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Climate Change

Andrew Macintosh and Richard Denniss

For both the Rudd and Gillard Governments, climate change was like a disease they could not shake. It was central to the deposing of Rudd in 2010 and to the downfall of Gillard in 2013, and was also a key factor in the loss of public confidence in Labor's administrative capabilities. The history of Labor's problems with climate policy can be traced to 2006, when Labor seized on a surge in public concern about climate change by announcing it would introduce an emissions trading scheme (ETS), ratify the Kyoto Protocol and set a long-term emission reduction target of a 60 per cent reduction on 2000 levels by 2050 (Macintosh et al 2010). It carried this agenda into office and, under Kevin Rudd, set about implementing a long list of climate programs. As previously described, the Rudd Government's climate agenda unravelled spectacularly (Macintosh et al 2010). The Home Insulation Program ended in fiscal and human tragedy, the Green Loans Program was plagued by maladministration and allegations of fraud, the Solar Homes and Communities Plan had to be prematurely terminated due to a $900 million cost overrun, and the Renewable Energy Target scheme was subject to two restructures in the space of 12 months due largely to government incompetence. Towering above these programmatic difficulties, however, was the government's failure to get its ETS legislation through the Senate because of its mishandling of the politics. The legislation was blocked twice in the Senate and then abandoned in the aftermath of the 2009 Copenhagen Climate Conference.

After describing climate change as the 'great moral challenge of our generation' and raising expectations to previously unseen heights (Macintosh et al 2010), Labor went to the 2010 election with an overt strategy to downplay climate change and distance itself from carbon pricing. In response to questioning about whether a re-elected Labor government would introduce a carbon tax, Treasurer Wayne Swan said:

> We have made our position very clear. We have ruled it out. We have to go back to the community and work out a way in which we can put a cap on carbon pollution (ABC 2010).

Later in the campaign, Prime Minister Gillard promised 'there will be no carbon tax under the government I lead' and said she would be 'leading our national debate to reach a consensus about putting a cap on carbon pollution' (Network Ten 2010). She also sacrificed the sliver of public credibility Labor still had on climate policy by announcing a 'cash-for-clunkers' program (Clean Car Rebate) and the much-maligned 'citizens assembly on climate policy', both of which were latter jettisoned.

Faced with a minority government after the election, Labor was forced to make concessions to the independents and Greens to form government. The price paid to gain the support of the two independents from northern New South Wales, Tony Windsor and Rob Oakshott, and the Greens was a promise to introduce a carbon price (Priest 2013). This pledge led to the creation of the Multi-Party Climate Change Committee (MPCCC)—a cabinet sub-committee comprised of the two independents and representatives from the government and Greens—as the vehicle within which a broad climate package was negotiated. The package, which was announced in July 2011 and largely took effect a year later, was the most comprehensive climate policy ever introduced in Australia.

This chapter tells the story of the MPCCC process and looks at the influence that the independents and Greens had on the end outcome. It also analyses the strategies that were adopted in the design and communication of the policy package in an attempt to neutralise opposition and garner support. The questions we are interested in are whether these measures improved the chances of reform success and at what price?

The MPCCC process

The MPCCC was announced in September 2010 and held its first meeting on 7 October. Only five months and four meetings later, the parties decided to announce they had agreed to introduce a carbon price, even though the details of the scheme were yet to be settled. At the subsequent press conference, held on 24 February 2011, the Prime Minister was flanked by the two Greens Senators on the MPCCC (Brown and Milne), the two independents and the Minister for Climate Change, Greg Combet. As Priest has stated, by sharing the lectern with the Greens, 'it sent a message that the Greens and Labor were equal partners in the hung Parliament' or, worse for Labor, that the Greens were dictating policy (Priest 2013). The political picture painted by the press conference was problematic but the more destructive issue was the position Labor had taken on carbon pricing in the election, particularly the explicit promise that there would be no carbon tax. On the night of the press conference, the Prime Minister appeared on the ABC flagship current affairs program, The *7:30 Report*, and emphasised that the scheme was technically a 'market-based mechanism to price carbon':

> It has a fixed price period at the start, a price that will be fixed. That is effectively a tax and I'm happy to say the word tax (ABC 2011).

The distinction between an ETS with a fixed price period and a carbon tax was lost on the audience and in the subsequent political debate, and it enabled the Opposition and others to depict the Prime Minister as untrustworthy. She would never fully recover from the loss of authority that came from the debate.

