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CHOOSING THE RIGHT MARKET MECHANISMS FOR ADDRESSING ENVIRONMENTAL PROBLEMS:
Incentives for Action under the Coalition's Direct Action Plan for the Environment and Climate Change

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Introduction

Two years ago I delivered a speech to the Sydney Institute which argued the proposition that:

> "people respond well to simple positive incentives."

Events of the last two years have only strengthened that view. The complexity and failure of the Australian mining and carbon taxes, and the complexity and gaming of the European Emissions Trading Scheme, are examples of policy failure when we lose sight of this message.

Indeed, since the Australian Carbon Tax was announced and introduced, we have seen manufacturing job losses in the aluminium, steel, paper, cement, auto-manufacturing and chemicals sectors. While the Carbon Tax is not responsible for all of these losses, industry has confirmed that the tax has undoubtedly made a bad situation worse by further eroding our competitiveness.

Despite the job losses and pain being felt across many industry sectors as a result of the Carbon Tax, Treasury still predicts that our emissions will climb from 560 million tonnes to 637 million tonnes between 2010 and 2020. In short, jobs down but emissions up.

In recognition of the damage already caused by the Carbon Tax, Prime Minister Rudd is now trying to give the impression that the Carbon Tax will disappear when he transfers it to an emissions trading scheme a year earlier than intended. In reality, instead of dropping the tax, Mr Rudd is simply changing its name. On the Government's own estimates - reconfirmed in its recent Economic Statement and again last week in the PEFO - the floating price will still climb 50 per cent to $38 within five years. So the whole proposal is a con.

Any business now paying the Carbon Tax either directly or indirectly through their operating expenses must know that there is no relief at least until mid-2014 and even then the Government expects the price to go up dramatically over the following five years. That puts Australia at a disadvantage compared with its overseas competitors.

By comparison, over the past two years American productivity and manufacturing have thrived while emissions have dropped. The cause, of course, has been the simple positive incentive of new gas resources unleashed through better technology. Oh, and strangely it was done without a carbon tax.

Against this real world background of two countries heading in different directions, I want to begin with three simple statements:

- We agree with the Government on the science of climate change.
- We agree on the targets to reduce emissions.
- We agree on using markets as the best mechanism.

But we disagree fundamentally on the Carbon Tax. We disagree fundamentally on what is the right market mechanism to tackle climate change. In short, it is a choice between a tax on electricity or market-based incentives for positive action.

So today I want to challenge - and help change - the seemingly received view of some that the only good market is a punitive tax. That the only good market is an electricity tax. That the only good market is a manufacturing tax.

As Europe is discovering through bitter experience and as the US is discovering through happy experience, there is a better way than massive electricity taxes.

I therefore want to argue that the right mechanism for the carbon problem is an abatement market not a taxation market. I want to do this in three stages:

- By directly addressing market theory and the flaws in the Carbon Tax;
- By looking at what the world is actually doing; and, most importantly
- By outlining our simple positive use of the market to purchase the lowest cost abatement.

1. Market Theory and Climate Change

Four years ago, the Danish Director of the Copenhagen Consensus Centre, Bjorn Lomborg, gathered together a panel of Nobel Economic Laureates and tasked them with the job of identifying the most and least cost-effective actions to address climate change. The report began:

> "We have long ago moved on from any mainstream disagreements about the science of global warming. The crucial, relevant conversation today is about the economics of our response."

Lomborg summarised the findings of Nobel Economic Laureates (and climate change believers) Finn Kydland, Thomas Schelling and Vernon Smith thus:

> "One of the most striking characteristics of the expert panel's findings, obviously, is the verdict that short term carbon emission reductions through carbon taxes are a 'poor' response to global warming. It bears pointing out that the expert panel also noted in their findings that cutting carbon through cap and trade would be an even poorer solution."

Let me just summarise. A considered panel of the world's most eminent pure market economists concluded that of 15 different systems for cutting emissions, the three worst, the three least effective, the three most costly per tonne of abatement were variations of the carbon tax or ETS. By comparison, their top solutions were all about smarter technology.

