

Business
Council of
Australia



submission

BCA Response to Issues Paper:
Setting Australia's post-2020 target
for greenhouse gas emissions.

APRIL 2015

*Working to achieve
economic, social
and environmental
goals that will benefit
Australians now and
into the future*

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The Business Council of Australia (BCA) is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

About this submission

The Business Council of Australia is making this submission in response to the release by the Department of the Prime Minister and Cabinet of the issues paper: *Setting Australia's post-2020 target for greenhouse gas emissions*.

The submission provides comments on matters that need to be taken into consideration in setting Australia's post-2020 target and makes a number of recommendations in relation to setting Australia's greenhouse gas emissions reduction goals.

Key points

Australia's participation in the international negotiations to finalise a post-2020 agreement is important in terms of both bolstering the negotiations and in ensuring other countries understand Australia's national circumstances.

The Australian Government has agreed to provide its post-2020 intended nationally determined contribution (INDC) well before the United Nations Framework Convention on Climate Change (UNFCCC) meeting in December 2015 and has agreed that targets should be contributions towards achieving the UNFCCC goal to 'stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system'.

Australia will need to strike a balance in setting its post-2020 target such that it is neither disproportionately too high, nor too low and is commensurate with the level of change communities and individuals will tolerate over time.

In setting a post-2020 target the government should weigh the following factors – Australia's appropriate share; what other countries are actually doing; technical feasibility, environmental credibility and economic cost.

Australia's post-2020 target should not be set without the community having a clear understanding of the structural adjustment required, how the transition will occur, how risks to competitiveness will be addressed and the time frame over which the transition will occur.

The move in the UNFCCC processes to a bottom-up approach to setting post-2020 greenhouse gas emissions reduction targets, with each nation specifying their post-2020 intended nationally determined contribution (INDC), reinforces the notion that countries will determine their targets with a strong eye to national self interest, that is, the community's capacity and willingness to pay.

National circumstances do matter. On 2013 data Australia constitutes 0.3 per cent of the world's population, contributes 1.3 per cent of global greenhouse gas emissions and is the 15th largest greenhouse gas emitter and makes up 2 per cent of global GDP. Mineral and energy exports accounted for over 50 per cent of Australia's exports in 2014 while the OECD average was 11 per cent.

Between 2008 and 2013 Australia reduced emissions intensity by 4.6 per cent while on average GDP grew by 2.6 per cent per annum. Australia's emissions per dollar of GDP have improved by 50 per cent since 1990 in comparison with countries such as the USA (40%), Canada (15%), Japan (11%) and the EU (40%). Australia's emissions per capita have decreased by 25 per cent over the period 1990 to 2014.

Australia should determine its fair share of global greenhouse gas emissions reduction on the basis of comparable effort and knowledge of what other countries are actually doing. This will require computable general equilibrium modelling. Such an approach would help show what happens when Australia increases the costs of production in the Australian economy at rates similar to or different from other economies.

There is benefit in also using a range of other measures to show Australia's progress in greenhouse gas emissions efficiency, and measuring the benefit of substituting Australia's LNG and less emissions intensive coal for more greenhouse gas emissions intensive sources of energy overseas.

In developing policies to achieve the post-2020 target there should not be a repeat of the policy flux of the past fifteen years and community awareness and support for changes in the costs of goods and services, and the location and structure of industry and future employment opportunities will need to be assured.

Moving to a low emissions economy will require investment and much of that investment will have long pay back periods. Policies will need to provide a predictable and stable investment environment, acknowledge the long-term nature of the investment and be developed following comprehensive consultation with those affected and those that will provide the solution.

Recommendations

The Business Council recommends:

- Australia continue to participate in international climate change negotiation processes to both foster progress and reinforce Australia's national circumstances, including in regard to future accounting methods used to describe allowable greenhouse gas emissions and calculate targets.
- In determining Australia's INDC, the government should strike a balance in setting its target such that it is neither disproportionately too high, nor too low and is commensurate with the level of change communities and individuals will tolerate over time.
- Australia's post-2020 target should be set having a clear understanding, which is transparent and accepted by the community, of the structural adjustment required, level and time to transition, and approach to managing risks to competitiveness.
- As has previously been the case, the government should use the level of effort or cost to make the change in greenhouse gas emissions, that is, the comparative effort as the measure of fairness of any target.
- The government should undertake computable general equilibrium modelling so as to better understand the comparative effort or burden of any proposed post-2020 target.