The government and its coterie of supporters were routed in the campaign that followed by the Coalition and the anti-carbon price movement. The absence of detail on what the scheme might look like allowed the opposing forces to make exaggerated claims about the potential impacts, while the MPCCC process limited the capacity of its members to respond. The Coalition and the fossil fuel lobby were also well-resourced and organised, and made good use of advertising and the general media. The only notable vocal support for the policy at this stage came from a collection of environment groups and unions, who launched a pro-carbon price campaign under the slogan 'Say Yes' that featured actors Cate Blanchett and Michael Caton. The ads were savaged in the tabloids, primarily on the grounds that Blanchett and Caton were out of touch with 'ordinary Australians' and that, given their wealth, they should not preach to the less affluent about the need for a new tax (Herald Sun 2011; Hills 2011). Criticism also sprang from environmentalists and others concerned about climate change, with several commentators questioning the unconditional support for a carbon price before the details had been agreed and the campaign's failure to tie the policy closely to the threats posed by climate change or to pressure the government for greater ambition on reducing emissions (Pearse 2011; Spratt & Rice 2011; Ewbank 2011). In essence, the campaign was saying 'yes' to any form of carbon price and any level of ambition, while at the same time focusing on 'green jobs' rather than avoiding climate impacts.

In an attempt to address concerns about the negative impacts of the scheme, strategic leaks started to emerge from the MPCCC. The initial 24 February announcement contained the undertaking that the government would 'use every cent raised to assist families with household bills, help businesses make the transition to a clean energy economy [and] tackle climate change' (Gillard 2011). The leaks were designed to put flesh on the bones of this undertaking so as to reassure the general public that the impacts on household budgets would be minimal.

The government used one other avenue in its attempt to win over the public, the Climate Change Commission. The functions of the Commission were to help raise awareness and understanding about the threats posed by climate change, the steps being taken by other countries to reduce their emissions and the role and impacts of a carbon price. Controversially, the reports and other material released by the Commission often went beyond the presentation of facts, straying into normative issues about the need for immediate and drastic cuts in emissions. Although the positions adopted by the Commission were defensible (some might even call them 'no brainers'), by reaching beyond the factual, it exposed itself to criticism for engaging in political debate, a sentiment captured by Coalition Senator Ian McDonald when he labelled the Commission a 'propaganda unit' (McDonald 2011).

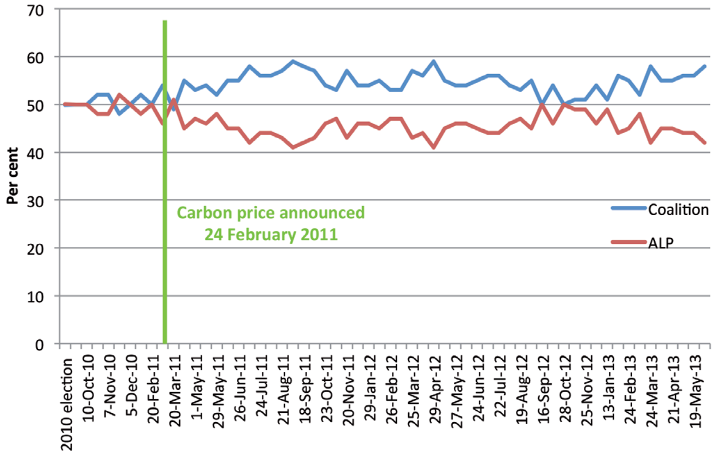
Although the Climate Commission's reports and the strategic leaks from the MPCCC attracted media attention, they failed to blunt the potency of the anti-carbon price campaign. The perception the Prime Minister had lied and that Australia was moving ahead of other comparable nations, and concerns about the impacts on households and business, quickly turned the carbon pricing proposal into electoral poison. As Figure 1 shows, the announcement of the carbon price in February 2011 saw a marked decline in electoral support for the ALP that persisted throughout the MPCCC negotiations.

Within the MPCCC, discussions focussed on the amount of government assistance given to coal-fired generators, the starting price for the scheme, measures to support and promote the renewable energy sector, and the governance arrangements. For its part, the government was keen to ensure the ultimate outcome was as close to the final version of the carbon pollution reduction scheme (CPRS) as possible. The independents, particularly Windsor, wanted to protect rural communities by ensuring the exclusion of transport and agricultural emissions. The Greens' wish list centred on reducing the handouts to coal-fired electricity generators, giving as much assistance as possible to the renewable energy sector, and having a high starting price. The end outcome speaks volumes for who got their way.

The Clean Energy Future package

The Clean Energy Future package, as it was known, had six components: an ETS; carbon taxes for select emission sectors not covered by the ETS; industry compensation and assistance measures; household compensation and assistance measures; support for the renewable energy, natural gas and energy efficiency sectors; and the land sector programs. Details of these are provided in Table 11.1.

