TARGETS AND PROGRESS DRAFT REPORT OCTOBER 2013

CLIMATE CHANGE AUTHORITY

SUBMISSION

Introduction

Australia is a Big Emitter

The abatement task Australia has in front of it at this stage is formidable.

Emissions from the energy sector have increased by 45% in the period from 1990 to 2012 but this growth has been almost completely masked by one-off reductions in land use change and waste emissions. The available reductions from the latter emissions, particularly land use change, have been almost completely used up and this will now expose the full energy emissions growth in meeting any future targets.

Australia is not only one of the highest per capita emitters in the world and the highest per capita emitter of all the developed countries, but it also relies heavily on carbon based exports, for example coal and gas, to derive much of its economic prosperity.

It is often quoted that Australia is a low emitter emitting only 1.3 % of the world's carbon footprint, but this does not give a true picture of Australia's contribution to atmospheric carbon. Including Australia's carbon based exports roughly triples our contribution to the atmosphere, to around 4% or more, coming from just 0.3% of the world's population. Australia plays at 10 to 15 times the average weight in terms of emissions. We are a big emitter.

Economically and Environmentally Australia is Very Vulnerable to Climate Change

Much of Australia's economic prosperity is based on using and selling carbon from its resources to pollute the atmosphere. There is no denying that Australia and its resources are enormous contributors to the amount of carbon entering the atmosphere and causing global warming.

Yet Australia does not appear to overtly recognise how dependent our economy is on this free carbon pollution facility. We need to acknowledge that if we don't progressively wean ourselves off carbon we may suddenly become a dinosaur economy.

Further, Australia has one of the most vulnerable environments to the effects of climate change and we are already experiencing those effects. We are told this year alone we have had the hottest day, the hottest week, the hottest month and are expecting to have the hottest year too.

The environmental risks to Australia from climate change are very high and so are the economic risks as world markets move away from fossil fuels. This worldwide transition to low carbon energy economies has to be swift if the goal of keeping the planet safe from major climate change is to be avoided. The draft report shows substantial emission reductions need to be made now and be completed within only a few years.

Australia's Kyoto Target Has Been Achieved But The Low Hanging Fruit Has Been Picked

In international climate change negotiations to date we have been fortunate. We have behaved as good citizens and been actively involved in the processes.

The cards of international consensus have often fallen in our favour. For example, country emissions are measured as in country direct emissions only, not as total emissions emanating from a country's resources that enter the atmosphere.

For our 2008-2012 Kyoto Target we were fortunate to be able to negotiate an increase in our emissions, to 108%, one of a very few countries to do so. Ultimately by reducing land clearing we were able to beat that target by about 3% and maintain some brownie points on the world stage. Meanwhile our energy emissions continued to soar by about 45% between 1990 and 2012.

Consequently our national emissions have stayed approximately flat from 1990 to 2012 although, partially as a result of increased carbon exports, our economy has roughly doubled over that period. This may be good news for our carbon intensity per unit of GDP which has dropped by around 50% but it means we still emit roughly the same amount of carbon to the atmosphere under international measurement conventions. However, if we were to properly consider how much Australia's exported resources actually now emit, we have probably doubled our emissions to the atmosphere. Our wealth has improved from increased carbon exports but we have doubled our footprint on the planet.

Australia must now continue to act and further reduce its emissions to maintain its credibility in the international processes. We have agreed with many other nations to limit emissions to a level at which there is no more than a 2 degree C rise in global temperature, even though about half of that has already occurred.

In the past we have kept to our emissions targets by reducing land clearing by 85% and reducing our emissions from the waste sector by 26% thereby allowing our energy emissions to grow. This was the low hanging abatement fruit and it has been picked. Any further reductions to emissions will need to use other reduction methods, and the longer the delays the greater the pain and the higher the cost.

Targets For Emissions Reduction

Australia's Needs to Re-demonstrate Its International Credentials on Climate Change

At the recent COP 19 climate negotiations, in Warsaw, Australia has been seen to be backsliding and non-cooperative, exposing itself to criticism about inaction and credibility. As one of the biggest per capita emitters, Australia needs to accept it has had a good free ride to date on the international emissions accounting system, and now must set a realistic target for the future to demonstrate its credentials under the new Coalition Government.

Australia Needs To Reduce Its Economic Risk By Reducing Dependence on Carbon Exports

We need to set a target that will allow us to progressively wean ourselves off carbon (we are fortunate to have an enormous resource base in other useful commodities and foods to substitute as exports) and address climate change in a meaningful way, by setting emission caps that reflect the 2 degree C world objective.

