Submission to the Climate Change Authority

Second Report of the Special Review

climates

February 2016

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Introduction

Climates is a non-profit organisation passionate about an Australia-Pacific region engaged in supporting Pacific climate resilience. Through advocacy and technical assistance, we empower critical-thinking, action-oriented individuals, and equip organisations to enact our vision.

We appreciate the unique opportunity presented by climate change to redefine our idea of diplomatic cooperation, and our connection within the Australia-Pacific region. By expanding the concept of mateship to include care for our neighbours, we stake our belief in an engaged and compassionate region, who in times of crisis ask, 'how can I help you, mate?' As such, Climates would like to see regional powers play a leadership role, advocating in the best interest of the Australia-Pacific region.

The second report of the Special Review provides stakeholders with the crucial opportunity to submit fresh ideas to the Climate Change Authority (CCA) on climate policy options for Australia. These will feed into the final report in June, and hopefully, form the basis of the 2017 climate policy review flagged by the federal government.

The United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement, sets out to achieve a net-zero emissions target in the second half of this century. Australia faces tough challenges to achieve this. To date, little work has been done to drive the transition to a low-carbon economy, and in many respects, Australia has moved backward. Even with its new 2030 emissions reduction targets in place, Australia is among the weakest performers on several measures. Further, many analysts predict that under current policy settings, Australia's emissions are not expected to peak until around 2030. In Climates' view, this is too late, and risks an unnecessary economic and environmental burden for current and future generations.

As a regional power, Australia has a responsibility to help ensure its less-developed neighbours avoid the worst effects of climate change. Particularly given these economies have played almost no part in the cause. Meeting a 1.5 degree target, as outlined in the Paris Agreement, is vital to ensure that Pacific nations are spared the worst effects of climate change.

In this regard, we encourage Australia to form its domestic emissions budget to meet this 1.5 degree target. Australia has the capacity to set domestic policies in accordance with a 1.5 degree target, and the diplomatic capital to use those policies to influence peers.

It is with these views in mind, that Climates provides its responses to the questions raised in the second report of the Special Review.

Australia's climate policy framework

Climates considers that the questions asked by the CCA about the specific policies that Australia should adopt to reduce its emissions, and the assessment criteria for evaluation, represents only half of the equation necessary to meet ambitious emissions reduction targets. A successful set of climate policies must also be underpinned by a broader policy framework.

While policies and measures designed to reduce emissions are undeniably important and necessary, the broader policy framework required to support the transition to a low-carbon economy is equally important. Without a broader cohesive framework in place, any individual scheme or policy may not reach its full potential, regardless of how well designed they may be, and would likely be at greater risk of repeal in the future. This is not a desirable outcome in Australia given our recent history with emissions policies.

We consider that a strong policy framework should start as a high level aspirational statement, such as the recently created Victorian Charter of Climate Change Objectives and Principles. Without something of this nature in place, whole-of-government decision making will not effectively promote the consideration of climate change.

Flowing from this, more nuanced and industry specific strategies for transition should be developed and agreed with relevant sectors and their ministries in the relevant jurisdictions. These bodies can help to drive the transition to a low-carbon economy. For instance, Council Of Australian Governments (COAG)

Energy Council should be a priority stakeholder for the CCA to target with its work on electricity options, and for the rollout of other policy options affecting transition within the energy sector.

Other government bodies that the CCA should seek to build a broader influence include the COAG Transport and Infrastructure Council, the COAG Industry and Skills Council, as well as other relevant Ministries in federal, state and territory governments. Other sectors to bring into the fold include Australia's emissions intensive sectors: manufacturing, mining, energy, agriculture, urban development & city planning, and transport sectors.

To their credit, COAG Energy Council are finally starting to make some progress with recent development of the National Energy Productivity Plan. Additionally, they are in the midst of developing plans to better integrate policies on energy and climate change to maximise the benefits of reform and avoid any unintended effects for prices and the energy market. The Council could certainly go further, for instance, by amending the National Electricity Law to require all proposed reforms in the electricity sector to consider environmental or emissions as part the assessment criteria. This kind of change could be completed independent of central government policy if a charter of sorts were in place requiring government bodies to consider climate in their decision making processes.

Climates considers with without such a top-down framework in place, any progress will have to be fought harder, and likely be less successful than with it in place. For instance, progress in the energy sector would be severely limited without full and firm support of COAG Energy Council ministers, and active engagement with industry and consumer groups.

