



Submission Cover Sheet: Clean Energy Legislative Package

Overview

This submission cover sheet should be used to provide comments on the Clean Energy Legislative Package.

Contact Details

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Do you want this submission to be treated as confidential? Yes No

Submission Instructions

Submissions should be made by **5pm on Monday, 22 August 2011**. The Department reserves the right not to consider late submissions.

Where possible, submissions should be sent electronically, preferably in Microsoft Word or other text based formats, to the email address – cleanenergybills@climatechange.gov.au

Submissions may alternatively be sent to the postal address below to arrive by the due date.

Carbon Price Legislation Branch
Carbon Strategy and Markets Division
Department of Climate Change and Energy Efficiency
GPO Box 854
CANBERRA ACT 2601



AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY

16 August 2011

Carbon Price Legislation Branch
Carbon Strategy and Markets Division
Department of Climate Change and Energy Efficiency
GPO Box 854
CANBERRA ACT 2601

Dear Sir/Madam

Submission on the Clean Energy Legislative Package

The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to provide comment on the Clean Energy Legislative Package.

Business agrees that it is important for Australia's well-being to ensure the sustainability of our environment and resources, and that technological progress and innovation are the keys to improve Australia's energy efficiency. However, given the Australian economy dependence on fossil fuel with 77 per cent of our electricity generation from coal, the nature of our open economy with a 58.5 per cent trade to GDP ratio and the high emission intensity of our industry, Australia has more to lose than any other major economy under a carbon pricing framework.

To ensure Australia's carbon mitigation is achieved through least-cost means, especially in the absence of a multilateral framework, ACCI considers that Australia's climate change policy response should place Australia on an equal footing with the rest of the world and in particular with its major trading partners and other competing resource and energy producing countries. Any unilateral carbon price will be detrimental to our international competitiveness, export jobs and economic expansion opportunities.

Therefore, ACCI remains opposed to the Government proposed *Clean Energy Legislative Package*, in the absence of a legally binding agreement and concerted international action to reduce global greenhouse gas emissions.

The imposition of a carbon price will not only affect the 500 big emitters as indicated by the Government, which have a direct obligation to pay the carbon tax or acquit a carbon permit to emit, but it will also cause price increases to cascade through the supply chain. Moreover, according to the Australian Tax Office 2009-10 data, the carbon price impact on fuel, will apply to around 60,000 businesses¹ through adjustment in fuel tax credit, including:

- 22,500 construction businesses;
- 5,350 manufacturing businesses;
- 10,000 businesses in the retail and wholesale trades;
- thousands of tourism related operators, including 1,300 accommodation and food service businesses and 1,000 businesses in accommodation and food services;
- 1,500 mining operations;
- several hospitals and large health care providers; and
- 775 education and training sector bodies.

¹ ATO data cited in Australian National Audit Office (ANAO), *Audit Report No.49: 2010-2011 Fuel Tax Credit Scheme*, 21 June 2011, p.72 - 4.

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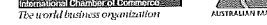
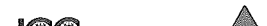
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This number of affected businesses will increase to more than 100,000 from 1 July 2014, when the road freight sector, including tens of thousands of owner drivers, will be liable for the carbon tax on fuel as intended by the Government².

While the EITs will be compensated to some extent to protect their competitiveness, limited assistance is provided to SMEs through the increase in business instant asset write-off threshold, Energy Efficiency Information Grants, and other limited industry assistance programs. It is also concerning that the Government contends that SMEs will be able to pass on any cost increase from a carbon pricing mechanism to consumers.

In reality, many SMEs will bear the brunt of cost increases in the form of higher energy prices and higher input costs given their limited ability to pass on these cost increases to consumers since they are trade exposed as producers of goods and services. A unilateral carbon price also creates the following economic burden on SMEs:

- SMEs have little, if any, market power to negotiate the rate of carbon pass-through from its upstream suppliers;
- SMEs have few, if any, opportunities to cut costs;
- SMEs are thinly capitalised and unable to cope with even marginal cost increases;
- Additional costs diminish the already thin profit margin; and
- Diminished profits will reduce the return on capital and labour.

ACCI has commissioned international economic consultant, Castalia Strategic Advisors, to examine the impact of the Government proposed Clean Energy Future Plan on SMEs in food processing, chemicals and plastics manufacturing industries. This study is an update to the June 2009 report - *Securing SMEs in Australia's Low Carbon Future*. The study conclusively demonstrated that increases in energy and transportation costs will impact directly on SMEs' employment and profitability. Full details of the report will be released shortly when it is finalised.

