JOINT SUBMISSION

to

PRIME MINISTERIAL TASK GROUP

on

EMISSIONS TRADING

from

Brotherhood of St Laurence

Catholic Social Services Australia

and

National Welfare Rights Network

April 2007

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Section I Executive Summary and Recommendations

A Executive summary

This joint submission focuses on the need for appropriate measures to ensure that neither climate change itself, nor measures taken to address it, have in practice an adverse and unfair impact on low income or otherwise disadvantaged households.

Climate change itself will have a disproportionate impact on low income and disadvantaged people and communities, as is apparent from the evidence cited in this submission. For this reason, and because of the growing scientific evidence regarding the broader challenges posed by global warming, we endorse the need for urgent and significant action to reduce greenhouse gas emissions, one significant component of which is an Emissions Trading System (ETS), along with substantial reductions targets, in order to reduce greenhouse gas emissions.

In considering a possible global Emissions Trading System, and how steps consistent with such a system might be taken in Australia, the Task Group must obviously consider both the environmental integrity and the economic implications of possible systems. However, it is also vital that the Task Group prioritise consideration of equity issues.

Carbon pricing in whatever form is regressive and will have a disproportionate impact on low income and disadvantaged households unless it is accompanied by comprehensive, well-targeted and well-funded policies and programs designed to ensure that these households do not suffer financially and do not miss out on the opportunities created by moving to a lower emissions, sustainable future.

Funding must be committed, whether sourced from a dedicated ETS-derived national fund or from general Government revenue, to implement widespread programs across Australia to assist low income and disadvantaged people to improve the sustainability and efficiency of their households (private, public and rental) and to help them meet ETS-caused price increases in a wide range of goods and services, including, but not limited to, energy and transport.

B Recommendations

Recommendation 1
That any global ETS model/s proposed by the Task Group include a feature or provision along the following lines:

> *Any global ETS is not to prevent appropriate domestic action by any country to enhance the equitable internal distribution of ETS-related costs by ensuring that low income and disadvantaged households are not disproportionately affected.*

Recommendation 2
That the Task Group recommend that one Australian negotiating objective in any future international ETS negotiations be ensuring that relevant international instrument/s contain a provision similar to that outlined in Recommendation 1 above.

Recommendation 3
That the Task Group take a *comprehensive approach to assessing the* "*background*" (i.e. the Terms of Reference requirement to ensure preservation of Australia's "competitive advantages" arising from fossil fuel and uranium reserves). This would include exploring the possibility that climate change and its consequences might lessen those perceived competitive advantages – perhaps independently of any Australian policy decisions.

Recommendation 4
That the Task Group recommend in its report that all phases of policy making and policy implementation on measures addressing climate change should:

4(a) Incorporate equity issues as an integral element, with particular focus on ensuring that low-income and otherwise disadvantaged households do not bear a disproportionate share of the costs of responding to climate change; and

4(b) Facilitate input by a wide range of stakeholders (including in the community welfare sector).

Recommendation 5
That the Commonwealth Government task relevant agencies with evaluating overseas experience of programs designed to avoid inequitable consequences for low income and disadvantaged households of climate change response policies, including ETS, with a view to making public the key conclusions of such evaluation.

Recommendation 6
That the Task Group in its report note the climate change equity principles of responsibility, capacity and vulnerability – and assess any emissions trading models it proposes against these principles – with particular reference to:
i) the capacity and vulnerability of low income and disadvantaged households, and
ii) ways to compensate such households for any disproportionately adverse impacts of emissions trading.

Recommendation 7
That the Task Group in its report recommend that governments accept responsibility for ensuring the existence, adequate funding and effectiveness of the following types of programs to minimise adverse impacts on low income and otherwise disadvantaged people of any Emissions Trading System introduced in Australia:

7(a) *Financial compensation* programs to compensate relevant households for both direct increases in energy and transport costs and for other price increases resulting from business passing on to consumers ETS-related costs.

7(b) *Energy efficiency assistance* programs – an area where business involvement would also be welcome – providing information, home energy efficiency improvements (such as upgrading appliances, ventilation, lighting and insulation), home water efficiency improvements, and structural changes to bolster houses against extreme weather events.

Recommendation 8
That the Task Group recommend in its report that the Commonwealth Government commit to funding the programs proposed in Recommendation 7 above. Such expenditure will if necessary be funded from general government revenue, although revenue from the ETS itself may contribute substantially to this or to the establishment of a special fund for this purpose.

Recommendation 9
That the Task Group in its report recommend against "grandfathering" (i.e. free initial emissions permits for existing businesses) on equity and revenue grounds.

Section II Task Group's Terms of Reference and scope of this submission

A Task Group's Terms of Reference

> "Australia enjoys major competitive advantages through the possession of large reserves of fossil fuels and uranium. In assessing Australia's further contribution to reducing greenhouse gas emissions, these advantages must be preserved.
>
> Against this background the Task Group will be asked to advise on the nature and design of a workable global Emissions Trading System in which Australia would be able to participate. The Task Group will advise and report on additional steps that might be taken, in Australia, consistent with the goal of establishing such a system."

The Task Group has thus been tasked to:

(1) Advise on the nature and design of a workable global Emissions Trading System in which Australia would be able to participate;

(2) Advise and report on possible domestic Australian steps consistent with the goal of establishing such a global system; and

(3) Conduct the above two tasks against the "background" that Australia's "major competitive advantages" arising from its fossil fuel and uranium reserves "must be preserved".

B A global Emissions Trading System

This joint submission[1] does not directly address the nature or design of any global Emissions Trading System. However, where appropriate, the points made in this submission regarding domestic Australian steps can be taken as referring to the design of any global Emissions Trading Scheme.

Nevertheless we make the following brief observations on the idea of a global Emissions Trading System.

