

07 April 2015

Mr Bernie Fraser
Chairman
Climate Change Authority
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Business
Council of
Australia



Australia's emissions reduction commitment post 2020

Dear Mr Fraser

I write regarding the matters that the Business Council thinks should to be considered by the Climate Change Authority (CCA) as it considers what Australia's contribution to the UNFCCC deliberations on a post-2020 greenhouse gas emissions reduction goal could be.

I have attached copies of the BCA submissions to the previous CCA target review process for your information as many of the issues addressed in those submissions remain relevant for this current review.

It is in Australia's best interest to reach a successful outcome from the UNFCCC deliberations, which sees all major greenhouse gas emitting nations commit to action and implement policies to reduce global greenhouse gas emissions.

Global action is required to address the risks associated with climate change and to minimise the impacts on the competitiveness of the Australian economy and economic growth.

Considering what Australia's commitment should be

The level of Australia's contribution to global action post-2020, and the policies government implements to achieve this contribution, will have implications for the environmental success of any international agreement and Australia's economic growth, employment and standards of living over future decades.

The CCA should take this opportunity to expand on the measures of comparable effort it chose to use in its previous review:

- absolute emissions reductions or limitations
- emissions intensity
- deviations from business-as-usual
- changes in per person emissions.

Since the Berlin Mandate in 1995, successive Australian governments have made the case that relative economic burden is an important consideration in the setting of Australia's commitments to reduce emissions.

In giving consideration to what Australia's 'fair share' of any global greenhouse gas emissions budget should be, the CCA should determine what is the level of commitment that equates the economic costs that Australians will be expected to pay, with the economic costs of countries of similar wealth such as, in the immediate term, Americans, Europeans, Canadians and Japanese and in the longer term emerging economies such as China, the Republic of Korea, India, Mexico and Brazil.

Furthermore, in recommending what Australia's post 2020 contribution should be, the CCA should ensure its report informs the Australian community about the degree of change in different sectors of the economy over what time period is inherent in such a commitment.

Details of the transition implicit in any commitment should be well understood as this will aid community understanding of what is required on Australia's part in comparison to other countries.

Relative effort

On a related matter, a critical element of any deliberations to recommend what Australia's contribution should be is an appreciation of what other countries are actually doing now and what countries are committing to do in the future, and the required effort to implement these actions relative to Australia's effort.

In comparing the relative effort, the focus should be on Australia's trade competitors, not just trading partners.

Such an analysis will need to include a range of matters so that the full impact of commitments made by different countries are understood. For example, matters that should be considered in assessing the relative effort would include not only the nature of the policies, but time frames, coverage and sectoral exemptions, offsets or compensation.

Competiveness risks

The CCA has indicated that while its focus is on the possible post 2020 commitment it will be giving consideration to policy implications. It will be important that the CCA give consideration as to the achievability of the target, at what cost, industry competitiveness risks at the sectoral level and how to manage these costs to ensure there is not a heavy burden on households and business.

Yours sincerely



Jennifer A. Westacott

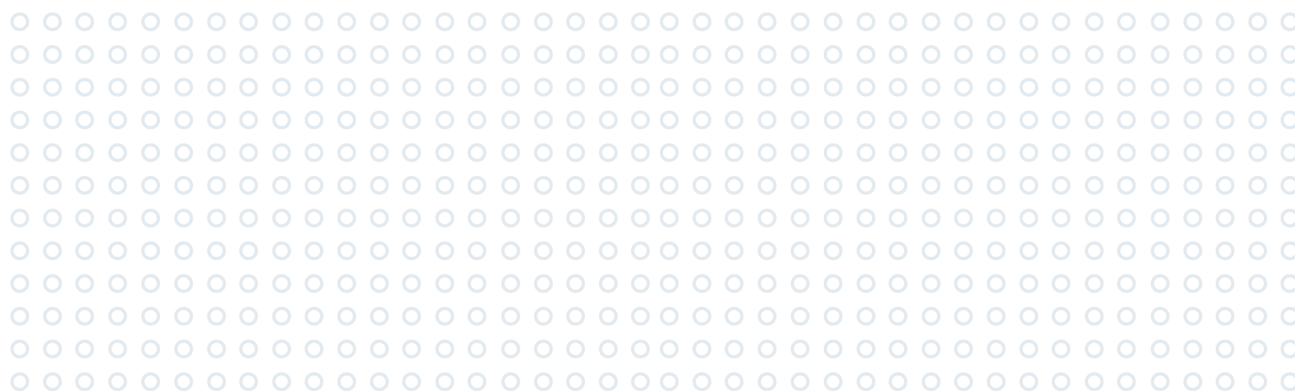
Chief Executive

Attachment/s: BCA submission to the CCA June 2013

BCA submission to the CCA November 2013

cc: The Chief Executive, Climate Change Authority

Business
Council of
Australia



Submission to the Climate Change
Authority regarding the Caps and
Targets Review Issues Paper

JUNE 2013

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The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

The BCA is making this submission in response to the release of the *Caps and Targets Review Issues Paper* by the Climate Change Authority. The submission provides comments on both the proposed approach to the review and makes a series of recommendations in relation to setting Australia's emissions reduction goals.

Key points

This review by the Climate Change Authority (CCA) can make an important contribution to framing Australia's international obligations in greenhouse gas emission reduction over the next 40 years.

To ensure the review can make such a contribution, the following matters should be reflected in the work of the CCA during the review.

The CCA should consider confining its recommendations on Australia's commitments under different global emission response scenarios to defining appropriate quantitative emission limitation and reduction obligations (QELROs) and caps, and refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost and therefore not warranted.

The review has taken as its starting point the scenario of Australia contributing to global emissions reductions that limit average global warming to 2 degrees Celsius and the Clean Energy Act 2011 legislated target for Australia of -80% on 2000 greenhouse gas emissions by 2050.

It is the view of the BCA that the review should not be restricted to this one scenario, given the limited progress in international negotiations and actual policies in place in the major emitting countries.

It is clear that the country pledges initiated in Cancun and carried through to Doha are not sufficient to launch the world on a 2 degree Celsius trajectory of emissions. Also, as the various country submissions to the recent second session of the Ad Hoc Working Group on the Durban Platform for Enhanced Action demonstrate, there is no evidence that international negotiations, whether within or outside the UNFCCC, will see a coordinated global agreement by 2015 that will meet this 2 degree Celsius aspiration.

In light of these realities, the CCA needs to incorporate into its review scenarios that fall short of the starting point proposed in the issues paper.

In order to make sensible recommendations about Australia's fair share of global burden, other less ambitious 'targets', budgets and caps will need to be considered – recommending that Australia unilaterally continue on a trajectory to 80% below 2000 emissions by 2050, while the rest of the world lags behind would not be "economically efficient, environmentally effective, equitable and in the national interest".¹ Such a course of action would not represent Australia's fair share of the global burden and would result in an over-allocation of Australian resources to mitigation relative to adaptation.

Computable general equilibrium modelling should be used by the CCA in this review to guide an assessment of Australia's comparable burden relative to that of other countries. This has long been central to Australia's negotiating position.

In the context of this review, the key reason to undertake economic modelling is to assess the economic and social implications of different Australia commitments and budgets, relative to those pledged by other similarly wealthy countries – not in isolation as would appear to be the approach

¹ Commonwealth of Australia, *Caps and Targets Review Issues Paper*, Climate Change Authority, Canberra, April 2013, p. 3.

of the CCA which concentrates on estimating domestic economic implications, rather than comparative international economic implications or against some assumed coordinated action as was done by Treasury for the CPRS Bill and Clean Energy Act.

