



Commerce Queensland

QUEENSLAND'S CHAMBER OF COMMERCE AND INDUSTRY

**Submission on the Australian Government's Carbon
Pollution Reduction Scheme Green Paper**

September 2008



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I. INTRODUCTION

Commerce Queensland welcomes the opportunity to comment on the Australian Government's *Carbon Pollution Reduction Scheme Green Paper* ('the Green Paper').

Commerce Queensland is the peak business organisation in Queensland, representing the interests of 25,000 businesses and 135 chambers of commerce across the State (a more detailed overview of Commerce Queensland's membership is provided in Appendix 1). All of these businesses will be impacted to some extent, either directly or indirectly, by the proposed Carbon Pollution Reduction Scheme ('the CPRS'). As such, Commerce Queensland has a strong interest in the issues raised in the Green Paper.

While Commerce Queensland has chosen to comment directly on the Green Paper, the organisation is also a founding member of the Australian Chamber of Commerce and Industry (ACCI) and strongly supports the views that ACCI has expressed in its submission.

II. GENERAL COMMENTS

Queensland business acknowledges that it has a social responsibility to minimise the impact that its activities have on the environment. It is also aware that it needs to work co-operatively with all levels of government and the wider community to find feasible solutions to important environmental issues such as climate change.

This awareness is highlighted by the response to a 'hot topic' question on climate change which was included in the latest St. George-Commerce Queensland Pulse Survey of Business Conditions (June Quarter 2008). Over 76 per cent of respondents to that question were of the view that their business has a social responsibility to reduce its greenhouse gas emissions despite the fact that doing so will increase their costs. However a significant proportion of survey respondents (69 per cent) indicated that they did not have enough information to enable them to determine how climate change, and measures introduced to address climate change, would affect their business (please refer to Appendix 2 for more information on the survey results).

A well designed emissions trading scheme can potentially provide an efficient, effective and nationally consistent mechanism for reducing Australia's greenhouse gas emissions. Commerce Queensland is therefore supportive, in principle, of the establishment of the CPRS. That said, Commerce Queensland is acutely aware that the introduction of such a scheme will require significant structural change over the longer term and that this will have serious ramifications for some businesses and regions, the Australian economy and the wider Australian community. Given that, it is essential that the CPRS is designed and implemented in a very careful and considered manner, with sufficient inbuilt 'safety valves'.

It is also imperative that the Australian Government develops and implements robust long-term strategies to address the longer term challenges associated with reducing the nation's emissions, including maintaining the long-term strength and prosperity of the Australian economy. In particular, the Australian Government must ensure that it provides tangible and timely assistance to the most seriously affected communities. This assistance must help these communities to adjust gradually to the realities of a carbon-constrained economy and to remain sustainable in the long term.

The Australian Government also needs to provide the business community with sufficient clarity and certainty on the operation of the CPRS as soon as is possible, as this will help to ensure that



affected businesses have sufficient time to assess the likely impacts and respond accordingly. The most important information in this regard relates to the 2020 national emissions target and the likely emissions trajectories, caps and gateways that will apply in the early years of the scheme.

As the Australian Government is no doubt aware, this information will enable businesses to make reasonable judgements about likely permit prices – judgements which are integral to major long-term planning, financing and investment decisions. There is no doubt that some of these decisions are almost certainly being delayed at the moment until the price implications of the CPRS are much clearer.

In addition to these general comments, Commerce Queensland also has some key concerns about certain aspects of the proposed CPRS and these are outlined in more detail below.

III. SPECIFIC COMMENTS

A. COMMENCEMENT

While Commerce Queensland generally supports the introduction of an emissions trading scheme, we do have some serious reservations about the proposed commencement date. These concerns are threefold.

First and foremost, Commerce Queensland is concerned that Australia will, by implementing a more wide-reaching emissions trading scheme than those in place or proposed in other countries, damage the international competitiveness of its businesses (both import-competing and exporting). This is a very real risk given that it is unlikely that a global consensus on emissions reductions will be reached in the near to medium future.