As acknowledged in the Task Group's Issues Paper, Australia will not be the sole designer of any future global emissions trading regime (nor of any other future multilaterally-agreed measures to redress the impact of greenhouse gas emissions). For this reason, together with

[1] This submission was jointly prepared by the Brotherhood of St Laurence, Catholic Social Services Australia and the National Welfare Rights Network. Initial drafting assistance was provided by Cambiar Pty Ltd.

the inherent complexities of the subject, we assume that the Task Group will advise on a range of models for a global ETS rather than on one model only. We trust that the Task Group is well aware of the need for thorough scrutiny and debate by all levels of government, as well as business and the community welfare sector and others, before the Australian Government could commit itself either internationally or domestically on this important subject. We look forward to contributing to future input from the community welfare sector as this process unfolds.

We note that any future global system may well be provided for in a multilateral treaty, binding Australia under international law. Such a treaty could conceivably limit the degree and ways in which Australia could take domestic measures to ensure that low-income and disadvantaged households do not bear a disproportionate share of the costs of an Emissions Trading System. We believe that any treaty on emissions trading should not have this effect, and that this point should be an important aspect of Australia's negotiating position in relevant negotiations.

Recommendation 1
That any global ETS model/s proposed by the Task Group include a feature or provision along the following lines:

> *Any global ETS is not to prevent appropriate domestic action by any country to enhance the equitable internal distribution of ETS-related costs by ensuring that low income and disadvantaged households are not disproportionately affected.*

Recommendation 2
That the Task Group recommend that one Australian negotiating objective in any future international ETS negotiations be ensuring that relevant international instrument/s contain a provision similar to that outlined in Recommendation 1 above.

C Domestic Australian steps compatible with a global emissions trading system

See section III below.

D Assessing the "background": "Australia's competitive advantages" and the risks climate change might pose to them

Irrespective of Australian policy choices, it may not be possible to "preserve" the "competitive advantages" provided by Australia's fossil fuel and uranium reserves in the way those competitive advantages are perceived in 2007. Without resorting to the worst-case or catastrophic end of the spectrum of estimations of the impact of climate change, the "background" to the Task Group's Terms of Reference should entail cognisance of the fact that

the relevant "competitive advantages" may over time be greatly lessened by factors related to climate change, such as:

- Possible changes in our trading partners' demand for Australian exports (including for fossil fuels).
- International security consequences of climate change (including, but not confined to, likely increases in refugee flows), and economic and other flow-on effects.
- Possible increased increase in extreme weather events.
- Impact on international reputation of national decisions regarding climate change.

We raise this point because, for reasons outlined below, we are of the view that climate change itself poses a major challenge, one which is likely to have particularly adverse affects for the most vulnerable people in our society. We therefore look forward to a Task Group assessment of Australia's competitive advantages which takes comprehensive account of all relevant circumstances, including how the prospects of the named Australian export industries might be adversely affected by any less-than-adequate Australian response to climate change.

Recommendation 3
That the Task Group take a *comprehensive approach to assessing the* "*background*" (i.e. the Terms of Reference requirement to ensure preservation of Australia's "competitive advantages" arising from fossil fuel and uranium reserves). This would include exploring the possibility that climate change and its consequences might lessen those perceived competitive advantages – perhaps independently of any Australian policy decisions.

Section III Climate change, equity and emissions trading

A Ensuring appropriate and ongoing consideration of equity issues

Equity[2] issues, and in particular the impacts of both climate change and our response to climate change on low income and disadvantaged families in our society[3], must be fundamental to the development of our policies on climate change. We therefore call on the Task Group to give full consideration to equity issues in its consideration of emissions trading. Our arguments in support of this position are elaborated in the remainder of this section and in sections B-C below.

[2] Although we acknowledge the existence of broader questions of distributional fairness which may also come under the notion of "equity" (e.g. spread across different industries of costs associated with an Emissions Trading System), in this joint submission most references to "equity" are more narrowly focused: we are primarily concerned with the distributional impacts of any ETS for low income and disadvantaged individuals and families in our community.

[3] *Low income and disadvantaged people*. Paper prepared for Equity in Response to Climate Change Roundtable, Melbourne, 26 March 2007. See Attachment A.

The immense challenge of climate change requires a society-wide collective response. However, those with least capacity to contribute should not be forced to contribute on a scale that – while in absolute terms may seem small to others – is beyond their means. Failing to consider such issues would unfairly exacerbate existing financial stress and cause additional inequality, with negative consequences in human, social and economic terms. Despite Australia's recent and ongoing economic prosperity, there are a significant number people and communities who have not felt the benefits of prosperity.

The equity impacts of climate change must therefore stand alongside environmental and economic considerations in determining the adequacy and effectiveness of our national response to climate change and this is particularly so in relation to considerations of an Emissions Trading System.

The Task Group's Issues Paper does not explicitly raise or seek comment on the equity implications of an Emissions Trading Scheme. We trust that the Task Group's report will give due attention to equity considerations, in the form of recommendations on:
(a) how these issues might be addressed in the basic design features of an Emissions Trading Scheme; and
(b) how any disproportionately adverse consequences of an ETS for disadvantaged Australians should be assessed, prioritised, and guarded against (see Recommendation 4 below).

The Commonwealth and most State and Territory Governments have introduced household energy efficiency programs and initiatives, and some of these are directed at low income households. Most of these programs are voluntary in nature and require individuals to opt-in, which depends on households having sufficient understanding of climate change issues and knowledge about the specific programs.

Policy makers should not only adopt a more systematic approach to considering equity issues in climate change policy response formulation, but give special consideration to enabling low income and disadvantaged members of our community to respond to climate change without undue sacrifices.

This more systematic approach should include serious consideration of programs and initiatives that specifically target low income households, as in the UK[4]. We believe that lessons from such overseas experience warrant study by the Commonwealth Government and others as part of the process of formulating both emissions trading options for Australia and Australian positions on international ETS options. Our own preliminary suggestions for such programs are outlined under section F below.

