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What Price Carbon? Industry's Hand in Rise And Fall of Australia's Climate Change Law

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Aug. 25 — When Australia's Prime Minister Tony Abbott last month steered through Parliament repeal of the country's carbon pricing mechanism, he was cheered on by business associations representing major international and domestic companies.

They had campaigned hard for repeal of the scheme, which required about 360 large emitters to pay a fixed price for their emissions, with the intent of moving to a floating price by mid-2015.

The scheme's supporters, including influential economy professor Ross Garnaut, say leading business associations demonstrated unprecedented partisanship and helped unleash a form of "money politics" not seen before in Australia.

Garnaut warns that the repercussions have damaged the credibility of the associations themselves and generally made much harder the task of instituting important but complex national reforms in Australia.

Initial Business Support

The country's long and bitter struggle to formulate carbon policy saw a proposed trading-based Carbon Pollution Reduction Scheme (CPRS) fail in the Senate in late 2009, followed by implementation in mid-2012 of the carbon price mechanism, and then its demise only two years later, making Australia the first developed nation to repeal a price-on-carbon law.

Early on, many business leaders offered vocal, forceful backing for incorporating into Australian law the concept that large emitters pay a carbon price. Support came from the Business Council of Australia (BCA), which represents the country's largest companies. And it even came from a few businesses with large coal mining interests, which are represented by the Minerals Council of Australia.

In April 2008, the BCA told a Labor Government-commissioned climate change review led by Garnaut that a well-designed cap-and-trade scheme supported by complementary measures would be the most cost-effective way to reduce emissions in Australia, which has among the world's highest per capita greenhouse gas emissions.

Economic growth requires businesses to internalize environmental costs and risks, “most notably with regard to greenhouse gas emissions and the risks associated with climate change,” the BCA said at the time.

Two years later, the chief executive officer at the time of global mining giant BHP Billiton, Marius Kloppers, gave an influential speech in which he said, “carbon emissions need to have a cost impact.”

Changing Circumstances

But the Minerals Council quickly became a vociferous critic of the former Labor Government's pricing plans. And the BCA, along with most other business groups in late 2009, had urged Parliament to pass the CPRS trading scheme, soon began warning of serious risks posed by the Labor government's second attempt at carbon pricing.

According to BCA Chief Executive Officer Jennifer Westacott, business didn't alter its views during those long years of tortuous debate. Rather, she said, the quality of the policy deteriorated. “The BCA did not change; it was the policy which changed,” said Westacott, who until 2011 headed KPMG's Australian sustainability, climate change and water practice.

“The Business Council worked closely with the former [Prime Minister Kevin] Rudd Labor Government on the design of the original CPRS,” she told Bloomberg BNA. “In 2010, the policy was comprehensively changed following a power-sharing deal between the former [Prime Minister Julia] Gillard government and the Greens, which resulted in one of the world's highest carbon prices, fixed for three years, transitioning to a floating price with none of the safeguards that industry needed to remain competitive.”

Turnbull Turning Point?

But others, including Garnaut, say the carbon price mechanism was effective and fair, and interpret the tactics of business groups very differently. From about 2007 to late 2009, “the BCA and the commanding heights of Australian business were broadly in support of an emissions trading scheme,” he told Bloomberg BNA.

Garnaut links the BCA's change of heart in large part to the ouster in December 2009 of Malcolm Turnbull, the pro-emissions-trading leader of the Liberal-National Party Coalition that was then in opposition and is now in power.

Tony Abbott's one-vote victory over Turnbull in a ballot for party leadership not only led to the Senate defeat of Labor's initial CPRS emissions trading proposal, it also emboldened opponents of carbon pricing within the BCA and other parts of the business community, Garnaut said.

Abbott's rise to leadership of the coalition “encouraged those elements in the business community whose interests in the short term stood to be damaged by carbon pricing,” Garnaut said. “And the BCA behaved as business leaders often do: They looked after their squeaky wheels.”

He added, “The squeaky wheels had been silenced by the weight of political and business opinion before the change of leadership, but they received a new validation with the defeat of Malcolm Turnbull.”

‘Long and Sorry Slide.'

John Connor, chief executive officer of the Climate Institute think-tank and advocacy group, holds a similar view. The BCA has “had a long and sorry slide to being shabby propagandists for inaction and delay,” he told Bloomberg BNA. “The tragedy is that we are losing a simple and effective policy covering 60 percent of the economy with an [emissions] limit.”

Connor said there was “clear targeting” to shift the BCA's position from those of its own members that were opposed to action. “I think there was a revolt from within.” Garnaut and Connor both cite other factors as well, including changes of business leadership and the entry of new companies into Australia.

For example, Connor laments the departure of a former chief executive officer of the Australian Coal Association, Mark O'Neil, who in 2006 steered the introduction of a voluntary Coal21 program, in which coal mining companies levied their own production to help fund emissions abatement technologies.

‘Promoting the Use of Coal.'

The subsequent entry into Australia of “aggressive players” like global coal mining companies Glencore and Peabody Energy, and the growing influence of “a far more combative” leadership within the Minerals Council, changed the dynamic, said Connor.

Coal mining companies in 2013 changed the objectives of the body administering the Coal21 fund to allow the money also to be used for “promoting the use of coal,” both in Australia, where coal fuels most of the nation's power stations, and internationally.