Some of the best economists in the world, therefore, have concluded that the Carbon Tax is one of the worst systems in the world. And when you look at the European and Australian experiences it seems that the economists were right and the enthusiasts were wrong.

In Europe we have seen the extraordinary gyrations of a market which is entirely the child of a political process and which is now entirely subject to that process.

As a result, Stig Schjølset, head of EU carbon analysis for PointCarbon, predicts that between now and 2020:

> **"The EU ETS will not bring about any additional greenhouse gas reductions, so it will be irrelevant in terms of reducing total emissions in Europe."**

There is a simple reason why both the EU and Australian systems fail in their fundamental task of reducing emissions: it is the wrong market mechanism for this particular problem. At its heart, at its very heart, the Carbon Tax is an electricity tax. And because electricity is an essential service, in economic terms it is a highly inelastic good.

One recent international study found that electricity consumption is highly inelastic in both the United States and the EU. The study found that a 10 per cent increase in electricity prices would produce only a 2-2.5 per cent reduction in CO2 emissions from residential electricity consumption. In other words, electricity pricing is a blunt and inefficient mechanism for changing household energy-use behaviour.[1]

In Australia, the NSW Independent Regulator recently found that a 50 per cent price rise over five years from 2005-2009 inclusive resulted in only a 6 per cent decrease in electricity consumption per capita[2].

More recently, the Australian Energy Market Operator found that just one-sixth of the recent change in Australian energy consumption was linked to massive price rises with the vast bulk of the drop in energy demand due to the drop in overseas demand for our goods since late 2008.

Against this background I want to reaffirm the lessons from my own work as an undergraduate 23 years ago. From time to time the ALP will elevate this undergraduate work on heavy metal and chemical pollution to the status of a PhD on climate change: flattering but sadly false on both fronts!

The work I did however do in 1990 examined the way in which different types of market mechanisms could be used to address zinc, cadmium and lead pollution. Where there is a local problem and easy substitution, pricing can play an effective role. The North American

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[1] Ines M. Lima Azevedo, M. Granger Morgan and Lester Lave, *The Electricity Journal,* Jan/Feb 2011, Vol 24, Issue 1.

[2] *Residential Energy and Water use in Sydney, the Blue Mountains and Illawarra - Results from the 2010 Household Survey* Electricity, Gas and Water — Research Report, December 2010, p 39.

experience in sulphur dioxide management and substitution of inputs to reduce acid rain is a clear case in point. But where there is no ready substitution and the costs of switching or mitigating are high, then higher prices just become a tax. And there is nowhere that this is truer than in the most essential of all services, electricity.

A failure to understand this explains why the Carbon Tax so badly fails its own test of reducing emissions.

The one area where there **is** an effect from electricity prices however, is in internationally-exposed manufacturing. Companies such as Boral, Penrice and Amcor have all cited higher energy prices as a reason for dropping Australian jobs. In Penrice's case, instead of producing in Australia they will simply import from the United States, potentially increasing global emissions as a perverse effect.

This brings me to a realistic discussion of the international environment.

2. The Global Climate Challenge: China, India, the US and the EU

Let us then examine what is actually happening internationally, as context is critical for our system.

Climate change **is** a global problem. We therefore have to view our actions in terms of global solutions and global trends.

According to the 3rd Garnaut Paper, **between 2005 and 2020 Chinese emissions will increase from approximately five billion tonnes of CO2 per annum to over 12 billion tonnes of CO2** per annum[3] as hundreds of millions emerge from poverty – and as China increasingly manufactures for the rest of the world.

One reason for this unprecedented increase, therefore, is the massive growth in production of steel and aluminium, as production shifts from Australia and many other countries to China.

If, then, **we design our domestic programs in a vacuum, there is the risk of unintended consequences** such as:

- Leakage of manufacturing to countries with higher emissions profiles; and
- Loss of Australian jobs and investment.

2.1 International Realities

The starting point, then, for any international assessment is the finding of the Productivity Commission that:

> "no country currently imposes an economy wide tax on greenhouse emissions or has in place an economy-wide ETS[4]."

[3] Garnaut Climate Change Review – Update Paper 3, "Global Emissions Trends," 11 February 2011, p. 29.
[4] *Carbon Emission Policies in Key Economies*, Productivity Commission Research Report, May 2011, p. 50.

