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Response to the Climate Change Authority's Second Draft Report: Australia's Climate Policy Options

February 2016



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and Industry

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Summary of Recommendations

The following submission to the Climate Change Authority responds to the Second Draft Report: Australia's Climate Policy Options, released in November 2015.

Recommendation 1:

- Australia should pursue emissions reduction through plurilateral agreements that involve our major trading partners and competitors to ensure mitigation actions have a material impact on climate change and all countries take a reasonable share of the emissions reduction burden.
- The climate change policy measure needs to take into account not just the actions of other developed OECD countries, but also those countries with which Australia competes for different commodities.
- As a major global energy supplier and trade-exposed nation, Australia should consider how it will respond to the corresponding actions of our relevant trade partners.
- Rigorous cost-benefit analysis should be undertaken of the existing opportunities for transitioning to a lower-carbon-emitting economy.

Recommendation 2:

- The Government should engage business to determine appropriate reporting requirements based on COP21 outcomes.

Recommendation 3:

- A climate change policy response should include market-based solutions that minimise regulatory costs and increase competitive forces. It should also allow the economy to adapt to emissions-reducing actions as efficiently as possible.
- Any climate policy response should be scalable.

Recommendation 4:

- Non-market-based mechanisms can have merit. Any non-market-based mechanisms should be complementary to any nationally determined market-based mechanism.
- Non-complementary state and federal policies that do not address market failures should be abolished.
- Where non-market-based mechanisms exist, the extent of enforceability should be considered.

Recommendation 5:

- Climate change policy should be stable and predictable. It should have a long-term perspective in order to provide certainty.

Recommendation 6:

- Climate change policy should be integrated with well-designed energy policy.
- Initiatives such as the 2xEP, aimed at increasing energy productivity, should be encouraged and supported by government.

Recommendation 7:

- The Australian Government should promote and export existing adaption technologies developed by Australian businesses.

Recommendation 8:

- Better align the methodologies of the ERF and energy efficiency schemes. There are indications that this will be advanced in 2016. Better alignment might encourage firms that are familiar with other schemes to participate in aggregation projects under the ERF.

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1 Introduction

The Australian Chamber of Commerce and Industry (Australian Chamber) welcomes the opportunity to respond to the Climate Change Authority's (CCA) Second Draft Report: Australia's Climate Policy Options.

In short, the Australian Chamber identifies the following issues as central to the debate:

1. climate change is an enduring issue for Australia;
2. some action by Australia on climate change is inevitable;
3. climate change policy certainty is the preeminent issue over certainty of Australia's target; and
4. business wants practical lowest-cost emissions abatement to achieve Australia's nationally determined contribution (taking into account carbon leakage).

The Australian Chamber is encouraged that the Government is taking the issue of climate change seriously. Climate change is a substantial domestic economic issue, which has already had substantial impacts on agriculture and other sectors. For this reason, Australia must play an appropriate part in mitigating adverse climate change at the global scale.

However it is important to acknowledge that Australia is one of the smallest emitting nations at around 410,000 million metric tons of carbon dioxide equivalent (Mt Co2e) compared with China at over 10 million Mt Co2e and the USA at 5 million Mt Co2e. Unilateral actions in Australia to reduce emissions will have little impact on global Co2 concentrations in the atmosphere.

It is also important to acknowledge that Australia is a major global supplier of energy in the forms of fossil fuels and uranium. Australia is also a major global provider of food (which provides energy), creating a strong national interest to ensure our supplies of these to the world are not harmed by domestic policy decisions.

The Australian Chamber asks the Government to deepen its dialogue and consultation with business regarding sustainable solutions to meet the 2-degree limit agreed at the 2015 Conference of Parties (COP21).

In light of the broader outcomes from the COP21, it is understood that the Review will consider a response that takes into account the following:

- Long-terms goals for collective effort:
 - holding the increase in the global average temperature to well below 2 degrees and pursuing efforts to limit the increase to 1.5 degrees above pre-industrial levels;
 - peaking global greenhouse gas emissions as soon as possible;
 - achieving net zero greenhouse gas emissions in the second half of the century.
- Nationally determined voluntary contributions to be submitted every five years and scaled up each time.

In response, the Australian Chamber recommends the following points be integrated into any future climate change policies:

- Targets and timelines should be set as far out as 2050.
- A strategy to achieve those targets should provide policy stability.
- Clarity on the market mechanisms should be put in place, with a preference for a framework that is market-based.
- Competitiveness of efficient Australian industries should be maintained.