Figure 11.1 Federal voting intention, two party preferred, 2010 election until June 2013



Source: Newspoll (2013).

Table 11.1 Main components of the Clean Energy Future package

Component	Description
ETS	*Type*: cap-and-trade ETS with a three-year fixed-price phase-in period. *Fixed price*: $23 per carbon unit rising by 5 per cent in the following two years. *Coverage*: approximately 60 per cent of Australia's emissions. Covers four sectors: stationary energy, industrial processes, non-legacy waste and fugitive emissions from mines (except emissions from decommissioned underground coal mines). Notable exclusions include emissions from agriculture, on-road transport, off-road transport associated with agriculture, fisheries and forestry, and emissions and removals associated with the land sector.

ETS	*Price collars*: for the period from 2016 to 2018 the scheme included a floor price, starting at $15/t CO2-e in 2016 rising by 4 per cent (real) per year until 30 June 2018. The price ceiling was set at $20 above the expected international price in 2016 and would rise by 5 per cent (real) per year. Unlike the price floor, it was not time limited.
Carbon taxes	*Rationale*: ETS excluded 40 per cent of Australia's emissions. To reduce distortions, the package included standard carbon taxes (what the government called 'equivalent carbon prices') on emissions from some uses of transport fuels, fugitive emissions from decommissioned coal mines, and hydrofluorocarbon (HFC), sulfur hexafluoride (SF6) and non-aluminium PFC emissions. *Mechanism*: taxes imposed via the fuel tax system and Ozone *Protection and Synthetic Greenhouse Gas Management Act 1989* (Cth) and related legislation.
Industry compensation and assistanc	*Major components*: Energy Security Package, Jobs and Competitiveness Program, Clean Technology Program and the additional assistance programs. *Energy Security Package*: primarily aimed at compensating coal-fired electricity generators. Major components were upfront $1 billion direct transfer for highly emissions-intensive generators in 2011–12, 41.705 million free carbon units per year over the period 2013–14 to 2016–17 (worth a projected $3.3 billion*), subsidised loans to generators to help them purchase carbon units and refinance debt and an undertaking to 'seek to negotiate the closure of around 2000 megawatts of highly polluting electricity generation capacity by 2020 to reduce pollution and facilitate a smooth energy market transition' (Australian Government 2011, p. vii)

Industry compensation and assistance	*Jobs and Competitiveness Program*: intended to shield EITE industries from loss of competitiveness associated with carbon price. EITE facilities receive free carbon units at one of two initial rates, 94.5 per cent or 66 per cent, depending on emissions-intensiveness. Rates decline by 1.3% per annum to provide incentive for innovation. LNG facilities receive special treatment via guarantee that their 'effective rate of assistance' will be a minimum of 50 per cent. Estimated that EITE facilities will receive in the order of 1 billion units in first decade of scheme's operation (worth $30 billion (nominal)). *Clean Technology Program*: designed to assist manufacturers who are ineligible under the Jobs and Competitiveness Program. Grant program worth $1.2 billion over seven years with three sub-programs: (a) $800 million Clean Technology Investment Program to support investment in new equipment and low-pollution technologies; (b) $200 million Clean Technology Innovation Program to support investment in renewable energy, low-pollution technology and energy efficiency; and (c) $200 million Clean Technology Food and Foundries Investment Program that provides grants to businesses in the metal forging and foundry and food processing sectors. *Additional assistance programs*: the government added three additional industry assistance programs that were not part of the MPCCC agreement, the Steel Transformation Plan ($300 million over five years), Coal Sector Jobs Package ($1.3 billion over six years) and the Coal Mining Abatement Technology Support Package ($70 million over six years).

Household and community compensation and assistance	*Major components*: transfer payments to shield households from impacts of higher energy prices, the Low Carbon Communities program and $200 million (over seven years) for regional structural adjustment assistance. *Transfer payments*: involved a practical application of the 'double dividend hypothesis', whereby an environmental tax (or price) is imposed to improve efficiency and it simultaneously pays for the removal of other inefficient taxes. The transfer payments made through a combination of pre-existing mechanisms, including the pension, veteran, age care and family tax benefit systems. The tax reform consisted of an increase in the tax free threshold from $5,500 to $18,200 in 2012, and then to $19,400 in 2015, and accompanying adjustments to the Low Income Tax Offset. Net impact was that people could earn approximately $20,500 before paying any net tax. *Low Carbon Communities program*: grant program worth $330 million over six years, $250 million of which was provided through the Clean Energy Package. Two components of the program, worth $130 million, were targeted at low-income households. The remainder was intended to be used for grants to local councils and community groups to help them undertake energy efficient upgrades. *Regional structural adjustment assistance*: $200 million for regions strongly affected by the carbon price to be delivered through a combination of existing and new programs.
Renewable energy, natural gas and energy efficiency assistance	*Major components*: Clean Energy Finance Corporation (CEFC), Australian Renewable Energy Agency (ARENA), and the Clean Technology Innovation Program.

