

Climate Change Authority – Caps and Targets Review

Submission from Grattan Institute

Introduction

In this brief submission, we have made some general comments and recommendations of principle and some specific comments on particular matters identified in the Issues Paper. There are a number of important areas identified in the Issues Paper where we feel unqualified to offer any opinion. For example, the principles for determining Australia's share of a global climate change objective are more likely to be determined by complex international politics and negotiations rather than on economic principles.

Principles

Independence of the Authority

The Issues Paper seems to reflect a degree of ambivalence regarding the extent to which the Authority is independent of a particular government or its policies. This results in inconsistent language within the document. The Authority lays claim to independence, and therefore should be providing advice to government that is independent of current policy positions of either incumbent government or opposition. However, the Review encompasses matters related specifically to the current carbon pricing mechanism. If the Review is constrained by the policies of the current government, then it would seem to act against the independence of the Authority and throw into question the logic of creating an Agency outside the department structure. Presumably, this is not the intent.

Whilst elements of the Issues Paper begin from non-political or even bipartisan positions (e.g., acceptance of the global objective of two degrees warming and Australia's unconditional and conditional 2020 targets), others are based on a position supported only by the government (e.g., the 80% by 2050 target). This is made more difficult by the fact that the Authority was established by the current Labor Government and the current Opposition's position that the Authority should be disbanded. Furthermore, it is clearly challenging to make recommendations on long term targets when there is such a difference between the main political parties on the basic policy tenets. The Issues Paper is silent on this question.

The Issues Paper does contain elements in this context that seem inconsistent. For example, the Issues Paper says that the Authority will not examine the merits or detailed design of the Government's carbon pricing mechanism, and yet it flags that it may identify opportunities to improve the existing policy portfolio and that it will assess the effectiveness and efficiency of current policy in delivering projected emissions reduction.

Recommendation 1: It is recommended that the Authority should develop its advice for government as an independent agency. This means that the Review should clearly identify those issues that can be addressed on a truly independent basis and those that arise from or are constrained by current policies or require assumptions of policy.

Recommendation 2: Inconsistencies that arise from the above difficulty in separating principles and policy should be explicitly identified and, ideally, resolved.

Credibility, predictability and flexibility

Setting targets and caps without consideration of their intent and consequences is theoretically interesting but ultimately of little value. The European ETS, and already the Australian ETS, have suffered major credibility difficulties through unpredictable fiddling with the policy mechanism itself, or in the introduction of other policies that have an element of climate change impacts in their rationale or design.

The inherent uncertainty about future climate change science, policy developments and technologies means that targets cannot and should not be portrayed as being rigid and fixed. Attempts to do otherwise will not be credible and recent history has done much to demonstrate the problem. A better approach would be for the Authority to lay out a framework for targets, including best estimates of targets consistent with the best science and political information available today, together with the elements that define how targets should be progressively changed in response to changing knowledge and circumstances. Rather than certainty, the Authority should describe a target-setting framework that is credible and predictable in the way that it responds flexibly to such changes. This also means less emphasis on targets beyond 2020 and through to 2050.

The concepts of firm targets and gateways described in earlier climate change reviews in Australia can provide a valuable source of ideas in this area.

Recommendation 3: In setting targets, the Authority should place most emphasis on a credible and predictable framework for future targets, rather than attempting to set firm targets that will be inherently incredible and unpredictable. The latter is poisonous to decision-making in general and long-term investments in particular.

Policy portfolio and complementarity

Climate change policy globally has been fraught with policy complexity and inconsistency leading to various combinations of policies that could all generally be described as “a dog’s breakfast”. These issues relate to the central climate change policy instrument (ETS, tax, or regulation) and equally to other policies that may be described as complementary (feed-in tariffs, emissions standards, tradable green certificate schemes etc). For example, the Renewable Energy Target becomes an industry policy with no impact on emissions reduction in the context of an ETS, whilst such a scheme may have a role in efficient emissions reduction in the context of an alternative central policy instrument.

The setting of caps and targets does not take place in a policy vacuum and the Authority could add some real value by identifying the key parameters that should be considered by policy-makers. A statement of principle in this area would not require the Authority to take a view on a specific policy or policy portfolio.

