

# **AIGN Submission to Climate Change Authority's Targets and Progress Review Draft Report (October 2013)**

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# 1 INTRODUCTION

The Australian Industry Greenhouse Network (AIGN) is making this submission in response to the Climate Change Authority's (CCA) invitation to provide feedback on its Targets and Progress Review draft report.

In offering a response to the draft report, the CCA should note AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy. This response accords with the views of our members in general; however at times there are variations in the positions of individual members on specific issues. It is therefore important that the CCA considers AIGN's feedback alongside any responses made to the draft report by our members.

## 1.1 Background

In participating in the climate change policy debate, AIGN has a reliable history of basing all input on our policy principles (outlined in Attachment 1), which detail the manner in which we believe Australia's commitments and actions in relation to addressing greenhouse gas emissions should be shaped.

AIGN acknowledges that the prosperity, improved living standards and social conditions that industrial economies have experienced over the last 200 years has been as a result of activities that we now understand have had an impact on the global climate through increased atmospheric levels of greenhouse gases. The continued, increasing release of emissions from a growing base of industrialised economies threatens to see these levels rise to critical concentrations.

The link between economic prosperity and activities that generate greenhouse gases dictates that improved environmental outcomes must be achieved at the lowest possible cost to the community. To do otherwise will impact unnecessarily upon social

conditions, in particular on those economies that are more vulnerable to the impacts of climate change.

Notwithstanding some ongoing debate within the scientific community on aspects of climate change issues, AIGN recognises the consensus that indicates that the global climate system is warming with potential serious adverse impacts. AIGN has consistently advocated Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability, to global action to reduce greenhouse gas emissions and to adapt to the impacts of climate change.

However Australia's contributions to global emissions reductions need to be sensible of the global situation, and sensible of our trading performance noting Australia's industry structure.

AIGN's submission on the draft report includes a number of comments made in our submission to the previously released issues paper, as well as feedback on some of the CCA's specific recommendations. In particular, AIGN disagrees with the CCA's assessment of global consensus around a post-2020 agreement to reduce emissions, and the appraisal of action that is being taken at the individual country level to reduce emissions (as distinct from the 'talk' about future action). Without intending to disregard that a number of major emitters are now considering action to reduce emissions, AIGN contends the draft report fails to analyse what the global impacts will be in real time, taking into account the policy mixture. On the basis of this disagreement AIGN makes the following comments:

- Australia should not commit to move beyond its existing -5% emission reduction target as none of the tests for Australia to reconsider its target have been met;
- 2015 would be an appropriate time to reconsider Australia's level of commitment,

when it can be assessed against the 'contributions' that it was agreed at the recent UNFCCC meeting that countries will be providing in early 2015 as part of the formulation of the post 2020 agreement (the term "contributions" was agreed in lieu of "commitments" and represents a watering down of the level of binding);

- at this stage it is not appropriate for Australia to be committing to meeting a carbon budget target when the level of international commitment is unclear; and
- further analytical work is required to assess levels of comparable commitment.

## 1.2 Objectives of climate policy development

As AIGN pointed out in its previous submission to the Caps and Targets Review issues paper, climate change policy development is complex for many reasons, such as the difficulties involved in constructing policy instruments against the backdrop of scientific evidence on what needs to be achieved, and by when. A major issue that can complicate this task is the mixture of objectives that need to be kept in mind when developing policy that responds fittingly to the conditions. Obviously the overarching goal is to reduce the atmospheric concentration of greenhouse gases, but beyond this there are three objectives that require consideration in shaping our policy response: providing policy confidence to the market, influencing other countries, and managing the impact of climate policies on the Australian economy, ensuring the burden we are bearing is commensurate with the economic impact on other nations. Different stakeholders deem these objectives with varying levels of importance; all have their place in shaping Australia's policy response to climate change.

Indeed, the Government has given every indication of understanding the significance of balancing these objectives, by putting in place conditions for reducing Australia's emissions reduction target lower than the unilateral -5% on 2000 levels by 2020. Attaching suitable conditions to increasingly ambitious targets allows for a level of flexibility in setting national emissions reduction goals that is necessary in the uncertain and shifting global climate change policy landscape.

