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HD **A convenient truce**

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The Coalition has finally passed its Direct Action climate change policy, thanks to support from Clive Palmer. But will it work, ask Tom Allard and Lisa Cox.

Even by the outsized standards of Clive Palmer, it was a breathtaking display of chutzpah. After endorsing the government's Direct Action climate change policy, which he had previously debunked as a "waste of money" and "token gesture", the **mining** magnate luxuriated in self-praise.

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The Palmer United Party had achieved great things for the environment, he reasoned. He was, indeed, the saviour of the emissions trading scheme, the economy-wide system of reducing greenhouse gas emissions by putting a price on carbon that many experts believe is integral to averting climate change.

This, despite the fact that Minister for Environment Greg Hunt, standing next to Mr Palmer in a press conference, went out of his way to make it "crystal clear" the Coalition would never back the scheme.

After the theatrics of his surprise conversion to climate change activism at a press conference with former US vice-president Al Gore, it was a spectacular, if inglorious and bizarre ending to a saga that looked for some time like it would cruel the central plank of the government's climate change policy.

With the backing of Mr Palmer's senators and crossbenchers Nick Xenophon and John Madigan, the policy passed the Senate after a marathon sitting of the upper house that went into Friday morning.

Mr Hunt was being hailed as a "Jedi Knight" by colleagues for securing a deal on one of the government's most controversial policies.

Mr Palmer, in turn, has been lampooned as a big-noter. As one government minister put it, Mr Palmer, in the end, was just a "grandstander".

At the heart of Direct Action is a $2.55 **billion** Emissions Reduction Fund. While the carbon tax encouraged reductions in emissions by penalising polluters, Direct Action works on the reverse principle. Instead, the government will pay emitters to reduce their carbon footprint.

Firms will bid for taxpayers' money at a so-called "reverse auction". Those that propose to get most carbon reduction for the dollar win the government funding.

With the fund are a series of programs, some carried on from Labor, which earmark how the reductions must be made. Reforestation of degraded land, carbon capture by farmers, improved indigenous land clearing techniques and **energy** efficiency initiatives on a "grand scale" are all eligible.

There is very little encouragement for **wind**, hydro and **solar energy**, but plenty of support for the Coalition's traditional constituents in big business and regional Australia.

And the scheme, unlike the carbon tax or other types of emissions trading scheme, is voluntary.

The fund is the carrot, the stick is less well-defined. Penalties for those who opt out, continue polluting and jeopardise Australia's international obligation of a 5 per cent reduction in emissions by 2020 are yet to be defined and won't kick in for almost two years.

Mr Hunt said this week he didn't expect any businesses to be penalised.

For the government, Direct Action is a win for the environment and the hip pocket; it will achieve "real and significant" emissions reductions even as the repeal of the carbon tax eases pressure on household power bills.

There is evidence to back the government's claim that power bills are being cut due to the carbon tax, or at least are lower than they would be. The latest Australian Consumer and Competition Commission assessment reports that savings on electricity bills will vary between 5 and 12 per cent, for a maximum annual saving to household of $263.

But Mr Hunt's assurance that the outlay of $2.5 **billion** in taxpayer funds will meet Australia's modest target of reducing carbon emission in 2020 by 5 per cent compared to levels in 2000 remains highly contested.

Almost all the modelling conducted by private firms, some of them linked to clean **energy** industry, find that it will fall well short. Reputex says it will achieve just 20 to 30 per cent of the greenhouse gas reductions needed to satisfy the 5 per cent goal. Research commissioned by the Climate Institute says a shortfall would mean the government will have to spend an extra $4 **billion** to meet the obligation, which is a binding commitment.

"I wouldn't be quite so categorical that we won't reach the target," said Frank Jotzo, director of the Centre for Climate Economics and Policy at the Australian National University.

Trends towards greater **energy** efficiency, the decline of the manufacturing sector, a drop in demand for residential electricity due to high prices and investing in **solar** could all mean the 5 per cent goal is met, even if the contribution from Direct Action is minimal.

Even so, it's an extremely costly way of delivering lower carbon emissions, argues Mr Jotzo, and completely inadequate when it comes to reducing emissions beyond the currently mandated 5 per cent decline.

By the end of next year at a UN-sponsored summit in Paris, Australia will be required to join other nations in committing to further reductions in greenhouse gases well beyond 2020.

"There's an expectation that something quite significant will happen in Paris. There will be significant reductions in emissions. You just can't scale up Direct Action to deal with that without costing huge amounts of money."

Subsidising industry rather than using market forces to achieve a policy outcome is at odds with the philosophy of the government, not to mention its core policy objective of repairing the budget deficit.

