# 艾伯特政府的氣候政策：行動不夠直接的能源超強

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## 摘　要

艾伯特（Tony Abbott）所領導的自由國家黨聯盟（the Liberal-National Party Coalition）在 2013 年擊敗工黨，成爲執政黨。其選舉政策明白宣示將廢除工黨所制訂的碳稅（carbon tax）政策，以維持國家競爭力，並同時提出直接行動計畫（Direct Action Plan），以達到京都議定書（Kyoto Protocol）的減排目標。艾伯特在執政後兌現選舉承諾，成爲第一個廢除碳稅的國家，取而代之的則是減排基金（Emissions Reduction Fund），以鼓勵企業投資減排技術取代責罰。

本文從三方面探討艾伯特政府的氣候變遷政策：一、直接行動計畫的理論基礎；二、執政聯盟推動政治議程所面臨的困難；以及三、能否藉由對於修改法案的支持，成功達成直接行動計畫所闡述的目標。

# Climate policy under Tony Abbott: less direct action by the energy superpower

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## Introduction: *Our Plan: Real Solutions for all Australians*

In the lead up to the 2013 federal election, the Liberal-National Party Coalition declared its determination to abolish the Labor government's carbon tax and abolish or modify related climate change policies. The Coalition, led by Tony Abbott, released its election policy platform *Our Plan:*

*Real Solutions for all Australians*. The policy announced that the very first act of a Coalition government would be to immediately abolish 'the world's biggest carbon tax'. This would be complemented by several other measures, including getting rid of the recently introduced tax on mining companies' super profits, suspending the operation of the Clean Energy Finance Corporation and cutting red-tape regulations to streamline environmental approval processes that it claimed were frustrating investment in mining and resource development. Following its election, the Coalition government also moved to lower the ambitions of the Renewable Energy Target, which had set the goal of increasing the proportion of energy produced by renewable methods to 20 per cent by 2020.

While announcing its intention to abandon the more standard methods of regulation and emissions trading systems, the Coalition maintained that it would honour Australia's Kyoto Protocol commitment to reduce carbon emissions by 5 per cent by 2020 and to do so through direct action. The election policy platform pledged $3 billion for a Direct Action Plan. Although *Our Plan* did not specify the form the direct action would take, subsequent press releases proposed a scheme that rewarded initiatives to sequester carbon as well as measures adopted by enterprises, such as new technologies or production processes, which reduced carbon emissions. In some respects, the Direct Action Plan mirrored the Kyoto Protocol's Clean Development Mechanism.

The Liberal-National Party Coalition was elected to office in September 2013. It failed to secure a majority in the Senate and faced a determined opposition to its Direct Action Plan which has frustrated its implementation. While the Coalition government abolished the carbon tax in July, it was not until the end of October 2014 that it secured sufficient support in the Senate to pass its Direct Action Plan. The scheme was launched in mid-April 2015, although some elements of the Plan, and particularly setting caps on emissions and managing these, are still not resolved. The government failed to secure the necessary majority in the Senate to dismantle the Clean Energy Finance Corporation, although after considerable debate the goal of the Renewable Energy Target was reduced. The Coalition government has also prevaricated over announcing the emissions reductions Australia would commit to and take to the November 2015 UN climate change conference. It was not until mid-August that Prime Minister Abbott announced that Australia would commit to a reduction in the range of 26 to 28 per cent by 2030 from 2005 levels.

The Coalition's climate change policy has been consumed by a reluctance to pursue any substantive initiatives. Policy hiatus has been the order of the day, and any assessment of the Abbott government's climate change policy must first necessarily comprehend the rationale for this hiatus. The paper explores these concerns developing the analysis by focusing on three broad areas of interest: the rationale for the Direct Action Plan; the difficulty the Coalition has confronted in progressing its political agenda, and; in belatedly securing support for a somewhat modified legislative program, the likely success, or otherwise, of the Direct Action Plan in achieving its stated objectives.

## The rationale for the Direct Action Plan

The Liberal Party's election manifesto, *Our Plan*, laid out a platform for reinvigorating the development of the Australian economy that was defined almost wholly in terms of getting rid of several key pillars of the Labor government's climate change policy architecture.[1] The

1 . The Renewable Energy Target was in fact a legislative initiative introduced in 2001 by the previous conservative Coalition government led by John Howard. That target proposed increasing the amount of energy produced from renewable sources by 9,500 GWh by 2020. In 2009 the Labor government set the more ambitious target of 41,000 GWh, or 20 per cent, from renewable sources by 2020.

manifesto presented a narrative that drew on the language of orthodox environmental economic theory about how best to optimise Australia's economic growth. This emphasised the merits of market-based mechanisms and eschewed policies that advocated government intervention and state directives which determined how carbon emissions abatement should occur.

*Our Plan* asserted that Labor's climate change program imposed an array of costs on industry, which impaired industry's international competitiveness and frustrated the potential of Australia being Asia's most favoured source of energy and other resources. Labor's climate change architecture was built on four main pillars: the National Greenhouse and Energy Reporting Register, the Renewable Energy Target and the Kyoto Protocol commitment to reduce the nation's aggregate emissions, each of which predated Labor's election to government in 2007, and the *Clean Energy Futures Plan* which was adopted in 2012. [2] The *Clean Energy Futures Plan*

[2]. The *Clean Energy Futures Plan* was proposed by the Gillard-led Labor government in 2011 and came into force in 2012. It followed an unsuccessful attempt by the Rudd-led Labor government in 2008 to introduce an emissions trading system, the *Carbon Pollution Reduction Scheme* which was modelled on the recommendations of a report prepared by economist Professor Ross Garnaut that mirrored the *Stern Review*. The *Scheme* failed to win sufficient support in the parliament, and was abandoned. The Greens Party was concerned that the *Scheme* was not sufficiently robust and that its design had conceded too much to business demands. Interestingly, the Liberal Party, then led by Malcolm Turnbull, did entertain supporting the *Scheme*, but strong opposition to this within the Party resulted in the replacement of Turnbull as Party leader by Tony Abbott.

introduced a tax on carbon emissions to be paid by all stationary entities producing over 25,000 tonnes of carbon dioxide equivalent greenhouse gases.[3] The tax was initially set at at $23 per tonne of carbon for the 2012–13 financial year, an amount that was comparable to the market price of carbon units in Europe's emissions trading system. The *Clean Energy Futures Plan* scheduled for the tax to increase annually to align the incentive to abate emissions with the emissions reductions targets.

However, the collapse in the price of European carbon units meant that the rate at which carbon was being taxed in the months before the 2013 federal election was considerably greater than the price at which European carbon units were trading. This lack of parity clearly justified the criticisms aired in *Our Plan*, that 'the world's biggest carbon tax' imposed unparalleled costs on Australian households and industry; 'axing the carbon tax became one of the Liberal Party's catchphrases throughout the election campaign.