- The government should publish the outcomes of computable general equilibrium modelling to better inform the community that the post-2020 target reflects Australia's fair share, the scale of effort required for Australia to achieve the target post-2020 and how it compares with what other major economies are proposing.
- The government should give consideration to extending the range of measures published on a regular basis to inform the Australian community of changes in greenhouse gas emissions in the Australian context. Such measures could include:
 - a measure of greenhouse gas emissions per unit of productivity for Australia and other major emitters, as a mechanism to provide a picture of the emissions intensity of an economy
 - the impact on greenhouse gas emissions reduction of substitution of Australian LNG and coal, which has lower greenhouse gas emissions, for more emissions intensive energy sources internationally, as the global economy transitions to low emissions energy sources.
- The government should give consideration to using 2005 as the base year and 2025 as the target year.
- The government express any post-2020 greenhouse gas emissions target as a net target, making provision for sequestration and international offsets.
- In considering policies to achieve a post-2020 target the government should provide a predictable and stable investment environment, acknowledge the long-term nature of the investment and be developed following comprehensive consultation with those affected and those that will provide the solution.

Background

Australia is one of over 190 countries taking part in the current international negotiations to determine an agreement to reduce global greenhouse gas emissions.

The Australian Government has agreed, along with other countries that are part of the UNFCCC, to provide its post-2020 intended nationally determined contribution (INDC) well before the UNFCCC meeting in December 2015.

As part of the process Australia has agreed that targets should be contributions towards achieving the UNFCCC goal to 'stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system' (UNFCCC, article 2).

Current scientific analysis suggests that this means reducing emissions to a level which limits global warming to less than 2 °C above pre-industrial levels.

In setting a post-2020 target the government has announced a number of factors to be considered:

- continued strong economic growth, jobs growth and development in Australia

- recognition of Australia's national circumstances including the structure of the economy, projected economic growth, resource endowments, geography and demography
- the scope and nature of other countries' targets – such that Australia's target represents Australia's fair share and does not put Australia at a competitive disadvantage¹
- The government is seeking community views on the post-2020 greenhouse gas emissions reduction INDC.

Matters to be considered in developing Australia's INDC

Being part of a global response

Reducing global greenhouse gas emissions requires action on the part of all major emitters.

In its 2007 report² the Business Council argued that Australia should be part of a global response to risks associated with climate change, recognising that action was required by all major emitters to both address the global environmental risks and minimise the competitiveness risks for Australia if its trade competitors did not act. The Business Council made the following points with regard to the setting of Australia's greenhouse gas emissions reduction target at that time. The points remain relevant today.

Without this underpinning (a global response including all major emitters), any targets that Australia sets must therefore weigh a range of factors:

- any targets should be credible environmentally in that Australia should seek to take its appropriate share of the burden to reduce emissions to provide the reductions that the now prevailing science suggests the world requires
- the Australian targets need to take account of what other countries are actually doing, as distinct from any stated "political" aspirations that are not backed by concrete steps
- any targets must be technically feasible
- the community needs to know the broadly expected cost to the economy of meeting the targets, and needs to see these costs as acceptable.³

Australia's participation in the international negotiations to finalise a post-2020 agreement are important in terms of both bolstering the negotiations and in ensuring other countries understand Australia's national circumstances.

Importantly, as negotiations progress, Australia's continued focus on ensuring transparency and comparability of all INDCs will remain essential. Already there are signs that different base years and target years will make comparisons difficult.

Australia will need to strike a balance in setting its target such that it is neither disproportionately too high, nor too low and is commensurate with the level of change communities and individuals will tolerate over time.

¹ Department of Prime Minister and Cabinet, *Setting Australia's post-2020 target for greenhouse gas emissions* Issues Paper, March 2015, pp. 6–7.

