



Australia with an ETS

Struggling to understand what the ETS means? You're not alone. If you would like a more thorough explanation of how the scheme is designed to work we recommend reading the June 2009 issue of Watermark. You can access it online at www.clrinsw.org in the 'What's New' section.

If the Australian Government decides to adopt an Emissions Trading Scheme (ETS) it will equal a fundamental change to our economy. It would mean that, for the first time, people would literally be paying for the right to pollute.

A quick re-cap of how the scheme works:

Those companies or industries that release large amounts of CO² into the atmosphere will need to possess one permit for each tonne of CO² they produce. Permits are created by the Government and only a certain number of them would be made available for purchase each year. This effectively means that the Government can determine how many tonnes of CO² are released into the atmosphere each year, according to how many permits they create.

This is different to a tax system, where the quantity of emissions is not officially regulated, but the price of emitting CO² fixed. A market system like the ETS works in reverse, where the quantity of emissions is fixed while the price of emitting CO² fluctuates with the market.

Each year, the permits that are made available would be bought and sold by companies depending on how much they emit and how much they are prepared to pay for permits. As the cap on emissions is lowered each year – thus limiting the number of permits on the market – competition to purchase the permits will become more intense. This will push the price of the permits (and thus the financial cost of polluting) up. At this time those businesses that find the price of permits too high will be forced to either reduce their emissions or find more environmentally-friendly ways to power their business.

The ETS, or more specifically the Carbon Pollution Reduction Scheme (CPRS) as it is called by the Federal Government, is designed to target those companies or industries that release significant quantities of carbon dioxide (CO²) into the atmosphere. It is not designed so that every Australian will have to write a cheque to the Government each time they drive their car or turn on a light.

However, everyday consumers will be paying more for everyday items. This is because companies and industries liable under the CPRS will inevitably pass on their increased costs to the consumer. By exactly how much prices will rise is speculation. Because the CPRS is a market system (think of the stock market) prices are continually fluctuating, and each company will have different needs and be willing to pay different amounts for the permits that allow them to emit.

Price rises are perhaps the scariest change confronting everyday Australians, particularly as we emerge from a period of economic downturn. As Prime Minister Rudd has committed Australia to making at least a 5% reduction from 2000 CO² levels by 2020 we will need to make this reduction regardless of whether or not the CPRS is adopted. The positive aspect of adopting the CPRS market-based system, as opposed to a CO² tax, is that increasing costs will occur more gradually. A market system is the most effective way of reducing CO² levels without weakening the economy.

So what could the future look like if the parliament eventually passes the CPRS bill?

Positive changes with a CPRS:

- Australia will be on its way to making significant reductions to its CO² emissions levels
- The economy should not be damaged as the market-system allows businesses and industries time to adjust
- The environmental cost of pollution would be reflected as a financial cost to those who contribute the most to global warming

Negative changes with a CPRS:

- Everyday Australians will be paying more for goods and services, as companies may pass on their increased costs to the consumer
- Those industries whose CO² emissions levels are unsustainable within a CPRS system will be forced to undergo major reconstruction. This may result in job losses for employees of such industries. However, Government compensations written into the CPRS will likely lessen this effect

Australia without an ETS

If the Australian Government chooses to abandon the idea of an ETS – or CPRS as the Government has labelled their scheme – it will instigate several significant events.

Firstly, the Government would have to come up with an alternative means of reducing our carbon dioxide (CO²) emissions. While some politicians have tried to make the debate about whether or not Australia accepts the CPRS seem like a debate about whether or not Australians believe in climate change, this is not the case. Climate change is accepted by the overwhelming majority of people in the scientific, political and general community as being anthropogenic (or caused/accelerated by human activity). The verdict of the CPRS debate is not equivalent to a verdict on the existence of human-caused climate change.

If the Australian Government rejects a CPRS we will still be bound by our commitments to reduce CO² emissions. The Rudd Government has committed to reducing our emissions by 5% to a maximum of 25% of 2000 levels by the year 2020. This commitment is independent of the CPRS and will need to be met by 2020 through means of an ETS or otherwise.

If the CPRS is rejected, one alternative emissions-reduction option is to impose a tax on the production of CO² emissions. Like the market-based CPRS option, a tax also creates a financial disincentive to those producing lots of CO² emissions. While being an effective means of reducing CO² production, adopting a carbon tax can have more of a jolting effect on businesses and the economy. It also lacks the security of being able to set a specific cap on emissions each year.

A tax system and a market-based system are the two most effective ways – both environmentally and economically – of limiting emissions, barring outright Government restriction. If both of these options are rejected Australia will no doubt struggle to meet its emissions reduction targets by 2020.

Australia is by no means the first country to contemplate or implement an ETS. The European Union, with 25 member nations participating, has been operating an ETS since 2005. By studying the European example, the complexities of any ETS system, including Australia's proposed CPRS, are made apparent.

The EU ETS has garnered much criticism for its initial over-allocation of permits. This meant that competition was minimal and there was, in effect,

no incentive for companies to reduce their emissions. As the years have passed the scheme has undergone reviews and adjustments are being made to increase its effectiveness.

The same teething problems that the EU experienced are likely to occur in Australia if the CPRS is adopted. The question for some is whether or not adopting a weak scheme now is better than waiting and hoping that a better solution will arise.

There are also many European countries that have adopted a carbon tax, some with great results and some to little effect. At the end of the day, any system that Australia adopts will be unique to our country's circumstances. This means that it is hard to predict exactly which will be the most significant changes in the short and long term.

Before the introduction of the GST in 2000 there was much confusion among everyday consumers, and some feared that this new tax would be financially crippling. The CPRS, like the GST, is confusing and probably seems accessible only to those who are politically and economically savvy. On the other hand the CPRS, like the GST, could potentially become legislation that we take for granted as a part of our everyday lives.

Ultimately the most important consideration should be whether or not the CPRS is the best way, both environmentally and economically, of meeting our CO² emissions reduction commitments. If it is, then it should be adopted without delay. If it is not, the better alternative should be adopted without delay. We simply cannot afford to wait any longer.

Positives without a CPRS:

- For many Australians and Australian businesses it will be a relief to hear that they will not be faced with increased costs in the new year

Negatives without a CPRS:

- Everyday Australians will be paying more for goods and services. This will either be due to the implementation of a CO² tax, or because of a higher demand for basic resources resulting from climate disasters
- Australia will be under pressure to quickly come up with an effective means of reducing CO² emissions before 2020. The longer Australia waits to initiate action, the harder it will be more businesses to adapt to urgent changes