Not China, not India, not the USA, not even the EU.

China and India

In spite of the Commission's findings, the Government has at times tried to highlight that China is closing some of its smaller coal fired power stations. That's true. The missing part of the sentence though should have been "and replacing them with larger stations as part of the fastest growth in emissions and coal consumption in human history."

Let me take the example of Xilin Gol, which is just one of 12 prefectures within Inner Mongolia which is itself one of 33 provinces across China.

The China Daily reported that during the 12th Five Year plan from 2011-2015, this one prefecture of just over a million people:

> "Plans to build 24 large scale coal mines and eight clusters of coal-fired power plants[5]."

It is not surprising, then, that Chinese coal consumption will increase from 1.4 billion tonnes in 2002 to approximately four billion tonnes in 2015. And only last year, Minister Wu Yin indicated that Chinese coal consumption would continue to grow to 7.5 billion tonnes a year by 2030.

Similarly, Indian emissions are also growing at a dramatic pace. India now accounts for approximately 5 per cent of global emissions and this figure is rising commensurately with its economic growth. Projecting forward, the ANU's Frank Jotzo has suggested that Indian emissions from fuel combustion alone will rise by between 75 per cent and 94 per cent from 2005 to 2020.

Unfortunately, the Government has also attempted to distort what is happening in India with the statement that India is already taking "national action" on pricing carbon through a "clean energy tax on coal." The Indian coal tax is $1 per tonne. By comparison the State royalty on Queensland coking coal is $20 per tonne right here in Australia.

China is taking steps to reduce its emissions intensity, overwhelmingly through clean air and energy efficiency standards. And this should be welcomed. As to the possibility of any type of future trading scheme, we will judge anything as and when it may come into being, but my view is that the Productivity Commission will still be right about there being no comparable system and impost to that in Australia.

The United States, Canada, Japan and South Korea

Turning from India and China (which is already the largest greenhouse emitter in the world) to the United States, there is virtually no prospect that the US will adopt a Cap and Trade system at any point in the period to 2020.

[5] *China Daily*, "China's Xilin Gol League plans power boost", 20 October 2010.

Senior Republicans such as Jim Sensenbrenner have declared that: "Any kind of carbon tax is dead in the US[6]." Moreover, on three occasions post election the White House ruled out a carbon tax and the President used his 2013 State of the Union address to acknowledge that the most likely course of action would be energy efficiency programs.

Recently came the news that President Barack Obama had announced his broad-ranging new plan to tackle climate change. The plan focuses on emissions standards, direct support for renewable energy technology and energy efficiency measures. He made a clear commitment to action on climate change but without a Carbon Tax, without an emissions trading scheme and without a cap and trade scheme. In short, **higher energy and electricity taxes are off the national agenda in the United States.**

Just like the United States, carbon taxes are off the table in Canada and Japan where they have been either resoundingly rejected or deferred indefinitely. In the case of Canada, government in part changed on the issue and in Japan the deferral is now indefinite. In South Korea, any possible scheme is so light in its actual reach that it cannot remotely be compared with the $9 billion a year tax in Australia.

This brings me to the European Union.

European Union

Nowhere is the reality of what is actually happening more starkly obvious than in a proper comparison of the Australian Government's Carbon Tax and what the European Union is actually doing.

The Minerals Council of Australia has released research showing that over the first five years of the European Emissions Trading Scheme, it raised approximately $500 million per year.

The Australian Carbon Tax by comparison will raise approximately $9 billion per year. **The Australian Carbon Tax will be 18 times larger in dollar terms than the European scheme in each of its first five years**.

However, when you take into account population, the comparison is devastating. The EU has a population of just over 500 million. Therefore the EU scheme raised just over $1 per person per year.

Australia has a population of approximately 23 million, so our scheme, at the Government's starting price of $23, is raising almost $400 per person per year, making it 400 times more onerous per capita than the European scheme. And of course, the price went up again on 1 July this year.

Recently we have seen European carbon prices plunge by up to 45 per cent before settling close to 30 per cent down. The European system to which the Government has tied Australia's electricity prices is now deeply unstable.