Achieving the guiding objectives requires that policy targets should:

- be based on the principle that the benefits accrued exceed the cost of measures;
- be set so that Australia's emissions reduction effort should neither lead nor lag the rest of the world; and
- only be implemented when there is a reasonable expectation they will achieve their intended outcome.

The Draft Report provides an excellent summary of the current mitigation schemes in place and available to Australia at this time, along with a summary of more aggressive market and non-market based policies that have been proposed. However, the principles for assessing policies set out in Chapter Two do not include any mechanism for assessing the long-term costs and benefits to the Australian economy of the various options.

With regard to specific endorsement of one policy option over another, the Australian Chamber is agnostic. We advocate for the lowest-cost emissions abatement and mitigation scheme, which is likely to be environmentally effective and economically responsible, including consideration of responsibly managed nuclear power that could provide zero-emissions energy to the world.

2 International competitiveness

As stated in previous Australian Chamber submissions, Australia's commitment to reducing emissions should not be at the expense of Australia's competitiveness, nor seriously undermine economic growth or the country's role as a major global supplier of energy.

Without an internationally binding, broad-based agreement, whereby all parties are legally required to reduce emissions, the threat of carbon leakage remains. Australia is one of the smallest producers of greenhouse gases in total terms, yet takes its responsibility to reduce emissions seriously. If Australia moves unilaterally on the issue and as a result raises the cost of investing and doing business in Australia, the opportunity for businesses to move offshore to avoid costs associated with carbon abatement become more significant.

Furthermore, the climate change policy needs to take into account not just the actions of other developed OECD countries, but also those countries with which Australia competes across our various sectors.

In light of the COP21 outcome, whereby a legally binding agreement was not reached, future policy should tread carefully to ensure our framework does not work as a disincentive to invest or do business in Australia.

Of additional concern to the economic stability of Australia is how the rapidly changing global financial position will impact on our internal business activity. Australia is already experiencing a sharp reversal in our terms of trade due to the collapse in commodity prices, although the volumes of materials being exported are still high by historical standards. A substantial oversupply of internationally available coal and natural gas, along with reduced economic activity in key markets, are largely responsible for falling commodity prices. Lower prices for coal and gas will in turn continue to ensure they remain the favoured energy sources for some time to come.

While all nations recognise the need to take action on greenhouse gas emissions, most developing economies also argue that achieving energy security at low cost is essential for their economic development. The major economies of China, India and developing Asia are embracing alternate fuels while also maintaining strong development programs for coal fired base-load energy. Our agreement enabling the supply of uranium to India will assist India to adopt zero-emissions base-load power at a fast rate. Coupled with our cleaner coal and natural gas, Australia maintains an important global role in assisting other nations to reduce their emissions in a way that is also in our national economic interest.

We are also well positioned as an advanced nation within a developing rim of nations. Our skills in modern town planning, urban transport management, smart and clean buildings and operations as well as agricultural production under adverse conditions are also areas where we can reach out to other nations and export valuable services that assist others to develop in the most environmentally friendly way while also generating revenue for our nation.

The Review asks if there are any other principles that should be included for assessing policies other than cost-effectiveness, environmental awareness and equity. It is suggested there should be a comprehensive cost-benefit analysis of the opportunities for transitioning Australia's economy into a lower-carbon-emitting future. The reference group for such an analysis would be confined to Australia and include its export industries.

Finally, Australia's ability to meet its emissions reductions targets will be underpinned by cultural change. Therefore, additional criteria for assessment could include the "ability to effect cultural change". Previous attempts at carbon pricing have included features that increased costs to emitters but also provided offsetting compensation to households. These models blunt the behavioural changes necessary to develop a culture of reducing emissions and improved energy efficiency. The recent National Innovation and Science Agenda has recognised the need to develop a more innovative culture, and has established several initiatives and programs to encourage individuals and firms to be more entrepreneurial and collaborative. A similar emphasis on culture could be applied to climate policy.

Recommendation 1:

- Australia should pursue emissions reduction through plurilateral agreements that involve our major trading partners and competitors to ensure mitigation actions have a material impact on climate change and all countries take a reasonable share of the emissions reduction burden.
- The climate change policy measure needs to take into account not just the actions of other developed OECD countries, but also those countries with which Australia competes for different commodities.
- As a major global energy supplier and trade-exposed nation, Australia should consider how it will respond to the corresponding actions of our relevant trade partners.
- Rigorous cost-benefit analysis should be undertaken of the existing opportunities for transitioning to a lower-carbon-emitting economy.

