

The Carbon Laws Two Years On: Pollution is down, our energy is cleaner, and the economy is growing

1 July 2014

1 July, 2014 marks the second anniversary of the carbon laws – the Clean Energy Act and other laws that price and reduce pollution, invest in renewable energy and support households and business in the shift to a cleaner economy.

The laws are working and have delivered impressive results in their first two years: Australia's pollution is down; economic growth is up; unemployment and inflation remains under control; and solar and wind energy has soared.

The carbon laws have worked with the Renewable Energy Target (RET) and economic changes to achieve these results.

The Government intends to repeal the carbon laws, aiming to replace them with still uncertain policies that shift the burden of pollution reduction from big polluters to taxpayers, threaten the RET, and may or may not place limits on our biggest polluters.

No independent assessment to date¹ supports the ability of these policies to achieve 2020 pollution reduction targets of at least 5 per cent below 2000 levels. By contrast, the default mechanisms in the carbon laws will achieve at least 15 per cent reductions. Australia continues to have international commitments of 5 to 25 per cent reductions – a pre-election promise of the Government.

Pollution is down

Total emissions from electricity consumption in the National Electricity Market (NEM) are down by 5.3 million tonnes in the 12 months to May 2014². This means emissions from electricity have fallen by 17.2 million tonnes or 10.3 per cent since carbon pricing was introduced.

The latest Australian Greenhouse Gas Inventory shows that national emissions continue to drop. Emissions from all sectors excluding land use and forestry fell 0.8 per cent, or 4.3 million tonnes in the year to December 2013.³ The Government's own assessments estimate the carbon laws will decrease national pollution by 40 million tonnes compared with business-as-usual⁴.

Our electricity mix is cleaner

Current policies are also driving an uptake of renewable energy, with electricity from renewables rising by 38 per cent since June 2012 in the NEM. Meanwhile, the use of brown coal has fallen by 9 per cent and black coal by 9.5 per cent⁵.

The Australian economy continues to grow and inflation impacts were minimal

The Australian economy remains strong. In fact growth was higher than expected (1.1 per cent) in the March quarter, with an annual growth rate of 3.5 per cent. Unemployment remains below 6 per cent.

Price impacts from the carbon laws have been as expected⁶ or less and have had minimal impact on the Consumer Price Index. Latest figures show a 2.9 per cent rise in the year to March 2014, a rate that is within the Reserve Bank of Australia's target range.

The Government's Budget 2014 highlighted the minimal inflationary impact of carbon pricing by predicting its removal would "is expected to reduce the headline Consumer Price Index (CPI) by $\frac{3}{4}$ of a percentage point and the underlying CPI by $\frac{1}{4}$ of a percentage point over the year to the June quarter of 2015 compared to what it would have been"⁷.

The carbon price has not impacted the nation's overall economic performance. It has certainly not resulted in the catastrophic impacts predicted by opponents of the carbon laws.

The carbon laws default mechanisms will reduce pollution by at least 15 per cent by 2020

From 1 July 2015, the carbon laws set not just a price but a limit on carbon pollution. The default mechanism in the laws automatically reduces that limit by 12 million tonnes per year.

The independent Climate Change Authority estimated this would help reduce Australian pollution levels to 15 per cent below 2000 levels by 2020⁸. Estimates supported by the Parliamentary Library put this figure higher than 18 per cent⁹.

“Direct Action” will struggle to achieve even 5 per cent reductions

Independent modelling from Sinclair Knight Merz and Monash University of Coalition’s “Direct Action” plans showed that plan would *increase* pollution levels by 9 per cent by 2020, rather than decrease it¹⁰.

This included generous assessments including maintenance of the renewable energy target (now under review) and the expenditure of the promised \$2.55 billion over the forward estimates from its Emissions Reduction Fund (ERF).

The Budget contained new estimates from Treasury that just \$1.15 billion would be expended in that time meaning potentially higher increases in pollution levels¹¹. Separate industry analysis released on 12 June estimates the ERF will purchase just 30 per cent of emission reductions needed to meet the 2020 target¹².

Australian support for climate action is rebounding

Polling released by the Lowy Institute in early June shows support for climate action rebounding and that almost two-thirds of Australians think the government should take a global leadership role. Only 28 per cent believe we should wait for international consensus – often a proxy for inaction. Just 7 per cent think Australia should do nothing¹³.

More recent polling¹⁴ by The Climate Institute shows that 61 per cent of Australians want the nation to be a leader in finding climate solutions, a sentiment that is at its highest levels since 2008 and up for the second consecutive year.

