



## REPORT BY THE CLIMATE CHANGE AUTHORITY

### Statement by the Chair, Mr Bernie Fraser

27 February 2014

The Climate Change Authority has today released its final report and recommendations on “Reducing Australia’s Greenhouse Gas Emissions”, as called for in the *Clean Energy Act 2011*.

The Authority’s major recommendation is that Australia target a minimum reduction of 15 per cent in greenhouse gas emissions – compared with 2000 levels – by 2020. This would represent a significant tightening of Australia’s existing commitment to reduce emissions in 2020 by a minimum of 5 per cent.

Adoption of the recommended 2020 target would constitute a responsible response by Australia at this time to the challenges of climate change. These challenges will require sustained actions by Australia (and other countries) and the Authority has made a number of recommendations to help guide policy makers in the decades beyond 2020.

#### **The Science**

As it is required to do, the Authority has consulted widely with stakeholders and carefully weighed many considerations in coming to its recommendations. Particular weight has been given to the accumulating scientific evidence that global temperatures have been trending upwards over the last 50 years and that greenhouse gas emissions from everyday activities by businesses and households are the major driver of this trend. Assessments of future social and economic consequences of on-going global warming are necessarily more provisional than the identification and explanation of the trend itself but are nonetheless very challenging.

In broad terms, mainstream climate science suggests that many of the social, economic and environmental impacts of climate change might be manageable if, for the long term, warming could be held to 2 degrees Celsius (compared with pre-industrial levels) – certainly more manageable than they would be if temperatures were to rise by 4 or 5 degrees.

The same body of climate science also suggests there is a 2 in 3 chance – a 67 per cent probability – that the rise in global temperatures would be held to 2 degrees if total global emissions between 2000 and 2050 were to be limited to 1,700 billion tonnes of greenhouse gas emissions (in carbon dioxide equivalent tonnes). What makes climate change such a challenging task for policy makers everywhere is that roughly a third of this global emissions “budget” has been used already.

There are signs that momentum in other countries to address climate change is growing. In particular, the world’s two largest emitters, China and the United States, are stepping up their efforts to reduce emissions. Australia should play its part in this global endeavour.

#### **Emissions Reduction Targets and Guidance for Australia**

Against this background the Authority believes adoption of its recommendation for a minimum 2020 emissions reduction target 15 per cent below 2000 levels would be a credible response by Australia to the

task of containing the rise in global temperatures. It would require concerted action over the years to 2020, the more so given that emissions in 2012 were about 2½ per cent *above* 2000 levels.

Australia has some emission credits which have accrued under the Kyoto Protocol as a result of its emissions in recent years being less than its Kyoto target. These credits can be carried forward to the 2013-2020 period and are equivalent to an extra 4 percentage points on Australia's 2020 target. The Authority has recommended that these credits be applied to extend the minimum 15 per cent target for 2020 to an effective target of 19 per cent (rather than be offset against the recommended minimum of 15 per cent or, for that matter, against the current commitment to a minimum 5 per cent reduction).

Even with the large reductions in emissions envisaged in the Authority's recommendations for 2020, sustained actions would continue to be required in subsequent decades.

The Authority calculates Australia's fair share (about 1 per cent) of the global emissions 'budget', estimated to give a 67 per cent probability of holding warming to under 2 degrees, as a national emissions budget of 10.1 billion tonnes of greenhouse gas emissions for 2013-2050. The Authority recommends emissions reductions of between 40 and 60 per cent below 2000 levels by 2030 – the centre of this range is consistent with this national emissions budget.

This recommended 'trajectory range' is intended as guidance for longer-term policy and investment decision making in the climate change area. It also highlights the important trade-offs involved: a smaller reduction in emissions in the period to 2020 would push more of the burden of adjustment into later periods and onto future generations.

In its deliberations the Authority has had access to various modelling activities, including work published by the Intergovernmental Panel on Climate Change (IPCC) and work commissioned from the Treasury; these are detailed in the report. The assumptions fed into these models and the outcomes produced will, inevitably, change over the years, and possibly in substantial respects. There is no reason to believe, however, that the net effect of such changes will be favourable in terms of the emission reductions tasks facing Australia and other countries.

To help manage the risks inherent in all modelling exercises the Authority has recommended that the trajectory range and national emissions budget be reviewed at least every 5 years, having regard to developments in climate science, international actions, and other relevant factors.

### **Costs of Emissions Reduction Goals**

As required by its legislation, the Authority's primary focus in this Review has been on Australia's goals for reducing emissions (and progress towards them), rather than possible measures (and their costs) for pursuing these goals; these latter considerations, however, have necessarily entered into its deliberations.

The costs of delivering any emissions reduction target depends on the particular suite of measures implemented for the task. This is very uncertain territory at present: the carbon pricing mechanism is slated for abandonment but the details of the Government's alternative Direct Action Plan are still being developed. The Government has also announced it will review the current Renewable Energy Target arrangements over the months ahead. These matters will need to be clarified before meaningful estimates of the costs of achieving domestic emissions reductions can be made.

The Authority has, however, drawn attention to two particular matters related to measures and costs.

First, given the magnitude and complexity of the challenges posed by climate change it makes sense for policy makers to access the widest possible range of policy tools – to use market mechanisms (including prices on carbon and emission trading schemes) where these work effectively, and non-market arrangements (including regulations and standards) where they do not work well.

Several prospective opportunities for pursuing reductions in emissions are identified in the report. At this time the Authority is recommending that the Government investigate the possible early introduction of CO<sub>2</sub> emission standards for light motor vehicles.

Secondly, to be competitive in the lower carbon global economy of the future, Australia should be developing cost effective programs now which, by reducing domestic emissions, will not only assist in the necessary structural transformation of the economy but also open up opportunities for new investments and exports.

Even in a generally receptive political environment these kinds of initiatives would have quite long lead times before any resultant reductions in emissions began to emerge. In the meanwhile, however, to bridge the gap between what domestic actions can achieve and Australia's 2020 goals international emission reductions could be purchased. In terms of reducing global emissions and helping to limit the rise in global temperatures, such purchases would have much the same effects as reductions in domestic emissions.

A large supply of genuine emissions reductions is currently available in global markets at historically low prices. The budgetary cost of moving from the current minimum 5 per cent target to the Authority's recommended target entirely through international purchases is estimated at between \$210 and \$850 million, assuming average unit prices of between \$0.50 and \$2 (current prices are under \$1).

The Authority has recommended that the Government establish a fund to purchase international units to help meet the recommended 2020 goals.

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### ***Background Note***

*The Climate Change Authority is an independent statutory body established in 2012 to provide expert and balanced advice on climate change policy issues (including Australia's emission reductions goals). It comprises members with considerable expertise in relevant disciplines, including climate science and economic policy, and is backed by an experienced and independent secretariat. The Government has introduced a Bill to abolish the Authority; that Bill is still before the Parliament.*