3 Impact of COP21 reporting requirements

The COP21 outcome document outlines recommended reporting mechanisms to be adhered to by all signatories. These outcomes are detailed, requiring transparency in accounting and reporting regarding mitigation and adaption strategies, effectiveness, volumes, prices and financial contributions. The outcomes state that aggregate performance reports must include private sector contributions. The above suggests the reporting process is likely to be intrusive and potentially costly to business. As such, the Australian Government needs to consider the process by which it will engage with industry in order to fulfil its international obligation – being mindful that additional reporting mechanisms can drive up costs and reduce productivity.

Recommendation 2:

- The Government should engage business to determine appropriate reporting requirements based on COP21 outcomes.

4 Importance of a market-based solution and scalability

The Australian Chamber believes that Australia's climate change policy response should include market-based solutions rather than regulatory costs. Incentives should allow the economy to adapt to emissions-reducing actions as efficiently as possible. Since Australia alone is unable to seriously affect climate change outcomes, it is imperative that the country's climate change policy can be integrated into a global approach (as discussed in section 2). In the event of traded emissions management, Australia should participate in credible international credit schemes that allow for the lowest-cost abatement to be sourced from around the world.

Business already has high incentives to reduce costs in order to remain competitive. This includes the existing markets for fuel sources, energy and the other built-up costs of production. We also have existing legacy systems of power generation and distribution that do not easily lend themselves to alternate diffuse source generation, storage and release. Innovation in these areas is taking place and there needs to be an emphasis on removing barriers for new market entrants and encouraging disruption to ensure that competitive forces are the main driver for improvements in our energy use and supply mix.

Additionally, there must be balance between emission-producing and emission-absorbing activity as both activities contribute to reductions in the absolute concentration of greenhouse gasses in the atmosphere. The use of a market-based mechanism with even treatment for both absorption and abatement will ensure the lowest-cost abatement methods are applied. This will maximise the benefit-cost ratio of implementing any given policy target.

Finally, Australia's climate change policy measure should be easily scalable. The Paris Agreement calls for reviews of Nationally Determined Contributions every five years, which present an opportunity for Australia to amend its greenhouse gas emissions reduction targets in response to actions by other countries. Australia will not be exempt from any additional international pressure should the targets change over time.

Recommendation 3:

- A climate change policy response should include market-based solutions that minimise regulatory costs and increase competitive forces. It should also allow the economy to adapt to emissions-reducing actions as efficiently as possible.
- Any climate policy response should be scalable.

5 The role of non-market-based solutions

The Second Draft Report document outlines the role of non-market-based solutions. The Australian Chamber argues that complementary policies linked to climate change that address other market failures can have merit. Non-complementary state and federal policies that do not address market failures should be abolished.

For example, the National Construction Code is a non-market based mechanism applied within the built environment. The following issues have been identified by Australian Chamber members:

- The strong case for improvements in the performance standards of the code need to be complemented by a stronger emphasis on compliance.
- Due to a lack of oversight and legislative authority, there is a tendency for self-certification, which undermines the role of building surveyors.
- Building surveyors are often not given the tools, time or resources to monitor building performance.
- Those being audited tend to be those who have submitted compliance certificates, and therefore those most likely to be compliant.
- Improvements in the code are required; however, an emphasis on compliance and enforcement is also necessary.
- Such schemes can add costs to construction and building operations which reduce our competitiveness.

Recommendation 4:

- Non-market-based mechanisms can have merit. Any non-market-based mechanisms should be complementary to any nationally determined market-based mechanism.
- Non-complementary state and federal policies that do not address market failures should be abolished.
- Where non-market-based mechanisms exist, the extent of enforceability should be considered.

6 Climate change policy should be stable and predictable

A clear issue voiced by Australian business is the need for a stable and predictable policy framework, allowing businesses to adapt and invest in alternative technologies that are long-term focussed. Since 2007 Australia has contemplated or introduced a variety of climate change policy measures including the Carbon Pollution Reduction Scheme, the Clean Energy Plan and more recently the Emissions Reduction Fund. Policy frameworks that change frequently can discourage business from modifying their behaviour if it is deemed the return on investment will not be achieved. The lack of long-term policy certainty has resulted in increased risk premiums for investment.