[6] Greg Sheridan, "More sense from Sensenbrenner than from Garnaut," *The Australian*, 30 June 2011, p. 16.

MEPs subsequently voted to reject a proposal from the European Commission to prop up the scheme by delaying the auctioning of carbon allowances in the European Union's emissions trading scheme (ETS).

In the latest twist, European political leaders in Strasbourg have now voted on a measure to effectively reduce the number of carbon credits and drive up the carbon price.

This lead to an overnight spike in the European Union carbon price and served to highlight the financial and budgetary risk of Kevin Rudd's plan to move the Carbon Tax more quickly to a floating price.

The bureaucrats and politicians in Strasbourg and Brussels will be setting the Carbon Tax on our electricity and gas prices.

Kevin Rudd's attempt to change the name of the Carbon Tax and move to a floating price to give people the impression that it will mean lower prices is a con.

What he is proposing is abandoning the role of the Australian Government to determine the cost impact on families and business, and on the Budget.

Any change in the European price also has a far more significant impact in Australia than it does in Europe. That's because the EU scheme does not cover as much of the economy and production as the Australian Carbon Tax. So a small change in Europe will have a more devastating cost flow through for Australian businesses.

Just to complete the picture, New Zealand has an actual cost of just over $1 Australian per tonne. The ALP's Carbon Tax is therefore 20 times more expensive than the system adopted by our Kiwi neighbours.

So when we look honestly at the international system a number of conclusions can be drawn:

- China's emissions growth of 5-12 billion tonnes from 2005 to 2020 is the most important fact in understanding global emissions;
- The United States, Canada and Japan have all either ditched or deferred carbon tax systems and anything that may happen in Korea will overwhelmingly involve free permits; and
- The Australian Carbon Tax is roughly 18 times larger than the entire EU system in its first five years and almost 400 times more expensive on a per capita basis.

These facts are the real reason a push for a single global tax is failing. They will not be affected by any change in Australia. **The rest of the world has overwhelmingly rejected the Australian model of a deep punitive electricity and energy tax**.

There are, however, positive international steps that can be taken to tackle climate change.

2.2 New Global Approaches to Climate Change: The G20, Rainforest Agreements and Sectoral Approaches

The sheer magnitude of the global numbers makes it clear that solutions have to come at the international level. It also makes it clear that **the problem of leakage will simply destroy the effects of poorly designed unilateral action by sending jobs and emissions offshore.**

In that situation I believe there are two important steps we should take at the international level.

First, the all-in UN negotiating approach of 180 countries locked in a convention centre with up to 40,000 observers is increasingly ineffective. Need I say any more than Copenhagen?

In the real world, any progress will be between the United States, China, India and the EU.

We should therefore task the G20 with a special responsibility for negotiating a four-way compact between these players. If we can do that then we have a genuine base for a future global agreement. There is still a role for the UN system but the real solution is within the G4 concept.

Later this year Australia will begin chairing the G20 for 12 months. The Government of the day will obviously have a focussed economic and security agenda. My own view is that irrespective of who is in Government, **Australia should also use that opportunity to work towards two environmental outcomes. We should help lay the framework for a possible G4 agreement on emissions and we should work towards a genuine Global Rainforest Recovery Agreement.**

Nothing, and I mean nothing would do more to help the world's biodiversity and reduce emissions than a constructive agreement to help protect the great global rainforests.

Beyond the G20, we should also consider sectoral agreements. What this means is that we are pragmatic. Rather than focussing everything on country targets, we should consider whether we can establish:

- A common approach for the steel industry;
- A common approach for the cement industry;
- A common approach for the smelting sector or other relevant sectors.

This sector by sector approach may in fact be a much faster way to genuine emissions reductions because it in part addresses the problem of border inequality and leakage of jobs and emissions off shore.

Yes, we will still look at national targets and should rightly be part of any UNFCCC process, but the heart of real progress in my view is for parity of action across industrial sectors.

2.3 Domestic Consequences of the International Reality

Against this background, the Government wilfully fails to recognise the global reality. The Carbon Tax has been **crafted against a fabricated and imaginary international**

environment and will therefore simply send jobs and emissions offshore while driving up costs for families and pensioners.