In other words, the conditions are a public statement of what has to happen before the target will be changed, and what a new target would be. Therefore they influence business behaviour; it is the certainty that the Government's design affords Australian entities. AIGN commends the latter point to the CCA's particular notice due to its importance to our members' commercial activities. In all things AIGN strongly promotes the reduction of uncertainty in the form of stable policy and decision-making frameworks. Should recommendations for targets outside the conditionality be made, it would begin to unravel this certainty, as well as casting doubt on the certainty of any new target. Any shift to a more stringent target needs to be fact-based and reflect actual formal commitments rather than possible future 'contributions' in yet to be determined timeframes.

## 2 FEEDBACK ON RECOMMENDATIONS

### 2.1 Status of global agreement

AIGN's major concern with the draft report is the apparent assumption that, at the global level, we are close to agreement on emissions reductions of sufficient magnitude to restrict temperature increases to 2 degrees Celsius. As AIGN highlights elsewhere in this submission, the limited outcomes from the recent United Nations Framework Convention on

Climate Change (Committee of Parties 19) negotiations at Warsaw demonstrate a continuing divide at the international level over commitments (or “contributions”); considerable work needs to be undertaken before a far-reaching and meaningful global agreement is attained that will replace the Kyoto Protocol from 2020 (to be agreed in 2015)

Given that such a global agreement, or progress to such an agreement, is a key condition of Australia’s range of emission reduction targets (as well as the signing on of major developing countries for a 15 per cent target), AIGN does not believe the conditions have been met for Australia to move beyond its unilateral -5% emissions reduction target. Acting consistently with the conditions attached to the various targets is crucial to the kind of policy stability that will encourage economic growth and investment.

A key test of the likelihood of success of the negotiations around the post 2020 agreement will be the emissions reduction ‘contributions’ that member countries provide in early 2015. This would be the appropriate time to consider whether the global negotiations are likely to be successful (although even then such a view may be premature).

## 2.2 Moving beyond the 5% target

The CCA noted in its stakeholder meeting of 22 November that its recommendation to move beyond the unilateral 5% target to 2020 is contentious. To a certain extent, this contentiousness arises due to the nature of the conditions attached to moving beyond this target: they require subjective judgements.

AIGN agrees that the global policy landscape has changed since the Government introduced its target ranges for emissions reductions to 2020, and revisiting the issue of which target Australia should adopt is a relevant exercise. However, AIGN members’ judgement with respect to the conditions appears to differ from the CCA’s.

The set of conditions that must be met for Australia to reduce emissions beyond 5% include requiring credibility of commitments, “...for example, by way of a robust global agreement or commitments to verifiable domestic action on the part of the major emitters including the United States, India and China...”<sup>1</sup> To the extent that they were studied in the preparation of the draft report, it could be said that none of the three countries mentioned have met this condition. Conversely, it is plausible to assert degrees of credibility in the public announcements of especially the US and China; however the CCA seems to gloss over the fact that neither country is certain to sign up to an international agreement based on historical behaviour in international negotiations. (The Kyoto Protocol now covers about 15 per cent of emissions worldwide. Canada, Japan, New Zealand and Russia have not accepted targets under the second commitment period.)

Even with an optimistic view of the conditions for moving beyond the 5% target, AIGN posits that the case is much harder to make for the set of conditions for reducing emissions by 15% on 2000 levels by 2020, let alone the conditions for the 25% target. The headline condition, that an “international agreement [exists] where major developing economies commit to restrain emissions substantially and advanced economies take on commitments comparable to Australia’s”<sup>2</sup> is being worked towards, but cannot be said to have been achieved.

The most recent international climate change meeting under the UNFCCC concluded in Warsaw on 23 November (attended by AIGN). While considered a procedural meeting, it was important in the context of progressing work around the development of the post 2020 agreement (to replace the Kyoto Protocol), to be signed at the 2015

<sup>1</sup> Taken from Box 3 of the CCA Caps and Targets Review Issues Paper: <http://climatechangeauthority.gov.au/Node/107>

<sup>2</sup> Taken from Box 3 of the CCA Caps and Targets Review Issues Paper: <http://climatechangeauthority.gov.au/Node/107>

meeting. It is generally agreed that the outcomes of the meeting were limited, with much of the discussion acrimonious in nature, and a vague draft text produced. Only a last-minute compromise saw agreement of a timetable for countries to outline nationally determined contributions (not commitments) to emissions reductions by early 2015. At this point in time it is difficult to form a conclusion about the likelihood of commitments securing stabilisation at 450ppm CO<sub>2</sub>-e (or even 510ppm-540ppm, as required by the conditions to move to the 15% target). A better assessment will be possible after the UN-hosted leaders meeting to be held in New York in September 2014, and the assessment of the contributions that will be required to be made by early 2015.