Climates recognises that this may be out of scope of the terms of reference to the Special Review, however, we consider that this is a necessary strategy to aid in the success of any policies and measures to reduce emissions. This issue cannot and should not be ignored within the context of consideration of policy options.

CCA questions

Question 1: Assessment Framework – Are they appropriate? Are there other principles that can be applied?

Climates would like to see the CCA clearly articulate its judgment in its assessment of policy options in the final report mid-year. Climates recognises that the evaluation of any policy can be a balancing act, between sometimes competing criteria. For instance, while a particular policy may be efficient and

least-cost, it may not be environmentally effective. There are no hard and fast rules, only judgment as to which policies have the greatest net benefits. We implore the CCA to articulate its judgment in its final report as to how its decision were made.

Climates considers that the principles of efficiency, environmental effectiveness and equity remain sound assessment criteria for evaluating policy options. However, there are other evaluation options that should be applied:

Supporting Transition

Given the Paris Agreement now requires strong, and increasing emissions reductions over time, with the goal of net-zero emissions in the second half of the century, the task before Australia is not just about simply reducing emissions. It about the transition to a low-carbon economy.

Climates considers this the application of this assessment criteria involves more than a judgement as to whether the policy is scalable over time. For instance, policies that have capacity to permanently change behaviour (i.e. become common practice), should be viewed more favourably than policies that do not. These permanent shifts in behaviour could be the result of specific projects, the impact of regulations, the imposition of standards for energy efficiency or fuel economy, or from information campaigns.

The CCA can account for this by including an assessment criteria that identifies whether the policy supports the transition to a low-carbon economy. Policies that do not support transition should be considered with more caution.

Supporting a global response

Climates considers that supporting a global response is a core assessment criteria that needs to be accounted for. We recognise that the terms of reference for the CCA's Special Review has been framed in response to the outcomes of the Paris 2015 agreement.

In this regard, the CCA should consider whether the policies it will evaluate for Australia could integrate with other policies in key trade and competitor countries, support carbon markets more broadly, or contribute to global goals and other outcomes that arise from the Paris Agreement.

Climates recognises that the *Climate Change Authority Act 2011* identifies this criteria as a core principle it should have regard to.

Co-benefits

Where possible, any co-benefits (or positive externalities) for policies should be identified, and quantified where possible. Many environmental policies have co-benefits, and it is often the case that these get overlooked when being weighed against costs. This can distort the net benefits produced by a policy.

Policy options

Question 2: What lessons can be learned from Australia and overseas on the effectiveness of mandatory carbon pricing?

Any carbon pricing policy should learn from the experience of others. Price floors and market stability reserves are very important features that should be included in order to provide stability and ensure that confidence in the scheme remains strong.

Climates considers that one of the inevitable features of the Paris Agreement, will be the eventuality of closer integration of carbon markets. Any mandatory carbon pricing policy in Australia should be developed with a view to linkage with other markets including the European Union, New Zealand, China, the United States and Canada, or others as they arise. Greater integration will have the effect of harmonising carbon prices (if caps are broadly equivalent) and reducing tensions about competitiveness impacts.

Question 3: How does mandatory carbon pricing perform against the principles of cost effectiveness, environmental effectiveness and equity?

Climates supports the use of cap-and-trade, as this will ensure that environmental efficacy remains the core goal. We view that there is no point in establishing a broad-based carbon pricing scheme scheme if it does not reduce emissions to the level consistent with our emissions budget.

Cap-and-trade is also market-based, allowing the private sector to make efficient decisions about how to meet obligations, therefore cost-effective.

Revenues raised from such a scheme could also be recycled to ensure that distributional effects on poorer or more vulnerable households are addressed.

Climates notes that most of these features were present in the previous Carbon Pricing Mechanism. They should be restored in any future scheme.

Questions 4 & 5: What lessons can be learned from Australia and overseas on the effectiveness of voluntary carbon pricing, and its interaction with other climate policies? How does voluntary carbon pricing perform against the principles of cost effectiveness, environmental effectiveness and equity?

Climates considers that voluntary schemes such as offset schemes or other certificate schemes, generally, are only be capable of reducing emissions at the margins and are not suited to the larger, longer term and scalable emissions reductions required to meet our targets. This is because voluntary schemes are often dependent on funding, such as government grants, tenders, or from demand from liable entities in other broader carbon pricing schemes.

When the funding ends, or demand falls for the emissions reduction certificates that these schemes generate, so do the emissions reductions. The only exception to this is where the projects or activities deliver permanent behavioural change.