² Business Council of Australia, *Setting Achievable Emissions Targets for Australia*, May 2007

³ *ibid.*

Australia will also need to ensure its INDC is in line with the expectations that were discussed and agreed by all countries (including Australia) at the UNFCCC Lima meeting in December 2014, namely that INDCs should be:

- a progression beyond the country's current undertaking
- transparent, easy to understand and announced well in advance of the UNFCCC Paris meeting in December 2015.⁴

Considering Australia's national circumstances

In the lead up to the Kyoto Protocol a key theme to understanding Australia's national circumstances related to land use. Our circumstances were different to those of other developed countries where there was a large population spread across the country and extensive urbanisation with resultant historical land clearing. There were opportunities Australia could take in terms of land management which would contribute to greenhouse gas emissions reduction. Hence the strong focus at that time, and subsequently, on establishing accounting methods and rules so that land use change could be included in greenhouse gas emissions reduction targets.

Appreciating Australia's national circumstances is just as important as we consider Australia's post-2020 INDC.

On 2013 data Australia constitutes 0.3 per cent of the world's population, contributes 1.3 per cent of global greenhouse gas emissions and is the 15th largest greenhouse gas emitter and makes up 2 per cent of global GDP. In parallel, Australia is the largest exporter of iron ore and coking coal, as well as the second largest exporter of thermal coal and third largest exporter of uranium, and is projected to be the largest exporter of LNG by 2018. Mineral and energy exports accounted for over 50 per cent of Australia's exports in 2014 while the OECD average was 11 per cent.⁵

Australia is also at risk of the adverse impacts of climate change resulting from the historical growth in greenhouse gas emissions, including the acidification of the ocean, greater weather variation, storm surges and sea rises.

Since 1990 Australia has seen a significant improvement in its greenhouse gas emissions productivity. Between 2008 and 2013 Australia reduced emissions intensity by 4.6 per cent whilst on average GDP grew by 2.6 per cent per annum.⁶ Australia's emissions per dollar of GDP have improved by 50 per cent since 1990 in comparison with countries such as the USA (40%), Canada (15%), Japan (11%) and the EU (40%).⁷ Climateworks noted in its recent work on decarbonising the Australian economy that Australia's emissions per capita have decreased by 25 per cent over the period 1990 to 2014.⁸

⁴ UNFCCC Lima, *Call for Climate Action*, paragraph 10, December 2014.

⁵ Australian Government (Department of Industry and Science), *Energy White Paper*, April 2015.

⁶ PwC, *Two degrees of separation: ambition and reality Low Carbon Economy Index*, PwC UK, September 2014.

⁷ Trading Nation Consulting, *Climate Policy and Australian Resources Trade*, 2015.

⁸ Climateworks, *Pathways to Deep Decarbonisation*, 2015.

As the issues paper makes clear, in considering the post-2020 INDC there is a range of unique factors in relation to Australia's national circumstances that need to be taken into consideration, including the nature of Australia's population size and projected growth, resource assets, rate of economic growth, and historical reliance on lower cost energy from hydro carbons, such as coal and oil. The BCA endorses this approach.

Looking at the coming decades when there will still be a requirement for energy from hydro-carbon sources as globally countries balance shifting to low greenhouse gas emissions economies while improving standards of living, there is another factor that warrants consideration – namely the global greenhouse gas emissions reduction impact of Australia's export of lower emissions energy sources.

There is a global environmental benefit where Australian LNG and coal, which has lower greenhouse gas emissions than many other competitors, replaces poorer quality and more greenhouse gas emissions intensive energy inputs.

Understanding the scale of benefit of this substitution, as the global economy transitions to low emissions energy sources, will be important to having a broader appreciation of Australia's contribution to reducing global greenhouse gas emissions.

Measuring Australia's fair share

Much of the debate with regard to identifying country INDCs relates to what is each country's fair contribution to the global post-2020 effort to reduce greenhouse gas emissions.

Australia has an important role to play in contributing to a global response to reducing greenhouse gas emissions. Determining Australia's fair share is, however, a complex matter.

It is the level of effort or cost to make the change in greenhouse gas emissions that best measures the comparative effort or fairness of any target.