AIGN acknowledges that there is also work being progressed in forums outside the UNFCCC process; however, anything that countries were willing to agree to outside of the UNFCCC process, in terms of actual commitments to reduce or stabilise emissions, would be fed back into the international negotiations and they remain the best barometer of progress. At this point in time progress has been limited. This may change in the next two years as the international negotiations run their course, and it would be appropriate for the Australian Government to be prepared for such an eventuality by considering its course of action in such circumstances. Nevertheless, positively recommending that Australia should commit to the 15% or even the 25% target, is pre-emptive in light of the importance of policy stability for the Australian economy (outlined in Section 1.2 of this submission).

Regarding the actions of other countries, AIGN cautions against equating aspirations (or 'talk') with action. Australia has set a responsible target within its bounds for achievement (albeit with some effort), along with a plan of deeper cuts conditional on further action from other countries. It should be

noted that at the Warsaw meeting, Japan announced that it would increase emissions by 3% to 2020 due to the phase-out of nuclear power. Both Canada and New Zealand, who are comparable to Australia in terms of economic profile (and are no longer signatories to the Kyoto Protocol), are on track for increasing emissions by 2020.

China has commenced a number of ETS trials and is talking of a nationwide ETS; it continues to make no commitment for a reduction in overall emissions in 2020 (however China is aiming for an improvement in energy intensity). Its emissions rose by 6% in 2012 and 10 % the preceding year (Global Carbon Budget).

The EU is on target to achieve its emissions reduction target by 2020, however this primarily reflects the recessed state of the European economy for several years, and the resultant reduction in demand from the industrial sector. (An EU spokesperson noted at a recent IETA event that Europe's emissions reductions are not a function of improved energy efficiency.)

While the US is apparently on track to meeting its 17% emissions reduction target, this is commonly noted to be attributable to the shale gas revolution, reduced industrial sector activity, and improved fuel standards.

It is therefore important that the CCA move beyond an assessment of what countries say they are doing, or planning to do, to an examination of the actions, and impacts of the proposed policies on industry in these countries. It cannot be stated strongly enough that conditions must actually be met for more ambitious targets to be taken on. AIGN agrees with the CCA that medium and long term targets need to be reviewed regularly to take account of the continual changes in the global climate change policy landscape. AIGN would further be comfortable with target scenarios being assessed in terms of likelihood of their eventuation; however until a set of

conditions is reached, a commitment to a more ambitious target would have a destabilising effect on entities operating in Australia. This is especially the case for targets out to 2020. While AIGN does agree that certainty is important in the short term, this is provided by adhering to the conditions attached to more ambitious targets.

Finally, the draft report does not appear to set out caps for reaching the 5% target (however it does include effective caps for the 15% and 25% targets). Since this is the target that Australia is currently committed to in international negotiations and domestic policy instruments, AIGN believes the caps for reaching the 5% target should be set out in the final report.

### 2.3 Australia's emissions budget

The draft report notes that “Australia’s relative prosperity and high per person emissions,” along with the scale and pace of international action, makes the 5% target inadequate.<sup>3</sup> Furthermore, in recommending an emissions budget to 2050, the CCA uses a modified contraction and convergence approach to determine Australia’s share of the global budget. It is clear that the CCA continues to promulgate the per-capita approach to assessing emissions that is common in the UNFCCC negotiations. Taken together with the production-based approach to climate change policy development that is seemingly taken as a given in all countries, a consumption-based approach to setting the budget is quite hard to match to the appropriate policies to give the budget effect. A major failing in this methodology is its reliance on UNFCCC data, which is based on emissions production, whereas AIGN (and other organisations) argues that using data on emissions consumption would be a more rigorous basis. As the BCA has calculated, the differences in the two measures would have the

effect of halving Australia’s emissions (on a consumption basis) and to a level similar to other developed nations. When data based on consumption is presented to demonstrate relative basis, Australia’s -5 per cent commitment is much stronger than other comparable developed nations.

