

Business
Council of
Australia



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**Submission to
The Garnaut Climate Change Review
on
Emissions Trading Scheme Design Principles**

April 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 Garnaut Review, through the release of a number of papers and an interim report, has highlighted a number of critical issues and possible responses.

THE BCA CLIMATE CHANGE RESEARCH AGENDA AND TIMELINE

The BCA has undertaken extensive research and work with its members to identify the key considerations and principles that should underpin both the setting of emissions targets and the design of emissions trading schemes.

This submission provides a summary of the work to date. Attached are copies of the previously released research reports on these matters.

In light of the additional research, policy options and approaches to emissions trading raised through the Garnaut Review over the past few months, the BCA is currently undertaking further work to better understand the possible implications on business and the economy of these matters and will release further research in the coming months.

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.

International Action

A prosperous Australian economy will be essential to dealing with the consequences of action taken to reduce greenhouse gas emissions and transform a high emission global economy to a low emission global economy.

A key step in ensuring the sustainability of Australia's economy whilst addressing climate change will be to take actions calibrated in response to Australia's contribution to global emissions, in line with international action and include processes that address competitiveness risks where other countries do not have a price on greenhouse gas emissions.

In this context the process for setting targets for emissions reduction in Australia should be both rigorous and transparent ensuring emissions reduction targets which are credible and achievable for Australia.

Australia can establish credible targets that provide the basis for a smooth, long-term transition to a low emissions economy and which recognise the unique features of the Australian economy, international progress in emissions reduction and our contribution to global emissions.

Establishing credible targets will require extensive national economic modelling, data collection and analysis and an appreciation of the likely climate change policies and targets of other countries, particularly those with whom we trade and compete.

There is not currently a comprehensive global agreement to reduce emissions by set amounts in future decades. Without this underpinning any targets that Australia sets must therefore weigh a range of factors:

- targets should take into account what is actually occurring internationally;
- targets should be credible and sustainable;
- targets should be technically feasible;
- the costs associated with achieving these targets should be understood by the community; and
- targets should be long term in nature so as to support forward price discovery, reduce uncertainty and allow for better risk management with the caveat that there also exists a well understood and transparent review mechanism that allows for the consideration of changes such as our knowledge of the climate science or the level of international target setting.

The Garnaut Interim report has considered many of these matters and has explored possible responses. The BCA is supportive of the concept of a 2050 budget with possible interim targets in partnership with emissions trading scheme design elements such as banking and borrowing.

However, as noted by Professor Garnaut, Australia taking unilateral action ahead of other major emitting nations will not of itself make a significant contribution to global reductions so the critical issue remains - setting national emissions reduction targets that indicate Australia's resolve to assist in emissions reduction but not to do this in a manner that adversely affects Australia's competitiveness. The modelling currently underway through both the Garnaut Review and the federal government should assist us in better understanding this matter.

Designing a national emissions trading scheme

An internationally linkable, national emissions trading scheme will facilitate the achievement of least-cost emissions reduction. Such a scheme will require institutional and governance arrangements which ensure a transparent and informed market and the minimisation of government intervention.

In previous work *Strategic Framework for Emissions Reduction* (2007) the BCA identified the key features of a national emissions trading scheme:

- the establishment of an emissions trading regime that is long term in nature;
- the establishment and operation of relevant measurement and verification mechanisms as a first step prior to trading;
- the inclusion of all greenhouse gases;
- incorporation of all industry sectors in the scheme or utilise other policy measures to ensure an equivalent carbon price for non participating sectors;
- access to verifiable and legitimate offsets;
- permits should be structured so as to give holders clear property rights;
- the auctioning of all permits other than those allocated to industries that are trade (import and export) exposed and emissions intensive and those provided to businesses that have experienced disproportionate loss;
- the establishment of an independent permit issuing authority; and
- the facilitation of an active secondary market.

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

The BCA also concluded that an essential feature of a national approach to climate change policy must be the rationalising and conclusion of the current range of regulations, programs and policies at both the federal and state level that have the potential to adversely impact on the emissions trading scheme and lead to higher-than-required energy prices.

The Garnaut Review has also indicated the importance of many of these features and proposed further elements. It has also explored different approaches to some of these features. The Garnaut Review has also proposed alternative approaches to the identification of trade exposed emissions intensive industries and arrangements to address competitiveness and carbon leakage issues.

CONCLUSION

The BCA is currently undertaking further research to understand and test the implications associated with the implementation of the different design options outlined in the Garnaut Review.

The BCA looks forward to making a further contribution to the design of a national emissions trading scheme in the coming months following the conclusion of current research the BCA is undertaking.