While the review will assess whether the conditions exist that would warrant Australia moving beyond its -5% commitment, the BCA is of the view that the requirements spelt out by Australia in the Copenhagen Accord for a move beyond -5% and the conditions outlined in the issues paper have not been met:

Australia will reduce its greenhouse gas (GHG) emissions by 25 per cent compared with 2000 levels by 2020 if the world agrees to an ambitious global deal capable of stabilizing levels of GHGs in the atmosphere at 450 ppm carbon dioxide equivalent (CO₂eq) or lower. Australia will unconditionally reduce its emissions by 5 per cent compared with 2000 levels by 2020 and by up to 15 per cent by 2020 if there is a global agreement which falls short of securing atmospheric stabilization at 450 ppm CO₂ eq under which major developing economies commit to substantially restraining their emissions and advanced economies take on commitments comparable to Australia's.²

Notwithstanding that nations may publicly justify their commitments in terms of some of the principles and approaches suggested in the issues paper, ultimately all nations will select their contribution to the global burden based on national self-interest. In a practical and domestic political sense in every nation, this boils down to 'willingness to pay'. In a comparative sense, the BCA judges that Australians are willing to pay as much as Europeans, Americans, Canadians and Japanese, as measured by the impact on per capita GDP or GNI.

The BCA believes the lack of discussion on this aspect of the international negotiations is a significant shortcoming of the issues paper. Indeed, the principles in Box 5 and the approaches in Table 4 miss completely the main drivers of international negotiations over the last 20 years – namely, the relative economic burden of the national 'targets' and budgets, and in particular their trade implications.

Key recommendations

In this submission, the BCA recommends that:

- in assessing the scope of international commitment to global emissions reduction, the review only take account of what other countries are actually doing or have pledged via concrete, verifiable steps, as distinct from any stated political aspirations
- further, in assessing what countries are actually doing, the review should consider the actual impacts of these particular policies on businesses in those countries
- Australia maintain its current commitment to net emissions of -5% of 2000 levels by 2020 as there is no evidence to suggest that any of the conditions needed to trigger consideration of an increase to that commitment have been met
- in addition to a scenario that would potentially meet the aspiration of restricting the increase in global warming to 2 degrees Celsius, the CCA needs to consider a range of less ambitious international action scenarios that require Australia's fair share of the international burden to be less stringent than an emissions 'target' of -80% of 2000 levels by 2050
- the CCA adopt an approach to determining Australia's fair share of any global emissions budget that equates the economic costs that Australians are expected to pay with those of similar wealth such as, in the immediate term, Americans, Europeans, Canadians and Japanese and in the longer term emerging economies such as China, the Republic of Korea, India, Mexico and Brazil
- the caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors

² Compilation of economy-wide emission reduction targets to be implemented by Parties included in Annex I to the Convention, <http://unfccc.int/resource/docs/2011/sb/eng/inf01r01.pdf>.

- the review concentrates on the task of defining potential global emission budgets and Australia's comparable burden under those budgets, and leaves the issue of future policies and measures for another review.

Introduction

The BCA welcomes the opportunity to contribute to the national discussion that will help frame Australia's international obligations in greenhouse gas emissions reduction over the next 40 years.

The BCA can bring to the table the experience of representation on Australian Government delegations to the UNFCCC from 1995, the year of the Berlin Mandate, to 2007 and, in the context of negotiations to reach a comprehensive and coordinated global agreement, participation by our Deputy Chief Executive, Ms Maria Tarrant, in all the annual meetings of the Parties to the Convention and the Kyoto Protocol from 2007 to 2012.

Within a broader framework of energy policy principles (see Attachment A), the BCA advocates that climate change policies should:

- ensure Australia acts as part of a global response that includes all major emitters of greenhouse gas emissions
- ensure Australia's emissions reduction commitments are premised on both Australia's contributions to global emissions and the possible impacts on Australia in the absence of global action
- contribute to a reduction in global greenhouse emissions relative to a business-as-usual outlook
- support market-based responses to enable lowest-cost outcomes
- include arrangements to fully offset the impacts on trade-exposed industries in the absence of policies in competitor countries placing equivalent costs on traded products
- facilitate the long-term and smooth transition of the electricity sector to lower-emissions technologies
- provide investment certainty to enterprises and investors
- support the research and development necessary to identify technology solutions – including low-emissions technologies
- support energy efficiency at the household and industry level
- build Australia's adaptation capabilities.

The first three of these principles are specific to the issues raised by the Climate Change Authority in its issues paper about Australia's part in a global agreement, while others are relevant to the issues around setting caps for the Australian emissions trading scheme.

Also relevant is the research undertaken by Port Jackson Partners for the BCA in 2007 on what approach Australia should take to setting its emissions reduction targets.

The BCA 2007 report *Setting Achievable Emissions Targets for Australia* included detailed discussions of the key issues. The recommendations of that report, set out in Exhibit 1, remain relevant to the current review of caps and targets being undertaken by the Climate Change Authority.

Exhibit 1: Setting Achievable Emissions Targets for Australia

There is not currently an agreement among all or most nations to reduce long-term emissions by set amounts in future decades. Without this underpinning, 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
- in addition, if Australia establishes an emissions trading scheme before its competitors the cost of the scheme in the initial years at least will need to be kept to modest levels
- most important, any set of targets must create a “virtuous circle of achievement” in that we can sensibly meet the targets in the initial years (with effort), which will bring credibility to the whole process in general and the harder to meet later year targets in particular.

Source: ‘Establishing Credible Targets for Greenhouse Gas Reduction’, report prepared by Port Jackson Partners Limited and incorporated in *Setting Achievable Emissions Targets for Australia*, Business Council of Australia, May 2007.

Within the context of the BCA principles and the 2007 report, the remainder of this submission addresses the matters raised in the issues paper and follows the chapters of that paper.

The CCA’s approach, context and scope

The BCA broadly agrees that it is a practical starting point for this review that:

The Authority accepts the view that it is in Australia’s interests to support global emissions reductions to limit global average warming to 2 degrees Celsius or less. Additional starting points are Australia’s long term target to reduce emissions to 80 per cent below 2000 levels by 2050, and the policy action of Australian governments at all levels to reduce emissions. The 2050 target and policy measures (which include the carbon price) are among the ‘givens’ for this Review.³
(issues paper, p. vii)

This starting point scenario recognises:

- the scientific advice that supports global emissions reductions to limit global average warming to 2 degrees Celsius
- that the Clean Energy Act 2011 legislates for Australia the 80% below year 2000 by 2050 net emissions “target” and that, notwithstanding that the Act may be abolished by a future government, this ‘target’ would remain relevant if international agreement is reached that is consistent with the 2 degree Celsius aspiration
- both the government and the Coalition support market mechanisms, either through a price on emissions or a price on emission abatement, although the BCA contends that, in their current detailed design, neither the government’s nor the Coalition’s approaches are economically efficient, environmentally effective or equitable.

³ *Caps and Targets Review Issues Paper*, p. vii.

Importantly, however, the CCA will fall short of meeting its remit if this review confines itself to this single starting point scenario.

It is clear that the country pledges initiated in Cancun and carried through to Doha are not sufficient to launch the world on a 2 degree Celsius trajectory of emissions, which all studies argue requires a peaking of global emissions by 2020.⁴

Further, as the various country submissions to the recent second session of the Ad Hoc Working Group on the Durban Platform for Enhanced Action demonstrate⁵, there is no evidence that international negotiations, whether within or outside the UNFCCC, will see a coordinated global agreement by 2015 that will meet this 2 degree Celsius aspiration.

In these real world circumstances, and consistent with its approach to risk and uncertainty, the CCA needs to incorporate into its review scenarios that fall short of the starting point scenario.

In particular, in order to make sensible recommendations about Australia's fair share of global burden, other less ambitious 'targets', budgets and caps will need to be considered – recommending that Australia unilaterally continue on a trajectory to 80% below 2000 emissions by 2050, while the rest of the world lags behind would not be "economically efficient, environmentally effective, equitable and in the national interest".⁶ Such a course of action would not represent Australia's fair share of the global burden and would result in an over-allocation of Australian resources to mitigation relative to adaptation.

