

Business  
Council of  
Australia



submission

Submission to the Climate Change  
Authority on the Reducing  
Australia's Greenhouse Gas  
Emissions: Targets and Progress  
Review Draft Report

NOVEMBER 2013

*Working to achieve  
economic, social  
and environmental  
goals that will benefit  
Australians now and  
into the future*

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

## About this submission

The Climate Change Authority (CCA) has released for consultation the *Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review Draft Report* (the draft report).

This submission is in response to the release of this draft report and builds on the previous submission by the BCA in June 2013 to the CCA in relation to setting caps and targets and provides comments on the proposed approach the CCA has recommended in relation to setting Australia's international commitments.

## Key points

This submission highlights a series of concerns the BCA has with the approach and recommendations of the CCA, which the CCA should take into consideration and address in its final report in 2014.

- The fundamental concern is that the recommendations in the draft report are based on a single scenario that asserts that the world will agree emissions reductions that are sufficient to meet the aspiration of restricting global temperature increase to 2 degrees Celsius. There is no assurance that this aspiration will be attained.
- The BCA is also of the view that the three tests to be met to allow Australia to move beyond its unilateral -5% emissions reduction target have not yet been met.
- The key third issue of concern to the BCA is 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 sufficiently robust and further analysis is required.
- The BCA remains of the view that in any process of target setting that the full impact on the competitiveness of individual industry sectors, including an assessment of what competitor nations are doing at the national and sub-national level, must be taken into consideration and addressed.
- Importantly, the CCA draft report reinforces the economic benefit of the use of legitimate international permits in meeting Australia's emissions reduction target. The BCA has made the point in previous submissions that international permits have a key role in managing the cost of meeting any emissions reduction target.

## Key recommendations

The BCA urges the CCA to adopt in its final report the approach recommended by the BCA in its June submission:

- In assessing the scope of international commitment to global emissions reduction, the review only take account of what other countries are actually doing or have pledged via concrete, verifiable steps, as distinct from any stated political aspirations.
- Further, in assessing what countries are actually doing, the review should consider the actual impacts of these particular policies on businesses in those countries.
- Australia maintain its current commitment to net emissions of -5% of 2000 levels by 2020 as there is no evidence to suggest that any of the conditions needed to trigger consideration of an increase to that commitment have been met and, further, it is clear that at -5% Australia's commitment more than matches the pledges of other advanced economies.

- In addition to a scenario that would potentially meet the aspiration of restricting the increase in global warming to 2 degrees Celsius, the CCA needs to consider a range of less ambitious international action scenarios that require Australia's fair share of the international burden to be less stringent than an emissions 'target' of -80% of 2000 levels by 2050.
- The CCA adopt an approach to determining Australia's fair share of any global emissions budget that equates the economic costs that Australians are expected to pay with those of similar wealth such as, in the immediate term, Americans, Europeans, Canadians and Japanese and, in the longer term, emerging economies such as China, the Republic of Korea, India, Mexico and Brazil.
- The CCA should consider confining its recommendations on Australia's commitments under different global emissions response scenarios to defining appropriate quantitative emissions limitation and reduction obligations (QELROs) and caps, and refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost and therefore not warranted.
- The caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors.

## Discussion

This submission is in response to the release of the *Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review Draft Report* by the CCA.

The BCA makes this submission recognising the need for a global response to manage the risks and adverse impacts associated with climate change and that Australia has a role to play in this global response.

This submission recalls key elements of the BCA's June 2013 Submission to the Caps and Targets Issues Paper and provides comments on the proposed approach the CCA has recommended in relation to setting Australia's international commitments.

Timing constraints necessitate that this submission concentrates on the key issues around Australia's international commitments in the draft report. Many other issues are of concern to the BCA, including the recommendations on caps under the Clean Energy Future legislation and the methodology, scenarios and assumptions adopted for the economic modelling.

The BCA makes this submission building on its 2007 report *Setting Achievable Emissions Targets for Australia* and in the context of the BCA energy and climate change policy position outlined below.