In addition, Australian manufacturers are already facing extreme stress as the Australian dollar reached above parity against the US dollar. The Australian dollar has appreciated more than 17 per cent against the US dollar over the past year and the market is expecting the Australian dollar to remain elevated in the near future due to the terms of trade boom as well as the large interest rate differentials between Australia and most other advanced economies. An additional cost impost in the form of a carbon tax amplifies the competitive pressure on Australian manufacturers, especially SMEs. According to the Reserve Bank, manufacturing only contributed 11 per cent to the Australian total share of exports and only grew by 2 per cent over the year to December 2010. Industry is concerned that a unilateral carbon pricing scheme as proposed by the Government will unnecessarily exacerbate the difficulties currently faced by the manufacturing sector.

While the 2011 Treasury modelling estimated that Australia's gross national income will be -0.5 per cent and -4.7 per cent lower than it would otherwise have been in 2020 and 2050 respectively, ACCI is concerned that Treasury did not model the scenario in which Australia acts unilaterally in pricing carbon. Assumptions about global mitigation actions are overly optimistic as Treasury assumes that global coordinated action emerges from 2016 with regions being able to source abatement from each other to minimise their domestic mitigation costs. A more realistic assumption on global actions on climate change will see the cost of emission reductions to the Australian economy to be higher and the degree of competitive disadvantage facing Australia's EITs will be greater.

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² Ibid.



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ACCI is also concerned that a carbon pricing regime will be in addition to, and not replace, other existing regulatory measures to address climate change including the renewable energy target (RET) and other new green initiatives as announced in the Clean Energy Future plan. The Productivity Commission (PC) estimated that Australia's existing emission reduction measures including the RET and solar feed-in tariffs that apply to Australia's electricity generation sector are costly with limited impact on abatement. The PC estimated that the implicit abatement subsidy for the programs that subsidise solar PV was in the range of \$431 to \$1,043 per tonne of carbon. According to the PC modelling, if applied only to the electricity generation sector, an explicit carbon price of about \$9 per tonne of carbon is required to achieve the same amount of abatement generated by the existing policy measures. ACCI estimated that the suite of direct action policies announced in the Clean Energy Future plan will cost around \$24 billion over the eight years to 2020, including funding for the Clean Energy Finance Corporation and Energy Security Fund.

The Clean Energy Future plan will impose significant compliance costs on Australian businesses, with additional reporting and administrative burdens especially on the emission intensive businesses that are required to acquit permits to emit. According to the Government's own Regulation Impact Statement, on top of businesses' own operating costs of having a dedicated person or department to administer and comply with the law, businesses that are required to obtain third party audits from accounting and consulting firms are estimated to pay an additional cost of \$150,000 per year for the audit services. It is also likely that companies would incur some costs associated with liaising with auditors, which are estimated to be around \$11,500 per year³.

The Government's proposed assurance arrangement to certify the accuracy of emissions reporting would result in total aggregate compliance costs of:

- Around \$80 million per year if all 500 liable entities were required to obtain third party audits; and
- Around \$32 million per year if only the very large emitters, those emitting over 125kt of carbon per year, were required to obtain external audits⁴.

These costs on businesses could be channelled to more productive use to generate greater social and economic outcomes. It is also concerning that the newly established Clean Energy Regulator will have the power to impose administrative penalties and seek civil and criminal sanctions including imprisonment, in the event that emitters are non-compliant with the law.

Moreover against the backdrop of heightening levels of global economic uncertainty stemming from the downgrade of the US sovereign risk rating and the ongoing public debt crisis in the US and Europe, the proposed carbon tax has become a pervasive and negative influence on overall sentiment to the extent that it is derailing business and consumer confidence on Australia's economic outlook. In the current economic environment, Australian business is not in a position to cope with added cost imposts of an economy wide carbon pricing framework. Trade exposed parts of the industry are already reeling from the impact of the high Australian dollar while continuing subdued levels of household spending are battering the retail and other consumer sensitive sectors of the economy as manifested by the weak employment numbers in recent months.

³ Regulation Impact Statement – Australia's Plan for a Clean Energy Future, p. 60.

⁴ Ibid.

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Therefore, ACCI considers that Australia's response to climate change needs to be carefully considered to ensure that we do not unilaterally damage our economic performance and competitiveness and place unnecessary compliance and economic costs on Australian businesses, while delivering barely discernible benefits to the environment. Instead, the immediate government focus and support should be directed at efficiency and technology approaches and assessing the capacity of the economy to deal with changes in the energy fuel mix over time. This would deal with the question of certainty and encourage investment in modern generating capacity which does not preclude coal based power.

Yours sincerely,

Peter Anderson
Chief Executive

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