

10 May 2011

Consultation Support Team  
Department of Climate change and Energy Efficiency  
GPO Box 584  
Canberra ACT 2601

Dear Minister,

**RE: Consultation on proposed Carbon Pricing Mechanism.**

Thank you for the opportunity to comment on the Australian Government's proposed architecture and implementation arrangements for a carbon pricing mechanism.

The Chamber of Commerce and Industry Queensland (CCIQ) is the peak business organisation in Queensland, representing the interests of 25,000 businesses and 135 chambers of commerce across the State. All of these businesses will be impacted to some extent, either directly or indirectly, by a Carbon Pricing Mechanism and any other measures which may be adopted to address climate change.

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 address important environmental issues such as climate change.

*However, overwhelmingly the majority of Queensland businesses do not support the introduction of a Carbon Pricing Mechanism, especially in the absence of international agreement and unilateral action to address climate change.*

Notwithstanding this position, CCIQ wishes to work with the Australian Government and the Department of Climate Change and Energy Efficiency to ensure that the climate change agenda delivers the best possible outcomes and at the least cost to the business community. CCIQ offers the following feedback in relation to the proposed architecture and implementation arrangements for a carbon pricing mechanism.

**I. General Observations and Comments**

Firstly, CCIQ would like to raise our concern over the process by which this initial consultation has been conducted. The lack of policy detail released at this stage limits our ability to analyse possible impacts on business and provide constructive and informed comment. Furthermore, the limited timeframes

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provided for this consultation process, being only seven full business days, is inadequate and disappointing given the national significance and potential economic impact of this policy agenda. CCIQ believes that the failure to release detailed policy information and provide adequate timeframes for consultation is contrary to best practice policy and legislative design principles.

*CCIQ recommends detailed information and options for the architecture and design of a carbon pricing mechanism be released as soon as possible to allow stakeholders to fully analyse the policy options. Following this CCIQ recommends there be a further consultation process such that stakeholders can provide detailed comment and feedback.*

Secondly CCIQ has significant concerns for the timeframes for implementation of this policy. As previously stated, policy of such national significance and potential economic impact should follow best practice guidelines for policy and legislative development. It is our belief that, despite commitments made during the last election, there has not been any robust or public debate or discussion on all the options for climate change abatement. We also express concern over the limited window of opportunity available for the development of legislation, stakeholder consultation and passage of legislation through parliament to meet the 1 July 2012 commencement date. Business, the community and households equally need sufficient time and opportunity to be adequately informed of requirements and make required adjustments for the commencement of this policy.

*CCIQ recommends a reassessment of the current implementation and commencement timeframes for a proposed carbon pricing mechanism.*

Finally CCIQ express concern that small and medium business and the unique circumstances of regional business communities have received little attention to date in the policy debate. CCIQ believes that the Australian Government has taken a narrow approach to its policy development, engagement and consultation, and progressive announcements regarding the policy architecture which have been primarily focused on big business/big polluters and households. As such the possible impacts on small and medium enterprises and the regional business community across Australia have seemingly been neglected.

It is important to note that the vast majority of businesses in Queensland (and Australia for that matter) are small and medium-sized businesses. Indeed, over 95 per cent of Queensland businesses are regarded as small (employ less than twenty people), with a further 4 per cent classified as medium-sized (employ between twenty and two hundred people). Furthermore small and medium-sized businesses provide employment to over 90 per cent of all Queenslanders.

Given the intensity of coal mining and minerals processing in this state, Queensland businesses face a greater impact from the introduction of a carbon price. CCIQ notes that these industries are key employers in regional and rural areas in Queensland and also make an important contribution to the State's economy and Australia's exports. In addition, these industries directly and indirectly support a large number of small and medium-sized businesses which in turn make important contributions to their local economies and provide employment opportunities for local residents. The potential impact of a carbon pricing mechanism on Queensland's regional communities and businesses can therefore not be understated.

Given those demographics, it is imperative that the impact of a carbon pricing mechanism on small and medium-sized businesses and regional communities is adequately assessed prior to its introduction. At this stage, CCIQ is deeply concerned that sufficient analysis of this issue has not been undertaken by the Australian Government. We are equally concerned that negotiations to date regarding industry compensation have also been confined to large businesses and limited industry sectors.