### **BCA energy and climate change policy position**

Australia needs to ensure it has a comprehensive and coherent national energy policy that drives the development of our energy resources, supports a strong energy export industry, and provides for the secure, reliable and efficient delivery of competitively priced energy to households and businesses.

Australia's energy sector needs to deliver these growth opportunities while meeting best practice environmental standards and seeking to minimise our greenhouse gas emissions in line with global efforts using national rather than state-based approaches.

Australia should play its role in the international climate change negotiations to progress an approach to emissions reduction that includes clear and binding commitments from all major emitters.

Australia should renew its focus on research and development of technological advancements to support the lowering of emissions from all energy sources and on adaptation to manage the long-term impacts of climate change.

In summary, Australia's energy and climate change policy should ensure:

- Australia's future economic growth and not compromise Australia's global competitiveness
- Australia's contribution to reductions in global greenhouse gas emissions at lowest cost and commensurate with global action
- the development of our energy exports in an environmentally responsible manner
- the delivery of secure, reliable and competitively priced energy in the long-term interests of both domestic and international consumers
- competition through the operation of open and transparent markets with strong consumer protections
- a stable, technology-neutral, long-term investment environment
- Australia's access to diverse supply chains to enhance our energy security.

## Key issues

### ***Failure to consider alternative scenarios***

The Review by the CCA could make an important contribution to the debate around framing Australia's international greenhouse gas emissions reduction obligations over the next 40 years.

The BCA is concerned that based on the draft report, the opportunity to make such a contribution may have been lost.

The fundamental concern is that the recommendations in the draft report are based on a single scenario that asserts that the world will agree emissions reductions that are sufficient to meet the aspiration of restricting global temperature increase to 2 degrees Celsius.

This scenario is becoming increasingly unrealistic as global emissions continue to grow and it remains very unclear as to whether there is a pathway in the current international negotiations to binding agreements by all major emitters to achieve such a goal.

As the BCA pointed out in its June submission, and the CCA confirmed in its draft report, the country pledges initiated in Cancun are not sufficient to launch the world on a 2 degree Celsius trajectory of emissions.

The United Nations Framework Convention on Climate Change (UNFCCC) meeting in Warsaw in November 2013 provides no evidence that international negotiations, whether within or outside the UNFCCC, will see a coordinated global agreement by 2015, or anytime in the foreseeable future, that will meet this 2 degree Celsius aspiration.

In recent weeks Japan has announced that it will revise its pledge down significantly, allowing a 3.1 per cent increase in emissions from 1990 levels rather than seeking a 25 per cent cut<sup>1</sup> predicated on increased fossil fuel generation rather than nuclear.

In its most recent World Energy Outlook 2013, the International Energy Agency's central scenario, takes into account the impact of measures already announced by governments to improve energy efficiency, support renewables, reduce fossil-fuel subsidies, and in some cases, to put a price on carbon, with energy-related emissions still rising by 20 per cent to 2035. This leaves the world on a trajectory consistent with a long-term average temperature increase of 3.6 degrees Celsius.<sup>2</sup>

In light of these realities, and to remain relevant to the debate in Australia, the CCA needs to incorporate into its review scenarios that fall short of the 2 degree Celsius aspiration.

As the BCA submission in June points out:

In order to make sensible recommendations about Australia's fair share of global burden, other less ambitious 'targets', budgets and caps need to be considered – recommending that Australia unilaterally

<sup>1</sup> 'Japan Sets New Emissions Target in Setback to UN Treaty Talks', smh.com.au, 15 November 2013.

<sup>2</sup> International Energy Agency, *World Energy Outlook 2013*, Paris, November 2013, p. 24.

continue on a trajectory to 80% below 2000 emissions by 2050, while the rest of the world lags behind would not be 'economically efficient, environmentally effective, equitable and in the national interest'.<sup>3</sup> Such a course of action would not represent Australia's fair share of the global burden and would result in an over-allocation of Australian resources to mitigation relative to adaptation."

### **Assessment of three tests to move from -5% target**

The second important issue that the BCA disagrees with in the draft report is the conclusion that the three tests for Australia to move from its -5% unilateral commitment have been met.