As the Climate Change Authority has noted in its latest report on Australia's future targets, 'Australia's current economic structure and dependence on fossil fuels (particularly coal) for energy mean it must make a relatively greater effort than many other developed countries'.⁹

Treasury also has previously pointed out Australia faces a relatively greater economic adjustment than many other developed countries given the structure of the economy, reliance on coal, both domestically and as a major export, and relatively emissions intensive economy.¹⁰

We, therefore, need to ensure Australia's INDC contributes to reducing global greenhouse gas emissions and is in line with the commitments and, more importantly, the actions of

⁹ Climate Change Authority, *Australia's future emissions reduction targets*, special review draft report, April 2015, p. 15.

¹⁰ Australian Government (Treasury), *Australia's low pollution future: the economics of climate change mitigation*, 2008 pp 106–13.

other major emitters, while not reducing the competitiveness of Australia's trade exposed industries.

This requires the assessment of comparable effort or, in effect, the costs to a country of the policies it implements.

Simply looking at emissions per capita does not achieve this outcome. Nor does relying on comparing levels of emissions using the same historical base year or measures of emissions intensity. None of these measures provides a measure of cost.

Australia has previously made submissions in November 2008 and March 2009 to both the AWG-KP¹¹ and AWG-LCA,¹² titled respectively 'Australia's National Ambition' and 'Economic Cost as an Indicator for Comparable Effort',¹³ underlining the importance of this approach to understanding comparable effort.

Understanding the comparable effort remains important when considering Australia's post-2020 INDC. The Business Council endorses the position put by the Australian Government in its 2009 submission given it remains relevant, that is:

All developed countries should make mitigation commitments that represent a comparable effort, taking account of national circumstances, as part of the post-2012 outcome ...

It is important that indicators for comparable effort are robust, relevant, impartial and credible. Getting 'comparable effort' right will be crucial to the success of the post-2012 outcome, and is therefore critical to achieving the ultimate objective of the Convention to prevent dangerous anthropogenic interference with the climate system ...

One way to better reflect comparability of effort is to differentiate national emission reduction commitments according to relative economic costs.¹⁴

For this reason the Business Council is of the view that the government should undertake computable general equilibrium modelling so as to better understand the relative cost or burden of any proposed post-2020 target.

Such an approach would help show what happens when Australia increases the costs of production in the Australian economy at rates the same as or different from other economies.

Such modelling will better inform the community of the scale of effort required for Australia to achieve a post-2020 target and how it compares with what other major economies are proposing.

Other measures

There remains in the Australian community a level of concern that Australia has been a laggard in terms of reducing its greenhouse gas emissions.

¹¹ Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP).

¹² Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

¹³ <http://www.climatechange.gov.au/sites/climatechange/files/files/Economic-cost-comparable-effort-submission-AWG-KP-and-AWG-LCA.pdf>

¹⁴ <http://www.climatechange.gov.au/sites/climatechange/files/files/Economic-cost-comparable-effort-submission-AWG-KP-and-AWG-LCA.pdf>

It is true that on a per capita basis Australia is seen as a high greenhouse gas emissions country. What this measure does not reflect is the improvement of Australia's greenhouse gas emissions as reflected in the data earlier in this submission.

There is benefit domestically in understanding the change that is underway.

In tandem with measuring the comparable effort of any INDC Australia commits to, there would also be benefit in the government giving consideration to establishing a small number of additional measures of Australia's efforts to improve its greenhouse gas emissions performance.

Greenhouse gas emissions per unit of GDP can provide a picture of the emissions intensity of an economy.

Work undertaken by Deloitte Access Economics¹⁵ to measure greenhouse gas emissions per unit of GDP points to Australia's greenhouse gas emissions productivity improving in both absolute terms and relative to the average of the G20. A range of factors has contributed to this, including the changing nature of the economy, decreased electricity use and related to this the growth in renewable energy. This is an important consideration as countries seek to reduce global greenhouse gas emissions while maintaining economic growth.

While the work done by Deloitte Access Economics focused on G20 comparisons, there would be benefit in extending this analysis to include all major greenhouse gas emitting countries.

It should also be recognised that there is a global environmental benefit where Australian LNG and coal, which has lower greenhouse gas emissions than many other competitors, replaces poorer quality and more greenhouse gas emissions intensive energy inputs.

Understanding the scale of benefit of this substitution, as the global economy transitions to low emissions energy sources, will be important to having a broader appreciation of Australia's contribution to reducing global greenhouse gas emissions.

Base year

International climate change negotiations have for some years sought to get agreement from participating countries to the use of the same base year, so as to provide greater transparency and to facilitate easier comparisons of targets.