Renewable energy, natural gas and energy efficiency assistance	*CEFC*: \$10 billion over five years to establish a new financial corporation to 'invest in the commercialisation and deployment of renewable energy and enabling technologies, energy efficiency and low-emissions technologies'. The investments would be a combination of commercial and concessional loans, loan guarantees and equity, and would cover a range of technologies (renewables, energy efficiency and gas). *ARENA*: new statutory agency created to administer \$3.2 billion in existing renewable energy assistance programs. *Clean Technology Innovation Program*: part of the Clean Technology Program (see above).
Land sector programs	*Major components*: Carbon Farming Initiative (CFI), Biodiversity Fund, Carbon Farming Futures Fund and CFI Non-Kyoto Carbon Fund. *CFI*: voluntary baseline-and-credit offset scheme for the agriculture, legacy waste and land sector activities. Credits from the offset projects can be sold into domestic (i.e. liable entities in the ETS) and international compliance markets, and voluntary markets. *The Biodiversity Fund*: standard grant program to support on-ground works and research that generate public benefit environmental outcomes (worth \$946 million over six years). *Carbon Farming Futures Fund*: \$429 million (over six years) grant program to support farm-based abatement activities and research. *CFI Non-Kyoto Carbon Fund*: \$250 million fund (over six years) to purchase credits generated under the CFI that cannot be used to meet Australia's mitigation targets under the Kyoto Protocol.

* Based on 2013 Treasury carbon price forecasts (Australian Government 2013a). All estimates of value of assistance are in nominal dollars.

Source: Australian Government (2011).

What is most striking about the package is the extent of similarities with the CPRS. It appears that, while the non-government members of the MPCCC were able to force a carbon price upon the Labor government, they had minimal impact on its design. Traces of their influence are confined to seven main areas.

First, the fixed-price phase-in period, which was a product of disagreement between the government and Greens over mitigation targets. The government wanted to retain its unilateral undertaking to reduce Australia's emissions by five per cent below 2000 levels by 2020, with the option to increase the target if other countries showed an equivalent level of ambition. The Greens wanted a higher unilateral target (a minimum of 25 per cent by 2020). The solution to the impasse was to delay the decision on targets and caps and, in the meantime, commence the scheme with a moderate fixed price. The Greens also insisted that a new statutory agency, the Climate Change Authority, be created to advise on target and cap decisions and provide 'independent' advice on policy measures.

Second, the minimum and maximum carbon prices (known as price collars). Economic theory urges a simple ETS design with no restrictions on the price of carbon units and the broadest possible coverage; the rationale being that, left to its own devices, the invisible hand of the market will realise the cheapest sources of abatement. Politics placed this out of reach. The Greens were concerned about low prices undermining the incentive for new investment in renewable energy. The government and industry groups were concerned about the costs associated with high prices. The result was a three-year price floor to placate the Greens and the retention of the indefinite price ceiling from the CPRS.

Third, the treatment of transport emissions associated with heavy trucks and agriculture, fisheries and forestry. Under the CPRS, the government's agreed position with the Coalition was that transport emissions associated with agriculture, fisheries and forestry would be exempt from the carbon price for at least three years, at which time their treatment would be reviewed, and heavy on-road transport emissions would be exempt for one year (Australian Government 2008, 2009, 2010). Pressure from the independents in the MPCCC, particularly Windsor, forced changes. Transport emissions from agriculture, fisheries and forestry were permanently excluded from the reach of the carbon price. The parties to the MPCCC could not agree on how to treat heavy on-road transport emissions but the government announced, separate to the MPCCC agreement, that it would exclude them for two years then seek to impose a carbon price (Australian Government 2011).

Fourth, the ‘contracts for closure’ program. Throughout the CPRS and MPCCC processes, the Greens had strongly opposed the provision of compensation to coal-fired generators. The agreed compensation package was effectively the same as was negotiated between the government and opposition in the CPRS process, only the generators won the additional concession of government-subsidised loans. All the Greens were able to wrangle was the undertaking to seek to negotiate the closure of 2000 MW of generation capacity. This was opposed by the government and elements of the bureaucracy on the grounds it was unnecessary and counterproductive. The national target and emission cap under the ETS meant closing coal-fired generators would not (and could not) reduce emissions. At the same time, ‘direct actions’ like contracts for closure contradict the underlying logic supporting an ETS. Put simply, paying generators to shut down increases abatement costs by interfering with the operation of the market, while draining the public purse of scarce funds. In the end, the government was forced to give ground to satisfy the Greens.