More deliberate consideration of equity issues should also involve consistent consideration of disadvantaged people and communities in mainstream policy processes around climate change.

[4] Gill Owen, *Equity and Climate Change – UK and EU Experience*. A paper prepared for the "Equity in Response to Climate Change Roundtable, Melbourne 26 March 2007.

At all phases, the need to avoid adversely affecting low income and disadvantaged households and communities should be an integral criterion in the design, implementation and review of relevant policy measures. This requires the facilitation of dialogue with, and informed input from, relevant stakeholders – including community welfare sector organisations.

Recommendation 4
That the Task Group recommend in its report that all phases of policy making and policy implementation on measures addressing climate change should:

4(a) Incorporate equity issues as an integral element, with particular focus on ensuring that low-income and otherwise disadvantaged households do not bear a disproportionate share of the costs of responding to climate change; and

4(b) Facilitate input by a wide range of stakeholders (including in the community welfare sector).

Recommendation 5
That the Commonwealth Government task relevant agencies with evaluating overseas experience of programs designed to avoid inequitable consequences for low income and disadvantaged households of climate change response policies, including ETS, with a view to making public the key conclusions of such evaluation.

B Impacts of climate change itself on low income and disadvantaged Australians

Compelling scientific evidence suggests that the impacts of climate change on Australian society will be widespread. In all parts of Australia, we can expect that temperatures will rise, rainfall will change, sea level will rise and extreme events will become more frequent and intense. These changes will inevitably the way we live, the way we work, our health, and the opportunities afforded to us as individuals.

Climate change itself will have a disproportionate impact on low income families and disadvantaged communities, many of whom live in areas more likely to be adversely affected and most of whom have far less ability than others to move or make necessary adjustments. Some major expected impacts are as follows[5] (see also Attachment B for an elaboration):

- **Health** – including heatwaves and the changed distribution of vector-borne diseases.

[5] *An Australian snapshot*. Paper prepared for the national 'Equity in response to climate change roundtable' by Justin Sherrard and Alan Tate, Cambiar, March 2007. Available at: http://www.bsl.org.au/pdfs/Cambiar_climate__justice_Australian_snapshot_mar07.pdf

- **Housing and public spaces** – including access to public open space for sport and recreation, the protection of our housing stock from extreme events, and particular ramifications for those in the most affected locations who are homeless or experiencing severe housing stress.
- **Location** – including the continued economic viability of parts of rural and remote Australia and the possibility of forced internal migration.
- **Indigenous Australians** – particularly those in remote communities in northern Australia.
- **Energy prices and access** – including changes in electricity and petrol prices, and the availability and affordability of both electricity/petrol and of alternatives to them.
- **Employment** – query sustainability of some industries, such as energy-intensive industries and in coal mining (offset in some measure by new "green jobs" in sustainable energy and energy efficiency industries, although not necessarily in the same locations or skill areas).
- **Refugees seeking humanitarian access** – especially from our Pacific neighbours, where rising sea levels may have devastating consequences, creating climate refugees.

C Foreseeable consequences of our policy responses to climate change (notably carbon pricing) for low income and disadvantaged Australians

Like climate change itself, the way we structure our policy responses to climate change will have major implications for disadvantaged Australians. Equity issues include the ability of people to install new technologies and adopt behavioural changes that will protect them from climate impacts, or reduce their use of energy. The majority of our greenhouse gas emissions come from burning fossil fuels to generate energy, so the focus of our response must be on reducing energy use and shifting energy sources to low carbon alternatives. This could mean the more widespread introduction of minimum energy performance standards, for electrical appliances, cars and buildings, all of which have the potential to increase costs for buyers.

Pricing carbon into energy, including petrol and electricity, means unit costs will rise[6]. We can expect business to pass on cost increases to consumers across a wide range of goods and services, to enable business across the economy to compensate for higher production costs entailed by price increases in energy, transport and construction.

The capacity to respond to the impacts of climate change, and of policies intended to ameliorate it, is not evenly distributed within our society. The most disadvantaged people will generally lack access to sufficient financial resources even to meet the increased costs of energy let alone to invest in energy efficiency and energy-reducing capital to reduce their exposure to increased

[6] *The impact of carbon prices on Victorian selected household types – A preliminary analysis*. A report for the Brotherhood of St Laurence, prepared by the National Institute of Economic and Industry Research. Draft Report, March 2007. Available at: http://www.bsl.org.au/pdfs/NIEIR_impact_of_carbon_prices_prelim_analysis_26mar07draft.pdf

energy costs. And, as argued below, ETS-sourced increases in prices of basic expenses will have a much higher impact on low-income and disadvantaged households relative to others.

Both social justice and environmental integrity goals necessitate ensuring that low income and disadvantaged people in society are recognised in our response to climate change so that our response does not make life more financially difficult for them nor lock them out of the opportunity to participate in a lower energy-consumption future.

Placing a cost on carbon across the economy has the potential to increase the cost of a range of goods and services for Australian households, extending far beyond direct energy/transport costs. Some households will be better able than others to meet or otherwise respond to these increased costs. Simply because of their need to spend a higher proportion of income on basic expenses, low income households are likely to be disproportionately affected by price increases. They may also lack access to the financial resources or information required to meet or respond to these increased costs.

Economic modelling of the impact on households of a carbon price has been undertaken by the National Institute of Economic and Industry Research for the "Equity in Response to Climate Change Roundtable"[7]. A summary of the results is included in Table 1, with further detail set out in Attachment C.

