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TITLE: The CPRS — Where to from here?

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The first version of the Government's Carbon Pollution Reduction Scheme (CPRS) never had many friends and while the Government found a few extra for the recent release of the CPRS mkII it's now apparent that it has not done nearly enough to see the legislation pass through the Senate.

The Coalition has announced it will not vote for the legislation until after the next round of international negotiations in Copenhagen and is still advocating for more industry compensation, while the Greens want the minimum target raised from the current 5 per cent to an unconditional 25 per cent. The Government, which to date has walked both sides of the street on this issue, will have to come clean with the electorate about its priorities. So where to from here?

Assuming the Government doesn't 'blink' and defer the legislation until after Copenhagen, and the Senate doesn't pass the legislation, then the Government has two options. Call an early election and fight the issue or wait until the next election to fight the issue. Neither seems attractive, especially with the economy continuing to slow.

While there is widespread community support for 'action' on climate change, an election will force people to say what kind they want. In a climate change election it is clear that the Greens would campaign for the 'climate first' voters and the Coalition would target the 'economy first' voters leaving the Rudd Government to sell the idea that, while achieving nothing for three years, they have 'got the balance right'.

A third option would be for the Coalition to change their stance, as the Government is hoping they will, but the internal divisions in the Liberals and Nationals seem to be best accommodated with ongoing delay.

But enough about politics; the CPRS has far broader implications. The biggest issues are what it would mean for Australia's emissions and for investment in renewable energy? The surprising answer to both questions is 'not much'.

Australia's emissions are currently governed by our commitments under the Kyoto Protocol and, shortly, by whatever is decided at Copenhagen. The interaction between Australia's international obligations and the design of our domestic policies, such as the CPRS, is widely misunderstood.

Australia will have the choice to either ratify, or not, an emission reduction target negotiated at Copenhagen. Assuming we ratify, our emissions will be determined by whatever the target that we have agreed to. The passage of the CPRS, or any other domestic greenhouse policies, are simply a local attempt to meet those targets. If the targets in the CPRS are too low, or if it is not passed at all, we will still have an international obligation to reduce our emissions by a fixed amount.

On the renewable investment front the same is true. The Treasury's modelling makes it clear that it is the 20 per cent Mandatory Renewable Energy Target (MRET) that is driving investment in renewable energy, not the CPRS, which means whatever happens in the Senate has little bearing.

The CPRS has been designed to provide the appearance of action while driving no real change. The likely delay in implementing an effective scheme is a source of much regret, but I would rather see Australia pause for the sake of achieving a better scheme than lock us into failure. Something isn't always better than nothing.

That said, the months spent waiting for an international agreement should not be wasted. The CPRS has fundamental flaws that need to be addressed. A mechanism to ensure that the efforts of individuals and state governments to reduce emissions result in lower emissions, not extra permits for other polluters, needs to be introduced. Similarly, the decision to insulate the petrol price from the introduction of a carbon price needs to be revisited. The decision was made at a time of record oil prices and ensures that the proposed scheme cannot deliver least cost abatement.

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