The BCA contends that it is unambiguous that the results of the meetings of the parties in Doha in December 2012, and most recently in Warsaw, confirm that none of the conditions have been met. In particular:

- the specificity of the advanced economy commitments, as well as the transparency and independent verifiability of the possible actions that China and India may take, through to 2020 remain unfulfilled. Until these countries adopt QELROs, or equivalent, to 2020 this condition will not be met. To this point, only Australia and the EU have adopted credible QELRO's
- as yet there is no 'robust global agreement' in prospect, nor have there been independent institutional arrangements established that could credibly verify the domestic action of major emitters
- the assumptions that countries have made to underpin their Cancun pledges remain unclear and may not be fully understood until a post-2020 agreement is reached in 2015.

### **Approach to measuring comparable commitment**

The key third issue of concern to the BCA is 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. The CCA uses four static metrics:

- absolute emissions reductions or limitations
- emissions intensity
- deviations from business-as-usual
- changes in per person emissions.

The BCA argues that a key reason to undertake economic modelling is to assess the economic and social implications of different Australian commitments and budgets, relative to those pledged by other similarly wealthy countries.

The CCA rejects this argument on the grounds that there would be too many assumptions involved in this modelling for it to be a reliable guide to relative economic costs of nations. Yet, in an extraordinary about-turn, the CCA proceeds to present very similar modelling, with all of its presumably unreliable assumptions, to argue that the costs to Australians are very low.

Since the Berlin Mandate in 1995, all Australian governments have argued in the international forums that relative economic burden is an important consideration in the setting of Australia's commitments to reduce emissions.

Australia has always recognised that ultimately, all nations will select their contribution to the global burden based on national self-interest. In a practical and domestic political sense in every nation, this boils down to 'willingness to pay'. In a comparative sense, the BCA judges that Australians are willing to pay as much as Europeans, Americans, Canadians and Japanese, as measured by the impact on per capita GDP or GNI.

The BCA believes that, in not presenting the modelling of relative economic burden, the CCA is blind to the realities of a key piece of information that has openly formed Australia's negotiating position for decades.

<sup>3</sup> Commonwealth of Australia, *Caps and Targets Review Issues Paper*, Climate Change Authority, Canberra, April 2013, p. 3.

As the BCA pointed out in its June submission, the Australian Government made submissions in November 2008 and March 2009 to both the AWG-KP<sup>4</sup> and AWG-LCA,<sup>5</sup> titled respectively 'Australia's National Ambition' and 'Economic Cost as an Indicator for Comparable Effort',<sup>6</sup> underlining the importance of this approach to understanding comparable burden.

In relation to the four metrics used in the draft report, the BCA makes the following comment:

*Pledges on absolute emissions reductions provide the least information about relative burden*

The BCA notes that of the five countries highlighted in the discussion of this metric in the draft report – Norway, New Zealand, USA, Japan and Canada – Canada has previously had difficulties in achieving their pledge; Japan has significantly downgraded its pledge; and the USA has no national policy agreement to meet its pledge.

It is worth mentioning that Australia's -5% commitment is equal to that of the EU (nominally -20%), which has the very significant advantage of an umbrella commitment covering 27 nations.

*The Draft Report chooses to present the data on emissions intensity in absolute terms*

This is a serious distortion of the measure of relative effort and implies the extraordinary outcome that all countries should converge to the same emissions intensity.

If, on the other hand, the data was correctly presented in terms of the percentage reduction in emissions intensity implied by the pledges – that is, relative effort – then the conclusions are very different to those drawn by the CCA.

When analysed in this way, Australia's -5% commitment represents a 45% reduction; EU is a 30% reduction; Norway is 53%; USA is 36%; UK is 39%; and Germany is 40%.

On this measure of relative effort, Australia's -5% is significant and more than matches other advanced countries.

*The BCA has argued that the business-as-usual metric is a reasonable measure of relative effort, although it does not fully comprehend relative costs to nations*

As the draft report shows, Australia's -5% commitment is at least as strong as other advanced economies, with the exception of the USA (note, however, the caveat above on the USA).