Table 1: Impact of carbon prices on household types

Household type	**Utility adjusted carbon costs additional annual expenditure ($2006 dollars)**		**Utility adjusted carbon costs - % of annual expenditure ($2006 dollars)**	
Carbon price - per tonne	**$25**	**$50**	**$25**	**$50**
Household with children where Government benefits exceed 30% of income	417.3	834.5	1.0	2.0
Retired Age Pension households	331.2	662.5	1.2	2.4
Unemployed households	596.3	1,192.5	1.6	3.2
Poor households	596.4	1,192.8	2.3	4.6
Double income no children	1332.9	2665.7	.3	.6
High income tertiary educated	1225.0	2450.0	.4	.8

The analysis used two possible carbon prices, $25/t CO_2-e and $50/t CO_2-e. The results have been adjusted using a utility approach, which weights the results according to the relative prosperity of those bearing the costs or receiving the benefits – clearly an additional cost of, say

[7] *The impact of carbon prices on Victorian selected household types – A preliminary analysis*. A report for the Brotherhood of St Laurence, prepared by the National Institute of Economic and Industry Research. Draft Report, March 2007. Available at: http://www.bsl.org.au/pdfs/NIEIR_impact_of_carbon_prices_prelim_analysis_26mar07draft.pdf

$800 per year, is more affordable for a high income household than it is for a low income household.

Household types have been defined according to the Australian Bureau of Statistics Household Expenditure Surveys (HES). A "poor household" is one which experienced at least four of the following from the HES database:

- could not afford to have a night out once a fortnight, or
- could not afford brand new clothes, or
- spends more money than receives, or
- could not afford to pay gas, electricity or telephone bills, or
- pawned or sold something, or
- went without meals, or
- was unable to heat the home due to a shortage of money, or
- had cash flow problems during the past year, and
- the household head is not over 55 and out of the labour force, and
- no other member of the family is in the labour force, or
- the household does not receive Veterans Affairs Pension, Age Pension or Overseas Pension or Benefit.

The results show that the impact of a carbon price of $25/t CO_2-e on "**poor households"** would be almost $600 per year in additional household expenditure, or almost an additional 2.5% of annual household expenditure (Table 1). If the carbon price doubled to $50/t, the additional expenditure would also double to almost $1,200 per year, representing an additional 4.6% of annual household expenditure. These figures compare with an equivalent of .3% and .6% respectively for a **"double income no children"** household and .4% and .8% respectively for a **"high income tertiary educated"** household.

This analysis not only highlights the likely substantial financial impact of a carbon price on low income households but also the regressive nature of a carbon price. Even though low income households on average use less energy (24 tonnes v 53 tonnes) and spend less overall than high income households ($226 compared with $937 in equivalised weekly expenditure), the additional expenditure resulting from a carbon price represents a far greater proportion (4.6%) of a low income household's expenditure than it does of a high income household's expenditure (.6% - .8%)

D Necessity for action to address climate change – ETS and reductions targets

We acknowledge and support the urgent need to seriously address the adverse impacts of climate change. We also appreciate the reasons underlying the present consideration of some form of Emissions Trading Scheme, by both Commonwealth[8] and State/Territory[9] governments.

[8] Prime Ministerial Task Group on Emissions Trading.
[9] National Emissions Trading Task Force (see www.emissionstrading.org.au).

Because of this need to seriously address the adverse impacts of climate change, and their likely disproportionate impact on low income and disadvantaged people in Australia, we believe that a mechanism that places a price on carbon across the economy, such as an Emissions Trading Scheme, is an important part of Australia's response to climate change. However, we are particularly conscious of the need to ensure that such a mechanism takes full account of the associated equity and social justice issues, such as the need for low income households to meet the increased price of goods and services and to be able to participate in energy reduction mechanisms.

The primary purpose of an Emissions Trading Scheme must be to reduce greenhouse gas emissions and in this context we endorse the Task Group's view that environmental integrity should be the number one objective.

Additionally we acknowledge the arguments in favour of substantial targets and support the immediate determination of targets not only on grounds of environmental necessity but also on grounds of both global and inter-generational equity. We have an enormous moral responsibility to protect the environment for future generations. Similarly, as a developed country that has been able to use carbon intensive energy to derive great economic growth to the point where our per capita emissions levels are amongst the highest in the world, equity demands that our reductions targets are sufficient to allow developing countries some space to experience the economic growth that we have enjoyed..

In this context, we note that the Australian Business Roundtable on Climate Change commissioned econometric modelling which suggested that a target of a 60% reduction in emissions on 1990 levels by 2050 could be achieved together with 2.2% economic growth per annum, contrasted with an almost identical growth figure of 2.3% per annum without such a 60% emissions reduction target.

E Climate change equity principles agreed at Equity in Response to Climate Change Roundtable

The overall design of an Emissions Trading Scheme that takes social equity into account should be based on at least three principles – **responsibility, capacity and vulnerability**.

- Responsibility – those who created the problem have the primary responsibility for reducing its cause (emissions) and ameliorating harm (to current and future generations);
- Capacity – those with greater capacity to reduce emissions and avert harm have primary responsibility; and
- Vulnerability – those most vulnerable need special protection and assistance for the sake of both efficiency and equity.

These climate change equity principles were endorsed at the recent "Equity in Response to Climate Change Roundtable" on 26 March in Melbourne. We commend them to the Task Group as encapsulating the most important equity issues relevant to consideration of an ETS.

Recommendation 6
That the Task Group in its report note the climate change equity principles of responsibility, capacity and vulnerability – and assess any emissions trading models it proposes against these principles – with particular reference to:
i) the capacity and vulnerability of low income and disadvantaged households, and
ii) ways to compensate such households for any disproportionately adverse impacts of emissions trading.

F Application of equity principles to an Emissions Trading System: protecting disadvantaged people from adverse effects

As detailed above, the overall design of an Emissions Trading System should be based on the three equity principles of: **responsibility, capacity and vulnerability**.

The modelling cited in the preceding section clearly demonstrates the particular relevance of the "*capacity*" and "*vulnerability*" principles to the work of the Task Group: in the absence of targeted protection of the most vulnerable people in Australian society, those households with least capacity to bear the expense will be far more adversely affected than other Australian households.