In relation to the CCA's approach to other matters, the BCA makes the following points:

- the BCA strongly supports the CCA's approach to look beyond 2020 to 2030 and 2050 – business needs policy frameworks that look forward at least 20 years, which is the 'bankable' timeframe for major low emission and emission abatement investment
- we would encourage the CCA to have an expanded discussion about the use of the word 'target' to describe Australia's commitment under the Kyoto Protocol and beyond. Indeed, it would be better to replace the word 'target' with 'commitment'. There is considerable community confusion about the use of 'target' to describe Australia's international commitments. A useful role for the CCA would be to remove this confusion. Further, there is a significant difference in terms of cost burden (Australia's fair share of global emission reduction) between the -5% net commitment the government supports and the -5% absolute commitment the Coalition supports, the latter being higher in cost as it involves all emission abatement within Australia
- the CCA should consider confining its recommendations on Australia's commitments under different global emission response scenarios to defining appropriate quantitative emission limitation and reduction obligations (QELROs) and caps, and refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost and therefore not warranted.

The BCA notes that in relation to the discussion about 'targets' and trajectories, the continued use of Figure 5 ('Australia's Emissions Since 1990'), and outlook to 2050 in Chapter 2 of the issues paper compounds community confusion and misunderstandings. Figure 5, which has been widely used by the government, wrongly purports to illustrate Australia's emissions 'targets' and trajectories under a range of commitments. To the extent that a Figure is used to explain the commitments, modelling should be incorporated to show, for illustrative purposes, the difference between the commitment and Australia's projected emissions under a net emissions approach versus a domestic abatement only approach – in other words the difference between international trading and non-trading.

Figure 5 also demonstrates the BCA's contention that the 80 per cent below 2000 levels by 2050 end point is only likely to be relevant to the -25% commitment to 2020. From the perspective of any agreement possibly to be made in 2015, -80% is incompatible, in terms of economic efficiency and

⁴ The UNFCCC, the IEA and the World Bank have all released analyses of the pledges that support this conclusion.

⁵ <http://unfccc.int/bodies/awg/items/7398.php>

⁶ *Caps and Targets Review Issues Paper*, p. 3.

equitable burden sharing, with the -5% commitment and up to -15% pledge made by Australia – higher emission end points for 2050 are required for these alternative scenarios.

In relation to the historical analysis of policies and measures, the BCA would encourage the CCA to not only examine the underlying drivers of the changes in Australia's emissions and the contribution of different policy measures (such as the renewable energy target, carbon pricing mechanism, energy efficiency opportunities) over time, but to also update the work of the Productivity Commission and the Grattan Institute on the estimated costs of each policy in terms of \$/t of abatement.

The BCA seeks more clarity around the CCA's intentions with regard to recommendations on policy. On the one hand, the issues paper states that: "The Authority may identify opportunities to improve the existing policy portfolio, and areas where gaps or weaknesses hinder Australia's progress" yet the paper also states that "The Authority does not intend to examine the merits of the carbon pricing mechanism, nor its detailed design, in this Review" (p. 11).

For the purposes of this review, the BCA recommends that the CCA focus on appropriate QELROs and caps for Australia consistent with a range of international scenarios, and in that context a factual analysis of the contribution of policies to date. This review does not need to assess the policy requirements to meet the different levels of Australian commitments.

Australia's emissions reduction goals

Timeframes

The BCA agrees that the review should examine longer timeframes and different international action scenarios over those timeframes. Timeframes to 2020, 2030 and 2050 would be appropriate. However, the BCA does not agree that a single 2050 Australian commitment of 80% below 2000 emissions levels be used as this would be inconsistent with the range of international scenarios. Rather, different 2050 commitments consistent with lesser international action should also be considered in the context of Australia's equitable share of the burden.

Further, as already noted, the BCA considers that it would not be appropriate to recommend Australian emission trajectories. The CCA should however differentiate between Australian net commitments and absolute commitments such that the impact of the different approaches can be understood.

Accounting

The BCA agrees that the default approach is for Australia's commitments to be defined in terms of Kyoto Protocol rules, including land use, land use change and forestry (LULUCF) but ignoring international aviation and shipping.

However, the analysis of global action should also recognise that the majority of Parties to the UNFCCC have not committed to these rules. In these circumstances, the CCA may wish to make recommendations on the conditions that Australia might adopt in order to accept, say, Californian emissions trading scheme units as eligible to meet Australia's international commitments.

The approach to the carry-over of credits between periods should be consistent with the terms of the international agreement that has been entered into. In the context of the Kyoto Protocol, that agreement allows for carry-over. The commitments entered into at the beginning of the agreement reflect that aspect of the agreement, and retrospective changing of the rules reduces confidence in future agreements. In more general terms, carry-over provisions are consistent with encouraging nations to go beyond their commitments and to seek out least-cost outcomes.

With respect to the credits that Australia has generated from the first commitment period, the BCA's view is that they should be proportionately allocated between the cap for emissions covered by the clean energy package and the emissions that are not covered. Those allocated to the cap should be sold into the market and those outside the cap should be reserved for meeting the Kyoto 2 QELRO.

The BCA does not support the use of the credits to tighten the QELRO that Australia has entered into for Kyoto 2 as it is our understanding that the carry-over of these credits has already been factored into Australia's already challenging commitment – a commitment that the BCA is confident this review will find is more ambitious than the pledges nominated by almost all other advanced economies.

Global emissions budgets

As already stated, the BCA recommends that the CCA consider a range of credible global budgets associated with different levels of international commitment and ambition. This should be the key focus. Whether the CCA expands the matrix of budgets to include an 80% probability of outcome and different accounting of emissions is dependent on the resources available to the CCA, and should be considered secondary.

The BCA notes that Figure 6 ('Illustrative Alternate Global Emissions Trajectories for a Given Global Emissions Budget') presents two trajectories that are already irrelevant in terms of peaking of global emissions and the third, peaking in 2020, highly unlikely. The importance of the CCA analysing international action scenarios that produce credible global emission budgets cannot be emphasised enough.

International action

The BCA strongly agrees with the CCA's proposition that: "it is action that is paramount, not its legal form, nor where it is captured (for example, whether it appears in domestic legislation or a new international agreement)" (p. 18)

As was concluded in the Port Jackson Partners Limited report, 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. In our view, there is no place for statements of intent, especially those made at a high political level.

Australia is a case in point. A carbon tax was first mooted by government in Australia in 1995 and an emissions trading scheme in 1999 and again in 2007 – the hybrid tax/trading scheme was not effected in legislation until 2012. Similar statements of intent can be traced back to the early 2000s in Japan, South Korea, Canada and the USA. What counts is action, not intent.

Assessing global action

The UNFCCC, the International Energy Agency (IEA) and the World Bank have all produced reports that have assessed the level of global action. All of these reports confirm that the level of action taken so far and the level of Cancun pledges fall well short of the global emissions budget necessary to meet the 2 degree Celsius aspiration. To be credible the review needs to assess other less ambitious scenarios.

In the BCA's view, the first task of the CCA would seem to be to assess whether the conditions exist to determine whether Australia should go beyond its -5% commitment.

The bipartisan Australian conditions (Box 3 of the issues paper) are that Australia will not increase its emissions reduction commitment below -5% until:

- the level of global ambition becomes sufficiently clear, including both the specific targets of advanced economies, and the verifiable emissions reduction actions of China and India
- the credibility of those commitments and actions is established, for example, by way of a robust global agreement or commitments to verifiable domestic action on the part of the major emitters including the United States, India and China
- there is clarity on the assumptions for emissions accounting and access to markets.