By being a ‘good global citizen’ and taking a lead role in the global reduction in greenhouse gas emissions, Australia will through its own actions potentially create considerable incentives for many of its import-competing and exporting businesses to shift their production to countries which do not impose a price on carbon. As the Government is no doubt aware, the loss of this production would have a serious impact on Australia’s economy and terms of trade, as well as the welfare of its citizens. It will also achieve very little, if anything, in terms of emissions reductions – the emissions associated with the production will simply be shifted from Australia to the alternative location(s).

Commerce Queensland therefore considers that it is imperative that Australian action on climate change mirrors that undertaken by other major industrialised countries. This will ensure that Australia preserves its international competitiveness whilst also making a meaningful contribution to global efforts to address climate change.

Given the magnitude of the proposed reform, Commerce Queensland is of the view that the Australian Government must not rush stakeholder consultations or the development and implementation of the CPRS. This is especially important given that many small and medium-sized businesses have indicated that they do not have sufficient information to determine the impacts of emissions trading on their activities (see Appendix 2 for more information).

The proposed commencement date of 2010 means however that the Australian Government will need to meet a very tight schedule in order to develop, finalise and implement the CPRS in the time that is available. It also presents a significant challenge in terms of the development and implementation of the information programs that will be necessary to ensure that business and the wider community understand the implications of emissions trading. Commerce Queensland is



concerned that these time constraints will mean that the Australian Government will have no option but to rush some of the decisions relating to design of the CPRS. This would be a worrying outcome and we would therefore strongly urge the Australian Government to give further consideration to whether the proposed commencement date allows for informed input from business and is achievable without compromising the design process.

Commerce Queensland considers that the Australian Government must give due consideration to prevailing economic conditions when determining an appropriate commencement date for the CPRS. In our view, it would be most unhelpful if the scheme were to be introduced at a time when the Australian economy was experiencing, or was on the cusp of experiencing, a downturn.

B. COVERAGE

At this stage, Commerce Queensland is comfortable with the Green Paper's proposals in respect of initial coverage of the CPRS. Commerce Queensland also supports the Australian Government's stated intention to ensure that the CPRS has, in the longer term, maximum practical coverage of Australia's greenhouse gas emissions and sectors. Commerce Queensland considers that the broadest possible coverage is crucial if the costs associated with emissions reduction are to be minimised and also distributed on an equitable basis.

Consequently, while Commerce Queensland acknowledges the unique challenges associated with including agricultural emissions in the CPRS, we believe it is important that these emissions are eventually incorporated into the scheme if possible as they represent a significant proportion of Australia's overall emissions. If this is not possible, Commerce Queensland considers that the Australian Government should implement alternative measures to ensure that the agricultural sector contributes its fair share to the costs incurred in reducing Australia's greenhouse gas emissions.

C. CAPS AND TRAJECTORIES

Commerce Queensland acknowledges that the Australian Government has an electoral mandate to commit Australia to a 60 per cent reduction of its 2000 emission levels by 2050.

Commerce Queensland notes that the setting of a 2020 target will be critical in determining the severity of the emissions reductions required in the short-to-medium term. Unfortunately, Commerce Queensland is not in a position at this stage to provide specific comments on this target due to the delay in the public release of the relevant modelling. Commerce Queensland is however supportive of the proposal to set a medium-term target which has upper and lower bounds. In our view, this approach will provide the Australian Government with a degree of flexibility to adjust the trajectory in the event that circumstances change in the future. Given the long term nature of the target, Commerce Queensland considers that it is important that this type of flexibility is built into the 2020 target.

Commerce Queensland also considers that a gentle start to emissions reductions is imperative, as it will minimise the potential for serious shocks while businesses adapt to the new economic reality of an economy with a carbon price. In addition to a soft start, Commerce Queensland is of the view that future targets and trajectories should not exceed those adopted by Australia's major international competitors. As noted above, Australia stands to gain little from being at the forefront of global reductions in emissions, and risks irreparably damaging its economy and reducing the welfare of its community.