In terms of "*responsibility*", Task Group members should note the existence of child poverty in Australia. Children in disadvantaged families would in some respects be hardest hit by an ill-targeted ETS, despite bearing no responsibility whatever for past greenhouse gas emissions. It may be said that this past responsibility point is true of *all* children. But it would be unjust if the prospects of our poorest children, who already often face significant obstacles to full participation in education and future employment, were further diminished by any disproportionately adverse impact of the budgets of poorer households of ETS-sourced costs. Such an outcome should be foreseen in advance and carefully avoided.

Adherence to equity principles requires the incorporation into any ETS of both design features and programs to ensure that low income and disadvantaged people are not adversely affected.

In relation to basic design features of the ETS, all efforts should be made to minimise the extent to which disadvantaged people and communities are disproportionately adversely affected (see Recommendation 4). We accept that, even if this issue were accorded paramount importance, the nature of carbon pricing means that the problem could not be entirely resolved by such efforts.

This points to a great need for low income and otherwise disadvantaged households and communities to be adequately assisted in responding to the introduction of a carbon price across the economy, such as through an ETS. This will require the commitment of adequate expenditure to provide dedicated programs for the effective protection of and assistance to such households and communities.

This assistance will involve both direct financial compensation and programs to assist in achieving reduced energy expenditure. As indicated above, such compensatory programs should not be regarded as charity, but rather as necessary to prevent a moral and economic injustice. For this reason, governments should accept responsibility for ensuring the existence, the adequate funding of and the effectiveness of such programs.

Financial compensation programs

Financial compensation programs may be necessary for some time, given the likely lead time before energy efficiency and reduction programs have widespread effect.

Financial compensation programs should not be opposed on the theoretical argument that they would impede a useful economic incentive to reduce energy consumption, thus hampering efforts to reduce emissions. Low income earners already have extremely strong economic incentives to minimise consumption in many areas, notably energy and transport. In the medium to long term, the need for such programs should disappear as energy efficiencies improve. In the short term, extending financial compensation programs to a small proportion of Australians would have a very small impact on emission reduction efforts (especially in view of the fact that government and business apparently account for 85% of emissions).

Financial compensation programs should encompass measures to compensate relevant households for both:

- Direct increases in energy and transport costs:
  -for example, through provision of electricity and gas rebates; and

- Price increases across a range of goods and services caused by businesses passing on to consumers the costs of an emissions trading regime.

Energy efficiency assistance programs

Energy efficiency assistance programs are also crucial, especially in view of the environmental imperative to reduce emissions. Low income families need not be financially penalised through increased energy unit prices resulting from an ETS if effective retro-fitting and other energy efficiency programs enable their households to achieve sufficiently reduced energy consumption. While business involvement would also be extremely welcome, as noted above

the primary responsibility for ensuring that adequate programs exist rests with government. Such programs should encompass the following types of activity:

- Providing targeted information, audits and advice, and running "how-to" workshops to build awareness and provide practical assistance to low income households on reducing energy and water use, and on upgrading houses to withstand climate impacts;
- Home energy efficiency improvements, to reduce electricity and gas consumption. This could include upgrading electrical appliances (particularly refrigerators as in the Brotherhood of St Laurence Phoenix Program) and ventilation and lighting systems to more efficient models and systems. It could also include changes to building fabric and structure, such as exterior shading, insulation and double glazing;
- Home water efficiency improvements, to reduce water use. This could include upgrading water-using appliances to more efficient models, and installing rainwater tanks;
- Structural changes to allow houses to withstand changes in extreme events. These might include anchoring homes to the ground in areas that will become increasingly affected by cyclones, upgrading roofs to improve protection against storms, and upgrading guttering and stormwater drainage; and
- Engaging the people most affected to pool, learn from, disseminate, and factor into program design their own suggestions and ideas on other ways of increasing their energy efficiency.

Funding such programs

The underlying imperatives justifying – indeed requiring – such expenditure, however sourced, include:

- ❖ Maintaining the affordability of basic energy supplies and essential goods and services, thus assisting social cohesion, social stability and the fullest possible attainment of the economic and human potential of all our citizens.
- ❖ Assisting all people in our community to lower greenhouse gas emissions in the timeliest possible manner, thus enhancing environmental and economic efficiency; and
- ❖ Ensuring that low income and disadvantaged people in our society are not required to subsidise others by bearing an unfair proportion of the costs of addressing climate change.

One funding option is the establishment of a dedicated national fund, perhaps using revenue from ETS permit sales, to assist low income and otherwise disadvantaged people to manage their exposure to the consequences of both climate change itself and policy responses to it. Such a fund could be established by the Government and maintained through an allocation of proceeds from auctioning emissions permits.

The level of funding required for compensation/assistance programs would need to be determined through a careful assessment of needs. While it is too early to estimate any amounts, it is clear is that it will be very substantial and that the sooner it is provided the less it will have to be. This is another area where overseas experience might be valuable and very informative. In the UK, a number of programs designed to achieve equity goals for low income

households have already been introduced[10]. One such program is the Warm Front scheme, which provides grants in the order of A$8,000 to enable low income households to install new energy efficient heating systems. This program will cost approximately A$1 billion per annum in 2007-2008. Total current spending commitments on energy efficiency programs for low income households in the UK have been estimated at around A$1.8 billion per annum.

Funding must be committed, whether sourced from a dedicated ETS-derived national fund or from general Government revenue, to implement widespread programs across Australia to assist low income and disadvantaged people to improve the sustainability and efficiency of their households (private, public and rental) and to help them meet ETS-caused price increases in a wide range of goods and services, including, but not limited to, energy and transport. What matters is ensuring an ongoing Government commit to make the necessary expenditure, however funded.