Accordingly AIGN considers a consumption-based approach as a poor basis on which to allocate emissions rights in a world of production-based policy. Due to our natural resources advantage, Australia is home to a relatively large share of emissions-intensive mining and production given our population size; this is arguably an economically and environmentally efficient outcome from a global perspective, and could continue to be so in the future.

In an ideal world, the global approach to budget sharing would deal effectively with a situation where the production of emissions outstrips consumption on a per-capita basis (as in Australia) through transparent trading. Consumers of emissions-intensive products and services would be paying a price reflecting the cost of purchasing the emissions rights to produce them. While this is a worthy goal, it is optimistic in the extreme to expect such transparency and trading fluidity until all major economies are committed to stabilising and reducing emissions in a meaningful way (i.e. in an international agreement). Recommending an emissions budget on the assumption that sufficient trading could occur to counterbalance a consumption-based allocation with production-based policy is not a feasible option at this point. Indeed, AIGN questions the value of recommending an emissions budget at all in the current circumstances; surely this is an exercise that could be undertaken in 2015 when more is known about the post 2020 framework and the commitments (or contributions) of major economies.

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<sup>3</sup> draft report, p 11

Similarly if the data presented in the report was not based on emissions intensity in absolute terms, but rather presented as a percentage reduction in emissions intensity implied by respective pledges to the UNFCCC, then Australia's -5% commitment represents a 45% reduction; most developed countries are in the range of 30% to 45%.

When it does become more appropriate to consider the question of an emissions budget, the discussions should take account of the reality that national commitments are made based on economic impact. This is an important concern that must be kept in mind in setting a budget for Australia. The CCA should consider reframing this discussion in terms of the relative economic burden of making emissions reductions, since such a metric more closely reflects the working reality that Australia must operate within in international negotiations.

Due to our similar wealth and standards of living, it is reasonable for Australians to bear a similar economic burden to OECD countries, for example – however because of the different structure of our economies, per-capita emissions are not appropriate to be compared while policies are based on production. At the very least, the gap between production-based policy and consumption-based budgets/targets needs to be canvassed in the final report, acknowledging the need for intervention while there is insufficient fluidity of global trading to allocate resources efficiently.

## 2.4 Comparing Australia to other countries

Comparisons to other OECD countries (e.g. the US, Canada, Japan, the EU) remain relevant, however comparing the ambition of our targets with these countries is not as pertinent as comparing the economic cost of reaching our targets. As mentioned previously- due to our natural resources advantage, Australia is home to a large share of

emissions-intensive mining and production. Comparisons to other countries should not limit Australia to doing the same things as other countries, but to contributing to a globally efficient outcome (which is likely to require different action in different countries).

AIGN agrees with the concerns expressed by the Business Council of Australia (BCA Submission to the CCA on Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review Draft Report, November 2013) that "the measures of comparable commitment adopted by the CCA are not comprehensive and the way in which the draft report presents them is not robust and in some instances could be misleading." As the BCA notes "a key reason to undertake economic modeling is to assess the economic and social implications of different Australian commitments and budgets, relative to those pledged by other similarly wealthy countries."

Furthermore, whilst AIGN supports the concept of comparable effort, the risk of comparing carbon costs and other policies at the economy-wide level is that the analysis will fail to accurately reflect costs faced at the facility level (taking into account interactions between national and sub-national measures, etc). This is an important element of assessing the degree of effort required and the potential for industry dislocation.

For these reasons, AIGN advocates further analysis by the CCA of its work around measures of comparable commitment; as currently structured, the reasoning is not robust. It is important that there are ongoing comparisons of costs of the climate (and renewable energy) policy approaches applying in Australia with our competitors to ascertain levels of comparable effort, as well as impacts on trade competitiveness faced by Australian producers. Such considerations are crucial to any decisions on future targets or policy that may apply within

Australia. These comparisons provide an understanding of the challenges faced by industry in the transition to a true global carbon price (i.e. until all countries have a carbon price).

The true comparison of climate change policies between countries requires the measurement of the differential economic effect of various policies. Carbon is such a ubiquitous input in most economies that mitigation policies will have economy-wide effects that extend well beyond the individual sectors that may have particular mitigation options.