Apart from the current massive $9 billion a year cost of the tax, the central flaw is that it doesn't do its job. Australia's domestic emissions are set to go up not down.

As a consequence, late last year the Government quietly released modelling that showed we would have to purchase 100 million tonnes a year of foreign carbon credits to meet our targets.

Given that the Government's modelling indicates that the price in 2020 will be $38 a tonne, this is an annual purchase of approximately $3.8 billion of international permits in 2020 alone. And this is in addition to the Carbon Tax.

The question then is if the tax is such a failure as a market mechanism, how can we deal with the issue domestically in a way that fulfils our duties but gives us a level playing field?

3. Direct Action: Simplicity and Incentive.

One of the tests of policy is credibility in action. The current government was responsible for the pink batts tragedy, the failed green loans program, the Cash for Clunkers proposal that never even began and the Citizen's Assembly proposal, which was replaced by the Carbon Tax.

The Coalition, however, was responsible for creating Kakadu National Park, bringing an end to whaling in Australia, putting the Great Barrier Reef on a sustainable footing and establishing the Natural Heritage Trust. And we intend to continue that line of positive environmental action by implementing our Direct Action plan.

In contrast to the complex, punitive, money churn that is the Carbon Tax, the Coalition's Direct Action Plan is based on two clear principles: simplicity and incentive.

We will reward people for reducing emissions, not make it harder for them to do business. We will use the classic market mechanism of a reverse auction. Contrary to an electricity tax, this is a perfectly conventional mechanism to find the lowest cost way to reduce something or have services provided. In particular, unlike the multiple changes in the Government's plans over the last three-and-a-half years, our plan remains stable and consistent.

The Coalition's Direct Action Plan will ensure Australia reaches its target of a five per cent reduction in emissions by 2020.

It is a simple, practical approach, which will not only address climate change, but improve our environment.

3.1 Market Structure

Direct Action provides incentives to those who reduce CO2 emissions so we can reach our five per cent reduction target by 2020.

While it encompasses programs to support the uptake of solar energy and the revegetation of our land, at its heart is an Emissions Reduction Fund to directly support emissions reduction activities – also called abatement.

Abatement will be purchased via a market mechanism to achieve the lowest price. You could call it a carbon buy-back. It is similar to how the international Clean Development Mechanism operates.

We will use a reverse auction to buy the lowest cost per tonne abatement. Contrary to what the ALP says, we are source neutral. The lowest cost abatement may be a mix of energy efficiency, cleaning up waste coal mine gas, cleaning up power stations and landfill gas. It may be reafforestation of marginal lands or revegetation or improvement of soil carbon.

In economic terms, we will simply hold a reverse auction and buy up the cost curve. In layman's terms we will buy back abatement. Whereas the Carbon Tax tries to drive up the price of basic services in order to force down use, with a massive deadweight loss, we will not provide a dollar unless there is an actual reduction of emissions. Just like a contract for wheat, we only pay on delivery of actual abatement.

This system is also the structure by which the Government buys back water in the water market. It is the preferred option because it is a voluntary market, into which people choose to sell water, and allows the Government to minimise its cost while achieving the environmental benefit of additional water flows. The alternative would be to double the price of water in an attempt to reduce usage. But everyone agrees that targeted action is far more effective.

The Government also proposed a very similar structure for its $250 million Non-Kyoto Carbon Fund. It issued a discussion paper late last year which outlined a scheme to purchase abatement through a reverse auction, though we didn't hear any Government Minister ever talking about it.

Let me just take the audience through this. Of all the systems in the world, the Government designed an abatement purchasing scheme using a reverse auction for land sector emissions reduction. This is exactly - and I mean exactly - the system they demonise while quietly developing one themselves.

That scheme has now gone the way of many of the Government's climate policies and was scrapped in this year's Budget. But its scrapping had nothing to do with the scheme's mechanism for purchasing abatement.

3.2 Capped budget

In just the same way that the ALP's Non-Kyoto fund had a capped budget, so does the Emissions Reduction Fund. When we designed the fund we consciously set a capped budget, ensuring sound financial management with no budget blow-outs.