The details provided by Australia to the UNFCCC as part of the Copenhagen Accord in 2009 state:

Australia will reduce its greenhouse gas (GHG) emissions by 25 per cent compared with 2000 levels by 2020 if the world agrees to an ambitious global deal capable of stabilizing levels of GHGs in the atmosphere at 450 ppm carbon dioxide equivalent (CO₂eq) or lower. Australia will unconditionally reduce its emissions by 5 per cent compared with 2000 levels by 2020 and by up to 15 per cent by 2020 if there is a global agreement which falls short of securing atmospheric stabilization at 450 ppm CO₂ eq under which major developing economies commit to substantially restraining their emissions and advanced economies take on commitments comparable to Australia's.⁷

The BCA contends that it is unambiguous that the results of the meetings of the Parties in Doha in December 2012 confirm that none of the three conditions in the issues paper or the criteria included in the Copenhagen Accord have been met. In particular:

- the specificity of the advanced economy targets and budgets as well as the transparency and independent verifiability of the possible actions that China and India may take, through to 2020 remain unfulfilled. Until these countries adopt QELROs or equivalent, to 2020 this condition will not be met
- as yet there is no 'robust global agreement' in prospect nor have there been independent institutional arrangements established that could credibly verify the domestic action of major emitters
- the assumptions countries have made to underpin their Cancun pledges remain unclear and may not be fully understood until after a post-2020 agreement is reached in 2015.

The second task is to assess the likely scope of coordinated global action beyond 2020. In this context, the submissions to, and outcomes of, the recently completed second meeting of the Ad Hoc Working Group on the Durban Platform for Enhanced Action are the best guide.

The BCA has not yet been briefed by the government on the outcomes of the meeting. However, it is clear from submissions that, while countries like Australia and the USA are prepared to put forward options for credible and flexible bottom-up ways forward to coordinated global action, the views of China and India remain rooted in the past 'developed' versus 'developing' country paradigm of a limited, inflexible and undeliverable Kyoto Protocol-style agreement.

In these circumstances, it will be difficult for the CCA to develop appropriate global emission budget scenarios to 2030 and 2050 that are robust enough to make recommendations on Australia's fair share.

In relation to Tables 2 and 3 in the issues paper, the BCA recognises that they are necessarily an incomplete snapshot of action. Nevertheless, they demonstrate the point that it is not possible at this stage to robustly quantify, in QELRO equivalents to Australia, the implications of the variety and level of pledges that have been made by other countries to 2020 and 2050.

Comparing targets across countries

The BCA notes the four metrics that the CCA proposes to use to compare the 2020 national pledges.

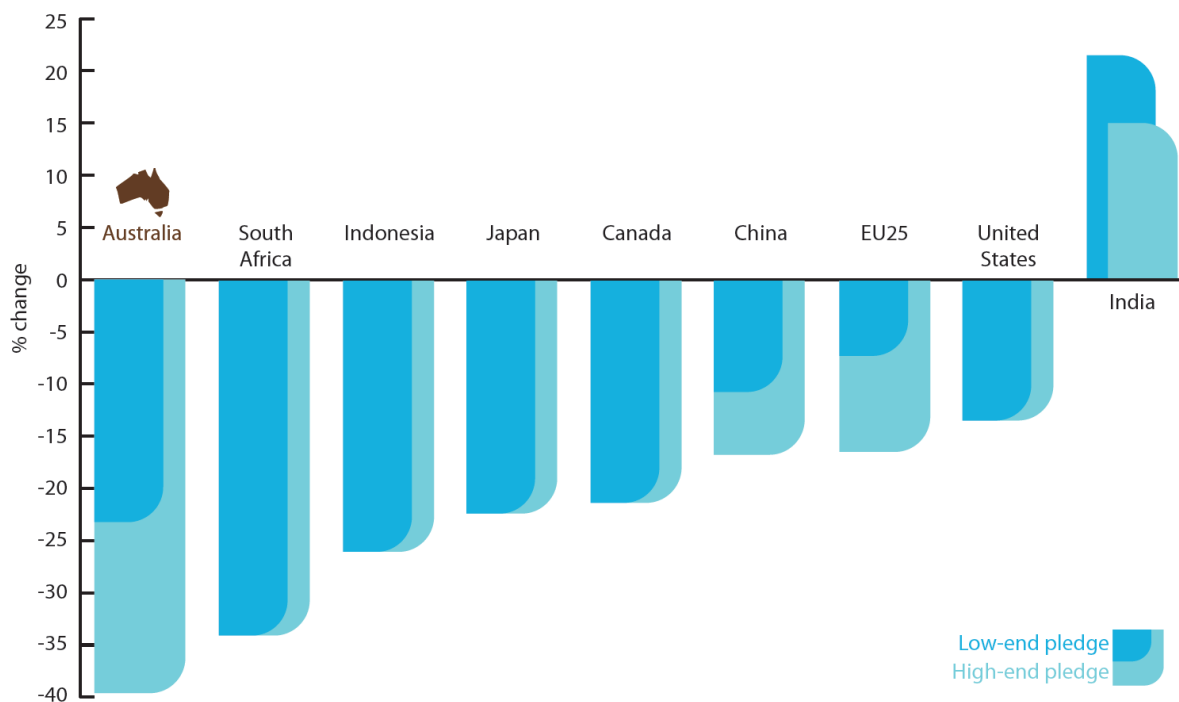
It is well known that metrics related to base years (absolute emissions, emissions intensity and per capita emissions) are unreliable measures of comparable effort. For example, the perception is that the USA's -17% by 2020 pledge using 2005 as the base year must be more ambitious than Australia's -5% by 2020 using 2000 as the base year. Yet if both pledges are reduced to a common year of say 1990, Australia's effort is -4% by 2020 and the USA effort is less at -3% by 2020.

⁷ Compilation of economy-wide emission reduction targets to be implemented by Parties included in Annex I to the Convention ; see <http://unfccc.int/resource/docs/2011/sb/eng/inf01r01.pdf>

Of the four, the comparison to business-as-usual best reflects the level of comparable effort (see Exhibit 2), although not necessarily the level of comparable economic costs or burden, which ultimately drives the level of commitment countries can practically implement.

The BCA recommends the use of computable general equilibrium (CGE) modelling to complement these other metrics (see comments on modelling below).

Exhibit 2: Percentage change in emissions under Cancun pledges, relative to business-as-usual at 2020



Source: Department of Climate Change and Energy Efficiency.

Historically, Australia has compared its level of commitment, and achievement, to countries with similar economic wealth. These include the EU, USA, Japan and Canada. These countries remain relevant today; however, given the timeframe of the review to 2050, a comparison with the main ‘advanced’ countries, as defined by the government’s commitments (for example, including China, South Korea, Brazil, Mexico and others), should also be made given their likely economic progress over the next 40 years. This broader approach is crucial to helping break the developed versus developing country paradigm that is holding back meaningful global agreement.

The use of CGE modelling to guide an assessment of Australia’s comparable burden relative to that of other countries has long been central to Australia’s negotiating position. It was relevant in 1997 when the Kyoto Protocol was signed and remains relevant today. Indeed, Australia made submissions in November 2008 and March 2009 to both the AWG-KP⁸ and AWG-LCA,⁹ titled respectively ‘Australia’s National Ambition’ and ‘Economic Cost as an Indicator for Comparable Effort’,¹⁰ underlining the importance of this approach to understanding comparable burden.

⁸ Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP).

⁹ Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

¹⁰ <http://www.climatechange.gov.au/sites/climatechange/files/files/Economic-cost-comparable-effort-submission-AWG-KP-and-AWG-LCA.pdf>

The BCA recommends that the CCA use comparable economic cost as the prime measure of comparable burden, as endorsed in the Australian submission:

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.¹¹

How Australian action can influence others

This is necessarily a very subjective topic prone to hubris at one extreme and contempt at the other. The BCA's advice is that both the urge to lead or to free-ride should be avoided by Australia.