Fifthly, reviews of the Jobs and Competitiveness Program by the Productivity Commission. The assistance for emissions-intensive trade-exposed (EITE) industries, through the Jobs and Competitiveness Program, was largely the same as that contained in the CPRS. Although all parties to the MPCCC agreed that there was a need to provide some protection for trade-exposed industries, the end package was excessive (in the scheme’s first year, when104 million carbon units were issued under the program worth $2.4 billion (nominal)). In this instance, and in contradiction to their approach to contracts for closure, the Greens and independents adopted the economically pure position of wanting to minimise free permits to limit the distortions to the carbon market. The government was happy to give excessive protection in order to pacify the EITE lobby. The compromise reached between the parties was that the program would be reviewed by the Productivity Commission three times in the scheme’s first six years and on a rolling basis thereafter.

Sixth, the Clean Energy Finance Corporation (CEFC). Possibly the greatest 'win' for the Greens in the MPCCC package was the CEFC. Modelled on the United Kingdom's Green Investment Bank, the CEFC was intended to overcome a claimed 'market failure', namely, the relatively high price of capital for many zero- and low-emission investments. By providing subsidised loans, the CEFC was intended to overcome this failure and thereby 'encourage jobs (sic) creation in renewable energy and industries with low greenhouse gas emissions, driving the transition to a clean economy' (Australian Greens 2011). Like many other parts of the package, the CEFC was inconsistent with the market-based logic of carbon pricing. It could not reduce emissions below the national targets and, by interfering with the market, was likely to increase costs. Further, because the Renewable Energy Target (RET) scheme, which prescribes an amount of renewable energy that must be supplied each year through to 2020, the renewable energy projects supported by the CEFC could not increase Australia's total renewable energy output. In effect, the CEFC was designed to provide subsidies to energy companies to help them comply with their existing statutory RET obligations. There are solutions to overcome this issue—raise the RET target or excise CEFC funded projects from the RET—but the Greens and independents were either unwilling or unable to persuade the government to adopt them.

Finally, the government agreed to establish a range of grant programs to satisfy the interests of the constituents of the Greens and independents, most notably the Biodiversity Fund, Carbon Farming Futures Fund and the $200 million for regional structural adjustment assistance. The government may have supported these programs to varying degrees but it seems reasonable to presume that their size and scope was influenced by the non-government MPCCC members.

Changes to the Initial Agreement

Despite the time and effort that went into negotiating the Clean Energy Future package (or perhaps because of it), the Gillard Government set about announcing significant changes almost immediately after it was passed into law.

Linking with the European emissions trading scheme and abandonment of the floor price

On 28 August 2012, less than two months after the commencement of the carbon price, Minister Combet announced that Australia would link its ETS with the European scheme from 2015 and abolish the floor price. The initial linking proposal involved 'one-way' trading between 2016 and 2018 (Australian polluters could meet their liabilities using imported European Union Allowances but Australian carbon units could not be exported) and full two-way linking taking effect from 1 July 2018. There would also be a 12.5 per cent cap on the use of eligible Kyoto units (certified emission reductions, emission reduction units and removal units) to meet scheme liabilities.

The government sought to present these changes as a way of lowering abatement and compliance costs. For example, in announcing the changes, Minister Combet stated that 'it's a good move for our economy and a very good move for our environment' (ABC 2012) and reiterated that 'carbon markets are the prime vehicle for tackling climate change and the most efficient means of achieving emissions reductions' (Combet & Hedegaard 2012). He also claimed that 'the arrangements would provide flexibility to businesses with operations in both Australia and Europe, which could reduce compliance costs' (Combet & Hedegaard 2012), a line that was consistent with the Prime Minister's assertion that it would 'limit market volatility and reduce risk for businesses' (ABC 2012).

While the rhetoric was sufficient to satisfy the media's needs, the rationale for linking the two schemes and abandoning the floor price was never fully explained. The reason is that the changes were driven mainly by politics. A significant drop in the European carbon price over 2011 and 2012 triggered protests from the fossil fuel lobby that, because of the price floor, they would be paying more than European polluters when the scheme converted into a standard emissions trading scheme on 1 July 2015 (European Energy Exchange 2013). The low European price was also being exploited by the Coalition in its campaign to scrap the scheme. The removal of the floor price and linking of the schemes was mainly a response to these pressures. No doubt the government also believed that linking with Europe would help create the perception that its scheme was part of a broader global movement toward carbon pricing; something that could assist with its domestic political problems and help in international climate negotiations. Another possible motivation was that the government may have been trying to create additional obstacles to the scheme's repeal if it lost the 2013 election, what came to be known as 'Abbott-proofing'.