As Australia considers what base year should be used for the post-2020 INDC the same considerations should apply.

Given two of the major greenhouse gas emitting countries with strong trade links to Australia (China and USA) have announced the use of 2005 as their base year, there may be benefit in Australia moving to the same year.

¹⁵ Deloitte Access Economics, *Emission metrics: Australia's carbon footprint in the G20*, November 2014.

Target year

International climate change negotiations have not been able to resolve whether the post-2020 target should be for a 5-year or 10-year period. INDCs announced to date have included both, that is, the EU, Russia and China have used 2030; the US commitment is to 2025.

In the Australian context there is a tension between giving a longer-term view to assist business planning and investment, and getting ahead of decisions made in the international negotiations.

It is likely that the Paris agreement will include as part of the agreement both individual country INDCs and a future process to regularly review progress in achieving the targets and limiting global warming to less than 2 °C.

In this context it may be beneficial for Australia to set a target for 2025 and also provide some indication of direction between 2025 and 2030. This could be through the provision of an indicative range. Such an approach will assist those considering investment in long-lived assets.

What will also become important is the choice of policies for the period from 2016 through to 2025 and their capacity to facilitate a smooth transition to a low emissions economy and not be at risk of major change with successive governments over that time.

Managing competitiveness risks and policy choices for the future

The size of any Australian post-2020 target will spell out the scale of what must be achieved. Targets should not be set without an appreciation of the scale and time frame for structural adjustment and the cost the community is prepared to tolerate.

It is also important to understand that the other determinant of risks to Australia's competitiveness and impacts on households and business will be the policies introduced by successive governments to help ensure Australia meets any target.

Policies should not be introduced that do not factor in the capacity for the community, including business, to manage the transition.

For that reason it is important that consideration be given to what policy instruments will be required to deliver the INDC while not adversely impacting on competitiveness.

There are learnings to be had from the approach taken to domestic climate change policies over the last 15 years, which can only be described as a period of policy flux with the introduction of uncoordinated and poorly costed programs often having perverse outcomes and requiring continual adjustment.

At the height of this policy flux the Wilkins Review (2008) found that there were over 200 government programs aimed at addressing climate change.¹⁶ We have seen:

¹⁶ Department of Finance, *Strategic Review of Australian Government Climate Change Programs* (Wilkins review), July 2008.

- broad-ranging schemes such as the Carbon Pricing Mechanism and Direct Action
- energy-specific schemes such as NSW GGAS, Queensland Gas Scheme, state-based energy efficiency schemes, MRET/RET, specific state and federal rebates for solar technologies
- other sector-specific policies targeting transport (e.g. vehicle standards), land-use (e.g. land clearing) and waste (standards).
- R&D funding through various government and independent bodies such as the Australian Renewable Energy Agency (ARENA), and the Clean Energy Finance Corporation (CEFC).

These experiences should be taken into consideration as governments work through the policy design in support of any future target.

Moving to a low emissions economy will require investment and much of that investment will have long pay back periods. Policies will need to provide a predictable and stable investment environment, acknowledge the long-term nature of the investment and be developed following comprehensive consultation with those affected and those that will provide the solution.