Confirming that a Coalition government would honour Australia's commitment to the emissions reduction target agreed in the Kyoto Protocol, *Our Plan* proposed a more liberal approach to emissions abatement. The centrepiece was the Direct Action Plan. In place of a

3. However, under the Labor government's *Clean Energy Futures Plan*, and in line with proposals outlined in the *Carbon Pollution Reduction Scheme*, emissions-intensive, trade-exposed industries would be granted concessions through the issue of free carbon permits in order to minimise any competitive disadvantage arising from the imposition of the carbon tax. Coal-fired power stations were also compensated.

system that penalised polluters, an incentive or reward scheme would be established through an Emissions Reduction Fund. Enterprises that invested in low-pollution, energy-efficient and/ or emissions sequestration technologies would be invited to apply for compensation to offset, or subsidise, the cost of the investment. Unlike the *Clean Energy Futures* program, polluting enterprises would not be compelled to participate. Applications for compensation would be entirely voluntary, and it is this voluntarist approach that is the distinguishing feature of *Our Plan* (Perry 2014a, 2014b).

Moreover, the Plan sought to maximise the emission abatement gains by awarding reparations according to the principle of prioritising least-cost, effective emissions-abatement investments. As was the case with the Labor government's plan to transition the carbon tax to an emissions trading system, the proposed Direct Action Plan aligned with the general tenor of thinking within orthodox environmental economic thought that market-based mechanisms were economically preferable to command-and-control, or regulatory, mechanisms because they tended to permit greater flexibility and permitted enterprises to respond to market price signals by choosing whether to invest in abatement measures and, if so, the most cost-effective and economically efficient means of doing so (Pearce and Turner 1990: 107-8) .

Indeed, there is the distinct impression conveyed in *Our Plan* that the proposed climate change policy is true to the conventional economic wisdom. Although *Our Plan* did not explicitly express this in terms of the language of orthodox environmental economic theory, the rhetoric of reducing 'the cost base of our mining projects', competing 'more effectively' and better 'utilising our competitive advantage' gestured towards the conventional economics icons of efficiency maximisation and economic optimisation. Moreover, according to its proponents, the Direct Action Plan could have the added advantage that it was more business friendly and, relying on incentives rather than imposing additional costs, would prove to be more effective in engaging business in abatement measures (Pearce and Turner 1990: 176).

The Direct Action Plan did, however, break with one of the key tenets of environmental economic theory: the 'polluter-pays principle'. The Plan would eschew the polluter pays principle that had informed the Labor government's policy by not establishing any measures that would require polluting enterprises to meet some proportion of the costs borne by the broader economic community arising from the production of greenhouse gases. *Our Plan* was based on contesting what the Coalition considered to be the overreach of government: the carbon tax was argued to be symptomatic of the 'increasing levels of red-tape and paperwork and increasing levels of bureaucratic over-regulation' obstructing the development of the Australian economy.
While jettisoning the polluter pays principle, *Our Plan* was still framed in terms of a free market rhetoric, although this was explicitly subsumed within anti-state sentiments, expressed in terms of the need to 'free Australia from the shackles' [of government]…and stop the delays, complexities and uncertainties imposed by the

Commonwealth and States'. In this oeuvre, environmental concerns should not stand in the way of the ambition of maximising economic growth: 'we need to streamline environmental approvals…[to] unleash our real economic potential so that we can compete more effectively in Asia.' A libertarian disposition, rather than orthodox environmental economic theory, framed the policy design, and the reach of the anti-state rhetoric became more pervasive with the Coalition government moving to dismantle key pillars of the Labor government's climate change policy architecture to rid the nation of the regulatory 'burdens holding us back.'

## Developmentalism and the fossil fuel state

Notwithstanding the ostensible commitment to establishing an emissions management platform that is cost-effective and economically efficient, the principal goal of *Our Plan* has been to remove the policy fetters on economic expansion to reap the benefit of Asia's economic growth, irrespective of the implications this has for meeting emissions reduction targets.[4] As *Our Plan* makes absolutely clear, the number one national priority is to position the economy in order to benefit from the increasing demand for energy and resources across Asia: the potential to 'double our net energy exports over the next 20 years' will require that policy design ensures that 'Australia remains a premier destination for investment in

[4]. In fact, one of the concerns expressed about subsidies as an incentive for fostering investment in abatement measures is that, while they may be politically palatable, subsiding production may actually have contradictory outcomes in the short term because the economic incentive can encourage increases in production and emissions (Pearce and Turner 1990: 176).

energy and resources…[and] consolidates its position as an energy superpower' , as the current Minister for Industry has observed (MacFarlane 2014).[5] This ambition also goes some way to explaining the justification for plans to promote market reforms that entailed demolishing other pillars in the Labor government's climate change architecture. The moves to dismantle the Clean Energy Finance Corporation was rationalised in terms of the Corporation drawing on government funding and private sector funds that subsidised investment in renewable technologies and which supposedly crowded out private investment in mining and fossil fuel based and energy-intensive industries. This was argued to have introduced an unfair asymmetry in capital markets that disadvantaged those industries in which Australia had a natural comparative advantage (Abbott 2013). That this contention was factually incorrect did not seem to matter.[6]

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5. This notion of Australia becoming an energy superpower has been an enduring ambition of the Coalition as well as the Labor Party. This ambition became intimately linked to Australia's role in enhancing energy security. For example, while hosting a meeting of the G-20 in Melbourne in 2006, the Coalition Treasurer, Peter Costello, articulated a 'vision for achieving global resource security…[being based on] an energy and minerals freeway linking suppliers and consumers across the globe' (2006). The Labor government's Minister for Resources and Energy, Martin Ferguson, enthusiastically endorsed this ambition, and has been reiterated in successive Energy White Papers.
6. Established by the Labor government in 2012, the Corporation was tasked with mobilising capital, through co-financing and leveraging funds with private financiers, to support the commercialisation and deployment of clean energy technologies. The Corporation does not provide grants to industry and while it might provide concessional finance this is not always the case, and with the demonstrated capacity of servicing and repaying loans as well as reporting a positive rate of returns on its investments, of some 7 per cent in 2014, the Corporation has proved to be anything but a burden on the public purse.

A similar argument was advanced to justify the planned review of the Renewable Energy Target.[7] The Target required energy generators to increase the proportion of energy produced to be obtained from renewable sources. This regulation was held to impose additional costs on generators and had contributed to increasing electricity prices and thus the 'cost of living for all Australians' and eroding business competitiveness, although this contention is also debatable.[8]

The other pillar of the climate change architecture that the Coalition announced its intention of dismantling was the Climate Change Authority. This move was a logical corollary because the Authority was established as an independent entity charged with responsibility for reviewing key elements of the architecture. This included reviewing: the effectiveness of the carbon tax as an instrument for reducing emissions, the renewable energy target, the Carbon Farming Initiative[9], and the National

7. The Coalition wanted to reduce the Renewable Energy Target target from 41,000 GWh set by Labor to around 30,000 GWh, but, in the face of considerable criticism from the business community and opposition in the Senate, resolved to agree to a new target of 33,000 GWh.

8. Insofar as the renewable energy target increased overall generating capacity at a time of falling aggregate demand, the wholesale price for electricity has come under some pressure, although with market prices set by the national Energy Regulator, this price pressure has not translated into lower market prices.