Although there was a political logic to the changes they added to the confused policy structure. The floor price was introduced to prevent the carbon price falling below an arbitrary level to provide certainty for investors but the government then used a low European price to justify abandoning the floor price. The government insisted that it wanted to reduce emissions at least cost but then, in order to link with the European emissions trading scheme, it agreed to cap the use of eligible Kyoto units, thereby potentially significantly increasing abatement costs. The government claimed the package would drive a transition to a low carbon economy and that 'taking action sooner rather than later' would lower the costs of these changes but, by removing the price floor and allowing the import of cheap permits from Europe and elsewhere, it deliberately slowed the rate of domestic transformation (Australian Government 2011: ix). The government said it wanted to provide certainty and that, by linking with the European scheme, it would reduce market volatility when, in fact, it would do the opposite; linking ensures the Australian carbon price will be determined by internal European politics and the AUD/EUR exchange rate, both of which are volatile (and certainly more volatile than a carbon price that is constrained within the bounds set by statutory floor and ceiling prices). Carbon pricing had always been sold to the Australian public on the basis that it would be revenue neutral (Australian Government 2008) but the original Clean Energy Future package was not and, worst still, the compensation and spending components of the package were based on highly optimistic carbon price forecasts, which ensured that, when the government opted to link with the European scheme, it was left with a potentially multi-billion dollar hole in the budget. The initial package was compromised. As time wore on and the political pressures intensified, it drifted further and further from its initial ideals and logic.

Abandonment of contracts for closure

On 5 September 2012, Resources Minister Martin Ferguson announced that the government was abandoning the contracts for closure program. The idea of contracts for closure was based on the questionable premise that owners of brown coal-fired power stations would be eager to sell their assets to the government as a high and growing carbon price would render such assets unprofitable. In reality, the owners of the generators were unwilling to sell at a discount and were in no hurry to exit the industry because they doubted that carbon prices would increase at the rates forecast by Treasury. Effectively, they were betting that the Australian government and the broader international community would continue to delay decisive action on climate change. This is likely to have been one of the primary drivers behind the decision to terminate the program, although several other factors were at play, most notably a lack of commitment on behalf of the government, particularly Minister Ferguson, and the political need to address the hole in the budget left by the abandonment of the floor price. Another contributing issue is likely to have been the fact that the decision to drop the floor price would have increased the fair market value of the power stations and, in doing so, transformed an already difficult task into one that was politically impossible.

Cuts to climate programs in the 2013 budget

The August and September 2012 changes had swept away two of the key concessions won by the Greens and Independents in the MPCCC process. In the May 2013 budget, the government walked away from further aspects of the agreement. Lumbering under the weight of its promise to bring the budget back into surplus, and facing falls in company and mining tax revenues, the government went looking for savings. It found them in several Clean Energy Future and other related climate and energy programs. The two biggest casualties from the MPCCC-agreed package were the Biodiversity Fund, which lost $258 million in cuts and 'rephasing' (a euphemism for deferral beyond the forward estimates) (Australian Government 2013b), and the CFI Non-Kyoto Carbon Fund, which was terminated altogether (saving $235 million over the forward estimates) on the premise that it was no longer necessary (Australian Government 2013c). Beyond the MPCCC-agreed programs, there were several other losers, including ARENA ($370 million in deferred allocations) and the Low Carbon Communities program (down $98 million) (Australian Government 2013d). Linking with Europe and the resulting expectation of lower carbon prices also created space for the government to reduce the industry assistance packages; the Coal Sector Jobs Package and Coal

Mining Abatement Technology Support Package were cut by $274 million and $29 million respectively (Australian Government 2013d), and the Clean Technology Program lost $58 million over the forward estimate period through a funding 'reprofile' (another euphemism for the deferral of spending) (Australian Government 2013c). The other notable cuts made in the 2013 budget were to the 'clean coal' programs. Previously, the Rudd and Gillard governments had been leading proponents of clean coal, including carbon capture and storage (CCS), as a central plank in the strategy to address climate change and had devoted millions to help advance these technologies. Since clean coal began to attract widespread policy attention in the mid-2000s, progress on RD&D has been slow and several high profile projects have failed, leading to questions about its long-term viability. These difficulties made clean coal programs a target in the government's search for savings. The funding agreement with the Global CCS Institute was terminated (saving $45 million), the National Low Emissions Coal Initiative lost $88 million and the CCS Flagships program was cut by $500 million (Australian Government 2013d).