In terms of the specific details outlined in the Green Paper, Commerce Queensland is comfortable with the proposals to set scheme caps for five years in advance, use a ‘gateway’ or emissions range for the ten years beyond the caps and leave caps unadjusted in the event that they are inconsistent with Australia’s international commitments (that is, the Australian Government will make up any shortfall in Australia’s emissions targets by purchasing sufficient international emissions units). Commerce Queensland welcomes this approach and considers that it will help to provide business and the wider community with greater certainty.

D. PERMITS

General

At this stage, Commerce Queensland is comfortable with most of the proposals regarding permit arrangements, including the proposal to allow very limited borrowing and unlimited banking. Commerce Queensland considers however that there is a strong need for a robust regulatory framework to govern permit trading as this will help to ensure that market participants have confidence in the integrity and reliability of the market. There are very real concerns that speculators may attempt to “game” the market, particularly in its initial stages.

Price Cap

Commerce Queensland supports the imposition of a price cap during the initial stages of the CPRS, as we believe it will help to promote price stability and reduce the likelihood of serious economy-wide price shocks.

Auctions

Commerce Queensland is generally supportive of the proposal to shift towards 100 per cent auctioning of permits over the longer term. Commerce Queensland also supports the proposal to auction a combination of current and future vintages each year.

Commerce Queensland believes that the Australian Government needs to be responsive to the business needs regarding the timing of auctions, especially during the early stages of the CPRS when it is likely that there will not be a deep, well-developed secondary market for permits. In our view, the optimal timing (quarterly, monthly, weekly) of auctions is likely become clearer once the scheme commences and businesses begin to trade on a more frequent basis. Commerce Queensland considers that the Australian Government must respond quickly if it becomes evident that there is a need for auctions to be held on a more regular basis.

Commerce Queensland and its members have some concerns about the proposal to allow universal participation in the permit auctions in the early stages of the CPRS. In particular, some businesses are concerned that speculators may attempt to ‘game’ the market and push prices up. This is an important concern given that the secondary permit trading markets are likely to be immature in the early stages of the scheme. Commerce Queensland therefore suggests that the Australian Government should give further thought to this issue, including whether it would be appropriate to initially limit participation in auctions to those businesses which are required to participate in the CPRS. This restriction could then be lifted once there was a deep and liquid secondary market for permits.



E. OFFSETS

Commerce Queensland notes that the Australian Government has effectively deferred its decision on eligible domestic offsets until the coverage of the CPRS is finalised. Commerce Queensland is supportive of this approach, but notes that it would be preferable if this issue was settled as soon as possible. Commerce Queensland would welcome the opportunity, through ACCI, to discuss this issue in more detail with the Australian Government.

F. COMPENSATION

As the Australian Government will no doubt be aware, compensation is a key issue for the Queensland and Australian business communities.

General

Commerce Queensland is waiting on more detail on the Climate Change Action Fund before forming a firm view on compensation arrangements for the general business community. Commerce Queensland notes however that there is a need to ensure that small and medium businesses are not forgotten in compensation arrangements. The costs associated with emissions trading will indirectly flow through to these businesses and some of them will need assistance, whether it be financial or technical, to adapt to the new reality of an economy-wide carbon price. The impacts on some of these businesses (for example, electricity-intensive manufacturing processes) may be substantial and they are frequently not as well placed as big businesses to deal with these impacts.

Commerce Queensland considers that one of the most useful ways in which the Australian Government could assist small and medium businesses is through the provision of information which will assist these businesses to understand what emissions trading means for them and how they can respond to these impacts (see Appendix 2 – Question 6 for more information).