Recommendation 4: The Authority should set out principles for good policy design that would flow from the framework in which targets and then caps are determined. These principles should specifically cover examples where policies become redundant or take on a role that is other than complementary.

Specific Issues

Setting targets

As indicated above, the Authority can take the bipartisan support for no more than two degrees of warming long term objective and the agreed targets for 2020 as the bases for setting targets. Whilst various trajectories can be plotted, it would be more useful to identify a framework for setting interim targets and for modifying such targets within a predictable set of principles or rules.

There will need to be a link established between the global warming objective and Australia's long-term target. In the absence of an alternative, equal per-capita emissions and a contraction and convergence approach with differentiated early-years allocations seems to be robust. We are not qualified to propose an alternative, but note that Australia's target will be determined at least partly by the outcome of international negotiations.

The Issues Paper seems to put equal weight on the Government's 2020 target and the 2050 target, even though the former has bipartisan support and the latter does not. The Authority proposes to take the latter as a given without justifying this decision. This is a non-trivial issue and should be substantiated.

The political context also becomes more relevant when the Review is considering a 2020 target other than that currently in place. The Issues paper identifies "Australia's national interest" as a criterion for judging such targets. However, its failure to identify what this might be or what dimensions it might include is a gap that should be filled.

Meeting targets

The Review would seem to have a valuable role to play in assessing the effectiveness and efficiency with which Australia's policy settings achieve targets. Criteria for the latter should be enunciated. However, the Issues Paper also refers to risk management and national welfare criteria and these seem far more fraught with difficulty unless they are clearly defined and measurement criteria established well in advance of any assessment.

International trading

International trading should be a fully acceptable element to support Australia's meets its emissions reduction targets. Whilst economic principles might suggest there be no constraint on the application of such permits, it is likely to be more judicious to set some limits as has already be done with the existing policy and then relax these as the integrity of the various systems with which Australia becomes linked is established.

The description of the current allowance regime of up to 50% of a liable party's obligations as "generous" seems to carry a value judgement that is made without justification. The Authority should make it very clear there is no sound principle that values domestic mitigation over overseas mitigation other than the integrity of the reductions, or alternatively, it should establish such a principle.

Technology development

The Issues Paper indicates that the Review will consider the linkage between international developments and emissions-reducing technologies. The purpose of such a consideration is unclear

and it is questionable as to what possible reason the Authority might have for looking at specific technologies or what value such an assessment might provide towards setting targets and caps. In the absence of such arguments, there is a risk that the Authority extends its range of interests beyond its core remit and, in doing so, weakens its overall effectiveness.

The use of economic modelling

Economic modelling can be useful in exploring alternative scenarios, particularly given the range of uncertainties that apply over the timeframe to mid-century that seems to have been adopted by the Authority in the Review. However, government climate change policies have consistently become unstuck when they are based on a particular scenario or forecast. The Authority should be particularly vigilant in avoiding such dependence. At the very least, it should clearly identify any conclusions or recommendations that rely on particular projections and that would be different given different, plausible, projections.

The Issues Paper proposes economic modelling to enable the Review to consider the scale and cost of emissions reduction opportunities. Apart from describing possible future scenarios, it is unclear as to how, if at all, such considerations would be used in setting targets and caps. Economic modelling of this type can be at best a waste of time and resources if not put in an appropriate context.

The modelling approach proposed for the Review sensibly builds on previous approaches and uses the same modelling framework as applied by others with some credibility. The description of how this economic modelling will be applied in assessing the impact of the actions of other countries and the economic and social impacts of different targets seems to dwell entirely on costs, with little or no consideration of benefits. This was a key issue for the Stern and Garnaut reviews and requires some particularly tricky long-term analysis, including considerations of appropriate discount rates. The Issues Paper is silent on such matters, and yet they would seem critical to the judgements the Authority would appear to be making.

Consideration of various drivers to emissions reduction

The Issues Paper envisages the establishment of a framework for evaluating progress through to 2050, noting that such a framework should remain relevant in the face of changing policies. Tracking progress towards long-term targets in a framework that has established predictable rules for the adjustment of shorter-term targets and caps is a valuable activity. Beyond that, there are references to sector-specific monitoring that seem puzzling and that would be of questionable value.

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