Rudd's pre-election carbon changes

After assuming the prime ministership again, Kevin Rudd attempted to neutralise the electoral deficits left by his predecessor. Chief amongst these was the carbon pricing scheme and the perception that voters had been lied to about the introduction of a 'carbon tax'. To deal with this, on 16 July, twenty days after assuming office, Rudd announced that the scheme would move to the floating price phase from 1 July 2014, 12 months earlier than scheduled. This shift was forecast to cost $3.8 billion over the four-year forward estimate period and, to address this, the government also announced $3.9 billion in savings measures (Rudd et al 2013a; 2013b). As with the 2013 budget cuts, a significant proportion of the savings came from MPCCC-agreed programs; the Biodiversity Fund lost a further $213 million, the Carbon Farming Futures program was cut by $143 million, and the government announced it would restructure the Energy Security Fund (the free permits to coal-fired electricity generators) and thereby save $770 million. The Coal Sector Jobs Package also lost $186 million in 2014–15 to reflect the lower carbon price and the government cut or 'rephased' $362 million from the Clean Technology Investment program and $224 million from the Carbon Capture and Storage flagship.

Given the political circumstances and the reality that the carbon price was likely to fall substantially in 2015–16, the move by the newly installed Prime Minister made political and economic sense. The change would make no difference to the environmental outcomes, which are determined by the national target, and it allowed the government to claim that most households would now be significantly better off under the carbon pricing scheme. In keeping with this, Treasurer Bowen, immediately trumpeted that 'Australian households will benefit from a reduction in the cost of living worth around $380 to an average household next financial year after the nation moves to a floating price on carbon emissions from July 1' (Rudd et al 2013b). Moving the start date of the standard cap-and-trade emissions trading scheme forward one year also provided a shield against the 'carbon tax lie'; conveniently, most commentators did not know, or had forgotten, that the package would still include carbon taxes (or equivalent carbon prices) on a range of emissions that were not included in the ETS.

What can the Clean Energy Future package tell us about building sustainable public interest reforms?

The central conclusions on what makes major policy reforms possible and enduring is that, while it is difficult to generalise and near impossible to make accurate predictions about reform processes, there are certain factors that are conducive to reform, including the presence of a strong and visionary leader, the government having a mandate for reform and consensus amongst key designers on objectives (Arnold 1990; Alesina & Drazen 1991; Williamson 1994; Hood 1994; Rodrik 1996; Streeck & Thelen 2005; Gerber & Patashnik 2006; Patashnik 2008; Tompson & Dang 2010). These factors were missing in this case. The government lacked a mandate for reform and, worse, introducing the carbon price involved reneging on an election promise. There was no strong, visionary leader to push the case for reform. Prime Minister Gillard showed limited interest in climate change and, because of a combination of the circumstances in which she took office, the minority government and personal traits and decisions she did not have the public authority to drive the reforms. Minister Combet was in a better position to perform these functions but he seemed to suffer from a lack of commitment and support. His union heritage and apparent preference for interventionist policies also made it difficult for him to convincingly deliver the government's messages about 'least-cost abatement' and 'market mechanisms'. The same can be said of the government more broadly; it struggled to sell the package, either because it was not commitment to it or because it thought that talking about it would draw attention to an area of apparent political weakness.

Another vital missing element was consensus on objectives. Conflicting ideologies, within the government and MPCCC, and conflicting political imperatives, resulted in a package defined by its contradictions. Most obviously, it was supposed to lead to a rapid 'transformation of the economy towards a clean energy future', while simultaneously reducing emissions at least cost (Australian Government 2011: xii). The two are mutually exclusive; you can have one or the other, not both, a fact many pubic supporters of the scheme never grasped.

Although several of the elements were absent, the Clean Energy Future package and associated policy framework incorporated a number of the standard prescriptions from the literature for reform success, including:

- generous compensation and assistance for households, polluters and industry that may have helped neutralise opposition;
- extensive subsidies for the renewable energy, energy efficiency and natural gas sectors that have the potential to create political constituencies in favour of the reforms;
- the Climate Change Commission who attempted to lower information barriers and link reform proposals to salient issues to help attract public support;
- the Climate Change Authority and Productivity Commission who could potentially alter the decision making dynamic so as to skew the process in favour of 'better' environmental and economic outcomes; and
- an attempt to 'change the game' by linking with Europe's ETS (Williamson 1994; Hood 1994; Rodrik 1996; Streeck & Thelen 2005; Gerber & Patashnik 2006; Patashnik 2008; Tompson & Dang 2010; Drew 2010).