Recommendation 7
That the Task Group in its report recommend that governments accept responsibility for ensuring the existence, adequate funding and effectiveness of the following types of programs to minimise adverse impacts on low income and otherwise disadvantaged people of any Emissions Trading System introduced in Australia:

7(a) *Financial compensation* programs to compensate relevant households for both direct increases in energy and transport costs and for other price increases resulting from business passing on to consumers ETS-related costs.

7(b) *Energy efficiency assistance* programs – an area where business involvement would also be welcome – providing information, home energy efficiency improvements (such as upgrading appliances, ventilation, lighting and insulation), home water efficiency improvements, and structural changes to bolster houses against extreme weather events.

Recommendation 8
That the Task Group recommend in its report that the Commonwealth Government commit to funding the programs proposed in Recommendation 7 above. Such expenditure will if necessary be funded from general government revenue, although revenue from the ETS itself may contribute substantially to this or to the establishment of a special fund for this purpose.

G Applying equity principles to emissions trading: Permit pricing and "grandfathering"

[10] Gill Owen, ibid.

In this context, we are not inclined to support the free allocation of emissions trading permits to existing businesses (i.e. grandfathering).

Building equity into our responses to climate change suggests that an ETS should not disadvantage those enterprises that have already reduced their emissions. Conversely, an ETS should not provide windfall gains to our most polluting entities. These considerations suggest that emissions permits should therefore be sold rather than given away.

The need for global reductions in greenhouse gas emissions has long been established, and industry has had some 15 years to prepare itself for policies and measures designed to reduce greenhouse gas emissions. Scientists issued their initial warnings about climate change in the Intergovernmental Panel on Climate Change's First Assessment Report on Climate Change in 1990. These warnings have become progressively clearer in subsequent Assessment Reports. The international community responded in 1992 by agreeing to the UN Framework Convention on Climate Change, with its ultimate objective of preventing "dangerous anthropogenic interference with the climate system" (UNFCCC: Article 2). Australia has been party to the UN Framework Convention since it entered into force in 1994. The 1997 Kyoto Protocol on emissions reductions under the Kyoto Protocol was signed by Australia in 1998, although Australia has not since ratified it and is therefore not a party. At around the same time, leaders of global businesses started to express their acceptance of the need to respond to climate change by reducing greenhouse gas emissions.

We recognise the enormous costs and changes involved in industry's efforts to reduce greenhouse gas emissions, as well as the existence of a time lag between scientific knowledge prompting political action. We also acknowledge the need for a collective societal effort to address the impact of climate change. However, 10-15 years is a considerable period for enterprises to plan responses to business risks, and a longer lead time than is common for responding to many business risks. So the establishment of an Emissions Trading System in Australia would not be a bolt from the blue in changing business operating conditions.

If free allocations of initial emissions permits were provided (for example as occurs in the current phase of the European Union's Emissions Trading Scheme), there would be very limited net additional resources from the ETS available to the Government to compensate or provide programs for people on low incomes who are disproportionately or inequitably affected by the ETS. This would be the case especially if emissions permits were granted over extended periods, such as the life-time of infrastructure assets, as has been proposed by some business groups. However, this point does not detract from our earlier comments that funding for compensation of and programs for low-income earners is a government responsibility which could be sourced from general government revenue, from ETS permit sales or both – and that such funding should be assured irrespective of any link to or connection with ETS revenue.

Recommendation 9
That the Task Group in its report recommend against "grandfathering" (i.e. free initial emissions permits for existing businesses) on equity and revenue grounds.

Section IV Conclusion

In conclusion, any Emissions Trading Scheme that is introduced in Australia must be environmentally effective, socially equitable and economically sustainable. For this to be achieved, low income and disadvantaged households must be adequately protected from price increases and financially enabled to invest in an energy efficient, low emissions future.

Governments must commit to, and plan for, substantial expenditure on long-term, wide-spread and well targeted programs to achieve energy efficiency in all households (private, public and rental) as soon as possible. Governments must also compensate low income households for the complex impacts of carbon pricing, especially during the early years of carbon pricing. Such compensation is necessary for economic and environmental reasons as well as for equity reasons. Its absence would result in a very unfair outcome, whereby low income and disadvantaged Australians – who have benefited least from environmentally expensive boom times – would subsidise others instead of contributing to climate change responses in a manner commensurate with their means.

Revenue from the auctioning of tradable permits under an Emissions Trading Scheme could make a significant contribution to this. One option may be the establishment of a national fund to assist low income households to respond to the impacts of climate change and to increased prices of energy, water and other goods and services that may follow from our national responses to climate change, especially the establishment of an Emissions Trading System. Regardless of the source, it is the Government's responsibility to ensure sufficient revenue is derived and adequate expenditure is dedicated to such programs.

Irrespective of the mechanisms and funding sources adopted for the purpose, government must accept the responsibility of ensuring that low income and disadvantaged Australians do not bear an unfair proportion of the costs of any Emissions Trading System which may be introduced.

ATTACHMENT A

Equity in Response to Climate Change Roundtable Melbourne, 26 March 2007

"Low Income and Disadvantaged People"

Michael Raper
President, National Welfare Rights Network

1. What do we mean by "low income and disadvantaged people? Who is included?

ACOSS has recently adopted the following "definitions" or descriptors of "low income" in Australia today.

The income benchmark for a ***low income family*** is the maximum gross household income for the **bottom 40% of households**, currently about **$43,000**[11].

The income benchmark for a ***low income single person without children*** is set at the maximum wage for the bottom 20% of fulltime wage earners, or approximately **$30,000.**

Benchmarks for low and high incomes

	Individual income	**Family income**
Low income benchmark	Bottom 20% of fulltime wage earners (up to $30,000)	Bottom 40% of households (up to $43,000)
High income benchmark	Top 20% of fulltime wages ($70,000+)	Top 20% of households ($100,000+)

ACOSS broadly describe disadvantaged Australians as those who:
"*lack what most Australians would regard as the essentials for a decent life"* or

"*are excluded from participation in important areas of economic and social life, such as employment, decent housing, basic services, and social support".*

Generally, this coincides with being a low income earner, but disadvantage can arise from other factors such as chronic illness, disability, homelessness, episodic mental health conditions, living in remote areas, and drought.