The Emissions Reduction Fund will have an initial allocation of $300 million, $500 million and $750 million over the forward estimates period. This compares with the Carbon Tax of $27 billion over the same period.

Decisions on allocation will be made through a reverse auction starting with the lowest priced abatement. More importantly, the funds will only be allocated when there is a direct reduction in emissions. In short it is a contract for delivery.

What, then, are the supporting mechanisms to implement the fund?

3.3 Supporting Mechanisms

If elected, we will also abolish the Climate Commission, the Climate Change Authority, the Clean Energy Finance Corporation and the Energy Security Fund and bring the relevant functions in house, under a merged Climate Change and Environment Department.

The Emissions Reduction Fund will operate using existing architecture originally created or proposed by the Coalition. That is, we will simply adapt three existing programs and mechanisms.

First, the Carbon Farming Initiative, which was initially proposed by the Coalition, will be expanded to include a wider range of emissions reduction methodologies. We will support the application of methodologies that have been approved internationally, modifying for local conditions where required.

The current system of methodology approvals has restricted people from engaging in potential projects, both in terms of time and scope.

Second, the Clean Energy Regulator, which succeeded the Office of Renewable Energy Regulator created by the Coalition Government, will be responsible for approving the methodologies. It will ensure that the emissions reduction being claimed is genuine and verifiable. We will only pay for real abatement once it is delivered. There will be the

certainty of a contract for proponents coupled with the safety of payment on delivery for the Government.

While long-term contracts for abatement will be available to assist organisations to secure finance to undertake projects, the payment will only occur on delivery. At present, the Clean Energy Regulator approves the viability of projects and issues recognition of abatement once it occurs. This method will continue. Methodologies that have been approved to date will be maintained. Registered projects will also be continued. The difference is that we will unblock the approvals process, create a 25-year option for land-based sequestration and broaden the range of methodologies to include all forms of abatement such as cleaning up power stations and energy efficiency.

Third, we will continue to use the existing National Greenhouse and Energy Reporting Scheme (NGERS) – which was created by the former Coalition Government - as the key reporting system for Australia's emissions. Our aim is to make it the single national reporting scheme, cutting red tape and the requirement to duplicate reporting to both Federal and State Governments.

3.4 Implementation

Essentially, the next election will be a referendum on the Carbon Tax. If elected, a Coalition Government will have a contract with the community to honour that mandate

We will therefore immediately move to abolish the Carbon Tax and hope to have this removed within six months. In reality, we expect the ALP to accept the clear mandate of a new Government and not block the legislation in the Senate. In the same way, the Coalition accepted the mandate of Labor and did not oppose the repeal of Workchoices.

Let me be absolutely clear, the tax can be repealed quickly. If the ALP loses the election it is almost inconceivable that it would ignore such a mandate for the second time in a row. I do not believe a defeated ALP should or would stand in the way of repealing the Carbon Tax. No matter what they say now, I expect that a defeated ALP under a new leader would not block the repeal of the Carbon Tax.

In order get full input into the Direct Action policy, we will hold a White Paper process after the election. It will provide an opportunity for industry to make submissions on issues such as the timing of the auction process and the setting of baselines. We will call for submissions within 30 days of being elected, consult between days 60 and 100, release the White Paper and draft legislation by day 100, receive further feedback and release final legislation by day 150. Our goal is to commence the system on 1 July 2014.

However, we have already held extensive discussions with all sectors to encourage potential participants to consider how they can engage with Direct Action and create opportunities for

generating abatement, so they are fully prepared for its implementation. We are also keen for any suggestions or feedback at this stage, to ensure all potential issues are addressed. Throughout, we are being transparent and open about our policy, providing as much clarity and certainty as possible, keeping in mind that the structure of our scheme remains unchanged since it was announced three years ago.

The reverse auction is the opposite of picking winners. It automatically orders the most cost-effective forms of emissions reduction from the various proposals that the market would produce. It is in fact a classic market mechanism used by this very Government for buying water, biodiversity outcomes and even emissions under the Non-Kyoto Carbon Fund they proposed.