With coal prices slumping, they also quietly suspended contributions to Coal21 altogether, although Minerals Council Chief Executive Officer Brendan Pearson says money in the fund is still supporting abatement technologies.

Mining companies also were major contributors to an expensive 2011 TV, radio and print advertising blitz featuring worried mothers, pensioners and small-business people. The ads hinted that electricity prices would nearly double after the introduction of carbon pricing, although such a consequence hadn't been widely predicted and never occurred.

‘Inferior' to EU ETS

What was the impact of such campaigns and increasingly vociferous criticism by the Minerals Council and BCA of the carbon pricing mechanism? The Minerals Council's Pearson calls it “impossible to assess,” claiming instead that a key factor was poor scheme design, compared to the landmark European Union cap-and-trade system that covers far more entities, but which initially allocated almost all permits for free and doesn't encompass coal mining companies.

“Arguably the most influential elements of the public debate were the fact that Australia's carbon tax was the world's biggest, the tax take per capita was the world's highest, the transition period for industry to adjust was the world's shortest, the level of assistance to trade-exposed industry was the weakest in the world and the safeguards for jobs in manufacturing were inferior to those in the EU ETS,” Pearson said.

The BCA's Westacott is equally reserved about her organization's role. “We will leave commentary about the relative influence of the Business Council, compared with other groups and individuals to others,” she said.

Tea Party Influence?

But Garnaut has no doubt that campaigning by the BCA and the Minerals Council had a massive impact. “I think it was crucial,” he said.

It was given further impetus by the hostility of Rupert Murdoch's News Corp. to the Labor Government's carbon pricing efforts, and by orchestrated campaigning from groups influenced by U.S. Tea Party rhetoric and tactics, Garnaut said.

In combination, that created “an appearance of very strong antipathy to carbon pricing” that didn't actually exist among the Australian people, he said.

Garnaut and Connor also criticized the BCA and the Minerals Council for not voicing substantive criticism about what is poised to replace the carbon price: the Abbott government's Direct Action plan.

Direct Action, which would allow businesses and others to bid for government money for projects that cut emissions instead of charging large emitters, was only vaguely outlined during the last election campaign and still has not undergone economic modeling by the country's Treasury.

“The business community became partisan in Australian politics in a way it had never been before,” Garnaut said of its reticence on Direct Action. “There was no pretense at objectivity. I can't remember another case of such unvarnished partisanship. Unvarnished to the extent that bad policy attracted no criticism.”

It's not a critique that the BCA's Westacott accepts. “The Business Council is apolitical and approaches its policy advocacy accordingly,” she said, adding that it was up to Australia's government leaders to subject their policies to scrutiny. The carbon price mechanism “was never subjected to appropriate and transparent processes,” Westacott added. “It was presented to the community as a done deal.”

‘Opportunity ... for the Long Term.'

Whether and to what extent the demise of the carbon price impedes Australia's efforts to cut emissions remains to be seen, partly because the Abbott government's proposed replacement has yet to be fully formulated.

“Once the detail of the operation of the ‘safeguard mechanism' aspect of Direct Action is known later this year, it will be possible to make an assessment of how the policy will work,” Westacott said. Nevertheless, she argues the country is now better positioned to develop good policy. “Australia now has an opportunity, following repeal of the carbon tax, to get the design of policies to reduce greenhouse gas emissions right for the long term,” she said.

Similarly, the Minerals Council's Pearson considers that Australia had previously been moving too far ahead of the pack, globally, and he is unfazed by critics who say Direct Action will fail because it lacks a broad-based price and robust penalties.

Will Business ‘Rue the Day?'

“I suspect that there are few ‘critics' who will argue that unilateral action by Australia will be effective in addressing climate change,” Pearson said. “Recent analysis by the World Bank and the International Energy Agency concluded that just 8 percent of global emissions are covered by carbon pricing schemes,” he said (a figure that now stands at 12 percent and is “steadily increasing,” according to a May 2014 World Bank analysis).

Connor and Garnaut both argue that the demise of carbon pricing has made Australia's efforts to cut emissions much harder, and they say business will rapidly come to regret its part in the program's downfall.

“Business will rue the day that they played such hardball,” said Connor, adding the mechanism had proved during its short, two-year life to be very good policy. “I am confident that businesses that think they have bought themselves a carbon holiday will be in for a rude shock.” Environmental groups now have no alternative but to ramp up their campaigning and lobby for “a raft of regulations,” he said.

Institutional investors also are becoming increasingly more active, and loud complaints from the Minerals Council about investor probes into “unburnable carbon” show its membership is susceptible to pressure on the issue, Connor added.

Waning Corporate Influence?

The actions of large companies and the associations representing them will have much broader ramifications, said Garnaut, adding that businesses have probably sown the seeds for reduced influence in the carbon policy debate. Large companies “stepped over normal lines of involvement of big money in a democratic political process,” he said.

Some will see that as a legitimization of “money politics in what regrettably is the U.S. style.” But Garnaut said the manner of their involvement in the carbon policy debate had prompted widespread unease among many politicians, Australian citizens and business leaders.

“I know that there are a lot of elements of business which are not comfortable about the involvement of business organizations in the Australian political process over the last two years,” he said. “Amongst other things, it has led to an unbridling of self-interest and self-interested pressure on the political process more generally and made it much more difficult for a government seeking to do hard things in the public interest to succeed.”

Garnaut added, “And I think thoughtful leaders of the business community can see that is a problem for stability and good governance in the Australian economy over time.”

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