



SUBMISSION

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## Contents

|   |          |
|---|----------|
| <b>About this submission</b>                                | <b>2</b> |
| <b>The Paris Agreement and the task ahead for Australia</b> | <b>2</b> |
| Building on the current policy framework                    | 2        |
| The importance of a nationally consistent policy framework  | 4        |
| Maintaining Australia's international competitiveness       | 4        |
| The role of international permits                           | 5        |
| <b>Conclusion</b>   | <b>6</b> |

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The Business Council of Australia 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 supports the Australian Government's decision to ratify the Paris Agreement. This submission briefly discusses the importance of the Paris Agreement and the key challenges that will arise as Australia strives to meet its targets. This submission also outlines core elements of the policy framework that will need to be addressed if Australia is going to reduce its carbon emissions, while remaining internationally competitive and sustainably growing our future economy.

## **The Paris Agreement and the task ahead for Australia**

Unconstrained climate change would have serious economic, environmental and social consequences for Australia. The 21st Conference of the Parties meeting in Paris in December 2015 reached a historic agreement (Paris Agreement) to limit global temperature rises to 'well below two degrees Celsius'. To achieve this will require deep global emissions reductions with most countries, including Australia, eventually reducing net greenhouse gas emissions to zero.

As of 5 October 2016, the Paris Agreement has been domestically ratified by 73 sovereign nations and it is pleasing that there is bipartisan support for Australia ratifying this historic international treaty.

The Business Council supports Australia ratifying the Paris Agreement.

Australia's commitment under the Paris Agreement of reducing greenhouse gas emissions by 26 to 28 per cent on 2005 levels by 2030 is a credible step on the path to decarbonisation.

The cost of achieving Australia's 2030 emissions reduction target will be a function of the size of the cumulative abatement task, the set of policies put in place to deliver the abatement, the rate of technological development in lower emission technologies and the cost and availability of international permits.

In determining future emissions reduction targets for Australia, consideration should be given to a range of factors including the global commitment under the Paris Agreement to keep temperature rises 'well below two degrees Celsius', the level of commitment of other comparable nations, and the cost of achieving particular targets.

Any increases to Australia's 2030 emissions reduction target should occur in the global context through the five-yearly reviews established under the Paris Agreement (commencing in 2018–2020). This will enable Australia to make this judgement once the policy landscape is clearer, the trajectory for technological improvement is better known and the availability and price of international permits can be broadly determined.

## **Building on the current policy framework**

The existing suite of policies is unlikely to be sufficient to meet Australia's 2030 target or the more ambitious future targets Australia may choose to adopt as envisaged under the Paris Agreement.

Australia needs a suite of durable post-2020 climate change policies that are integrated with broader energy policy and are capable of delivering Australia's emissions reduction targets, at lowest possible cost, while maintaining competitiveness and growing Australia's future economy.

Any suite of policies must have **three clear objectives**:

- Sustainable growth of the Australian economy.
- Reduction in the emissions intensity of the economy to enable Australia to meet future emissions targets.
- Unlock lower emission sources of comparative advantage.

Well-designed policies should deliver an economy that is investable, transformative and low-cost, while regaining our energy comparative advantage to drive future economic growth.

A suite of integrated energy and climate change policies should:

- be national and durable wherever possible, driven by bipartisan support
- be capable of achieving our committed emission reduction targets at lowest possible cost
- be scalable to meet future emission reduction targets while managing risk and uncertainty
- be flexible in the face of changing technology costs and consumer preferences
- be investable across all sectors and time horizons and provide confidence that long-term investment decisions can be made and adequate returns earned
- facilitate well-functioning energy markets, security of supply and cost effective energy delivery
- regain our energy comparative advantage
- support domestic abatement wherever it is efficient and internationally recognised, to drive transformation of the Australian economy
- make use of internationally recognised abatement from overseas to ease the transition and costs
- prevent the unnecessary loss of competitiveness by Australia's trade exposed industries and be cognisant of the second-order effects of the chosen policy suite across all sectors of the economy
- avoid disproportionate impacts on vulnerable people and low-income households and provide assistance if necessary
- assist the successful transition of communities that are especially vulnerable to economic shocks or physical risks.

To date, Australian climate change policies have been largely uncoordinated and inconsistent with broader energy policy, poorly costed, and, at times, have operated in conflict with each other. At the height of this policy flux, there were over 200 government programs aimed at addressing climate change.<sup>1</sup>

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<sup>1</sup> R Wilkins AO, *Strategic Review of Australian Government Climate Change Programs*, Department of Finance and Deregulation, Canberra, July 2008.

This policy instability has created a volatile investment environment that has contributed to higher prices and hindered transformational change in Australia's greenhouse gas emissions. Competing climate change policies have also created complexity, cost and unintended consequences at a sectoral level, leaving an enduring dysfunction in sectors such as electricity.