*CCIQ recommends that the Australian Government better engage with the small and medium sized business sector and regional businesses (across all industries given the likely pass-through effect of a carbon price). Given our state-wide membership base, CCIQ avails itself to support such engagement and consultation activities.*

## **II. Specific Comments on Architecture and Implementation**

### **A. Policy Mechanisms**

Queensland businesses are not yet convinced of the merits of a market based carbon pricing mechanism or the merits of a carbon tax over an emissions trading scheme. CCIQ acknowledges the policy rationale and the economic argument for market-based approaches to emissions abatement, however we contend that the conclusions of economic modelling does not recognise the economic environment, the existing diversity and sophistication of Australian industry, the ability and pace by which industry and energy markets can adjust and the international context in which the Australian economy and climate change policy operates.

CCIQ would also like to place on the public record the fact that in all other cases, when carbon pricing mechanisms have been introduced, it has been done so in a phased and/or trial approach where the carbon price has been low, or its implementation limited to select regions and/or businesses and industry sectors. As a particularly relevant example, China, one of Australia's largest export markets, is planning to conduct trials of a carbon pricing mechanism in a select number of provinces from 2012-13.

*CCIQ therefore recommends that any move in Australia to price carbon should be implemented initially in a trial/phased approach in order to assess the impacts and outcomes and limit the initial shock to the economy and our industries.*

CCIQ also considers that there is the potential for various levels of government to introduce competing and/or inconsistent policy measures to reduce emissions and address climate change more generally. CCIQ is strongly of the view that any national carbon pricing policy, if it is implemented, should be the primary mechanism for driving the desired reductions in Australia's emissions.

Any existing or proposed greenhouse gas abatement measures at the federal, state and local level will need to be reconsidered in light of the introduction of a comprehensive national policy. There is a very real risk that some of these additional policy measures may actually increase abatement costs with no additional reduction in emissions or benefit to the economy. Given that, CCIQ considers that additional abatement policies should only be adopted 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 functioning emissions trading scheme should be removed in a timely manner.

## **B. Commencement**

It is imperative that the introduction of any major greenhouse gas reduction measures such as the proposed carbon tax is timed to coincide with the introduction of comparable measures by Australia's major international competitors (particularly in key export industries/sectors such as agriculture, mining and minerals processing). There is a very real risk that Australia will damage the international competitiveness of its businesses (both import-competing and exporting) if it implements a more wide-reaching carbon pricing mechanism before major overseas countries adopt similar measures. This is because there will be considerable financial incentives for businesses to shift their production to countries which do not impose a price on carbon. The loss of this production would have a serious impact on Australia's terms of trade as well as the availability of employment in businesses across the country.

The current depressed economic conditions, especially in Queensland following the floods and natural disasters in early 2011 strengthens the argument in favour of delaying the commencement of a carbon pricing policy. The CCIQ Pulse Survey of Business Conditions for the March Quarter 2011 indicates a general weakening of the Queensland and Australian economies with businesses reporting poor sales and profitability outcomes, increasing cost pressures, and declining business and consumer confidence and spending (Refer enclosed for copy of Pulse report). This tough economic climate is placing significant pressure on Queensland businesses, with many struggling to maintain employment levels and to remain viable. The last thing that businesses (especially those which are small and medium-sized) need in these challenging circumstances is additional cost imposts; in particular, increases in the cost of a wide range of products and services as a result of the introduction of a carbon price.

Any such costs increases will simply place unwelcome and unnecessary additional pressure on many businesses will delay any eventual economic recovery. In CCIQ's view, these downside risks are simply too great to continue with the proposed starting date of 2012. Accordingly, CCIQ considers that the Australian Government should not introduce any major climate change measures that will add significantly to business costs until the economy and individual businesses have recovered from the current downturn.

Aside from our in-principle objection to the carbon pricing mechanism itself, CCIQ further opposes the proposed 1 July 2012 commencement date on the basis that it provides insufficient time for structural adjustment and believe that it will result in a rushed and poor policy development process.

## **C. Transition Arrangements**

CCIQ has significant concern for the current lack of detail and certainty provided in relation to the length of the fixed price period and transitional arrangements articulated in the MPCCC policy document. The absence of a definitive decision on the timeframes and process for transition to a possible emissions trading scheme is detrimental to investment and development of Australian industry.

While CCIQ considers that introduction of any major measure should be delayed, it is however critically important that the Australian Government provides the business community with sufficient certainty regarding Australia's climate change response.

Businesses need certainty on this issue so that they can assess the likely impacts of that policy response and respond accordingly. In particular, the cost implications of the policy response are integral to the major long-term planning, financing and investment decisions of many businesses. There is no doubt that some of these decisions are almost certainly being delayed at the moment until a firm, binding decision on Australia's climate change policy has been made.