9. This was an initiative to reward the sequestration of carbon through modifying farm practices and, within indigenous communities, fire management practices, which would earn carbon unit credits that could be traded, not unlike the Kyoto Protocol's Clean Development Mechanism. The Labor government planned to role the Carbon Farming Initiative into its emissions trading system, and the Coalition planned to incorporate the Initiative into its Direct Action Plan.

Greenhouse and Energy Reporting System. But, in the ensuing public debate about the future of the Authority it was also evident that the Coalition wanted to silence an independent voice that was generally supportive of the machinery that had been put in place to support emissions abatement.

More generally, *Our Plan* was entirely consistent with the Coalition's longstanding policy, in government and in opposition, of blocking the development of meaningful measures to contain the level of Australia's greenhouse gas emissions for fear that Australia would lose its comparative advantage as a resource and energy-rich nation. Successive Coalition governments have been quite resolute in opposing putting a price on carbon and/or setting emissions reduction targets if these conditions were not incorporated in a global comprehensive agreement that mandated all nations to adopt comparable measures.

One further manifestation of this preoccupation with securing a privileged place for fossil fuels in the Australian economy has been the Coalition government's continuing g efforts to discourage the expansion of investment in alternative, renewable energy sources. In June 2015, it directed the Clean Energy Finance Corporation to stop funding wind farm investments (Gartrell 2015). At the same time, it supported a Senate inquiry into wind farms that has recommended blocking of development approvals unless State governments agree to planned federal rules on infrasound and low-frequency standards (Hasham 2015). It has subsequently proposed another regulatory instrument that could discourage investment in this renewable energy source with the appointment of a wind farm commissioner who would monitor wind farms and deal with and act on complaints about wind farm developments (Bennett 2015).

Finally, any understanding of the Coalition's reluctance, indeed resistance, to adopting robust greenhouse gas abatement measures has to acknowledge the Coalition's well-publicised and enduring climate scepticism. This was less-than eloquently captured in Abbott's observation that 'the science underpinning climate change was "crap"' (Rintoul 2009).

## The policy hiatus – or policy vacuum?

In August 2013, one month before the federal election, the leader of the Coalition, Tony Abbott, the Opposition leader, wrote to the chair of the Clean Energy Finance Corporation to request that the Corporation cease negotiating loans and assessing new projects (Abbott 2013b). The request was somewhat precipitous, as well as presumptuous, because the Coalition certainly did not possess the authority to be directing the head of a department or, in this case, an independent statutory authority to change policy.

Moreover, the Opposition leader was clearly jumping the gun because it is the convention that caretaker provisions prevail during the period following the dissolution of the parliament prior to an election and before a new government is sworn in. During the caretaker period no significant new decisions or initiatives, appointments, or contractual undertakings can be made and routine government business was expected to proceed as usual. If this was not enough to suggest that Abbott was getting ahead of himself, he completely overlooked the fact that the Clean Energy Finance Corporation was established as an independent statutory authority, which reported to and was answerable to, the parliament and not the government of the day.

This touch of arrogance was again on display immediately after the Coalition was elected into office. The newly installed Minister for the Environment contacted the chief climate commissioner, Tim Flannery, to advise that was government was proceeding to shut down the Climate Change Authority (Arup2013). As was the case with its counterpart, the Clean Energy Finance Corporation, the Climate Change Authority was also a statutory authority that reported to parliament and not the government. The initial response of the Authority was to accept the direction as a *fait accompli*, but steeled by popular criticism that the Authority was about to be silenced on the eve of it issuing its first report on the science of climate change and emissions reduction targets, the chair of the Authority and the chief commissioner launched a public appeal to secure funds to finance a Climate Commission, entirely independent of and not reliant on government funding, to continue the work of the Authority. However, events unfolded, the move to establish the independent Climate Commission was not necessary. Not having the numbers in the upper chamber of the parliament, the Coalition government was not immediately able to carry the vote on any of its planned legislation.

In December 2013, the government released *the Emissions Reduction Fund Green Paper*, and invited public submissions on the paper. *The Emissions Reduction Fund White Paper* was issued in April 2014. The *White Paper* was to provide the foundation for the Coalition's climate legislation, but it was forced to negotiate the passage of the legislation with cross bench parties, and it became locked in negotiations with two key cross bench parliamentarians, Senator Nick Xenophon and the House of Representative's Clive Palmer, the leader of the Palmer United Party which had three Senators. It was not thus not until June 2014 that the Coalition government formally tabled a bill to amend the Carbon Farming Initiative, which would end the carbon tax and establish the Emissions Reduction Fund. The Coalition was unable to win support for those clauses in the proposed legislation that would have abolished the Clean Energy Corporation and the Climate Change Authority.

The government proposed drawing on some of the existing climate change management architecture in establishing its Direct Action Plan. The existing Clean Energy Regulator and the National Greenhouse and Energy Reporting System would be charged with overseeing the management of the Emissions Reduction Fund. The government announced it would dedicate $2.55 billion to supporting a system for rewarding emissions reductions. The scheme would invite applications from registered entities to seek credits for emission reduction proposals. The Clean Energy Regulator would assess these applications and select a proportion of these offering a reward in the form of Australian Carbon Credits Units. The Carbon Credits would be awarded by prioritising the least-cost emissions reduction proposals, and the value of the Credits would be set through a system of reverse auctions. Successful applicants would contract to deliver the emission reductions by a given time frame, and the government would purchase these credits when the emissions reductions were verified upon the conclusion of this time.

The National Greenhouse and Energy Reporting System would continue to be responsible for recording and monitoring emissions by individual installations and calculating the magnitude of the nation’s overall emissions. In keeping with the policy objective of reducing Australia’s emissions, and in the absence of the deterrent effect of the carbon tax with its abolition, the Coalition foreshadowed a mechanism designed to reduce the potential for polluters to increase emissions. The *Energy Reduction Fund White Paper* recommended the establishment of a program for safeguarding the emissions reductions, a mechanism that would penalise or block so-called ‘rogue’ enterprises from increasing their emissions.

As determined as the Coalition government has been to carve a new direction in Australia’s climate change policy agenda, there was virtually nothing concrete set in place beyond the April 2014 *Energy Reduction Fund*

*White Paper*. The first year of Coalition government was in effect a virtual policy hiatus. Forced to negotiate with crossbench Senators, the reform agenda proved to be a drawn-out process that in some respects continues. It was not until November 2014 that the government secured sufficient support in the Senate to formally abolish the carbon tax and introduce legislation for the establishment of the Emissions Reduction Fund. Even then, the legislation, *the Carbon Credits (Carbon Farming Initiative) Amendment Bill 2014*, did not achieve all of the Coalition's goals of dismantling the substantive pillars of the Labor government's climate change policy architecture. Senate support for the *Amendment Bill* was conditional on the Coalition conceding maintaining continuing roles for the Clean Energy Finance Corporation and the Climate Change Authority.