Fuel

Commerce Queensland has some serious concerns about the limited nature of the heavy vehicle fuel exemption (in comparison to the other proposed fuel rebates) and the lack of similar rebates for fuels used by other modes of transport such as rail. As the Australian Government will no doubt be aware, many communities in rural and regional Queensland are very reliant on heavy vehicle and rail transport to deliver products and services. Any increase in transportation costs is therefore likely to have a significant impact on the welfare of many of these communities (given the substantial distances travelled to reach some Queensland towns and cities). Commerce Queensland believes that the Australian Government must ensure that it gives due consideration to the welfare of these communities when reviewing the heavy vehicle fuel rebate. We also believe that the Australian Government should consider ensuring that the rebate arrangements do not create an unlevel playing field in respect of competing modes of transport.

Trade-Exposed, Energy Intensive Industries

Commerce Queensland considers that it is important that the CPRS does not have an adverse impact on the international competitiveness of Australian firms. Commerce Queensland notes that targeted compensation has an important role to play in ensuring that any such adverse outcomes are either avoided or minimised. That said, Commerce Queensland does have some concerns with the compensation arrangements as currently proposed.



Firstly, the imposition of an arbitrary set of thresholds increases the potential for market distortions. For example, a business that just fails to satisfy the 60 per cent threshold will miss out on any compensation. It may however be competing against another domestic business which just satisfies the 60 per cent threshold and is therefore eligible for compensation. The second business may potentially gain a competitive advantage over the first business by virtue of the compensation arrangements.

Secondly, while Commerce Queensland is strongly supportive of assistance for trade-exposed industries, we note that the needs of this sector must be balanced against the needs of the wider business community. In that regard, it is important that the burden of emissions reduction is shared equitably across the entire Australian community. If the global community is unable to reach an acceptable agreement on emissions reduction in the longer term, Commerce Queensland believes that the Australian Government should consider addressing the issue of carbon price equalisation measures through the World Trade Organisation and other international bodies.

Commerce Queensland also welcomes the proposal to require businesses that cease trade-exposed, energy-intensive activities to return permits that have been allocated for free but which cannot be attributed to production prior to the cessation of the relevant activities. Commerce Queensland considers that this approach will reduce the likelihood of some businesses accepting the free permits and then subsequently shifting production offshore.

Strongly Affected Industries

Commerce Queensland does not have any firm views on the compensation arrangements for strongly affected industries. We note however that it is important that any cost savings generated by the compensation arrangements are passed through to end consumers.

G. REPORTING AND COMPLIANCE

Commerce Queensland notes that the relevant compliance and enforcement provisions will not be finalised until the end of 2008. In terms of reporting obligations and systems, Commerce Queensland considers that there should be consistency between the various federal and state/territory reporting obligations (both in terms of information required and reporting periods). Commerce Queensland also considers that the Australian Government must ensure that it minimises the cost and time burdens associated with the reporting and compliance arrangements for the CPRS.

H. TAXATION AND ACCOUNTING

As with the reporting and compliance arrangements, Commerce Queensland considers that it is important that the Australian Government minimises the compliance burden associated with the accounting treatment of compensation and permit trading. It is also important that taxation arrangements do not have the unintended consequence of undermining the compensation arrangements for the CPRS.

I. ADMINISTRATION ARRANGEMENTS

Commerce Queensland does not support the proposal for the Australian Parliament to retain the responsibility for setting scheme caps and gateways. In our view, this approach is undesirable as it will result in these important decisions being subject to the vagaries of the parliamentary process. There is a real risk that a future Australian Government may need to settle for a sub-optimal



compromise position on either caps or gateways in order to secure parliamentary passage of the relevant legislation.

Given these risks, Commerce Queensland considers that it would be more appropriate if the caps and gateways were set by the independent scheme regulator. This would avoid the potential for sub-optimal outcomes and improve business and community confidence in the caps and targets as decisions would be independent and based solely on technical and economic considerations.

Commerce Queensland is of the view that the initial review of the CPRS should occur in the third year rather than the fifth year of operation. We believe that three years is sufficient time to assess the operation of the CPRS and that an earlier review period will enable the Australian Government to promptly identify and rectify any problems with the CPRS arrangements.