The term "low income and disadvantaged people / communities" includes all those in the above descriptions.

[11] Thus includes wages, family payments (ie FTB) and other forms of income. In terms of *individual* income, this is roughly equal to the median (middle) fulltime wage, currently approximately $45,000, but it is a low income for a *family*.

ATTACHMENT B

Social justice dimensions of climate change[12]

Health impacts

Prolonged exposure to high temperatures can cause heat exhaustion, cramps, heart attacks and stroke. Those most vulnerable to heat–related stress include the elderly, the very young, people under intense physical stress and those with cardiovascular disease. Without strong action to reduce GHG emissions, annual heat-related deaths of people aged over 65 years living in capital cities could rise from 1,100 to between 8,000 and 15,000 by the end of the Century.

Vector-borne diseases include Dengue Fever, Malaria and Ross River Fever, and their distribution is heavily influenced by climatic conditions. Dengue Fever is not endemic to Australia, although North Queensland currently supports a suitable climate for its establishment and there have been recent infections in the Torres Strait Islands. Strong action to reduce GHG emissions could limit the spread of the dengue transmission zone to Brisbane. But in the absence of strong action the transmission zone could spread south to Sydney by the end of the Century.

Other health impacts include water-borne diseases, food-borne diseases, exposure to solar radiation (skin cancer) and respiratory diseases.

Impacts on our everyday way of life

Climate change will cause significant change to the ways of life of Australians generally. These changes will range from the security of our homes and neighbourhoods to the availability of local amenities like beaches and parklands and holiday destinations.

For instance, as a result of the current drought, sport has been banned in some rural towns and suburbs, because of the health and safety risks of playing on dry, hard, bare ground. Because sport is important to Australians, many people will be impacted if such bans become more widespread. The people most heavily affected will be those with little or no access to alternatives to community-based sports and facilities.

Periods of prolonged heat, wind and rainfall, and increased variations in them, can lead to accelerated structural fatigue of the housing stock and of buildings, and greater demands on construction and drainage. These impacts could be exacerbated if extreme weather events like cyclones move into urban areas where houses, buildings and infrastructure are not designed to cope with them. The houses, buildings and infrastructure most at risk are those constructed from cheaper building materials, like fibre cement, and low cost housing such as caravan parks.

As the magnitude and frequency of storm damage goes up, the cost of insuring houses, buildings and infrastructure against extreme events will also increase. In some areas insurance cover may become very expensive or may even be withdrawn, leaving housing assets stranded and the risk that some areas will need to be abandoned.

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[12] References include: *Climate change risk and vulnerability: Promoting an efficient adaptation response in Australia*. Australian Greenhouse Office report prepared by Allens Consulting, Canberra, March 2005. Available at: http://www.greenhouse.gov.au/impacts/publications/risk-vulnerability.html. *Climate Change Health Impacts In Australia. Effects of dramatic CO2 emission reductions*. Australian Medical Association and the Australian Conservation Foundation report. Available at: http://www.acfonline.org.au/uploads/res_AMA_ACF_Full_Report.pdf

Some people will retro-fit their houses to cope with these changes, while others move to areas that are less affected. The most disadvantaged people in society may not be able to afford to retro-fit or to move, and will see the value of their home decrease or their rent increase. Similarly the costs of protecting infrastructure and public buildings will fall to tax- and rate-payers, and the most disadvantaged people in society may struggle to afford such cost increases.

Impacts on rural Australia

As the climate changes, it is likely that existing farming practices will become progressively more marginal in some established areas of rural Australia. Farmers will either need to adopt new farming practices that are better suited to the new climate regime, or where possible, physically relocate to continue farming practices in areas that best suit them.

Neither process will be straight-forward – they will require access to knowledge and to capital. Some farmers will struggle with these changes, and as is happening during the current drought, some farming families will experience financial hardship and chronic social pressures. The abandonment of rural towns is likely to accelerate with the consequent loss of local history and culture.

Indigenous Australians

Indigenous people living in northern Australia will find themselves increasingly exposed to the impacts of climate change, including more extreme events, rising sea levels and increased transmission of infectious diseases. Their capacity to respond to these events is already constrained, and they will struggle to respond to more severe climatic events. Climate impacts are likely to further exacerbate the breakdown of local culture and have a negative impact on efforts to establish new economic foundations in northern Australia.

There is strong evidence that communities in the Torres Strait are already being affected by sea level rise and consideration is being given to the eventual evacuation and relocation of some island communities.

Changes in electricity and petrol prices, and the availability and affordability of alternatives

Mitigation strategies must focus on reducing greenhouse gas emissions from the use of fossil fuels. Most economists favour using financial instruments that put a price on GHG emissions as a way of reducing demand and improving the efficiency of fossil fuel use. This means energy prices – and in particular electricity and petrol – need to rise.

Our cities and towns, and our way of life, are a product of the availability of cheap energy. Urban design and house construction have not been geared to minimising energy use, and human behaviour is a response to this.

Increasing energy prices will affect everyone in society, and a range of responses will follow. Responses for electricity include reducing demand by improving design and construction (e.g. insulation), installing more energy efficient lighting and ventilation systems, and more efficient appliances. Transport responses include using cars less, with more walking and cycling, and making more use of public transport. For both electricity and petrol it is possible that while unit prices will rise, actual use can be reduced, meaning that the net cost to consumers does not change.

The most disadvantaged people in society may struggle to respond to increasing energy prices. Those who can afford to upgrade to more energy efficient living, and have better access to alternatives to using private cars for transport, will do best. Others, particularly those in outer urban areas, will have less

access to transport alternatives and have longer distances to travel, and – without relief – will simply have to pay higher energy prices.