The BCA's assessment of Australia's performance over the last two decades in the UNFCCC is that Australia's effective influence is no more or less than countries of equivalent standing, and that that effective influence was not materially altered by Australia's initial decision not to ratify the Kyoto Protocol, nor its subsequent decision to sign the Kyoto Protocol.

The BCA also notes that the decision by Australia in Doha to show leadership in declaring its QELRO to 2020 has not prompted other countries to follow suit.

No doubt the CCA will receive submissions that promote the promise of higher global ambition if Australia takes 'leadership'. The proposition appears to rely on the Garnaut report's assessment that, in benefit–cost terms, Australia has much greater economic returns than any other country from earlier and more ambitious global emission reductions.¹² This leads to the conclusion that Australians should be prepared to pay more than others for the same global environmental outcome.

The BCA disputes the robustness of the proposition and, therefore, its conclusion. The BCA contends that it is reasonable to assume that most, if not all, major emitters and advanced economies have undertaken similar analysis of the domestic economic, environmental and social consequences of not reaching the 2 degree Celsius aspiration. Given their political commitment to 2 degree Celsius under numerous UNFCCC decisions, it is incredible to accept that all these countries do not see benefits of similar magnitude to that of Australia.

What they do see, however, is very different costs that they might have to endure to secure those benefits. The BCA is yet to see a study of comparable economic costs that does not show the cost to Australia of its -5% commitment as among the very highest. Yet there is no evidence that this willingness to pay more on Australia's part has led to an increase in global action – any proposition to 'up the ante' further has no robust empirical rationale.

Sharing global emission budgets

The BCA appreciates that any discussion of how to share responsibility for future emissions reductions, or the allocation of future emission budgets, necessarily involves a mixture of different national perspectives and some academic theorising. However, there is no formula, other than that each nation will need to respect the pledges of others since the most likely outcome of a 2015 agreement is a continuation of national pledges of best endeavours.

Notwithstanding that nations may publicly justify their commitments in terms of some of the principles and approaches suggested in the issues paper, ultimately all nations will select their contribution to the global burden based on national self-interest. In a practical and domestic political sense in every nation, this boils down to 'willingness-to-pay'. In a comparative sense, the

¹¹ <http://www.climatechange.gov.au/sites/climatechange/files/files/Economic-cost-comparable-effort-submission-AWG-KP-and-AWG-LCA.pdf>

¹² Professor R Garnaut, *The Garnaut Climate Change Review Final Report*, September 2008, <http://www.garnautreview.org.au/index.htm>

BCA judges that Australians are willing to pay as much as Europeans, Americans, Canadians and Japanese, as measured by the impact on per capita GDP or GNI.

The BCA believes the lack of discussion on this aspect of the international negotiations is a significant shortcoming of the issues paper. Indeed, the principles in Box 5 and the approaches in Table 4 miss completely the main drivers of international negotiations over the last 20 years – namely, the relative economic burden of the national ‘targets’ and budgets, and in particular their trade implications.

The BCA notes that some of the principles and approaches are not conceptually consistent with the measurement of national emissions on a production basis. In particular, the notion of an individual right to emit and convergence of per capita emissions are concepts best suited to measuring emissions on the basis of consumption. The difference is stark – Australia is high on a production basis (about 27t/capita) but in the middle of the range of similarly affluent countries when measured on a consumption basis.¹³

It is also worth noting that the discussion about sharing budgets should emphasise that this is essentially a matter for negotiation between nations. How nations share their budget within their jurisdiction (including across generations) is not a matter for international negotiation.

Economic and social implications

In the context of this review, the key reason to undertake economic modelling is to assess the economic and social implications of different Australia commitments and budgets, relative to those pledged by other similarly wealthy countries – not in isolation or against some assumed coordinated action as was done by Treasury for the CPRS Bill and Clean Energy Act.

The modelling needs to take the global budget scenarios and allocate them in a way that delivers reasonably comparable economic costs on Australians, Europeans, Americans, Canadians and Japanese; lesser costs on for example South Koreans, Brazilians and Chinese until they reach economic wealth consistent with other Annex I countries; and very little costs on poorer nations.

That is, the outcome of the modelling would be to give some insight into what might be regarded as relatively comparable QELROs for the advanced and major emitting nations through to 2020, 2030 and 2050 under a range of credible global budgets.

Further, the modelling should include an assessment of the costs for Australia of trading versus not trading to reflect the differing policy positions of the government and the Coalition.

This is not to suggest that the modelling be used to determine what commitments Australia should accept from other nations. As has already been stated, each nation will need to respect the pledges of others. The modelling may, however, help inform Australia about one element of the negotiations that might encourage Australia to pledge more stringent QELROs for itself.

The approach being recommended by the BCA is in contrast to the approach being suggested by the CCA, whose approach concentrates on estimating domestic economic implications, rather than comparative international economic implications.

Under the BCA’s approach it is recommended that, in addition to the Treasury model, the McKibbin model (G-Cubed) also be used as it specialises in international impacts. Further, in contrast to the previous Treasury modelling exercises, the BCA urges that all of the scenarios and assumptions, and the proposed outputs, be open to community scrutiny before the modelling is undertaken.

Setting caps

A key reason for the CCA to recommend budgets but not to recommend trajectories is the complexity the latter unnecessarily adds to the task of dividing Australia’s international commitment between emissions covered by the trading scheme and those not covered.

There is of course no issue of setting caps if all emissions and sequestration are covered – a policy position advocated by the BCA.

¹³ See for example the work of Glen Peters and Edgar Hertwich.

The economically efficient solution to setting the caps for the trading scheme in the circumstance of the scheme not covering all emissions is the one that is least-cost across the whole economy. However, this solution is unknowable – to know it requires government to have a full understanding of the costs of abatement and sequestration across all emissions and sectors in all time periods.

In these circumstances it is probable that the simplest solution is the best that can be achieved with the least unintended consequences.

The simplest approach is to divide the emissions budget between the covered and uncovered sectors based on the percentage of estimated business as usual emissions over the budget period. This approach shares the abatement task across the economy according to the expected level of emissions in the absence of all emissions policy measures. In this way the abatement task is spread equally between the covered and uncovered emissions, and while this is unlikely to be an accurate proxy for the distribution of abatement costs, it is at least representative of the structure of the economy.

The alternative approach is to load-up either the covered or the uncovered sectors of the economy with a disproportionate share of the abatement task. By definition, covered sectors will meet the cap of emissions that is allocated and this creates a temptation to load-up the covered sectors with more responsibility to meet the national budget. This is especially the case when it is unclear how governments intend to reduce emissions in the uncovered sectors.

However, to pass onto the covered sectors the risks and costs of failure to reduce emissions in the uncovered sectors would be a serious mistake. Further, to fund the emissions reductions of the uncovered sectors, or fund the purchase of equivalent emission offsets, from taxes collected on the covered sectors is also guaranteed to be an economically costly outcome, and inequitable to the workers and investors in those sectors.

All uncertainty, risk and costs associated with emissions in the uncovered sectors should reside with the government and not be transferred to covered sectors. In this respect, it is not necessary for the CCA to define policies that might be applied to the uncovered emissions and estimate the level of abatement that might be achieved. This approach to the task is highly speculative. The more sensible approach is simply to define the task that governments over time must take responsibility for in the uncovered sectors.

Similarly, while it may be that some sectors may become covered in the future, and this is clearly an appropriate solution to the problem, it is not the role of the CCA to speculate which will or will not be covered. This approach by the CCA would apply equally to the scenarios that would face a Coalition Government with a different set of policies – that is, it is not the task of the review to nominate the policies, but rather to recommend the appropriate task that Australia should shoulder relative to other nations under different global emission budget scenarios.