Indeed the future standing of the Climate Change Authority was somewhat strengthened, and the potential integrity of the Coalition's emissions reduction program compromised because, in order to secure the votes of the minority Palmer United Party to carry the Amendment Bill, the Coalition agreed to commission the Authority to conduct two significant reviews. One review would consider what Australia's contribution to an effective and global response to climate change that Australia should be taken to the UN Climate Change Conference scheduled to be held in Paris in November and December 2015. A second report by the Authority that the Minister for the Environment was directed to commission an eighteen month review of the climate change policies of China, the European Union, Japan, the Republic of Korea and the

United States, the actual or potential links these had to emissions trading systems and whether Australia should have an emissions trading system (Hunt to Fraser, 2014).[10]

A critical component of the Direct Action Plan – how to prevent the ambition to reduce emissions being thwarted by industry increasing their emissions – is still not resolved. The precise terms of the ‘safeguard mechanisms’ were to be subject to further design and negotiation over the course of 2014 and2015. A draft proposal was released for consideration in mid-2015 (Department of Environment 2015a), and a preliminary draft of the Safeguard Mechanism legislation has been released in early September, but the final form of the safeguard mechanism is not planned to come into force until mid-2016 (Department of Environment 2015b).

The consequences that the failings in the government’s legislative agenda have had on its political reputation have continued to play out in the lead up to the Paris climate change conference. The Direct Action Plan has been widely criticised as being inadequate to the task of meeting established commitments on emissions reduction targets, let alone the longer-term targets that the government has announced it will take to the Paris climate conference. The criticisms have in fact become more

[10]. The government agreed to the Authority conducting the review despite declaring that it was resolutely opposed to introducing an emissions trading system (Bourke 2014).

vociferous.[11]

## Consolidating the discourses of fossil-fuel developmental ism

Yet, as much as progress on the legislative agenda was frustrated by the political impasse, it has not dampened the Coalition's determination to implement a number of other measures that would have the effect of weakening debate and the capacity of government to pursue initiatives designed to reduce emissions. As one step in its endeavours to dismantle regulatory frameworks that could impede development approvals the Coalition abolished the Council of Australian Government's Environment Ministers forum which had functioned for the previous 41 years (Arup 2013). In the May 2014 Federal Budget, the government cut four years of funding amounting to $21.7 million for climate change research by merging the National Environmental Research Program with the Australian Climate Change science program. It has forced the curtailment of the CSIRO's climate change research program by cutting the four year budget funding

[11]. The Climate Change Authority has criticised the government's proposed emissions reduction target as inadequate, questioning the government's claims that the target is similar to those targets set comparable by comparable countries, and arguing that if Australia is serious about wanting to prevent global temperatures rising above the 2˚C benchmark, Australia's emissions reductions should be adopting a short-term target that adds a further 15 per cent reduction to its current formal Kyoto commitment to reduce emissions by 5 per cent by 2020 from 2000 emissions levels, and accelerates the cut back in emissions by between 40 and 60 per cent by 2030 from 2000 levels (Climate Change Authority 2015).

allocation by $111.4 million. In December 2014, in a Mid-year Economic and Fiscal Outlook review, the Finance Minister announced that the government would immediately scrap funding for the Biodiversity Fund and cut funding to the Caring for our Country Program, the Low Carbon Communities Program and the Australian Renewable Energy Agency (Cormann 2014). The government also resolved to stop funding the Environmental Defenders Office, an independent agency that had provided legal support for a number of legal challenges to development approval processes for fossil fuel projects (Rawsthorne 2013).[12]

Each of these policy changes reflected the Coalition's determination to remove the focus of government away from a preoccupation with climate change and emissions abatement as a policy priority that could work to the detriment of the continued expansion of the fossil fuel industry. The potential impact of climate change continued to be an issue that the government was determined to keep off its political agenda.

Paradoxically, climate change was not considered of much import in the challenges confronting the future

12. In the aftermath of a successful appeal against the federal government's development approval of the Adani Carmichael coal mine in Queensland's Galilee Basin, the government has launched a concerted attack on non-government environmental organisations, and is proposing to introduce legislation that would restrict the right of 'third parties' to run legal challenges against mining approvals under the Commonwealth's Environmental Protection and Biodiversity Conservation Act (Balogh and McKenna 2015; Lloyd 2015b).

development of the Australian economy in the assessment undertaken for the *Intergenerational Report* released in March 2015.[13] The endeavour to silence any serious debate on climate change was in evidence when the government hosted the G-20 forum in Brisbane in November 2014. The Coalition had not listed climate change as a subject of debate when setting the G-20 agenda, and continued to refuse to concede to public pressure to set aside some time for this. It was only the international pressure that followed the US President Obama and China's President Xi Jinping announcing in the days immediately preceding the November G-20 deliberations their intention to agree on negotiating a more robust emissions reduction target, that climate change was added to the G-20 meeting agenda (ABC News 2014). And, the Coalition government appeared to learn absolutely nothing from this embarrassing episode in Australia's participation in international political forums. Within a month, the Coalition again demonstrated its resistance to progressing policy development at the UN Climate Change Conference held in Lima. The Australian delegation unsuccessfully sought to stymie any progress on an agreement on emissions reductions by supporting a move that would mandate a comprehensive and legally enforceable emissions reductions target for all parties to the conference (Hartcher 2014). While the delegation

13. The *Intergenerational Report* is a study undertaken every five years, a report conducted every five years and 'assesses the long-term sustainability of current Government policies and how changes [in national and international circumstances]…may impact on economic growth, workforce and public finances over the next 40 years' (Treasury 2015).

retreated from this intransigent position, its uncompromising stance was on further display when Prime Minister Abbott declared that the Australian government contributed through its foreign aid program more than its fair share of assistance for developing countries dealing with the challenges of climate change and announced that Australia would not be contributing to the Lima initiative to establish a global 'Green Climate Fund' (Milne 2014). The government did subsequently concede to providing some $200 million funds to the UN Fund, although the intention was to pay this out of the existing foreign aid budget (Shanahan 2014).[14]

The negative consequences of the government's climate change policy agenda have been quite tangible. The government's focus on defending fossil fuel based development has discouraged business from exploring measures to reduce emissions, evidenced in a decline in investments in measures to reduce fossil-fuel related emissions and an even more substantial fall off in renewable energy investments in 2014 (Clean Energy Council 2014).[15] This has resulted in some of Australia's largest corporations expressing their frustration with the Coalition's narrow policy focus (Vorrath and Parkinson 2014; Hewett 2015; Hyland 2014).

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14. Interestingly, the Prime Minister agreed to contribute $200 million to be paid over four years under the misapprehension that Australia could determine which countries monies could be directed towards and how these could be deployed.

15. The Clean Energy Council estimates that there was an 88 per cent decline in investment in renewal technology in 2014 compared with the trend in investments in the years immediately preceding.

## Appraising the Direct Action Plan – the Emissions Reduction Fund

It was not until the 24 November 2014 that the amendment to the Carbon Farming Initiative, which repealed the carbon tax and established the Emissions Reduction Fund, finally passed both Houses of the Australian Parliament. In the course of the drafting of the Emissions Reduction Fund the government resolved that enterprises issued with carbon credits under the Labor government's Carbon Farming Initiative could convert these into Australian Carbon Credit Units under the ERF scheme. This set the terms for the commencement of the scheme in mid-April 2015 when businesses were invited to lodge submissions for emissions reduction funding.