*The metric of changes in per person emissions has a major theoretical drawback because of the data that is used in the UNFCCC negotiations*

This UNFCCC data is based on emissions production in a country, whereas a stronger theoretical basis for using emissions per person as a metric would be data on emissions consumption in a country.

The difference is significant as, based on production data, Australia's emissions per person are around 27t, while based on consumption they are perhaps around half that number and similar to most other wealthy nations.

Nevertheless, when the data based on production is correctly presented to show relative effort, Australia's -5% commitment is much stronger than most other nations. Australia's -5% commitment represents a 32% reduction in emissions per person; the EU is a 16% reduction; Norway is 44%; USA is 27%; UK is 29%; and Germany is 26%.

The BCA is concerned that, using the four incomplete metrics adopted by the CCA, the draft report inappropriately concludes that Australia's -5% commitment is inadequate.

The evidence presented here by the BCA using the CCA's data confirms the opposite conclusion.

<sup>4</sup> Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP).

<sup>5</sup> Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

<sup>6</sup> <http://www.climatechange.gov.au/sites/climatechange/files/files/Economic-cost-comparable-effort-submission-AWG-KP-and-AWG-LCA.pdf>

The table below compares the views expressed by the BCA in its submission to the CCA's Caps and Targets Issue Paper of June 2013 with the recommendations of the CCA in its draft report. The BCA is disappointed that very few of its views have been reflected in the CCA's current thinking.

Table 1: Review of CCA Draft Report and BCA's submission

Issue	BCA's submission	CCA Draft Report	BCA comment
Global emissions reductions that limit average global warming to 2 degrees Celsius and a target for Australia of -80% on 2000 greenhouse gas emissions by 2050.	This is an appropriate starting point but the CCA should not be restricted to this one scenario, given the limited progress in international negotiations and country actions.	The CCA restricts itself to this scenario notwithstanding that it agrees with the BCA that “the cumulative effect of current 2020 emissions reduction pledges falls short of what is required to hold temperature increases below 2 degrees”. <sup>7</sup>	Recommending that Australia unilaterally continue on a trajectory to 80% below 2000 emissions by 2050, while the rest of the world lags behind, does not meet the CCA's test of being “economically efficient, environmentally effective, equitable and in the national interest”. <sup>8</sup> Other, more realistic scenarios need to be exposed to the community.
Australia's -5% unilateral commitment	The BCA supports continuation of this commitment at this time as it is at least as strong as that of other advanced economies.	The CCA suggests that the commitment is not an appropriate target.	The CCA draft report presents evidence, when correctly analysed that -5% is stronger than most other nations. This assessment is strengthened given government policy is to meet the commitment from domestic abatement alone.
Australia's conditional offer of up to -15%	The BCA contends that there is no global agreement under which major developing economies commit to substantially restraining their emissions and advanced economies take on commitments comparable to Australia's. <sup>9</sup>	The CCA suggests three arguments (see BCA comment next column) as to why it believes that the conditions “appear to have been met”. <sup>10</sup>	The BCA: <b>(1)</b> does not agree that the draft report presents evidence of advanced economy commitments or pledges comparable to Australia's; <b>(2)</b> contends that the 2 degree aspiration is not relevant to the conditions set by the government; <b>(3)</b> does not agree that, based on the modelling, a move to -15% can be achieved at low economic cost.
Measures of comparable commitments	Computable general equilibrium (CGE) modelling should be used by the CCA to guide an assessment of Australia's comparable burden relative to that of other advanced economies. This has long been central to Australia's negotiating position.	No comparative CGE modelling of the economic burden of advanced economy commitments is presented in the draft report by the CCA – “the Authority considers that the costs of emissions reductions – by themselves – are not an appropriate way to determine Australia's fair share of the global emissions budget.” <sup>11</sup>	The CCA agrees that cost alone cannot determine equitable burden sharing. However, consistent with Australia's long-held negotiating approach, the CCA must adopt an approach that compares the economic costs that Australians are expected to pay to, in the immediate term, Americans, Europeans, Canadians and Japanese; and in the longer term, to emerging advanced economies such as China, the Republic of Korea, India, Mexico and Brazil.