Where there is a legislated requirement for the CCA to set caps (for the first five years under the carbon price mechanism), this should be accompanied by a risk analysis considering the impact of setting caps too high or too low.

Progress toward medium and long-term targets

The BCA encourages analysis of how individual measures are performing and how other factors (e.g. exchange rates, economic growth rates, changes in relative prices, structural change, etc.) have influenced emissions abatement. This analysis will help define progress and identify the key drivers toward meeting Australia's QELRO commitment to 2020.

However, the BCA sees no need in this review for analysing the potential or expected performance of policies, measures and other factors looking forward. Further, the BCA sees no need to identify milestones other than national emissions and budgets that might be recommended to 2020, 2030 and 2050 under different credible international scenarios. Indeed, sectoral milestones are completely irrelevant to covered emissions in an emissions trading scheme.

The BCA recommends that the central task of this review should be to identify the range of potentially appropriate Australian international emission abatement commitments, and to assess the economic and social implications of those commitments.

It may be appropriate in a later review to assess whether current or proposed policy settings are sufficient to deliver the proposed emissions reductions in an economically efficient, environmentally effective and equitable way.

Attachment A: BCA Energy and Climate Change Policy Principles

Overarching principles

Energy policy should support Australia's future economic growth while recognising the need to transition the Australian economy to lower-emissions technology over the coming decades in line with international action on climate change.

Energy policy and the operation of the energy market should efficiently address current and future demand in a technologically neutral manner and ensure reliable and competitively priced energy that is developed in an environmentally responsible manner.

Energy policies should:

- ensure the development of energy resources in response to global and domestic market demand in a manner underpinned by streamlined, transparent and timely environmental, exploration, planning and project approval processes that are designed to support the development of the resource in an environmentally responsible manner
- ensure the development of an effective and efficient energy market where assets are primarily privately owned and can operate on a level playing field
- ensure energy prices are a function of an effective and open market and not functions of poor policy design or price regulation
- manage the risks associated with climate change in a manner that supports lowest-cost responses
- minimise regulatory burden ensuring a regulatory framework designed to deliver the most affordable electricity to the consumer with a level of reliability that accords with a consumer's willingness to pay
- support a positive long-term investment environment
- ensure technology neutrality and consideration of all possible energy technologies
- enable supply and demand-side participation and ensure that consumers are engaged and involved in markets, including through transparent and factual pricing and policy information
- ensure appropriate consumer protection measures are in place.

Within this framework, climate change policies should:

- ensure Australia acts as part of a global response that includes all major emitters of greenhouse gas emissions
- ensure Australia's emissions reduction commitments are premised on both Australia's contributions to global emissions and the possible impacts on Australia in the absence of global action
- contribute to a reduction in global greenhouse emissions relative to a business-as-usual outlook
- support market-based responses to enable lowest-cost outcomes
- include arrangements to fully offset the impacts on trade-exposed industries in the absence of policies in competitor countries placing equivalent costs on traded products
- facilitate the long-term and smooth transition of the electricity sector to lower-emissions technologies
- provide investment certainty to enterprises and investors

- support the research and development necessary to identify technology solutions – including low-emissions technologies
- support energy efficiency at the household and industry level
- build Australia's adaptation capabilities.

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Business
Council of
Australia



submission

Submission to the Climate Change
Authority on the Reducing
Australia's Greenhouse Gas
Emissions: Targets and Progress
Review Draft Report

NOVEMBER 2013

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

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

The Climate Change Authority (CCA) has released for consultation the *Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review Draft Report* (the draft report).

This submission is in response to the release of this draft report and builds on the previous submission by the BCA in June 2013 to the CCA in relation to setting caps and targets and provides comments on the proposed approach the CCA has recommended in relation to setting Australia's international commitments.

Key points

This submission highlights a series of concerns the BCA has with the approach and recommendations of the CCA, which the CCA should take into consideration and address in its final report in 2014.

- The fundamental concern is that the recommendations in the draft report are based on a single scenario that asserts that the world will agree emissions reductions that are sufficient to meet the aspiration of restricting global temperature increase to 2 degrees Celsius. There is no assurance that this aspiration will be attained.
- The BCA is also of the view that the three tests to be met to allow Australia to move beyond its unilateral -5% emissions reduction target have not yet been met.
- The key third issue of concern to the BCA is that the measures of comparable commitment adopted by the CCA are not comprehensive and the way in which the draft report presents them is not sufficiently robust and further analysis is required.
- The BCA remains of the view that in any process of target setting that the full impact on the competitiveness of individual industry sectors, including an assessment of what competitor nations are doing at the national and sub-national level, must be taken into consideration and addressed.
- Importantly, the CCA draft report reinforces the economic benefit of the use of legitimate international permits in meeting Australia's emissions reduction target. The BCA has made the point in previous submissions that international permits have a key role in managing the cost of meeting any emissions reduction target.

Key recommendations

The BCA urges the CCA to adopt in its final report the approach recommended by the BCA in its June submission:

- In assessing the scope of international commitment to global emissions reduction, the review only take account of what other countries are actually doing or have pledged via concrete, verifiable steps, as distinct from any stated political aspirations.
- Further, in assessing what countries are actually doing, the review should consider the actual impacts of these particular policies on businesses in those countries.
- Australia maintain its current commitment to net emissions of -5% of 2000 levels by 2020 as there is no evidence to suggest that any of the conditions needed to trigger consideration of an increase to that commitment have been met and, further, it is clear that at -5% Australia's commitment more than matches the pledges of other advanced economies.

- In addition to a scenario that would potentially meet the aspiration of restricting the increase in global warming to 2 degrees Celsius, the CCA needs to consider a range of less ambitious international action scenarios that require Australia's fair share of the international burden to be less stringent than an emissions 'target' of -80% of 2000 levels by 2050.
- The CCA adopt an approach to determining Australia's fair share of any global emissions budget that equates the economic costs that Australians are expected to pay with those of similar wealth such as, in the immediate term, Americans, Europeans, Canadians and Japanese and, in the longer term, emerging economies such as China, the Republic of Korea, India, Mexico and Brazil.
- The CCA should consider confining its recommendations on Australia's commitments under different global emissions response scenarios to defining appropriate quantitative emissions limitation and reduction obligations (QELROs) and caps, and refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost and therefore not warranted.
- The caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors.

Discussion

This submission is in response to the release of the *Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review Draft Report* by the CCA.

The BCA makes this submission recognising the need for a global response to manage the risks and adverse impacts associated with climate change and that Australia has a role to play in this global response.

This submission recalls key elements of the BCA's June 2013 Submission to the Caps and Targets Issues Paper and provides comments on the proposed approach the CCA has recommended in relation to setting Australia's international commitments.

Timing constraints necessitate that this submission concentrates on the key issues around Australia's international commitments in the draft report. Many other issues are of concern to the BCA, including the recommendations on caps under the Clean Energy Future legislation and the methodology, scenarios and assumptions adopted for the economic modelling.

The BCA makes this submission building on its 2007 report *Setting Achievable Emissions Targets for Australia* and in the context of the BCA energy and climate change policy position outlined below.

BCA energy and climate change policy position

Australia needs to ensure it has a comprehensive and coherent national energy policy that drives the development of our energy resources, supports a strong energy export industry, and provides for the secure, reliable and efficient delivery of competitively priced energy to households and businesses.

Australia's energy sector needs to deliver these growth opportunities while meeting best practice environmental standards and seeking to minimise our greenhouse gas emissions in line with global efforts using national rather than state-based approaches.

Australia should play its role in the international climate change negotiations to progress an approach to emissions reduction that includes clear and binding commitments from all major emitters.

Australia should renew its focus on research and development of technological advancements to support the lowering of emissions from all energy sources and on adaptation to manage the long-term impacts of climate change.