The approach has always puzzled analysts, although Greens leader Christine Milne believes it is explained by the government's desire to look after its mates. Such exhortations against big capital by the Greens might be considered pro forma.

But the Abbott government's ties to big business, and the **mining** and **energy** sector in particular, have no precedent in modern political history.

The Business Council of Australia chairman and chief economist helmed the government's commission of audit into the state of the budget.

The BCA, which represents the chief executives of Australia's biggest companies, was also instrumental in developing the government's industry policy released last month, where two of the five sectors earmarked for special assistance were in the **mining** sector.

The **mining** industry spent an extraordinary $22 **million** in six weeks during 2010 to discredit the **mining** tax, and has also provided political and financial support to Abbott's anti-carbon tax campaign.

An analysis of political donations by the Greens, sourced from Australian Electoral Commission data, show the fossil fuel sector donated $11.8 **million** to the major parties over the past 15 years, of which $8 **million** went to the Coalition.

Mr Palmer, too, benefits financially from the government's climate change approach. His Queensland nickel refinery is an emitter that paid almost $10 **million** in carbon taxes. It could now apply for a Direct Action subsidy to reduce emissions.

His extensive coalmining tenements in Queensland's Galilee Basin means he has an interest in the ongoing success of **coal**-fired power generators, big winners with the end of the carbon tax.

After announcing the policy backflip, Mr Palmer spruiked the merits of "clean" Australian **coal** as a solution to global warming.

Questions of whether Mr Palmer always intended to put his business interests first will linger. Certainly, the **mining** magnate began his journey into politics after Campbell Newman's Liberal National government in Queensland refused to support a proposed rail line that would serve his as yet undeveloped coalmines.

Until then, the former press secretary to Queensland premier Joh Bjelke-Petersen was the party's major donor and a Coalition grandee.

Those who advised Mr Palmer insist the assessment is too harsh. Don Henry, former boss of the Australian Conservation Foundation, led the negotiations with Mr Palmer on behalf of Mr Gore. He says Mr Palmer is a "complex character" who is "genuinely interested in a clean economy".

"He's genuinely wants to champion an ETS," says Mr Henry, adding "there was never any expectation that the government would immediately embrace it".

"It's good that the Climate Change Authority has been saved and given an additional and important role to look at an ETS and to look at the international targeting. I think it's an important step forward."

The stay of execution for the CCA, which is independent and advises government on what a future emissions reduction target should be and how to achieve it, was the government's "gesture" to compensate Mr Palmer for rejecting his demand for an ETS with a price on carbon of zero that would rise as other countries embraced emissions reduction.

Despite a draft being circulated to press gallery journalists, the terms of reference for the review, let alone a plan to replace about 20 CCA staff who have resigned since the Coalition took office, are not yet forthcoming. At any rate, Mr Hunt, almost gleefully, said he will ignore any recommendation in favour of an ETS, as the body has done before.

"Our position is absolutely clear. We've just abolished the carbon tax and we're not about to reinstitute it.

Mr Hunt describes Direct Action as "a scheme which is designed to last for 20 years, for 30 years".

But the confluence of the Paris talks, growing support for an ETS in **China** and the US, and the CCA review has given Mr Palmer's supporters hope a market-based mechanism for pricing carbon may eventuate.

They argue the CCA's investigation will ensure that the issue of carbon pricing continues to hound the Prime Minister during this parliament, and at a time when the rest of the world is turning to such measures.

And it is true, according to senior government sources, that there were internal ruptures over the political ramifications of a review.

Indeed, one senior source said it was precisely these concerns within the Prime Minister's Office that led to such protracted negotiations on Wednesday and that the deal teetered on the brink of collapse minutes before Mr Palmer was due to give a press conference.

There is another possibility an emissions trading scheme, of a type, could be introduced through the backdoor. Mr Hunt has said any penalties must be "revenue neutral" leaving the possibility that any sanctions on businesses that don't meet their obligations will centre on the **purchase** of domestic credits from other firms who better meet theirs.

If this were adopted, it could realise the predictions made by members of the government's expert reference panel for the emissions reduction fund that the policy is a pathway to a baseline and credit scheme, essentially a domestic emissions trading scheme.

Given business wants to be able to buy carbon abatement credits from offshore, there will be ongoing pressure for a global ETS that could prove irresistible.

Government insiders suggest Mr Hunt would not be unhappy with a baseline and credit scheme, or even an ETS, despite saying Direct Action would be around for 20 to 30 years. The real hurdle would be Abbott.

Tony Abbott seized the Liberal leadership by opposing an emissions trading scheme and rode the Prime Ministership by attacking the carbon tax.

Embracing an ETS would require political chutzpah of Palmer-esque proportions from the Prime Minister.

Editorial— Page 37

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