Political differences about the appropriate level of ambition for Australia's emission reduction targets are to be expected. However, it is important that there is broad alignment on the policy mechanisms for delivering a given target. Policy durability is a critical issue that will likely require a bipartisan approach.

Starting with the existing regulatory framework may represent the best opportunity to build consensus around a suite of durable, post-2020 climate change policies that are integrated with broader energy policy. In designing a suite of policies, there are a number of building blocks in the existing regulatory framework that could be utilised, including the Emissions Reduction Fund, Safeguard Mechanism, Ministerial Forum on Vehicle Emissions and the National Energy Productivity Plan.

### **The importance of a nationally consistent policy framework**

Harmonised action by state and territory governments has the potential to complement national carbon policies in important areas such as planning and land clearing.

However, unilateral action by state and territory governments can also undermine progress towards reducing emissions at lowest possible cost and add to the stock of burden in climate change regulation. In particular, where state and/or territory governments implement distortionary policies that impact national markets such as electricity, this can be particularly damaging to the investability, reliability, affordability and long-term transformation of the sector.

Where there are state-based climate change policies, governments should ensure they are consistent with national legislation, minimise variations between jurisdictions and are only enacted to address clear gaps or unique state circumstances.

Any measures, including possible state-based emissions reduction targets or renewable energy initiatives, should not proceed until the interaction with national emissions reduction targets is fully assessed and costed.

Wherever possible, energy and climate change policies should be nationally consistent and complementary.

### **Maintaining Australia's international competitiveness**

Carbon policies can have a significant impact on the competitiveness of Australian industry. While the Paris Agreement was generally positive, material differences in carbon policies, and therefore costs, will continue to exist and a new transparency system for future targets is yet to be negotiated in detail. Until this is finalised, tracking progress (and therefore the shielding measures in place in other countries) will be difficult.

While countries continue to have intensity-based targets (rather than absolute targets), the risk of carbon leakage will remain and needs to be addressed. Carbon leakage is when

carbon policies in one country force the relocation of that industry to another country and, as a result of the relocation, global emissions rise.

Similarly, where national policies in our major trading partners continue to provide exemptions for emissions intensive, trade exposed sectors, then there is a need for Australian policies to ensure there is a level playing field for these competing sectors. This could be reviewed periodically by a body such as the Productivity Commission.

To protect against carbon leakage and to ensure Australian emissions intensive, trade exposed industries are not at a carbon cost disadvantage to their competitors, shielding will continue to be required for this sector. The level of shielding required should be assessed on a sectoral basis and consider the climate change policies facing specific sectors in competitor countries.

### **The role of international permits**

The scientific consensus is that to reduce global temperature rises requires a reduction in the stock of greenhouse gases globally. This means that reducing a tonne of greenhouse gas emissions in Australia has the same impact on the stock of global greenhouse gases as reducing a tonne of greenhouse gases anywhere else in the world.

Without access to potentially lower-cost international abatement, the cost of achieving Australia's 2030 target could be very high. Australia should avail itself of low-priced carbon abatement if we can and full access to these units is essential.

Australia should also ensure that domestic carbon prices keep pace with international developments by allowing full access to international units.

Even relatively low carbon prices will send a signal to influence marginal decision making. However, low carbon prices will not support capital decision making and the large scale transformation that will be required of those sectors with long-lived assets.

Therefore, full access to international units should be coupled with complementary policies to transform those sectors with long-lived assets and/or significant abatement potential.

### ***Outlook for international permit markets***

The outlook for international permits beyond 2020 remains very unclear. The Paris Agreement recognises that some countries will continue to pursue voluntary cooperation to achieve their targets, but the framework for this remains highly uncertain.

The Paris Agreement also acknowledges that there have been some credibility concerns surrounding international units and the Agreement puts in place a process for improving the measurement, reporting and verification of emissions reductions along with a system to ensure there is no opportunity for double counting.

As less developed countries adopt emission reduction targets for the first time, the assumption that there will be an abundant supply of low-cost international units may not hold. International permit prices are expected to rise post-2020 as supply–demand conditions tighten.

It is therefore critically important that the Australian Government engages in international negotiations to ensure Australia has full access to credible international units at lowest possible cost.

Post ratification of the Paris Agreement, the Australian Government should ensure it is deeply engaged in all negotiations around the trade of international units, including Article 6 of the Agreement, to ensure Australia has full access to credible international units at lowest possible cost.

## **Conclusion**

The Business Council considers that with a suite of national, durable post-2020 climate change policies, that build on existing regulatory frameworks and are integrated with broader energy policy, Australia can meet its Paris Agreement commitments while maintaining its international competitiveness and achieving sustainable economic growth.

The Business Council therefore supports ratification of the Paris Agreement and we look forward to participating in the development and implementation of the policies that Australia needs to achieve our emission reduction targets.

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