A separate organisation would conduct the auction, independent of the Clean Energy Regulator and the verification process. We would be keen to use a current agency, such as Low Carbon Australia, to make the transition as simple as possible. The water market also has a similar division of roles to avoid a potential conflict of interest between verification and purchasing.

There will be an opportunity for organisations to act as aggregators and bid into the market as a group. As an example, an electricity retailer may work to aggregate emissions reduction achieved through energy efficiency by its customers. Farmers may work together to deliver carbon capture and storage in soil, or landowners to achieve abatement through revegetation or reafforestation of marginal lands.

One of the questions I am often asked is where will the abatement come from. The answer is that whether it is from cleaning up power stations, from waste coal mine gas, from landfill clean ups, the land sector or energy efficiency, it will be the lowest cost. On balance, it is likely to be a range of the above activities with none dominating but with energy efficiency and the land sector being early adopters.

Indeed, since we issued the Direct Action Plan in 2010, the only change is that the likely supply of abatement has grown since our original projections and the likely cost of the abatement has dropped, although our funding allocations remain the same.

Even the Government has quietly recognised the power for reverse auctions, whether it is for water or carbon.

3.5 Impact

The immediate impact of the Coalition's policies, according to the National Centre for Social and Economic Modelling (NATSEM), will be to "make most people better off compared to Labor".

The NATSEM analysis finds that around 87 per cent of households will be better off in 2014-15 and 83 per cent will be better off in 2015-16. Families will save $3,000 over the next six years with the removal of the Carbon Tax. Under Prime Minister's Rudd's floating price, it still amounts to a $58 billion Carbon Tax.

These results are unsurprising since Australians will lose the burden of the Carbon Tax but get to keep their current tax thresholds and fortnightly pension/benefit rates. Therefore these tax cuts and benefit increases will cease to be compensation for a tax hit and become genuine cost-of-living relief for Australians, fully funded by savings from elsewhere in the Budget.

In addition, every tonne of carbon dioxide emissions abated to reach our five per cent target under Direct Action will be abated right here in Australia, not overseas. This will result in real, tangible improvements to our environment, our energy use and to the way we do business.

So if there is a change of government, Australian families will be better off and Australia's environment will be better off.

Conclusion

As we rapidly approach the forthcoming Federal election, Australians are faced with a clear choice.

If the Coalition is elected on September 7, on day one we will instruct the Department of Prime Minister and Cabinet to draft legislation that repeals the Carbon Tax and to have the legislation ready within one month.

On day one, the Treasurer will notify the Clean Energy Finance Corporation that it should suspend its operations and instruct the Treasury to prepare legislation to permanently shut-down the Corporation.

Within the first month, the Cabinet will approve legislation to repeal the Carbon Tax.

On the very first day of a new Parliament, the Coalition will introduce legislation to repeal the Carbon Tax.

And within the first sitting fortnight of Parliament, the new government will introduce legislation to shut-down the Clean Energy Finance Corporation.

Ultimately, the Coalition is committed to reducing Australia's emissions by five per cent by 2020 and to the bi-partisan conditions for any further reduction. It is a commitment we make in acknowledgement of the need for all countries to work together on what is a major global issue.

Our Direct Action Plan is a simple, low touch market mechanism. The Emissions Reduction Fund will not only reduce our emissions, it will improve Australia's environment through a range of measures including revegetation, better land management and enhanced soil quality.

However we will always select the lowest cost abatement, whether it is in the land sector, the waste sector, the resources sector, the power sector or through actions such as energy efficiency.

Unlike the Carbon Tax, Direct Action does not make it harder for businesses to operate. We are assuming no revenue from the system.

Rather than a highly volatile tax that doesn't reduce emissions but does increase costs, and which leads to $57 billion in foreign carbon credits being purchased each year by 2050, we will focus on incentives.

The Coalition will instead reward innovation and initiative, supporting projects that deliver real emissions reductions right here in Australia. And we will do this by using the market to find the lowest-cost abatement.

This simple, straightforward approach is a vastly better way to tackle climate change than the blunt instrument that is the Carbon Tax. That is why we will repeal the Carbon Tax and replace it with a classic market mechanism, based on incentive and innovation.