However, even though the scheme was launched, it has to be acknowledged that it is still be very much a 'work-in-progress' program. Key aspects of its operation are still being designed and yet to be negotiated. For instance, how emissions reductions are to be calculated was not completely resolved when the tender submissions were called, although the *Emissions Reduction Fund White Paper* claims that this would be clarified soon around the time funding allocations were to be made in July 2015. More importantly, measures that would be adopted to safeguard the ERF's ambition to reduce Australia's emissions, and thus ensure the integrity of the Direct Action Plan for meeting Australia's emissions reduction target, will not be decided until sometime in 2016 and then these will be subject to further review.

While the first tranche of funding allocations for greenhouse gas emissions reduction projects has been finalised, and which will be considered below, as a 'work-in-progress, of course, any assessment of the likely effectiveness of the Direct Action Plan is necessarily going to be somewhat speculative.

However, with the passage of the Carbon Farming Initiative Amendment Bill, there is greater clarity about how the Emissions Reduction Fund will operate, and it is possible to draw some general observations about the scheme. Four key aspects are worthy of consideration, namely, the conceptual and operational integrity of the program; the potential for the Direct Action Plan to benefit particular economic actors; the capacity of the Plan to meet the emissions reduction target, and; the extent to which the Direct Action Plan and the Emissions Reduction Fund can meet the stated objectives of being cost-effective and economically efficient. In concluding, the paper will provide some brief reflections on the future viability and development of the Direct Action Plan.

The Direct Action Plan is purportedly based on the orthodox environmental economic conviction in market-based instruments being the most efficient means for encouraging emissions abatement and/or sequestration. The Direct Action Plan, through the Emissions Reduction Fund, departs from the conventional environmental economics preferred approach based on the 'polluter-pays principle' which advocates that the cost of the pollution should be reflected in a price, or tax, that polluters should pay for the right to produce emissions. In the case of greenhouse gas emissions, the introduction of a carbon price adds another layer to an enterprise's cost structure – the formerly cost-free generation of emissions is transformed into a price that the enterprise has to pay – and the enterprise should respond by calculating the economic advantage of maintaining the established production methods and carrying the cost, or exploring ways to reduce emissions and thereby the reduce the burden of the carbon cost.

Whereas a government direction that mandates polluting enterprises reduce emissions to a particular level restricts the options that an enterprise can adopt in order to comply with this direction, the merits in the market-based mechanism is that it leaves open the way in which the enterprise can respond to the additional cost imposition. Such mechanisms give polluting enterprises the flexibility to pursue the most cost-effective measures appropriate for minimising the costs associated with the introduction of a carbon price or cost. This flexibility, according to conventional economic wisdom, will engender efficient and economically optimal outcomes.

The logic of the Direct Action Plan draws on the same economic principle regarding the freedom of choice in how an enterprise will respond to the emissions reduction policy, but rather than penalising the enterprise into action, the Emissions Reduction Fund inverts the logic of economic optimisation by providing an incentive for enterprises to act, establishing a reward system through the issue of Australian Carbon Credit Units. The Carbon Credit Units are designed to compensate enterprises for the expenses incurred in investing in new technologies that help to reduce emissions. Moreover, unlike an emissions trading system or a carbon tax, in which all enterprises are confronted by the imposition of an additional cost, participation in the ERF is entirely voluntary. Polluting enterprises are free to choose whether to register with the Clean Energy Regulatory to participate, and are also free in deciding whether it is in the economic interests of the enterprise to tender a proposal for investing in an emissions-abatement or emissions-sequestration activity in the hope of being rewarded through the award of Australian Carbon Credit Units.

The principles of economic efficiency and optimisation are underscored in the Direct Action Plan through the proposed 'reverse auction' approach for awarding Carbon Credits. The Clean Energy Regulator is charged with the responsibility for assessing the proposed investment projects and will award Carbon Credits to those projects that promise to deliver emissions reductions with the lowest abatement costs. This allocation promises to deliver the greatest reduction in emissions at the least cost. According to the policy principle, the Clean Energy Regulator is charged with awarding Carbon Credits as if it were a proxy market that optimises the economic gains for the least cost, delivering 'value for money' (Department of Environment 2014: 21).

Moreover, in line with the government's policy to promote the continued expansion of the national economy, the system has the added advantage that it does not impose restrictions on enterprises increasing production, so that it is not at all comparable to the imposition of a cap on emissions as generally occurs with an emissions trading system, while offering an incentive for enterprises to consider investing in emissions reduction activities. Intuitively, this seems like a quite plausible and promising scenario.

However, environmental economists are generally disinclined to support a system that provides subsidies or rewards to incentivise enterprises to invest in emissions-reducing technologies action. In the first instance, subsidies reward inaction and this runs counter to the 'polluter-pays principle'. Subsidies can reward enterprises that have failed to invest in less emissions-intensive technologies when these technologies are readily available. Indeed, the prospect of being paid a subsidy can encourage postponing such investments even when it would make business sense to do so. The Emissions Reduction Fund acknowledges this in signalling that it would consider rewarding only those investments that would not otherwise be made – the 'additionality' requirement – but one of the proposals for managing industry support, which is considered below, would make it quite difficult to ensure that the additionality principle could be honoured. Secondly, encouraging new investments in emissions-reducing technologies can have contradictory effects in the short term. The new investments can expand an industry's total level of production and, with this, increase the overall magnitude of emissions (Pearce and Turner 1990: 107-109).

Compounding these concerns is that the orthodox environmental economic theory model of the economy presumes that environmental economic management is pursued in the context of a perfectly-competitive economy. This ideal construct of the *laissez-faire* economy ignores the institutional and structural contexts in which economic decisions are made, and there are a couple of considerations that justify some caution in accepting uncritically the promise that the Direct Action Plan can deliver economically efficient and optimal outcomes when these are taken into account.

The *Emissions Reduction Fund White Paper* acknowledges that the Australian economy does not resemble the *laissez-faire* model that frames the formulation of conventional economic theory. It contends that, as much as the critical strength of the incentive structure lies in its ability to award Australian Carbon Credit Units in terms of the economic objective of minimising (marginal) abatement costs, the structure of the Australian economy could actually work against delivering the greatest reduction in emissions for the minimum cost. Rather than changes occurring in marginal increments, the premise of the orthodox environmental economic model, large and complex projects which have the potential to deliver a large volume of emissions reductions may not in fact be adequately judged by the broadly-based methods employed to assess applications for Australian Carbon Credit Units submitted to the Clean Energy Regulator. Accordingly, the ERF proposes that:

> Proponents of large projects, which have the potential to deliver more than 250,000 tonnes of emissions reductions a year on average, can propose the priority development of a bespoke method for their project. The Minister will have the flexibility to amend the priority list for methodology development to include these methods…[and t]he government will retain the discretion to enter out-of-auction contracts for major projects (Department of Environment 2014: 40, 8)

This contention, that extra-market interventions in determining the allocation of Carbon Units may enhance the magnitude of emissions that can be cut, compromises the integrity of the market-based mechanism. It introduces an uncertainty into the regulatory environment. A large enterprise would have to consider whether to dedicate resources to preparing and submitting an application that would be assessed by the Clean Energy Regulator as worthy or not to be awarded financial compensation in the form of Carbon Credit Units, or approach the Regulator and/or the Minister directly to have an investment project considered under bespoke method. This, of course, introduces the potential for turning an impartial allocative decision-making process into a political exercise where outcomes are shaped according to how successful an enterprise is in lobbying the Minister. In some respects, the process has already been politicised because the Coalition government resolved that some large projects should be excluded from the Direct Action Plan.[16]

[16]. The Greater Sunrise unit area and Joint Petroleum Development Area are to be exempted from the planned Safeguard Mechanism under the *Carbon Farming Initiative Amendment Act 2014*.

