

Business  
Council of  
Australia



# **Business Council of Australia**

**Submission to**

**The Strategic Review of Climate Change Programs**

May 2008

## INTRODUCTION

The Business Council of Australia (BCA) represents the Chief Executives of over 100 of Australia's leading companies. The BCA develops and advocates, on behalf of its Members, public policy reform that positions Australia as a strong and vibrant economy and society. The businesses that the BCA Members represent are amongst Australia's largest employers and represent a substantial share of Australia's domestic and export activity. Therefore they have a significant interest in the scope and direction of economic reform.

In its submission to the 2007–08 federal Budget, the BCA set a goal for Australia to lift its living standards into the top-five band of the world's developed economies by 2012 and in the process, provide additional opportunities and the means to pass on prosperity to future generations.

Such an economic growth goal is not at odds with effective environmental management, but does require reforms aimed at 'internalising' environmental costs and risks, most notably with regard to greenhouse gas emissions and the risks associated with climate change. The introduction of such reforms in the absence of a global response however, must be in a manner that does not disadvantage Australia's competitiveness and ensures a smooth long term transition to a low emissions economy in line with global action.

With the election of the current federal government there is a renewed focus on national and international responses to climate change and in particular the design of a national emissions trading scheme.

The federal government is taking a leadership role in establishing clear national policy, governance and legal frameworks which facilitate the reduction of green house gas emissions and prepare Australians to adapt to the possible impacts of climate change.

The federal government has identified both the setting of emissions reduction targets and the implementation of a national emissions trading scheme by 2010 as key components of its climate change policy response.

The current Strategic Review of Climate Change Programs (the Review) initiated by the federal government provides an important opportunity to ensure Australia can achieve its emissions reduction in the most cost effective way. The Review should ensure the conclusion, consolidation and winding up where necessary of programs, the outcomes of

which, are better served by an emissions trading scheme or the development of new alternative programs designed to address a specific market failure. Where ever possible programs that are in place following the introduction of the emissions trading scheme should be national or coordinated in a manner to ensure there are not inconsistencies at the state and territory level.

The BCA has undertaken extensive research and work with its members to identify the key considerations and principles that should underpin international approaches to emissions reduction, the setting of emissions targets and the design of a national linkable emissions trading scheme.

Throughout this work it has become apparent that the plethora of federal and state based programs related to emissions reduction and the take-up of alternative forms of energy supply have the potential to reduce the effectiveness of the emissions trading scheme, increase regulatory and administrative burden of business and prevent the attainment of least cost emissions reduction.

Many of these programs were initiated at a time when there was not a coherent national approach to climate change and no commitment to an emissions trading scheme. This has now changed and the Review is well positioned to ensure climate change programs do not adversely impact on emissions trading and address only market failures.

### **BCA RESPONSE – A STRATEGIC FRAMEWORK FOR EMISSIONS REDUCTION**

Decisions related to climate change policy and action should be developed taking account of the following six critical considerations:

1. An effective, sustainable response to climate change is ultimately about moving from our current high-emission global economy, of which Australia is part, to a low emission global economy. This is a complex transition which will impact all nations and the communities and business of these nations.
2. The challenge of controlling emissions and hence climate change will be won or lost at a global level. Developing countries will likely contribute 70% of the growth in future world emissions, and will soon be the source of the majority of world emissions.
3. The most effective system to reduce emissions is one primarily based on a market solution. Market structures provide the basis for the identification of least cost solutions and build in the incentives to innovate.

4. Given the scope and scale of the transition implicit in effectively reducing emissions, a multi-faceted approach is essential. While a market-based solution is the primary vehicle, other supporting policies and initiatives will be required to ensure the research and development necessary to identify technology solutions including low emissions technologies, improve energy efficiency and build Australia's adaptation capabilities.
5. The necessity of a global-based solution does not mean Australia cannot make a significant contribution to such a solution, or demonstrate leadership by formulating responses that can be used as a template or guide for other countries to adopt.
6. Australia can and should implement strategies nationally which:
  - reduce emissions relative to a business-as-usual outlook;
  - ensure the abatement is that which is lowest cost;
  - include arrangements to address the impacts on trade exposed emissions intensive industries in the absence of a global carbon price; and
  - provide investment certainty to enterprises and investors.

The BCA also identified that the substantial revenues that result from the introduction of an emissions trading scheme should be used strategically to support investment in low-emissions technology research, development and demonstration and adaptation.

## **PRINCIPLES TO UNDERPIN THE INTRODUCTION OF COMPLEMENTARY PROGRAMS**

The essential starting point for any set of principles to guide program development should be the policy framework features identified by Minister Wong in her speech of 6 February 2008:

- An efficient and effective national emissions trading scheme will be 'at the heart' of emission reduction efforts;
- Measures put forward to be additional to emissions trading must clearly identify and demonstrably address market failure; and

- The emissions trading scheme and any additional measures must 'reduce emissions at least cost' and 'push down the costs of emissions reductions'

To these the following principles should be added:

- Where an area of the economy which has emissions is not included in the emissions trading scheme, programs should be developed over time; and
- Any measure introduced in addition to the emissions trading scheme should be introduced as part of a national response and in a nationally consistent manner.

In light of these principles consideration should be given to the role of the renewable energy target (RET) which is a key plank of the government's current policy agenda.

A clear strategy for the conclusion of this policy should be identified in light of the final design detail of the emissions trading scheme. The ongoing support of the RET policy following the introduction of emissions trading is likely to lead to higher cost than necessary emissions reductions. The clear identification of an actual market failure and a targeted policy intervention to address the specific failure may well be the more appropriate approach.

The Review relates to Commonwealth programs. However business has for some time highlighted the need to review and windup climate change programs at both the state and federal level in anticipation of the commencement of the Australian emissions trading scheme. This is an essential step to ensuring least cost emissions reduction. It will however require both the identification of transition processes and the recognition compensation is likely to be required where property rights are extinguished.

## **POSSIBLE AREAS OF MARKET FAILURE**

The BCA in its previous work has identified a number of areas of potential market failure which may require policy and program interventions. These include ensuring the necessary level of research, development and demonstration of low-emissions technology and undertaking the planning for adaptation to climate change.

## **RELATED AREAS FOR CONSIDERATION**

It is also apparent that policies such as electricity price caps have the potential to significantly undermine the effectiveness of emissions trading. It remains essential to establish a true national market for energy removing artificial constraints on its operation.

Maintaining price caps will shield energy users from the price signal related to greenhouse emissions and potentially reduce incentives to move to less emissions intensive energy sources.

## **CONCLUSION**

The benefits of rationalising the current array of federal and state programs and regulatory processes such as licensing and project approvals which are related to climate change, greenhouse gas reporting and energy efficiency should not be underestimated. The establishment of a set of principles consistently used to assess any policy, program or regulation proposal will assist in attaining least cost abatement.

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