International action, carbon pricing and pollution limits are becoming common practice

Inaction by major emitters such as the US and China has long been used by the Coalition as a reason to hold back on efforts here. But both countries are now embarked on ambitious plans to control pollution, invest in clean energy and to help negotiations on a global framework agreement in 2015.

The US has committed to reduce national emissions by 17 per cent below 2005 levels by 2020. This equals 21 per cent below their 2000 levels by 2020. If Australia was to keep pace with the US commitment of 17 per cent below 2005 levels by 2020 this would equal a 12 per cent reduction off our 2000 levels.

The US has just announced new rules to reduce carbon pollution from American coal and gas power plants. The new rules add to existing federal regulations, state based carbon markets and renewable energy target schemes which are in place in 29 American states.

China has committed to reducing its carbon emissions per unit of GDP by 40-45 per cent by 2020. China is also ramping up efforts to clean up its energy supply and improve energy efficiency.

Last year China launched five regional carbon markets, invested \$54 billion in renewable energy, and set limits on coal use. It is moving to establish a national carbon market by 2020. Other countries which have introduced, or are planning, market based emissions trading schemes and carbon taxes include South Africa, South Korea, New Zealand, the UK, Germany, Italy and France.

ENDNOTES

¹ The Climate Institute, August 2013. *Coalition Climate Policy and the National Climate Interest*. The Climate Institute, Sydney.

www.climateinstitute.org.au/verve/_resources/TCL_CoalitionClimatePolicyandtheNationalClimateInterest_15August2013.pdf

² Pitt & Sherry, *Cedex Carbon Emissions Index, June 2014*. www.pittsh.com.au/assets/files/Cedex/CEDEX%20June%202014.pdf

³ Department of the Environment, April 2014. *Quarterly Update of Australia's National Greenhouse Gas Inventory: December 2013*. <http://www.environment.gov.au/system/files/resources/d616342d-775f-4115-bcfa-2816a1da77bf/files/nggi-quarterly-update-dec13.pdf>. Note land use, land use change and forestry emission estimates are excluded because of changes to the activities included in this sector.

⁴ Department of the Environment, December 2013. *Australia's Abatement Task and 2013 Emissions Projections*, - www.environment.gov.au/system/files/resources/51b72a94-7c7a-48c4-887a-02c7b7d2bd4c/files/abatement-task-summary-report_1.pdf

⁵ Pitt & Sherry, *Cedex Carbon Emissions Index, July 2014*. <http://www.pittsh.com.au/assets/files/Cedex/CEDEX%20Electricity%20Update%20July%202014.pdf>

⁶ E.g. Tim Colebatch, 'Carbon Tax Inflation Fears Evaporate', *Sydney Morning Herald*, 24 July 2013. <http://www.smh.com.au/business/the-economy/carbon-tax-inflation-fears-evaporate-20130724-2qj4q.html>

⁷ Australian Government, May 2014. *Budget 2014 - Budget Paper 1, Budget Statement 2: Economic Outlook*. http://www.budget.gov.au/2014-15/content/bp1/download/BP1_combined_file.pdf

⁸ Climate Change Authority, February 2014. *Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review – Final Report* <http://climatechangeauthority.gov.au/node/201/>

⁹ Peter Hannam, 'Australia's emissions cut target triples overnight thanks to failure to repeal carbon tax', *Sydney Morning Herald*, 3 June 2014. www.smh.com.au/environment/climate-change/australias-emissions-cut-target-triples-overnight-thanks-to-failure-to-repeal-carbon-tax-20140602-39esv.html

¹⁰ The Climate Institute, *Coalition Climate Policy*.

¹¹ The Climate Institute, 'Government's pollution policy teeters on budget insights: new analysis', media release, 26 May 2014.

www.climateinstitute.org.au/articles/media-releases/governments-pollution-policy-teeters-on-budget-insights-new-analysis.html

¹² Reputex, 'High benchmark price to lift supply, but ERF short', media release, 11 June 2014. www.reputex.com/media-centre/media-release-emissions-reduction-fund-to-be-undersupplied-reputex/

¹³ Lowy Institute, June 2014. *Lowy Institute Poll 2014*. <http://www.loyyinstitute.org/publications/loyy-institute-poll-2014>

¹⁴ The Climate Institute, June 2014, *Climate of the Nation 2014*. The Climate Institute, Sydney.

http://www.climateinstitute.org.au/verve/_resources/ClimateoftheNation2014final.pdf