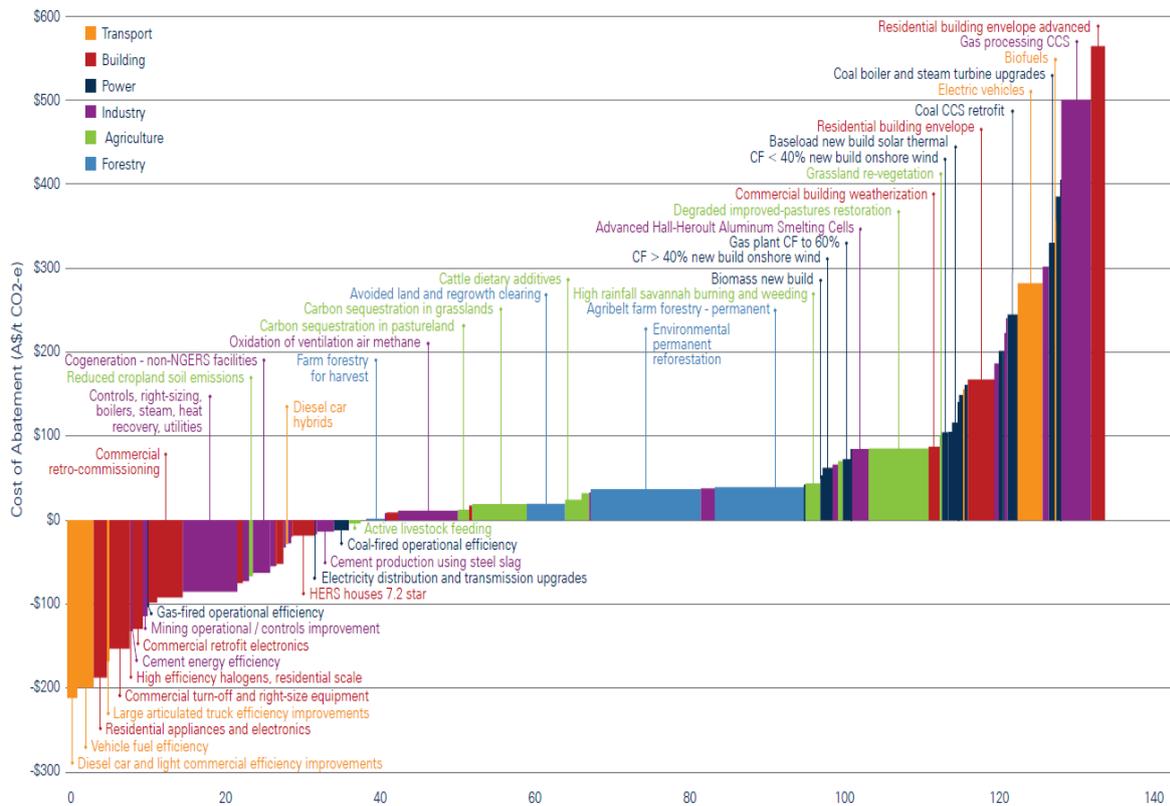
Two further interrelated matters that can help reduce the costs of achieving a future target and help offset competitiveness risks are a focus on net emissions reduction and access to international abatement opportunities.

Requiring Australia to achieve any future greenhouse gas emissions reduction target purely through domestic action will lead to an increasing reliance on higher cost abatement opportunities, adding to costs to industry as shown by the 2020 abatement cost curve recently released by RepuTex.¹⁷

While there are some low cost abatement opportunities in the near term, and processes related to turning over car fleets, white goods and industrial machinery will progressively assist in greenhouse gas emissions reduction, over time Australia will face higher costs of abatement to achieve a particular target.

¹⁷ RepuTex, *The lost years Australian abatement cost curve to 2020 and 2030*, February 2015.

Figure 1 – Australian 2020 carbon abatement cost curve



Australia should set its post-2020 INDC as a net emissions target, such that Australia can take the opportunity to use sequestration opportunities as they arise and access high quality and verifiable international abatement opportunities.

Access to these international abatement opportunities will, in many cases, mean lower marginal abatement costs than those in Australia.

There will be strong benefit in providing the flexibility to access international abatement opportunities, either through a mechanism that allows companies direct access, or some form of fund established by the government to purchase international abatement units.

This is not to say Australian households and industries should not continue to improve their emissions efficiency as has been the case for the last decade at least – rather it is to provide a buffer to the potential costs of future targets.

State-based initiatives and complementary policies

The issues paper notes that the government is both talking to the states about state-based greenhouse gas emissions reduction matters and giving consideration to complementary policies.

The Business Council asks that the government progress such discussions and consideration reflecting on the costs and complexity that arose for business in the late 2000s and early this decade.

As the Wilkins Review¹⁸ found, there were over 200 federal, state and local government programs aimed at climate change. Many of the programs conflicted with each other, were neither efficient nor effective, differentiated across the states and territories and were expensive to conduct.

While many of these programs have been wound back, there is every chance their reintroduction or the introduction of similar initiatives will lead to higher costs than necessary to achieve greenhouse emissions reduction.

¹⁸ Department of Finance, *Strategic Review of Australian Government Climate Change Programs* (Wilkins Review), July 2008.

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