<sup>7</sup> Commonwealth of Australia, *Reducing Australia's Greenhouse Gas Emissions – Draft Report*, Climate Change Authority, Canberra, October 2013, p. 8.

<sup>8</sup> Commonwealth of Australia, *Caps and Targets Review Issues Paper*, Climate Change Authority, Canberra, April 2013, p. 3.

<sup>9</sup> Compilation of economy-wide emissions reduction targets to be implemented by Parties included in Annex I to the Convention, <http://unfccc.int/resource/docs/2011/sb/eng/inf01r01.pdf>.

<sup>10</sup> Commonwealth of Australia, *Reducing Australia's Greenhouse Gas Emissions – Draft Report*, Climate Change Authority, Canberra, October 2013, p. 9–10.

<sup>11</sup> Commonwealth of Australia, *Reducing Australia's Greenhouse Gas Emissions – Draft Report*, Climate Change Authority, Canberra, October 2013, p. 100.

Recommending trajectories	The CCA should refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost	The CCA proposed a trajectory range that would be subject to periodic review, having regard to developments in: <ul style="list-style-type: none"> <li>• climate change science</li> <li>• what other countries are doing</li> <li>• the likely costs of achieving different targets.</li> </ul>	The BCA supports the nomination of Australian emissions budgets to 2020, 2030 and 2050 under a range of potential global agreement scenarios, but remains opposed to the legislating of trajectories, including trajectory ranges.
Role of international emissions reductions in Australia's commitments.	The BCA submission was made in the context of the former government's support of the policy to allow international emissions reductions to meet Australia's commitments. The BCA continues to support this policy.	The government should consider allowing the use of international emissions reductions to go beyond its minimum 5 per cent commitment. Moreover, the government could consider using genuine international emissions reductions to complement domestic efforts to achieve Australia's minimum 5 per cent commitment.	The BCA continues to support the use of international reductions to meet the -5% commitment.  Should the government consider taking on a commitment beyond -5% for 2020, the BCA supports this recommendation
Level of caps under Australia's current emissions trading legislation	The caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors.	The CCA's approach is to set caps such that all of the burden of emissions reduction is legislated to be on the covered sectors.	The CCA approach is economically inefficient as it assumes emissions reductions in the uncovered sectors are more expensive than in the covered sectors. The CCA approach would simply drive greater purchase of international emissions reductions than is efficient. The BCA notes that the CCA fails to recommend caps for the -5% commitment, which is the only international commitment Australian Governments have entered into.
Review of policies and measures	The review should concentrate on the task of defining potential global emissions budgets and Australia's comparable burden under those budgets, and leave the issue of future policies and measures for another review.	The draft report has not pursued this issue	The BCA agrees with the approach taken.

## Recommendations

The BCA urges that the CCA to adopt in its final report the approach recommended by the BCA in its June submission:

- In assessing the scope of international commitment to global emissions reduction, the review only take account of what other countries are actually doing or have pledged via concrete, verifiable steps, as distinct from any stated political aspirations.
- Further, in assessing what countries are actually doing, the review should consider the actual impacts of these particular policies on businesses in those countries.
- Australia maintain its current commitment to net emissions of -5% of 2000 levels by 2020 as there is no evidence to suggest that any of the conditions needed to trigger consideration of an increase to that commitment have been met and, further, it is clear that at -5% Australia's commitment more than matches the pledges of other advanced economies.

- In addition to a scenario that would potentially meet the aspiration of restricting the increase in global warming to 2 degrees Celsius, the CCA needs to consider a range of less ambitious international action scenarios that require Australia's fair share of the international burden to be less stringent than an emissions 'target' of -80% of 2000 levels by 2050
- The CCA adopt an approach to determining Australia's fair share of any global emissions budget that equates the economic costs that Australians are expected to pay with those of similar wealth such as, in the immediate term, Americans, Europeans, Canadians and Japanese and, in the longer term, emerging economies such as China, the Republic of Korea, India, Mexico and Brazil
- The CCA should consider confining its recommendations on Australia's commitments under different global emissions response scenarios to defining appropriate QELROs and caps, and refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost and therefore not warranted.
- The caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors.

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