There will be associated issues with increases in the cost of water as a drier climate means expensive options, such as water recycling or desalination, are needed to secure and to ration water supplies to towns and cities. The most disadvantaged people in society may struggle to respond to rising prices. Reducing demand (e.g. by installing a rainwater tank) and by installing devices and using appliances that improve the efficiency of their water use (such as water efficient dishwashers), may be beyond their financial resources and outside their knowledge base.

Ongoing employment in some industries

Changes in electricity and petrol prices will impact on industry (as well as households) in two ways. Firstly, the direct cost of energy, or energy-intensive inputs, is likely to rise as carbon pricing is introduced across the economy. Secondly, companies that are manufacturing energy-intensive products or providing energy-intensive services may find demand for those products and services shifting to lower-carbon alternatives.

To remain competitive changes will be required in the way energy is used in production and in service delivery, and some companies will struggle to respond. Their position in the capital investment cycle may mean they cannot afford to invest in more energy efficient plant, and if they can, their access to capital may be constrained by tight margins. Some industries may be directly exposed to overseas competitors who have a rent holiday on carbon pricing, or who already have more energy efficient operations or products by virtue of already being exposed to carbon pricing.

Uncompetitive companies will likely close down or make big changes to their operations, and job losses could follow.

Climate change will also have a largely negative impact on the tourism industry where many unskilled and transient workers are currently employed. Tourism based around the Great Barrier Reef and the NSW/Vic snowfields are examples of tourist attractions that will decline over the next two to three decades.

Border security

The combined effects of rising sea levels and increased storms will result in the inundation of large coastal areas across the Asia-Pacific region, and for island nations like Tuvalu much of the country itself, will become uninhabitable. People who are displaced may seek to re-settle elsewhere in their own country, but alternative settlements are not going to be available in all cases. Those who cannot settle elsewhere will become climate refugees.

Australia is likely to experience a significant increase in regional environmental and economic refugees – borne from climate impacts – seeking assistance and relocation.

ATTACHMENT C

Impact of carbon prices on different household types[13]

Table 4 Ten household types – Impact of carbon price

	Utility scale	Carbon cost – $2006		Carbon cost – % of annual expenditure		Utility adjusted carbon costs – $2006		Utility adjusted carbon costs – % of annual expenditure	
		$25	$50	$25	$50	$25	$50	$25	$50
Household with children where government benefits exceed 30% of income	0.5	762.9	1525.8	1.8	3.7	417.3	834.5	1.0	2.0
Household with children where government benefits is less than 30% of income	0.4	1043.4	2086.8	1.5	3.1	387.6	775.1	0.6	1.1
Retired age pension households	0.5	615.9	1231.8	2.2	4.4	331.2	662.5	1.2	2.4
Employed family	0.4	1027.5	2055.0	1.5	3.1	397.3	794.6	0.6	1.2
Household with less than $70000	0.4	774.1	1548.2	1.6	3.2	315.0	630.1	0.7	1.3
Household greater than $70000 income and household head greater than 50	0.3	1115.3	2230.6	1.4	2.9	343.5	687.1	0.4	0.9
Double income no children	0.2	1332.9	2665.7	1.6	3.2	260.9	521.8	0.3	0.6
Unemployed households	0.8	735.7	1471.4	2.0	3.9	596.3	1192.5	1.6	3.2
Poor households	1.0	596.4	1192.8	2.3	4.6	596.4	1192.8	2.3	4.6
High income tertiary educated	0.3	1225.0	2450.0	1.4	2.9	321.1	642.3	0.4	0.8

[13] *The impact of carbon prices on Victorian selected household types – A preliminary analysis*. A report for the Brotherhood of St Laurence, prepared by the National Institute of Economic and Industry Research. Draft Report, March 2007. Available at: http://www.bsl.org.au/pdfs/NIEIR_impact_of_carbon_prices_prelim_analysis_26mar07draft.pdf
Prime Ministerial Task Group on Emissions Trading, *Joint Submission by Brotherhood of St Laurence, Catholic Social Services Australia and National Welfare Rights Network,* April 2007

NIEIR's micro simulation household expenditure models are based on the Australian Bureau of Statistics Household Expenditure Surveys used to generate expenditures for 42 household types. The expenditure categories come to 800 and these are aggregated into 42 household types.

However, the household types were over-lapping and confusing. Accordingly, for this preliminary paper, 10 of the 42 household types were selected so as to be representative of the distribution of the households.

The definition of the household types is self explanatory. The only household type requiring further explanation is the poor household definition. A poor household is one which experienced at least four of the following from the HES database:

- Could not afford to have a night out once a fortnight, or
- Could not afford brand new clothes, or
- Spends more money than receives, or
- Could not afford to pay gas, electricity or telephone bills, or
- Pawned or sold something, or
- Went without meals, or
- Was unable to heat the home due to a shortage of money, or
- Had cash flow problems during the past year, and
- The household head is not over 55 and out of the labour force, and
- No other member of the family is in the labour force, or
- The household does not receive Vet Affairs Pension, Age Pension or Overseas Pension or Benefit.

A utility adjusted approach has been used. Poor households clearly had less room for adjustment to the imposition of carbon costs. The United Kingdom HM Treasury's "*The Green Book: Appraisal and Evaluation in Central Government"*, guidelines require that each monetary cost and benefit should be weighted according to the relative prosperity of those receiving the benefit or bearing the cost. The formula they recommend for doing this is:

$U = logC$

Where:
C = household consumption; and
U = household utility good from consumption.

This implies a marginal utility of consumption of 1/C. Hence, the utility scale used is relative to the poorest household. It implies the utility cost of the high income tertiary educated households of an extra dollar of carbon cost is only one quarter of the dollar cost imposed on poor households.