A second way in which the independence of the Clean Energy Regulator roll could be compromised is through the government plan to support some small-scale emissions reduction activities that, individually, would not figure highly in the assessment process. The government plans to establish arrangements to facilitate the aggregation of small-scale activities which when brought together as a package proposal 'create economies of scale' (Department of Environment 2014: 38). While this is meritorious, insofar as it counters the potential for the bigger polluters to crowd out smaller entities from the opportunity of benefiting from being awarded a Carbon Credit subsidy, coordinating the union of individual parties could mean that decisions to award Carbon Credits are not strictly based on least-cost abatement – least-cost principles, and this opens up the allocation process to ministerial interference.[17]

In both of these instances, the political imperative to open up the opportunity for different constituencies to gain a more prominent presence in the market-based Carbon Credit allocation process cuts across the logic that is

[17]. One example called upon to illustrate the desirability of aggregating a number of individual emissions reduction projects, refers to the potential benefits to be reaped from replacing street lighting with energy-efficient lighting. Local governments could submit a collective application for Australian Carbon Credit Units under the Emissions Reduction Fund that would, if successful, reduce the cost of transitioning from an energy-intensive technology. This appears to be a quite positive initiative, but given that this transitioning is already occurring in some locations it immediately begs the question as to whether such investments would meet the additionality criterion for Carbon Credits to be awarded for such projects (Department of Environment 2014:61-2).

supposed to inform the Direct Action Plan and invites the prospect of the process being politicised. The observation above that the Coalition's efforts to dismantle key pillars of the Labor government's climate change architecture being rooted in a libertarian project has to be qualified. Affording large projects the opportunity to propose the Minister consider bespoke treatment indicates that the libertarian spirit has to be set in the context of the Coalition government's determination to remove the shackles that frustrate business expansion.

This points to the need to recognise that the ideal *laissez-faire* construct upon which the promise of the Emissions Reduction Fund is based bears little resemblance to the actual structure of the Australian economy and the principal sources of emissions. As the *White Paper* reports, 130 individual enterprises account for a disproportionate share of economic activity, and this is reflected in these enterprises accounting for 52 per cent of all emissions. The extent of this dominance is even more pronounced in the energy and resources industry, especially given that a relatively small number of global corporations control most of the exploration and extraction activity, and the Direct Action Plan is expressly committed to protecting the expansion of this industry even in this knowledge (Department of Environment 2014: 15, 55). This is not the level playing ground that is supposed to characterise the *laissez-faire* economy upon which the promise of the efficient market-based mechanism is modelled.

The call for extra-market interventions introduces the possibility of political interference, but the way in which the dominant position of the resource and energy companies plays out is not necessarily restricted to the political arena. The very uneven distribution of economic power can influence the conduct of the reverse auction system. Market analyst, Reputex, contends that the relative rich capital base of large companies gives them a bargaining advantage by having the capacity to game the system. Such:

> businesses have a clear incentive to inflate their bids well above the cost of reducing emissions – known as “bid-shading”...[inflating] their bids towards the highest clearing price – irrespective of their project costs – with more advanced companies to optimise their expected value by accepting a lower chance of winning in return for a higher pay-off if they win (Reputex 2015, 2014b).

There is, of course, the more fundamental question about the adequacy of the *Emissions Reduction Fund* as a policy measure that can actually drive the investments that are so necessary for reducing Australia’s greenhouse gas emissions. The fact that canvassing the merits in extra-market interventions to marshal support that would assist large and complex projects to reduce their emissions suggests that the government acknowledges the limitations of the Direct Action Plan as a stand-alone means of reducing emissions. It is widely reported that the budgeted allocation of $2.55 billion is insufficient, and will not encourage the necessary level of investment in emissions-reducing technologies to support the goal of reducing Australia’s emissions by 5 per cent by 2020.

Reputex estimated that the dedicated funding would likely result in a reduction equivalent to 20-30 per cent of the targeted cut, while the Climate Institute calculated that an additional $4 billion in funding would be required to provide sufficient incentives to meet the target (Reputex 2014a; Climate Institute 2014).

Moreover, the ERF intends to allocate only 80 per cent of this to rewarding emissions abatement investments in order to strengthen the competitive tender process. Certainly, the Direct Action Plan will represent a much smaller drain on the government budget, but this is more due to the reduced subsidies and compensation packages that were being paid to corporations and State-owned electricity generators to secure their buy-in than was the case with Labor's emissions reduction management scheme.[18]

## A Safeguard Mechanism: safeguarding the emitters

The Safeguard Mechanism was conceived as the means for limiting the extent to which the emissions reductions generated through the Emissions Reduction Fund would not be offset by increased emissions generated by enterprises that remained outside the scheme. The Direct Action Plan is founded on the premise that individual established enterprises, or more likely individual facilities, would be expected to restrict the level

[18]. Interestingly, at least one high-emitting corporation has complained that its cost structures have increased since the repeal of the carbon tax (Ker 2015).

of greenhouse gases emitted within some measure of their historically set baseline thresholds.

However, as this was articulated in the *White Paper* and in the *Carbon Farming Initiative Amendment Bill*, this appeal to banking on industry to keep emissions within the bounds of an historical emissions threshold amounted to little more than a motherhood principle. Any elaboration as to how compliance measures could be assured was studiously avoided, and, as numerous commentaries have indicated, the Safeguard mechanism is to be distinguished by the 'absence of a credible emissions constraint' (Allens 2014). An amendment to the *Amendment Bill* introduced the prospect of enterprises being subject to civil penalties should baseline emissions thresholds be breached.[19] But, as has been noted above, how resolutely defined these thresholds would be is quite debatable.

The fundamental message that the government has sought to convey in the *Safeguard Mechanisms Consultation Paper*, released in March2015, is that there should be sufficient flexibility in baseline emissions thresholds to not impose additional costs on existing industries, discourage their expansion or the establishment of new enterprises. Accordingly, the *Consultation Paper* recommends setting emissions baselines for established individual facilities, rather than a

19. The independent Senator, Senator Xenophon, moved the amendment that spoke to the matter of 'excess emissions situation'. A sub-clause incorporated a 'Duty to ensure that excess emissions situation does not exist' and introduced the idea of imposing a civil penalty, the details of which would be defined in subsequent legislation (Australia 2014: 15).

number of facilities owned by a corporate enterprise, based on an average of past emissions with some leeway to accommodate variability in levels of production and thus emissions (Department of the Environment 2015). It advocates setting emissions benchmarks for new facilities with reference to “best-practice emissions”. A mine facility could be permitted to have a baseline higher than its historical average in recognition of the potential for extraction to become more energy intensive because as the mining venture matures.

