risk that the purchasing of international offsets will not put at risk domestic greenhouse gas emissions reductions in Australia. While it is important that Australia contribute to funding initiatives that provide financial incentives for developing countries to reduce emissions, this must not substitute for our own obligations to make substantial and increasing reductions in domestic emissions. Any proposals regarding international linkages must also include commitments to strengthen international monitoring and enforceable compliance obligations.

Linkage to carbon from the land use sector:

The Climate and Health Alliance recognises that there are substantial opportunities for draw down of legacy emissions (those already in the atmosphere) from changes to land use and agriculture. Australia has enormous potential to sequester large quantities of CO_2 in soils and in forests, therefore the development of price signals to encourage changes to land use and agriculture to reduce emissions and sequester carbon are a vital and important part of Australia's national strategy for emissions reductions. The coverage of land use emissions in a carbon pricing framework has the potential to provide substantial emissions reduction opportunities for Australia as well as significant economic opportunities for famers engaging in biosequestration initiatives.

Proposals for transition from a fixed price to emissions trading:

The Climate and Health Alliance is concerned that the transition to an emissions trading scheme from a fixed carbon price in the form of a carbon tax has the potential to lead to uncertainty and price volatility if there is no minimum price set for each tonne of CO_2. The experience of the European emission trading scheme highlights the risk of failing to set a floor price, with uncertainty leading to a price collapse and a missed opportunity over several years for effective

emissions reductions. The business and community sectors all require certainty in planning for future price increases, and the framework for a transition to an emissions trading scheme must ensure that there is no dramatic fluctuations or any decrease in the carbon price, but rather that it facilitates a rapid escalation in emissions reductions consistent with the science.

The redistribution of revenue to offset costs in the health sector:

The Climate and Health Alliance is calling for the revenue raised by carbon tax to be used to offset increasing operating costs for the health sector, particularly the community health sector, through funding energy efficiency measures to reduce energy demand and energy costs.

Much health care infrastructure is comprised of ageing and energy inefficient buildings, and there is minimal funding available within health sector budgets to make improvements in this area.

Considerable improvements in the energy performance of buildings would assist the sector to offset the impact of any energy price increases by reducing energy demand and thus energy costs.

The Climate and Health Alliance calls for funding to be made available from the revenue from the carbon tax to support the health sector to:

- adjust to energy price increases and to continue to provide services to those facing cost of living pressures and impacts of climatic changes;
- invest in energy efficiency measures, thereby decreasing ongoing energy costs and beginning to 'climate-proof' health sector buildings and services;
- purchase green energy, helping to reduce the environmental footprint of the sector and help drive demand for renewable energy technologies.

The savings generated through these measures can be reinvested in direct patient care and help address the increasing demand on health care services related to climate change and other service pressures.

The Climate and Health Alliance believes the redirection of revenue raised by putting a price on greenhouse gas emissions towards assisting the health sector adapt to both climate change and the impact of climate policies is legitimate and necessary, especially given the impact (and increasing demands) on the sector from climate change.

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