From the point of view of comparing effort between countries, what needs to be measured are the resource flows (or the incentives for resources flows) from carbon based production to non-carbon based production, or equivalently, the effort in decarbonising the economy. In particular, the crucial issue is to understand whether these flows are consistent with the long term global policy objectives or whether they move against them – that is, whether they create 'leakage' or whether they lead to a net reduction in emissions.

Given the accepted, though unofficial, common method of evaluating the economic costs of certain targets which countries have generally adopted in international negotiations – and moreover due to the economic realities of climate change policy such as leakage – it is imperative to compare Australia with global trading partners (many of whom are not OECD countries). Most do not have quantitative targets under the Kyoto Protocol and many are not 'major' economies but are nevertheless major competitors of particular Australian industry sectors.

## 2.5 Global budget sharing

When it comes to sharing the global emissions budget, the consensus approach of the UN requires voluntary commitments (or 'contributions'), which

all nations ultimately have no choice but to accept from one another. Nations historically nominate their preferred contribution to the emissions reduction effort based primarily on self-interest (in other words, what is affordable with minimal wealth leakage, i.e. adverse community impacts). Australia's unique circumstance as an advanced economy with a rich resources endowment creates complexities that many other nations (especially, advanced economies) would have little experience with. An approach to budget sharing that deals effectively with a situation where the production of emissions outstrips consumption on a per-capita basis, as is the case in Australia, has yet to be adopted. Global budget sharing needs to address the reality that national commitments are made based on economic impact. This is an important concern that must be taken into account in setting targets for Australia. The CCA should consider reframing this discussion in terms of the relative economic burden of making emissions reductions, since such a metric more closely reflects the working reality that Australia must operate within in international negotiations.

## 2.6 Progress on reducing emissions

AIGN supports exploration of the factors that have influenced emissions abatement in Australia (e.g. exchange rates, climate change policies, commodity and energy price movements, economic growth rates). This should occur alongside evaluation of the efficiency of the various climate change policy measures operating in Australia. Such analysis can then be used to track potential key drivers in meeting future emissions reduction targets (such as Australia's 2020 target). This retrospective approach should be a regular feature of climate policy analysis to inform future decisions regarding appropriate targets for Australia to commit to.

## 2.7 Access to international units

AIGN notes that the recommendation that “the Government ... consider allowing the use of international emission reductions to go beyond the minimum 5 per cent commitment... (and) to complement domestic efforts to achieve Australia’s minimum 5 per cent commitment.” Allowing use of international permits is consistent with AIGN’s principle of least-cost abatement. AIGN does not support quarantining domestic abatement efforts from global action. This could have the effect of increasing the cost of abatement. We support the CCA’s position that allowing access to international abatement opportunities reduces the risks associated with achieving a stated abatement task compared to achieving this task through domestic abatement alone.

## 3 CONCLUSION & CONTACTS

Thank you for the opportunity to provide input into this process. AIGN is committed to engaging constructively with the Climate Change Authority in this review by providing feedback to assist the CCA in understanding the way in which our members are affected by significant national policy decisions.

If we can be of further assistance, please do not hesitate to contact [REDACTED]  
[REDACTED]

## 4 ATTACHMENT 1 – AIGN CLIMATE CHANGE POLICY PRINCIPLES

The Australian Industry Greenhouse Network's position on climate change is informed by the following principles.

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability<sup>1</sup>, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.

Australia should engage the international community in pursuing identified and beneficial environmental outcomes through greenhouse gas emissions reduction action which:

- allows for differentiated national approaches;
- promotes international cooperation;
- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances and aspirations of all societies; and
- is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach to responding to climate change which:

- is consistent with the principles of sustainable development;
- is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long term perspective;
- maintains the competitiveness of Australian export and import competing industries;
- distributes the cost burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively co-ordinated across all jurisdictions throughout Australia.

Australia's future greenhouse policy measures should:

- be consistent with the strategic national approach;
- be trade and investment neutral, in a way that does not expose Australian industry to costs its competitors do not face;
- not discriminate against new entrants to Australian industry nor disadvantage "early movers" in Australian industry who have previously implemented greenhouse gas abatement measures;
- take account of the differing sectoral circumstances;
- be based as far as is practicable on market measures;
- address all greenhouse gases;
- address all emission sources and sinks; and
- balance, in a cost-effective way, abatement and adaptation strategies – both of which should be based on sound science and risk management.

1. Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.