However it is important to note that certainty is not contingent on a carbon pricing mechanism coming into force without delay. It simply requires the Australian Government to provide transparency in its decision making processes, put the relevant legislative and administrative framework in place as soon as possible and to clearly articulate a policy position and commitment as to the commencement date for any major greenhouse gas reduction measures. Once that occurs, business will have sufficient certainty to plan for the future regardless of whether the start date for a carbon pricing mechanism is 1 July 2012 or following significant international agreement and action. As noted above, CCIQ is firmly of the view that a carbon reduction and/or pricing mechanism start date should be aligned with the implementation of equivalent measures by Australia's major international competitors.

*With the above issues in mind, CCIQ recommends the Australian Government reconsider the implementation of an initial carbon tax mechanism with an early implementation date of July 2012 in favour of a long-term commitment to a market based emissions trading scheme following greater international agreement and action. This approach would allow a full assessment of the implications of such policy, comprehensive policy development and greater structural adjustment by industry in advance of a implementation of a carbon price.*

#### **D. Compensation**

Firstly CCIQ contends that insufficient attention has been given to the indirect and supply-chain effects of a carbon price on Australian businesses. A carbon pricing mechanism will affect the price of all goods and services and increase costs for all businesses in the economy including those without a direct carbon price liability. However small and medium-sized businesses have limited ability to pass these costs onto their customers and as such are at greater risk of reduced business competitiveness and viability than large businesses and major carbon emitters.

CCIQ also notes that some smaller trade-exposed, emissions-intensive businesses may potentially lack the resources (financial and/or knowledge) to put together a satisfactory application for assistance. Accordingly, CCIQ believes that the Australian Government must ensure that it has appropriate measures in place to provide assistance to smaller businesses which may be eligible for trade-exposed, emissions-intensive compensation to prepare their applications.

Secondly, while CCIQ is strongly supportive of assistance for trade-exposed industries, the Chamber notes that increasing the assistance provided to the emissions-intensive, trade-exposed sector will shift more of the emissions reduction burden onto the rest of the business community. It is therefore important that the assistance arrangements facilitate, to the greatest extent possible, an equitable sharing of the emissions reduction burden across the entire Australian community.

Aside from the impacts on energy prices and local employment, one of the major concerns for rural and regional businesses and communities in Queensland is the impact that emissions

reduction measures will have on transportation costs. Many communities in rural, regional and remote Queensland are very reliant on heavy vehicle and rail transport for the delivery of both essential and non-essential goods and services. Any increase in transportation costs is therefore likely to have a significant impact on the welfare of these communities given the substantial distances that must be travelled to reach them and the lack of public transport options in these areas.

### **E. Policy Outcomes**

CCIQ also has significant concerns for the policy outcomes and success of the carbon pricing mechanism as currently proposed. As with any policy of such national significance and with potential to impose significant cost and burden on Australian and Queensland businesses, the community and households, there is an expectation that it delivers its intended policy outcomes. In this case, it is significant progress towards meeting Australia's targets for greenhouse gas emissions.

However, it is unclear to the business community how this outcome may be achieved when compensation is proposed to be provided to the heaviest polluters and to households that more than offset any cost increases. Such compensation arrangements are inconsistent with the underlying policy objective of a market based carbon pricing mechanism which is to drive cultural change in consumption behaviours away from carbon intensive goods and services to low carbon alternatives. If this is the case then it is a fair assessment that the current policy design is flawed and that there would be little change in Australia's total emissions over time.

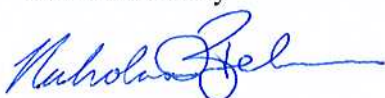
The Australian government must therefore be clear and upfront about Australia's targets for greenhouse gas reduction and what the carbon pricing mechanism is intended to achieve. That is, if the intention of a carbon pricing mechanism is to reduce emissions, drive cultural change in carbon consumption behaviours of society or simply to fund other measures and structural adjustment programs that will achieve the outcome of climate change abatement?

### **III. Summary**

In summary, the clear majority of Queensland businesses do not support the introduction of a price on carbon. Such policy measures should only be progressed following international commitment and the implementation of equivalent measures by Australia's major international competitors. However this position does not preclude the Australian Government from progressing a firm policy position and the relevant legislative and administrative framework for a greenhouse gas reduction and/or pricing mechanism in the interim.

CCIQ appreciates the opportunity to provide comment on the Australian Government's proposed architecture and implementation arrangements for a carbon pricing mechanism. If you wish to discuss any aspect of CCIQ's submission in more detail, please contact Megan Johns, Senior Policy Advisor, on (07) 3842 2254 ([mjohns@cciq.com.au](mailto:mjohns@cciq.com.au)) or myself on (07) 3842 2279 ([nbehrens@cciq.com.au](mailto:nbehrens@cciq.com.au)).

Yours Sincerely



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