Climates also notes that these schemes can also be quite administratively heavy, have high costs for administrators and participants for measurement reporting and verification, and may be slow to develop appropriate methodologies. In addition, the schemes may not necessarily drive the transition to a low-carbon economy.

However, every policy has a place, and Climates considers that these schemes may be suitable for some niche purposes, or to run parallel with larger schemes such as cap and trade.

Questions 6 & 7: What lessons can be learned from Australia and overseas on the effectiveness of renewable energy targets and energy efficiency targets, and their interaction with other climate policies? How do renewable energy targets and energy efficiency targets perform against the principles of cost effectiveness, environmental effectiveness and equity?

Climates considers that renewable energy targets are a sufficient, but second-best mechanism to drive transition in the large scale energy generation sector. A first-best policy would be the imposition of a cap on emissions, or another form of pricing of emissions. However, as noted by gentailer AGL Energy,

the carbon price required to effect transition in the energy generation sector is likely be close to $100 per tonne of carbon dioxide equivalent.[1]

Whether or not this price is accurate, Climates considers that this is within the ballpark. Given this, it is therefore unlikely, that Australia will adopt a mandatory carbon pricing scheme with a price this high in the near future. In lieu of this, renewable energy targets should remain in place, and be strengthened over time to drive both the production and consumption of renewable energy.

Climates also supports greater focus on energy efficiency and energy productivity targets as part of the policy options for Australia. Demand-side action has capacity to be one of the largest drivers of emissions reduction in the electricity sector according to analysis from ClimateWorks, CSIRO and Australian National University (ANU). They note that Australia could achieve net-zero emissions in large part owing to improvements in energy efficiency measures in buildings, industry and transport.[2] Efforts to ensure effective national energy efficiency and productivity policies are in place should be a priority.

It is also noted that there are several co-benefits, and negative costs associated with energy efficiency targets, meaning the equity concerns are less of an issue - households and business are likely to save money over the medium to longer term as a result of energy efficiency initiatives.

The CCA should support further development of the COAG National Energy Productivity Plan being developed by the Department of Industry, Innovation and Science, and other related opportunities in this space. Coordination with state and local governments will be important to ensure policy duplication is minimised, and all opportunities are captured.

Questions 8 & 9: What lessons can be learned from Australia and overseas on the effectiveness of regulation, and its interaction with other climate policies? How could various types of regulation perform against the principles of cost effectiveness, environmental effectiveness and equity?

Climates has no firm view on the appropriateness of regulation to affect emissions reductions or the transition to a low-carbon economy. Regulations may

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1 http://reneweconomy.com.au/2015/agl-says-ret-climate-policies-wont-push-decarbonisation-79222

2 http://www.climateworksaustralia.org/pathways-deep-decarbonisation-2050-ambitious-energy-efficiency

be difficult to scale, and would most likely target niche purposes. Regulation, generally, should be used to address issues where other market-based policies are ineffective or unavailable.

Given that poorly designed regulation can have undesired consequences and costs, Climates considers that the existing government framework for assessing new regulations remains appropriate: consideration of regulations should always undergo a Regulation Impact Statement process with cost-benefit analysis (which should include environmental benefits, and co-benefits), to minimise the risk of unintended consequences, and help ensure that any proposed regulations are appropriate to the purpose, and result in a net benefits.

Questions 10 & 11: What lessons can be learned from Australia and overseas on the effectiveness of information programs and innovation support, and their interaction with other climate policies? How do information programs and innovation support perform against the principles of cost effectiveness, environmental effectiveness and equity?

Climates is of the view that information programs should not be used as an alternative to other policies or regulations, but in parallel with them to support better outcomes. As solo offerings, information programs are not likely to significantly drive emissions reductions, and could potentially be costly to implement.

Achieving targets, particularly targets that ratchet over time, cannot be left to soft information campaigns to drive deep emissions reductions. However, there is a strong case for utilising information programs to better support other price based policies, regulatory policies or other measures to help ensure uptake and compliance.

Question 12: What policies do you consider are best suited to which sectors and why?

Climates considers that sufficient work has been undertaken by the CCA, through the ClimateWorks Deep Decarbonisation Project, and by various CSIRO and ANU initiatives over recent years to identify which policies are best suited to the various emissions intensive sectors. Climates supports the findings from these bodies.

Question 13: Are there sectors that are better suited to voluntary pricing in the short term and mandatory policies in the longer term and why?

Mandatory pricing policies should apply to all sectors that have tangible scope to reduce emissions. If there is no scope for a sector or industry to reduce emissions, the application of a price will only add to costs, which would likely flow through to higher consumer costs without any emissions reduction benefit.