In addition to these formal parts of the policy framework, the government used several of the large environment groups, particularly the Climate Institute, Australian Conservation Foundation and the Australian Youth Climate Coalition, to deliver key public messages about the impacts of the carbon price on economic growth, household budgets and employment (and subsequently gave them government grants that, in a highly charged political environment, looked suspiciously like payoffs) (Maher and Vasek 2011; SSCSNT 2011).

The danger with the prescribed reform strategies from the literature is that, in seeking to deal with the barriers to change, they can sacrifice the underlying rationale for the reform (Patashnik 2008; Drew 2010). This is what occurred with the Clean Energy Future package. The cost-effectiveness rationale for carbon pricing was sacrificed in the effort to neutralise opposition (for example, the exemptions, Jobs and Competitiveness Program, Coal Mining Abatement Technology Support Package and Clean Technology Program) and provide support to the renewable energy and gas sectors. Not unlike what has occurred with the European ETS, the design ensured that the supposedly 'complementary' programs would do most of the abatement, leaving the carbon price with little to do (Ellerman et al 2010; Martin et al 2012; Laing et al 2013).

This has three adverse consequences. First, it increases abatement costs. Even if the ETS endures, Australia will not reduce emissions at anywhere near least cost, at least over the medium-term, because of the extent of the interventions in the carbon market. Secondly, it undermines public faith in carbon pricing, with many now believing that it is little more than paper shuffling. Thirdly, it reinforces the political power of polluters and has created a precedent for other industries to draw on in their attempts to win governmental favours and resist reforms.

On top of these issues, the strategies employed by the parties to the MPCCC to win support for the package cut across pre-existing political norms. Within the policy and political science literature surrounding major policy changes, there is element of 'whatever it takes' about the advice offered to reformers. Any strategy, short of a coup, is justified if it helps ensure the passage and sustainability of the reform (Patashnik 2008; Ellwood & Patashnik 1993; Rodrik 1996; Evans 2004; Tompson & Dang 2010). Many are likely to balk at this moral relativism and assert that there are political norms that should set the boundaries for reform strategies. In this instance, the government and MPCCC felt it was appropriate to establish what was described as an 'independent commission' to disseminate information supportive of the case for reform, leading to claims it was a propaganda unit. The government also gave grants to environment groups who were publicly supportive of the reforms in questionable circumstances.

A further issue is that the Climate Change Authority does not fit easily with the norms surrounding statutory authorities. Its advisory functions overlap those of government departments, meaning two or more government agencies will be providing advice on the same issues. The issues on which the Authority provides advice are not 'broader than the interests represented by a partisan government' (Wettenhall 2005: 50) nor are they confined within the bounds of the members' expertise; they are normative and require the weighing competing interests and values. This is a political function that, consistent with the principle of responsible government, is arguably best left within the standard Ministerial-Department framework (Carroll 2013). By establishing the Authority, the government potentially clouded government decisionmaking processes and the chain of responsibility for key climate change decisions, and arguably mislead the public by creating the false impression that decisions about national emission reduction targets are in some way objective or the exclusive domain of 'experts'.

Conclusion

Whether the price paid for getting the reform through was too great is a value judgment. In the Gillard Government's defence, pathways were established for some of the distortionary design features to be jettisoned over time, including the one-off nature of the compensation to coal-fired electricity generators and assistance to polluters under the Clean Technology Program, and the statutory process for gradually winding back of the assistance under the Jobs and Competitiveness Program. While these features were positive, many distortionary aspects of the reforms were intended to remain in place for at least a decade, sometimes more. Most alarmingly, after six years in office, Labor failed to clearly articulate what the object of its climate policy was. Did it want to reduce emissions at least cost, rapidly de-carbonisation the economy or use climate policy for old-fashion industry policy purposes? In the end, questions about the long-term benefits and costs of the Clean Energy Future package are likely to be moot. At the time of writing, the new Abbott Government was planning the repeal of the ETS and termination of most other major parts of the package. Australia's 17 year-long battle with carbon pricing is set to continue.

Having spent six years of political capital and billions of dollars on both information and compensation, the Rudd and Gillard Governments have presided over a period in which support for climate action has declined and the cohesion of those opposed to tackling climate change has been enhanced. Effective reformers use the political, rhetorical, legislative and financial benefits of incumbency to set the agenda in ways that divide their opponents and unite the supporters they need. Perhaps the real failure of the Clean Energy Future package is the way that it has divided supporters of climate action between those who want least cost abatement, those who want to rapidly transition the energy system and those who want to create jobs for displaced manufacturing workers while uniting disparate opponents of tackling climate change around the symbolic enemy of a carbon price.

Notes

The changes to the Energy Security Fund involved cutting the 2016-17 free permit allocation and reallocating the 2015-16 allocation to 2014-15.

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