We need to do this to reduce the risk to our country from two effects, one economic and the other environmental. Firstly the economic shock of a sudden reduction in demand for fossil fuels which may occur worldwide as the price of renewable energy continues to fall even further below fossil energy, and secondly, the already evident high sensitivity of Australia's environment to global warming.

Even Modest Reduction Target Will Be Major Achievement Challenge

Clearly the 5% target for emissions reduction by 2020 is tokenistic and Australia needs to put in place targets exceeding this level. The draft report indicates that staying at this target level 'would require an implausibly rapid acceleration of effort beyond 2020' as the carbon budgets for future years tighten.

Even a modestly increased target will be a challenge as the one-off benefits of stopping land clearing used to achieve the Kyoto target cannot be repeated. This means that genuine reductions in emissions need to be made in Australia's energy sector (see Figure 7.1 of the draft report) – not the increases in energy emissions we have seen to date, masked by falls in land clearing activity. Land clearing has reached near nil and can be reduced no further so turning around this energy emissions juggernaut from growth to reduction will be a major task in itself. It will take strong consistent policies and mechanisms such as the Clean Energy legislation, which is still in place at the time of writing, to achieve this energy emissions reduction.

Many of the assets affected by this required reduction in energy emissions are long lived assets that have already exceeded their design lives of typically 20 years – many of those plants exceed 30 and 40 or more years in operation – and their asset values have been substantially written down either as book entries or in sales transactions in recent years. Some assets have already been mothballed or closed down as the structure of the energy market has changed. Very few new assets with high emissions intensity have been built in recent years as markets have anticipated tighter emissions limits. Industry has adjusted its business model over the last fifteen years to generally avoid investing in high climate risk assets.

Replacement energy plant can also be long lived and some types of zero or low carbon plants have substantial lead times for construction prior to operation. To avoid disruption to the economy the transition from old to new low carbon systems needs to be signalled as soon as possible by consistent policy settings from Government. **Should this signalling be delayed it may be that only zero carbon new energy systems will be acceptable for tight carbon budgets and low carbon systems will miss out altogether, providing no transition for fossil fuel providers and leading to stranded assets.**

As this change from emissions growth to emissions reduction will be a radical turn around for energy markets, a 15% reduction target by 2020 should be adopted as a first step towards the steep path of emissions reduction within the total caps needed to avoid a 2 degree warming. A 25% target may still be required to keep within emission budgets but to move to a 25% target from a 5% target in the remaining six years would be a courageous approach.

Policies to Achieve Emissions Reduction Targets

Not only do sensible targets need to be set for the period 2020 and beyond but a credible and detailed policy needs to be adopted that can provide abatement in the slim six year window between now and 2020. Due to the short timeframe only detailed existing policy can achieve the target and has to be preferred over any undetailed, unproven direct action plan.

It is too late to change abatement mechanism at this time with any sense of international credibility of achieving a specified target.

State of The Art Emissions Trading Scheme v Direct Action Plan

The existing Clean Energy legislation (still in place at the time of writing) has a fixed carbon price period prior to becoming a full emissions trading scheme with fixed emissions targets and a floating price resulting for carbon.

Australia's emissions trading scheme is widely accepted as a state of the art policy which has been developed from earlier schemes. Improvements in methods of measurement of emissions and the operation of the scheme have been made from the experiences of the earlier trading schemes in several countries. Industry and markets have seen this policy slowly develop through successive Coalition and Labor Governments and have been required to prepare systems to annually measure and report their emissions since 2008 under the *National Greenhouse and Energy Reporting Act 2007*. They are familiar with the mechanism and have been involved in it development. There is strong evidence that emissions are being reduced by this policy

The current Coalition Government is proposing to repeal this legislation and put in its place a Direct Action Plan which will purchase emissions reductions through a reverse auction process.

Coalition Itself Says Direct Action Plan Cannot Meet Any Target Beyond 5% in 2020

By its nature a Direct Action Plan uses tax payer money to pay polluters to hopefully reduce their emissions but does not set any cap on total emissions across the economy. On the other hand an emissions trading scheme set emissions targets and requires polluters to purchase permits or pay penalties charges – aligning with the principle that the polluter pays.

A Direct Action Plan would need increasing tax payer funding to reduce emissions as targets tighten. The Coalition has said, and several independent experts agree, that it is unlikely that a Direct Action Plan would achieve even a 5% reduction in emissions by 2020 and funds allocated to operate have been capped at $3.2 billion regardless of it achieving the target.

The Coalition Government while in opposition made it absolutely clear that the Direct Action Plan could not be expanded to achieve a 15% or 25% target in 2020 should the conditions eventuate for such a change, nor would this plan extend beyond 2020.

Submitted by:

David Rossiter FICE, FIEAust, BSs(Hons), MEng Sci