An inconsistent and unpredictable approach in climate and energy policies, both on a national and international level, will inevitably limit the effectiveness of any climate change initiative.

The Australian Chamber advocates for a single, bipartisan, consistent national response to climate change policy. Multiple local, state and federal schemes impose further compliance costs on business and can distort the effect of a national market-based scheme.

Recommendation 5:

- Climate change policy should be stable and predictable. It should have a long-term perspective in order to provide certainty.

7 Integrating climate change policy with energy policy

Climate change policy should be integrated with well-designed energy policy. At present, energy policies result in significant cross-subsidies between different classes of energy producers and customers, which in turn distorts consumption decisions. The Renewable Energy Target (RET) has been successful at encouraging investment in solar and wind power but at a time when electricity demand growth has been stagnant, so it has contributed to an oversupply of generation capacity and a high cost per tonne of abatement. In addition, generous state feed-in tariffs and non-cost reflective network tariffs have created distortionary incentives.

Renewables cannot yet provide base-load power at scale due to the economics of electricity storage. Until that improves, it is necessary to have a transitional policy that eases the cost pressures on businesses in jurisdictions such as South Australia that have extraordinarily high renewable generation as a direct result of the RET.

Furthermore, the Australian Chamber strongly supports improved energy productivity. We have engaged extensively by participating with the Australian Alliance to Save Energy (A2SE) on the 2xEP initiative, which seeks to double Australia's energy productivity by 2030. It is expected this program will create new job and investment opportunities, lower costs to business and reduce overall energy demand by applying a broader-based policy that increases our global competitiveness.

The Australian Chamber would welcome the opportunity to partner with the Government to further develop this initiative and accelerate the roll-out across Australia and potentially internationally.

Recommendation 6:

- Climate change policy should be integrated with well-designed energy policy.
- Initiatives such as the 2xEP, aimed at increasing energy productivity, should be encouraged and supported by government.

8 Adaption policies

Even with a global effort to reduce climate change to 2 degrees, Australia and our neighbours are likely to experience the marked consequences of climate change, such as extreme weather events, changing rainfall patterns and modified coast lines. This gives rise to the need for adequate infrastructure planning and construction that allows for business continuity and an acceptable standard of living to be maintained in Australia and abroad. It also emphasises the need for continued research into resilient agricultural systems and blend breeding programs.

The Australian Chamber supported the Turnbull Government committing \$A1 billion of aid funding to build climate resilience and reduce emissions, which will assist developing countries with infrastructure and climate-proofing projects. Our skilled people and businesses can play a major role while also generating valuable national income. Leveraging Australia's climate change research, development and innovation internationally makes sense as the country moves to more knowledge-intensive industries.

The Australian Chamber believes that adaptation measures are an important hedge against inadequate global action to mitigate climate change, while also providing an opportunity for Australian companies to export technology, services and expertise to developing and non-industrialised countries.

Recommendation 7:

- The Australian Government should promote and export existing adaption technologies developed by Australian businesses.

9 Government purchase of emissions reductions

To date, the building, construction and property sector has largely abstained from participating in the Emissions Reduction Fund (ERF). This is due to the complexities associated with lodging a project and the risk (real or perceived) associated with not delivering the promised emissions reductions.

The Department of the Environment and the Clean Energy Regulator have undertaken work on some methodologies that might be more appealing or accessible to the sector; however the fund is still only likely to be accessible by large companies.

Low- and mid-tier buildings have been identified as a significant opportunity for energy efficiency projects and emissions reductions. Although, the combination of projects theoretically allows these types of buildings to participate in the ERF, in reality the nature of the building owners and occupiers means this is unlikely. Energy efficiency targets are more accessible for this segment of the market.

Recommendation 8:

- Better align the methodologies of the ERF and energy efficiency schemes. There are indications that this will be advanced in 2016. Better alignment might encourage firms that are familiar with other schemes to participate in aggregation projects under the ERF.

10 About the Australian Chamber

10.1 Who We Are

The Australian Chamber of Commerce and Industry speaks on behalf of Australian business at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

We speak on behalf of the business sector to government and the community, fostering a culture of enterprise and supporting policies that keep Australia competitive.

We also represent Australian business in international forums.

Our membership comprises all state and territory chambers of commerce and dozens of national industry associations. Individual businesses also get involved through our Business Leaders Council.

10.2 What We Do

The Australian Chamber strives to make Australia a great place to do business in order to improve everyone's standard of living. We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

Australian Chamber Members

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