For these reasons, Climates considers that some forms of transport, land use, land use change and forestry (LULUCF), and agriculture sectors should be exempt from any mandatory scheme imposed in the short term. Where opportunities become available for those sectors to make inroads into reducing emissions, mandatory arrangements can be brought in to accelerate the transition.

In the meantime, these sectors should actively be supported by research & development, and investment to help enable these opportunities. Additionally, voluntary pricing mechanisms could also be used in these sectors, where appropriate to ensure that reductions are veritable and additional. Other policies could also be used in the sectors where appropriate.

Question 14: Which international competitiveness impacts are most important to designing Australia's climate policy toolkit, and why?

Climates considers that the Australian Government should not support any measures to provide industry assistance to emissions-intensive, trade-exposed industries. There are a range of factors that contribute to this reasoning.

First, historically, it has been difficult to gauge the full extent of what, if any, competitiveness impacts would be felt by domestic industry. Not all trading partner and competitor countries had emissions targets and/or policies to meet them. This made the job of comparison, and designing policies to mitigate these risks very difficult. This difficulty was compounded where policies were developed to support emissions-intensive, trade-exposed industries in other countries, but were applied at varying strengths, and subject to varying eligibility criteria. Early attempts to compare international climate change policies suffered from this difficulty, for instance this was a significant issue for the Productivity Commission.[3]

Second, after 21st Conference of Parties, the job of assessing international climate policies and levels of industry assistance has become even more difficult. These

[3] Productivity Commission 2011, Emission Reduction Policies and Carbon Prices in Key Economies, Melbourne

same trading partner and competitor countries now all have reduction targets of varying strengths, and will have a range of differing emissions reduction policies applied to different sectors of their own respective economies. The crucial difference is that now, under the Paris Agreement, these targets and policies will likely change every five years as part of the review process.

Third, given these factors, every government in every participating country will be in a very similar position to Australia: they will be attempting to determine where the risks to competitiveness will be, how to design appropriate policies to address these risks, how to implement them, and then waiting for the effects to be felt. To reiterate - every country will be moving at its own pace, with different emissions reduction policies, and different assistance packages (if any) - this will increase amount of work required for policymakers to develop support mechanisms for domestic emissions-intensive, trade-exposed industries. Even in scenarios where policymakers have moved closer to the right balance by assessing international policies and targets, by developing an appropriate and measured assistance package, and rolled it out into the sector, the whole process must restart every five years.

Climates considers that it would prove futile for the Australian Government to expend resources trying to address these concerns. Owing to the Paris Agreement, emissions-intensive, trade-exposed industries will have similar issues globally.

Additionally, these industries, by their very nature are emissions-intensive. Supporting these industries will prolong the required transition to a low-carbon economy, and will ensure that greenhouse gases from these industries continue to be emitted, making it increasingly difficult to reach national targets, and push global targets further out of reach. Supporting these industries will also come at a cost to other non-trade-exposed, emissions-intensive industries, or taxpayers, depending on the form of assistance.

Question 15: What is the current risk of carbon leakage, in light of the Paris climate conference and associated national commitments?

Climates considers that carbon leakage is not an ongoing issue in an environment where, thanks to the Paris Agreement, the majority of countries have determined to act on climate and meet a 2 degree warming target.

Furthermore, historically, the Grantham Institute has pointed out that while it is possible, there has been only mixed evidence to date carbon leakage occurring from countries with strong policies in place to those without strong carbon

constraints, including the European Union.[4] In a world where all countries have targets and policies to support them, this issue is moot.

Again, attempting to set policies to address any potential carbon leakage will likely run into the same problems as for competitiveness – the goalposts will constantly shift, and policy will likely be applied unevenly across countries, making and assessment difficult, and make developing an appropriate policy response even more difficult.

The Australian Government should not be concerned about carbon leakage.

Question 16: Which sectors are most likely to face adverse impacts on their international competitiveness from climate policy and why?

Climates is of the view that no effort should be expended to better support these industries. We have not attempted to identify them.

However, Climates does note that there has been much work done to identify which Australian sectors and industries would likely be exposed to competitiveness issues arising from uneven international climate policies. This includes the Garnaut Review 2008, and the Green and White papers for the Carbon Pollution Reduction Scheme, and the work undertaken to address competitiveness for the previous Clean Energy Futures package.

Question 17: How do you think these impacts should be addressed?

As per above. These issues should not be addressed.

[4] Grantham Research Institute 2014, The impacts of environmental regulations on competitiveness, UK