In summary, Australia's energy and climate change policy should ensure:

- Australia's future economic growth and not compromise Australia's global competitiveness
- Australia's contribution to reductions in global greenhouse gas emissions at lowest cost and commensurate with global action
- the development of our energy exports in an environmentally responsible manner
- the delivery of secure, reliable and competitively priced energy in the long-term interests of both domestic and international consumers
- competition through the operation of open and transparent markets with strong consumer protections
- a stable, technology-neutral, long-term investment environment
- Australia's access to diverse supply chains to enhance our energy security.

Key issues

Failure to consider alternative scenarios

The Review by the CCA could make an important contribution to the debate around framing Australia's international greenhouse gas emissions reduction obligations over the next 40 years.

The BCA is concerned that based on the draft report, the opportunity to make such a contribution may have been lost.

The fundamental concern is that the recommendations in the draft report are based on a single scenario that asserts that the world will agree emissions reductions that are sufficient to meet the aspiration of restricting global temperature increase to 2 degrees Celsius.

This scenario is becoming increasingly unrealistic as global emissions continue to grow and it remains very unclear as to whether there is a pathway in the current international negotiations to binding agreements by all major emitters to achieve such a goal.

As the BCA pointed out in its June submission, and the CCA confirmed in its draft report, the country pledges initiated in Cancun are not sufficient to launch the world on a 2 degree Celsius trajectory of emissions.

The United Nations Framework Convention on Climate Change (UNFCCC) meeting in Warsaw in November 2013 provides no evidence that international negotiations, whether within or outside the UNFCCC, will see a coordinated global agreement by 2015, or anytime in the foreseeable future, that will meet this 2 degree Celsius aspiration.

In recent weeks Japan has announced that it will revise its pledge down significantly, allowing a 3.1 per cent increase in emissions from 1990 levels rather than seeking a 25 per cent cut¹ predicated on increased fossil fuel generation rather than nuclear.

In its most recent World Energy Outlook 2013, the International Energy Agency's central scenario, takes into account the impact of measures already announced by governments to improve energy efficiency, support renewables, reduce fossil-fuel subsidies, and in some cases, to put a price on carbon, with energy-related emissions still rising by 20 per cent to 2035. This leaves the world on a trajectory consistent with a long-term average temperature increase of 3.6 degrees Celsius.²

In light of these realities, and to remain relevant to the debate in Australia, the CCA needs to incorporate into its review scenarios that fall short of the 2 degree Celsius aspiration.

As the BCA submission in June points out:

In order to make sensible recommendations about Australia's fair share of global burden, other less ambitious 'targets', budgets and caps need to be considered – recommending that Australia unilaterally

¹ 'Japan Sets New Emissions Target in Setback to UN Treaty Talks', smh.com.au, 15 November 2013.

² International Energy Agency, *World Energy Outlook 2013*, Paris, November 2013, p. 24.

continue on a trajectory to 80% below 2000 emissions by 2050, while the rest of the world lags behind would not be 'economically efficient, environmentally effective, equitable and in the national interest'.³ Such a course of action would not represent Australia's fair share of the global burden and would result in an over-allocation of Australian resources to mitigation relative to adaptation."

Assessment of three tests to move from -5% target

The second important issue that the BCA disagrees with in the draft report is the conclusion that the three tests for Australia to move from its -5% unilateral commitment have been met.

The BCA contends that it is unambiguous that the results of the meetings of the parties in Doha in December 2012, and most recently in Warsaw, confirm that none of the conditions have been met. In particular:

- the specificity of the advanced economy commitments, as well as the transparency and independent verifiability of the possible actions that China and India may take, through to 2020 remain unfulfilled. Until these countries adopt QELROs, or equivalent, to 2020 this condition will not be met. To this point, only Australia and the EU have adopted credible QELRO's
- as yet there is no 'robust global agreement' in prospect, nor have there been independent institutional arrangements established that could credibly verify the domestic action of major emitters
- the assumptions that countries have made to underpin their Cancun pledges remain unclear and may not be fully understood until a post-2020 agreement is reached in 2015.

Approach to measuring comparable commitment

The key third issue of concern to the BCA is that the measures of comparable commitment adopted by the CCA are not comprehensive and the way in which the draft report presents them is not robust and in some instances could be misleading. The CCA uses four static metrics:

- absolute emissions reductions or limitations
- emissions intensity
- deviations from business-as-usual
- changes in per person emissions.

The BCA argues that a key reason to undertake economic modelling is to assess the economic and social implications of different Australian commitments and budgets, relative to those pledged by other similarly wealthy countries.

The CCA rejects this argument on the grounds that there would be too many assumptions involved in this modelling for it to be a reliable guide to relative economic costs of nations. Yet, in an extraordinary about-turn, the CCA proceeds to present very similar modelling, with all of its presumably unreliable assumptions, to argue that the costs to Australians are very low.

Since the Berlin Mandate in 1995, all Australian governments have argued in the international forums that relative economic burden is an important consideration in the setting of Australia's commitments to reduce emissions.

Australia has always recognised that ultimately, all nations will select their contribution to the global burden based on national self-interest. In a practical and domestic political sense in every nation, this boils down to 'willingness to pay'. In a comparative sense, the BCA judges that Australians are willing to pay as much as Europeans, Americans, Canadians and Japanese, as measured by the impact on per capita GDP or GNI.

The BCA believes that, in not presenting the modelling of relative economic burden, the CCA is blind to the realities of a key piece of information that has openly formed Australia's negotiating position for decades.

³ Commonwealth of Australia, *Caps and Targets Review Issues Paper*, Climate Change Authority, Canberra, April 2013, p. 3.

As the BCA pointed out in its June submission, the Australian Government made submissions in November 2008 and March 2009 to both the AWG-KP⁴ and AWG-LCA,⁵ titled respectively 'Australia's National Ambition' and 'Economic Cost as an Indicator for Comparable Effort',⁶ underlining the importance of this approach to understanding comparable burden.

In relation to the four metrics used in the draft report, the BCA makes the following comment:

Pledges on absolute emissions reductions provide the least information about relative burden

The BCA notes that of the five countries highlighted in the discussion of this metric in the draft report – Norway, New Zealand, USA, Japan and Canada – Canada has previously had difficulties in achieving their pledge; Japan has significantly downgraded its pledge; and the USA has no national policy agreement to meet its pledge.

It is worth mentioning that Australia's -5% commitment is equal to that of the EU (nominally -20%), which has the very significant advantage of an umbrella commitment covering 27 nations.

The Draft Report chooses to present the data on emissions intensity in absolute terms

This is a serious distortion of the measure of relative effort and implies the extraordinary outcome that all countries should converge to the same emissions intensity.

If, on the other hand, the data was correctly presented in terms of the percentage reduction in emissions intensity implied by the pledges – that is, relative effort – then the conclusions are very different to those drawn by the CCA.

When analysed in this way, Australia's -5% commitment represents a 45% reduction; EU is a 30% reduction; Norway is 53%; USA is 36%; UK is 39%; and Germany is 40%.

On this measure of relative effort, Australia's -5% is significant and more than matches other advanced countries.

The BCA has argued that the business-as-usual metric is a reasonable measure of relative effort, although it does not fully comprehend relative costs to nations

As the draft report shows, Australia's -5% commitment is at least as strong as other advanced economies, with the exception of the USA (note, however, the caveat above on the USA).

The metric of changes in per person emissions has a major theoretical drawback because of the data that is used in the UNFCCC negotiations

This UNFCCC data is based on emissions production in a country, whereas a stronger theoretical basis for using emissions per person as a metric would be data on emissions consumption in a country.

The difference is significant as, based on production data, Australia's emissions per person are around 27t, while based on consumption they are perhaps around half that number and similar to most other wealthy nations.