J. INTERNATIONAL LINKAGES

Commerce Queensland supports the Australian Government's proposed approach to linking the CPRS with other international schemes. Commerce Queensland considers that price stability should be the most important consideration in the initial stages of the CPRS, with international linkages being a peripheral consideration. In the longer term, international linkages will be important as they will help to reduce the costs associated with emissions reductions. That said, any linkages need to be considered very carefully and should only be pursued where there are clear and substantial benefits for the Australian economy and community.

J. OTHER ISSUES

Commerce Queensland notes that there are a number of existing federal, state and territory greenhouse gas abatement policies which will need to be reconsidered in light of the introduction of a comprehensive national emissions trading scheme. The CPRS should be the primary mechanism for driving the desired reductions in emissions and if it is well-designed, it will achieve this task efficiently and at the lowest cost to Australian consumers and the Australian economy. There is a very real risk that additional policy measures may actually increase abatement costs with no additional reduction in emissions. Given that, Commerce Queensland considers that additional abatement policies should only be introduced or retained in circumstances where there is a clearly identified market failure or gap in the coverage of the scheme. Abatement policies which cannot be justified in the presence of a well-functioning emissions trading system should be removed in a timely manner.

IV. CLOSING COMMENTS

As noted above, Commerce Queensland supports in principle the introduction of the CPRS. We believe however that it is important that the Australian Government clearly identifies the potential impacts of the scheme, both short and long-term and develops robust strategies to address these impacts. Commerce Queensland considers that the Australian Government should formally report on both the impacts and its strategies for addressing those impacts well before the commencement of the CPRS. This will allow stakeholders to make a considered and informed judgement on the CPRS prior to its introduction.

VI. CONTACT INFORMATION

If you wish to discuss any aspect of Commerce Queensland's submission in more detail, please contact Paul Bidwell on (07) 3842 2237.



APPENDIX 1 – CQ MEMBERSHIP PROFILE



Policy Development & Representation



Workplace Health & Safety



Workplace Relations & Employer Advice



Human Resource Management



International Business



Vocational Education & Training



Eco Efficiency Advice

COMMERCE QUEENSLAND PROFILE

Commerce Queensland is Queensland's largest business organisation and is the trading name of the Queensland Chamber of Commerce and Industry. It has a statewide membership drawn from all industry sectors and has been the state's peak employer/industry body since 1868.

Commerce Queensland is a non-Government organisation that seeks to work with Government and other groups to shape Queensland's economic and social environments in a way that promotes business growth and community prosperity.

Commerce Queensland is called upon by thousands of enterprises to deliver a broad range of business services including advocacy and representation, workplace and industrial relations, staff development and training, workplace health and safety, environmental management and international business facilitation. We are commercially-minded and expertly-qualified.

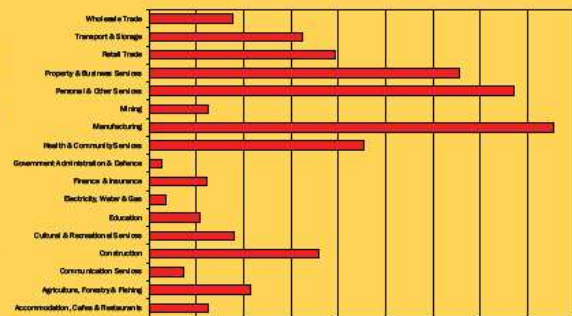
Commerce Queensland is a founding member and influential partner of the Australian Chamber of Commerce and Industry (ACCI) and part of the worldwide network of Chambers of Commerce and affiliated business service organisations.

Commerce Queensland has in excess of 3,700 direct members across 8 regional offices and acts for over 135 local chambers of commerce and 60 trade and professional associations. In total, Commerce Queensland represents in excess of 25,000 businesses and our vision is to remain the leading facilitator of business success in Queensland.