By contrast, the *Consultation Paper* proposes treating the electricity generating sector as a whole, rather than setting benchmarks for individual facilities because of the sector’s “vital role” in the economy and the critical importance of low-cost electricity for the competitiveness of other industries. It is argued that the sector should be given a sector-wide baseline pegged at the average industry-wide generator emissions over a yet-to-be specified historical period and that it also provides some scope for the sector as well as individual facilities as a whole to exceed this baseline (Maher 2015a). The definition of some threshold limit could not be more qualified.

Flexibility in meeting baseline thresholds would also be facilitated by permitting facilities to be able to purchase carbon credit units to offset any breaches of their set thresholds. These could be purchased from facilities that have excess emissions capacity or from those enterprises that have been awarded carbon credits from the Emissions Reduction Fund. Intriguingly, the prospect of emitters being able to offset threshold infringements by buying Kyoto-compliant carbon credits, or carbon credits approved by the Minister, in international markets is also canvassed.

Indeed, the government is coming under considerable pressure from businesses to permit the purchase of international carbon units as a cost-effective means of meeting their emissions benchmarks. The issue of enforcement has remained a matter the government has been very reluctant to address – the *White Paper* did not even consider the question of enforcement measures – and the *Consultation Paper* addresses this in a somewhat cursory manner. It simply suggests that facilities which infringe their baseline thresholds could be issued with an infringement notice, and be required to accept enforceable undertakings or directed to rectify an emissions exceedance, or be subject to 'a civil penalty…imposed by a court'. Importantly, the government envisages that such action should only be considered as an absolute last resort, recommending that any action be taken at the discretion of the Regulator, and adding the rider that the imposition of penalties must not amount to a revenue-raising exercise. It will be sometime before the precise details of the Safeguard mechanism are finally resolved, and this is not scheduled to be addressed until a separate bill is introduced into the parliament, which will not happen until at least July 2016 (Swoboda, *et.al.*).

In the meantime, there is nothing preventing established enterprises or facilities from increasing their emissions beyond their historical baselines.

Ultimately, however, establishing a Safeguard Mechanism could prove entirely futile. The *White Paper* recognises that the:

> ‘ongoing development of Australia’s extensive coal and gas reserves will continue to be an important element of future growth prospects [and that] The challenge for Australia is to reduce emissions while not damaging the valuable source of comparative advantage.(Department of Environment 2014: 15, 55).

In fact, the challenge of reconciling the objectives of emissions reductions and supporting the continued expansion of the fossil fuel resource export industries is going to be even greater given that:

> Increased production of liquefied gas (LNG) and coal, in response to strong export demand, is projected to be the strongest driver of growth in Australia’s emissions to 2020. [with] Fugitive emissions…projected to increase (Department of Environment 2014: 18).[20]

Moreover, the informal checks and balances that will be in place will concentrate on a select group of enterprises and facilities. It is to be based on data reported under the National Greenhouse and Energy Reporting System and will only apply to those facilities with direct

[20]. The government’s approval of the massive expansion of coal mining in the Hunter Valley, in New South Wales, and of even larger coal mining projects in the Galilee Basin, in Queensland, highlights the scale of this development.

emissions of 100,000 tonnes or more $CO_2$-e. This means that substantially fewer businesses generating emissions are covered by the Direct Action Plan compared with the Labor government's *Clean Energy Futures Plan* which required enterprises generating 25,000 tonnes $CO_2$-e of emissions to meet emissions reductions thresholds. Even then some facilities in some industry sectors, and most notably the LNG projects being developed off the coast of north Western Australia and the fugitive emissions released by coal seam gas projects would not be subject to the Safeguard Mechanism.

Nor would proposed Safeguards Mechanism prevent the development of some of the world's largest coal fields in the Galilee Basin, in Queensland, which the government is actively supporting. The quarantining of these mining ventures from emissions targeting adds further irony to the Direct Action Plan which proposes establishing a mechanism that is designed to restrict existing enterprises from increasing their emissions and yet which is predicated on a voluntarist engagement with the Plan. The principle of mandating polluting enterprises to work towards the general ambition is laudable, but this also means that the regulatory order that the Coalition contends it is jettisoning lives on in the *Emissions Reduction Fund*.

This also exposes another contradiction in the Coalition's agenda. The Direct Action Plan has been sold as a more effective and less-costly means of addressing the climate change challenge. As argued here, there is little to substantiate the claim that it is likely to be all that effective. Likewise, there is little evidence that it will be less costly than Labor's *Clean Energy Futures Policy*. The Direct Action Plan may well prove to be as much an administrative burden and as costly to administer as the emissions management system it replaces. The supposed cost-saving could simply be attributed to the fact that the Direct Action Plan is based on fewer enterprises that are issuing emissions being covered than was the case under the Labor government's *Clean Energy Futures* scheme, which would presumably mean that the Plan makes a smaller call on the Federal budget.

Yet while the promise of a less costly emissions management system might simply reflect that it is less ambitious, it is evident that the Direct Action Plan will generate additional costs in shifting the focus of policy management. For instance, the role of the Clean Energy Regulator is to be expanded in order to monitor electricity generators and to review and monitor emissions abatement measurement techniques.

Finally, there is a critical question concerning the continuing future of the Direct Action Plan if the Plan does not deliver the requisite reduction in Australia's emission and the nation is unable to meet its Kyoto Protocol obligations to reduce its emissions by 5 per cent by 2020. There is a broad consensus that: "The mechanism isn't going to do much to control Australia's emissions" (Greg Anderson, Allens, cited in Hannam and Cox 2015). If the most recent policy proposal, the draft *Safeguard Mechanism Rule*, is adopted, it is clear that the safeguard mechanism will do little contain emissions growth. It provides considerable scope for facilities to apply to the Clean Energy Regulator to adjust their emissions baseline and exempts the largest emitting facilities from any penalties (Department of Environment 2015b). The likelihood that emissions will continue to increase presents the government will be presented with an intriguing paradox. *Our Plan* flagged that the Coalition's climate change policy would free Australia from the prospect of polluters exporting capital in order to purchase internationally-traded carbon credit units. The Direct Action Plan would remove the prospect of 'paying billions of dollars to foreign carbon traders.'