Nevertheless, when the data based on production is correctly presented to show relative effort, Australia's -5% commitment is much stronger than most other nations. Australia's -5% commitment represents a 32% reduction in emissions per person; the EU is a 16% reduction; Norway is 44%; USA is 27%; UK is 29%; and Germany is 26%.

The BCA is concerned that, using the four incomplete metrics adopted by the CCA, the draft report inappropriately concludes that Australia's -5% commitment is inadequate.

The evidence presented here by the BCA using the CCA's data confirms the opposite conclusion.

⁴ Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP).

⁵ Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

⁶ <http://www.climatechange.gov.au/sites/climatechange/files/files/Economic-cost-comparable-effort-submission-AWG-KP-and-AWG-LCA.pdf>

The table below compares the views expressed by the BCA in its submission to the CCA's Caps and Targets Issue Paper of June 2013 with the recommendations of the CCA in its draft report. The BCA is disappointed that very few of its views have been reflected in the CCA's current thinking.

Table 1: Review of CCA Draft Report and BCA's submission

Issue	BCA's submission	CCA Draft Report	BCA comment
Global emissions reductions that limit average global warming to 2 degrees Celsius and a target for Australia of -80% on 2000 greenhouse gas emissions by 2050.	This is an appropriate starting point but the CCA should not be restricted to this one scenario, given the limited progress in international negotiations and country actions.	The CCA restricts itself to this scenario notwithstanding that it agrees with the BCA that “the cumulative effect of current 2020 emissions reduction pledges falls short of what is required to hold temperature increases below 2 degrees”. ⁷	Recommending that Australia unilaterally continue on a trajectory to 80% below 2000 emissions by 2050, while the rest of the world lags behind, does not meet the CCA's test of being “economically efficient, environmentally effective, equitable and in the national interest”. ⁸ Other, more realistic scenarios need to be exposed to the community.
Australia's -5% unilateral commitment	The BCA supports continuation of this commitment at this time as it is at least as strong as that of other advanced economies.	The CCA suggests that the commitment is not an appropriate target.	The CCA draft report presents evidence, when correctly analysed that -5% is stronger than most other nations. This assessment is strengthened given government policy is to meet the commitment from domestic abatement alone.
Australia's conditional offer of up to -15%	The BCA contends that there is no global agreement under which major developing economies commit to substantially restraining their emissions and advanced economies take on commitments comparable to Australia's. ⁹	The CCA suggests three arguments (see BCA comment next column) as to why it believes that the conditions “appear to have been met”. ¹⁰	The BCA: (1) does not agree that the draft report presents evidence of advanced economy commitments or pledges comparable to Australia's; (2) contends that the 2 degree aspiration is not relevant to the conditions set by the government; (3) does not agree that, based on the modelling, a move to -15% can be achieved at low economic cost.
Measures of comparable commitments	Computable general equilibrium (CGE) modelling should be used by the CCA to guide an assessment of Australia's comparable burden relative to that of other advanced economies. This has long been central to Australia's negotiating position.	No comparative CGE modelling of the economic burden of advanced economy commitments is presented in the draft report by the CCA – “the Authority considers that the costs of emissions reductions – by themselves – are not an appropriate way to determine Australia's fair share of the global emissions budget.” ¹¹	The CCA agrees that cost alone cannot determine equitable burden sharing. However, consistent with Australia's long-held negotiating approach, the CCA must adopt an approach that compares the economic costs that Australians are expected to pay to, in the immediate term, Americans, Europeans, Canadians and Japanese; and in the longer term, to emerging advanced economies such as China, the Republic of Korea, India, Mexico and Brazil.

⁷ Commonwealth of Australia, *Reducing Australia's Greenhouse Gas Emissions – Draft Report*, Climate Change Authority, Canberra, October 2013, p. 8.

⁸ Commonwealth of Australia, *Caps and Targets Review Issues Paper*, Climate Change Authority, Canberra, April 2013, p. 3.

⁹ Compilation of economy-wide emissions reduction targets to be implemented by Parties included in Annex I to the Convention, <http://unfccc.int/resource/docs/2011/sb/eng/inf01r01.pdf>.

¹⁰ Commonwealth of Australia, *Reducing Australia's Greenhouse Gas Emissions – Draft Report*, Climate Change Authority, Canberra, October 2013, p. 9–10.

¹¹ Commonwealth of Australia, *Reducing Australia's Greenhouse Gas Emissions – Draft Report*, Climate Change Authority, Canberra, October 2013, p. 100.

Recommending trajectories	The CCA should refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost	The CCA proposed a trajectory range that would be subject to periodic review, having regard to developments in: <ul style="list-style-type: none"> • climate change science • what other countries are doing • the likely costs of achieving different targets. 	The BCA supports the nomination of Australian emissions budgets to 2020, 2030 and 2050 under a range of potential global agreement scenarios, but remains opposed to the legislating of trajectories, including trajectory ranges.
Role of international emissions reductions in Australia's commitments.	The BCA submission was made in the context of the former government's support of the policy to allow international emissions reductions to meet Australia's commitments. The BCA continues to support this policy.	The government should consider allowing the use of international emissions reductions to go beyond its minimum 5 per cent commitment. Moreover, the government could consider using genuine international emissions reductions to complement domestic efforts to achieve Australia's minimum 5 per cent commitment.	The BCA continues to support the use of international reductions to meet the -5% commitment. Should the government consider taking on a commitment beyond -5% for 2020, the BCA supports this recommendation
Level of caps under Australia's current emissions trading legislation	The caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors.	The CCA's approach is to set caps such that all of the burden of emissions reduction is legislated to be on the covered sectors.	The CCA approach is economically inefficient as it assumes emissions reductions in the uncovered sectors are more expensive than in the covered sectors. The CCA approach would simply drive greater purchase of international emissions reductions than is efficient. The BCA notes that the CCA fails to recommend caps for the -5% commitment, which is the only international commitment Australian Governments have entered into.
Review of policies and measures	The review should concentrate on the task of defining potential global emissions budgets and Australia's comparable burden under those budgets, and leave the issue of future policies and measures for another review.	The draft report has not pursued this issue	The BCA agrees with the approach taken.

Recommendations

The BCA urges that the CCA to adopt in its final report the approach recommended by the BCA in its June submission:

- In assessing the scope of international commitment to global emissions reduction, the review only take account of what other countries are actually doing or have pledged via concrete, verifiable steps, as distinct from any stated political aspirations.
- Further, in assessing what countries are actually doing, the review should consider the actual impacts of these particular policies on businesses in those countries.
- Australia maintain its current commitment to net emissions of -5% of 2000 levels by 2020 as there is no evidence to suggest that any of the conditions needed to trigger consideration of an increase to that commitment have been met and, further, it is clear that at -5% Australia's commitment more than matches the pledges of other advanced economies.

- In addition to a scenario that would potentially meet the aspiration of restricting the increase in global warming to 2 degrees Celsius, the CCA needs to consider a range of less ambitious international action scenarios that require Australia's fair share of the international burden to be less stringent than an emissions 'target' of -80% of 2000 levels by 2050
- The CCA adopt an approach to determining Australia's fair share of any global emissions budget that equates the economic costs that Australians are expected to pay with those of similar wealth such as, in the immediate term, Americans, Europeans, Canadians and Japanese and, in the longer term, emerging economies such as China, the Republic of Korea, India, Mexico and Brazil
- The CCA should consider confining its recommendations on Australia's commitments under different global emissions response scenarios to defining appropriate QELROs and caps, and refrain from nominating trajectories. The problem with recommending trajectories for Australian emissions is that they imply a level of market interference that is unlikely to be least-cost and therefore not warranted.
- The caps for covered and uncovered sectors of an emissions trading scheme should reflect the relative shares of the business-as-usual emissions to avoid a disproportionate shifting of the abatement burden onto the covered sectors.

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