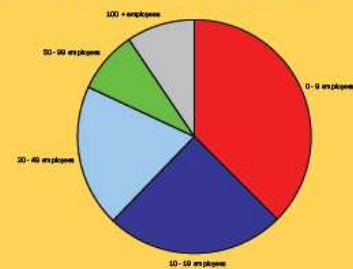


The diversification of Commerce Queensland's membership is illustrated in the following charts:

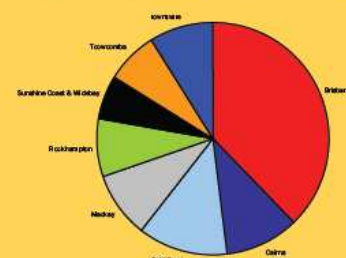
Commerce Queensland members by Industry



Commerce Queensland members by Employment Size



Commerce Queensland members by Region



Queensland's Peak Industry Body



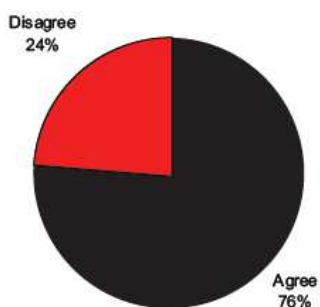
APPENDIX 2 – ST.GEORGE – COMMERCE QUEENSLAND PULSE SURVEY RESULTS

Hot Topic Oil Prices & Climate Change

Climate Change

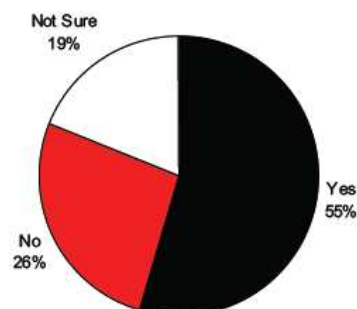
Question 1

Do you believe that your business has a social responsibility to reduce its greenhouse emissions despite the fact that doing so may increase your costs?



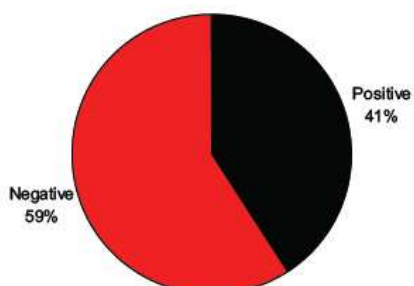
Question 2

Do you think that climate change (or measures introduced to minimise climate change) will have an impact on your business?



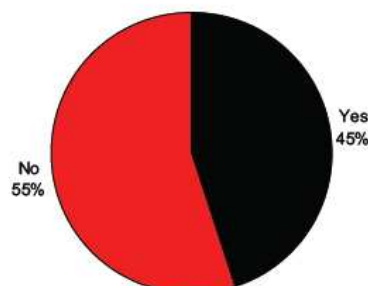
Question 3

If you answered yes to the previous question, what do you think the overall impact on your business will be?



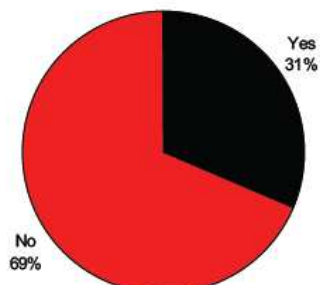
Question 4

Are you developing strategies and plans to reduce the risks and/or to capitalise on the opportunities that may arise for your business in the future as a result of climate change?



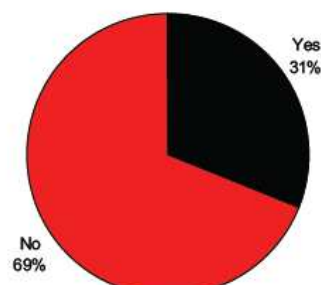
Question 5

Have the risks associated with climate change (or climate change mitigation strategies) influenced your firm's investment decisions? For example, the decision to invest in particular plant/equipment or to base production in a particular location?



Question 6

Do you think there is enough information available to you to enable you to determine how climate change may affect your business and the best way for your business to respond to climate change?



Businesses were also asked to identify the most important risks or opportunities that they would face as a result of climate change. The two most commonly identified risks/opportunities were increased costs and adverse weather events.