Yet, in the discussions on how the failure to meet the emissions reduction target might be most effectively and economically managed, the potential advantages in seeking recourse to carbon trading has resurfaced. Those enterprises or facilities that fail to keep emissions below their historical baseline threshold could be subject to a penalty, and there is one school of thought that advocates the penalty be acquitted by an enterprise 'making good' the excess emissions by buying and surrendering Australian Carbon Credit Units (Clayton Utz 2014). This capacity for an enterprise or facility to trade its way out of the penalty could be achieved through the purchase and surrender of other Kyoto-compliant carbon units or, as the amendments incorporated into the *Carbon Farming Initiative Amendment Act* permit, other carbon credit units authorised by the Clean Energy Regulator or by the Minister (The Senate 2014: S.22XK, S.22XM, S22XN; Clayton Utz 2014).

In what could be the ultimate turnaround, opening up the scope for an enterprise to trade its way back into complying with its emissions target threshold could just as easily be extended to the nation. Indeed, given the very real possibility that the Direct Action Plan permits, and encourages, the further growth of emissions-intensive industries, there is every likelihood that the government will confront the challenge of not meeting Australia’s Kyoto Protocol commitment to reduce the nation’s emissions by 5 per cent by 2020. In this event, complying with the commitment may well leave the government no option but to enter the international carbon market and purchase sufficient carbon offsets in order to meet the Kyoto target. Paradoxically, while the Coalition government is resolved in its determination to block the introduction of an emissions trading system, the evidence that the Direct Action Plan is increasingly out of synch with the climate change management systems of most emissions-intensive economies suggests that the government could come under significant pressure to rethink its emissions reduction strategy.

Indeed, the concession made in negotiating the necessary support to carry the *Carbon Farming Initiative Amendment Bill* - commissioning the Climate Change Authority to investigate the effectiveness of the Direct Action Plan and the Plan’s compatibility with the climate change policies of China, the European Union, Japan, the Republic of Korea and the United States – could well provide the political momentum that forces an Australian government to revisit the introduction of an emissions trading system to more effectively meet the nation's emissions reduction target.

The finalisation of the first tranche of tenders highlights some of the shortcomings in the Direct Action Plan identified here. The Minister for the Environment declared the auction "a stunning outcome", but most of the successful bidders were farmers and landfill projects that had been funded under the Labor government's *Carbon Farming Initiative* (Arup and Cox 2015a, 2015b; Maher 2015b; Milman 2015). The government declared the auction proved that the Direct Action Plan was a cost-effective method of emissions abatement. Ironically, this 'cost effectiveness' comes at the cost of the government be paying for carbon abatement, which contrasts with the Labor government's program that entailed polluters having to buy carbon credits to meet their emissions benchmarks. Not only was there a narrow range of abatement projects that tendered for funding, but most of the 144 successful tenders had been prepared by three carbon-management companies, Climate Friendly, Corporate Carbon Solutions and Terra Carbon. The largest contract was awarded to a project involving the capture of emissions from a landfill site, and there were only three projects that were planning to use new carbon abatement techniques approved under the Emissions Reduction Fund.

Apart from the energy conglomerate AGL, which secured contracts for abatement at 7 landfill sites, the auction was notable for the absence of tenders lodged by large polluters (Ludlow 2015a). As much as the Environment Minister celebrated the auction as a success, three quarters of the pollution reduction projects were already underway, they really did not meet the additionality principle, and a number of them would not be delivering all of the planned emission reductions in time to Australia meet its 2020 emissions reduction target. Some possible energy efficiency projects, such as State and local government plans to secure funding to replace incandescent street lighting with LED lamps, have not proceeded because applications for emissions funding did not proceed or were unsuccessful. It really did not make sense for emissions-intensive industries to go the expense of designing and lodging tendering for abatement projects when, with flexible emissions benchmarks, there was little business case to do so, and the Property Council argued that emission abatement projects could only be economic if a coalition of properties were put together a joint proposal, and the Emissions Reduction Fund tendering guidelines did not readily accommodate such an approach (Winestock 2015).

It is also apparent that, because the tendering process can prove to be an expensive exercise with no outcome certainty, there is a prospect of polluters gaming the system, taking the risk of increasing production and thereby exceeding their emissions threshold baseline, believing that the worst that can happen to them is that the penalty that will be imposed will be no more severe than a warning. In some contexts, and especially in the power generation sector, the Safeguards mechanism could deliver quite perverse outcomes. For instance, low-emitting generators could reduce their power supply if they looked like exceeding their baseline and thereby being subject to a financial penalty, and the shortfall in electricity supply being made good by more emissions-intensive generators (Hannan and Cox 2015)

Perhaps the most telling illustration of the potential for perverse outcomes has been the shift in the sourcing of energy since the abolition of the carbon tax. Electricity generated from the burning of brown coal, the most carbon polluting energy source, accounts for an ever-increasing proportion of energy being supplied into the eastern-seaboard Australian electricity grid. Energy analysts, Pitt & Sherry, have reported that ‘brown coal producers were reasserting their price advantage at the expense of more expensive gas and less polluting black coal generators, particularly in NSW’ (Lloyd 2015a)

## Conclusion

Despite the Minister for the Environment, Mr Greg Hunt, celebrating the success of the first auction, the magnitude of emissions abatement commitments is not all that significant given the outlay. One quarter of the monies allocated for the Emissions Reduction Fund have resulted in commitments to reduce just one quarter of the emissions required to meet the 5 per cent 2020 emissions reduction target according to the Climate Institute, and not all of these reductions will be delivered by 2020 (Milman 2015). As the key instrument in the Coalition’s emissions reduction policy agenda, the funds dedicated to the program are clearly inadequate to the task, and the Environment Minister has been quite emphatic in declaring that no additional funds will be provided for the Emissions Reduction Fund (Ludlow 2015b).

The voluntarist nature of the buy-in to reducing emissions reveals another shortcoming in the Direct Action Plan. Noticeable by their absence in the first auction of carbon credits, it is evident that the Emissions Reduction Fund does little to engage the big emissions-intensive enterprises and industries in the emissions abatement objective. The Safeguard Mechanism is being heralded as a solution for containing increased generation of emissions by those that have not bought into the Direct Action Plan, but precisely how the Mechanism will rein in these parties is not at all clear. As one leading analyst, Citibank's Elaine Pryor, has concluded, it 'is unlikely to impose any significant costs or constraints on companies' (Taylor 2015). In fact, given the flexibility in the definition of emissions baseline thresholds, and that this flexibility will be extended even further if the draft *Safeguard Mechanism Rule* becomes policy, and that some of the most significant emitters will be exempted from any emissions thresholds, there is little scope for the Direct Action Plan to drive any meaningful brake on emissions growth.

In the response to criticisms that the Safeguard Mechanism will prove a quite ineffective instrument for reining in and preventing further increases in emissions, the Environment Minister has declared it will up to a future government to tighten the mechanism if need be (Ludlow 2015b). The Minister has apparently not realised what such an embarrassing admission this is in the lead up to the Paris climate change conference. The response serves to reinforce the impression that the Coalition government continues to disregard the need for taking seriously the threat posed by climate change and the urgency for action to stem the growth in, let alone reduce, Australia’s emissions. Considered in the context of the government’s continued strong support for the expansion of coal mining and the further development of the LNG and coal seam gas industries, it is apparent that the Direct Action Plan has been consciously designed to ensure that the ambition to consolidate Australia’s position as a global energy superpower is not frustrated.

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