Investor Group on Climate Change
Australia /New Zealand
ABN 15 519 534 459
PO Box H26, Australia Square NSW 1215
Level 9, 255 George Street, Sydney NSW
P: (02) 9255 0290
F: (02) 9255 0299
www.igcc.org.au

Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

By email: www.climatechangeauthority.gov.au/submissions

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Re: Climate Change Authority's Targets & Progress Review Draft Report

1. Background

IGCC thanks the CCA for the opportunity to comment on the Draft Report and recognises the important contribution the CCA is making to deliberations about Australia's low carbon transition.

The IGCC represents Australian institutional investors with approximately $1tr of funds under management and other members of the investment community. IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. Members also hold substantial direct investments in infrastructure and property assets in Australia and around the world. As managers of retirement savings and pooled investments we are concerned with the long-term impacts of climate change on the global and Australian economies and future investment returns.

2. Summary

Based on the evidence in the Review Draft Report and consistent with our own analysis, Australia's current 2020 unconditional target of minus 5% below 2000 levels by 2020 places Australia short of the range of relative effort by other major emitters. It also places Australia short of achieving the level of abatement that is in its economic interests over the medium to long term. Our views about the level of ambition for Australia's targets have strengthened since our submission on the Issues Paper. It is our view that Australia should:

- Set an indicative emissions reduction trajectory from 2013 to 2050 consistent with Australia's share of global effort under the contraction and convergence approach, assuming a global carbon budget that allows a 67% chance of limiting warming to two degrees. Setting a trajectory based on a 50% confidence of avoiding two degrees of warming is of little value as it would understate the level of emissions reductions that are likely to be necessary from an environmental perspective.

- Periodically review this trajectory based on the latest climate science, better understanding of the impact of global warming and realised levels of national ambition.

- Recommend a 2020 national target that better reflects Australia's necessary emissions reduction task and progress in international constraints on emissions. It is our view that at least a minus 15% target by 2020 is warranted, consistent with Australia's international commitments. This is an advance on our earlier submission that cuts of between minus 5% and minus 15% would be necessary on the basis of catching up to other nations on emissions intensity.[1]

[1] www.igcc.org.au/Resources/Documents/IGCC_CCA_Caps%20and%20Targets_submit.pdf

- Consistent with the analysis of the Draft Report, we are seeking a gateway reduction target for 2030 to be set as soon as possible, to provide an indicative tool for the markets to ascertain the likely range of future policy response that will be necessary. We understand that the gateway would be between -35% and -50% below 1990 levels based on the CCA's analysis.

- Access to international offsets are a critical element of Australia's policy framework as they allow Australia to respond to the need for deeper emissions reductions at low cost.

The budget approach used by the CCA to assess future targets and trajectories to 2050 is useful for the investment community because it provides a clear view of the necessary abatement task. Monitoring Australia's progress against its national budget should become a priority for federal government. We accept that the science of climate change will evolve, as will international agreements on emission reductions. As a result there will be some uncertainty around the level of the national budget over time. For this reason maintaining an independent authority such as the CCA to monitor international developments, Australia's budget and abatement performance is an essential part of a sound climate policy framework.

3. Recommended emissions reduction goals

Targets

IGCC continues to believe that the 2050 emissions reduction objective should influence short and medium term target setting in the interests of a steady economic transition. Relative to the emissions reductions that must be achieved by Australia by 2050, a 5% reduction in 2020 leaves significant work for later years. Further, considering Australia's emissions reductions since 2008 and international progress on emissions reductions, it our view it is in Australia's interests to take on a target of at least minus 15% by 2020.

CCA analysis indicates that due to reduced energy demand and greater energy efficiency, Australia's expected emissions reduction task to support a 5% target (754Mt from 2012 – 2020) would now equate to an 11% reduction by 2020 below 2000 levels. Keeping the same level of targeted abatement in tonnes is an opportunity for Australia given that the majority of the abatement task and associated risk to 2050 already remains in later years and that the price of international abatement permits is so low.

We note that a further 3% of reductions can be achieved by crediting additional abatement permits from 2008 – 2012 to the 2013 – 2020 period.

The combination of the expected reduction task contributing a deeper percentage reduction and the availability of additional abatement credits from 2008 – 2012 means that Australia should take on at least a 14% reduction even before international action is considered.

Considering the emissions reduction ambition of many of Australia's trading partners, the conditions for deeper reductions appear to have been met. Investors see steady progress in emissions reductions agreements, targets and policy measures around the world. Backsliding in ambition and policy measures globally is the exception, not the norm. The US appears to be on track to meet its target of minus 17% below 2005 levels, China is understood to be on track to meet its intensity reduction target of 40%-45% below 2005 levels. Canada has retained its target of 17% below 2005 levels by 2000.

Due to these factors, IGCC considers that Australia should commit to at least a 15% emissions reduction by 2020 below 2000 levels.

Confidence levels

The CCA has based its emissions budget analysis on a scenario with a 67% confidence level on achieving 2 degrees or less. IGCC is not in a position to comment on the science behind the thresholds and therefore whether a 67% confidence level is appropriate. We note however that the consensus position on the science is that is significant uncertainty and material climate impacts are likely above two degrees of warming. Therefore a 50/50 probability based budget would not provide sufficient certainty for avoiding these unpredictable outcomes.

Budgets and trajectories

It is in the interests of long-term investors to have a clear view of necessary future emissions reductions. Providing more information to the community on trajectories is therefore welcome. A benchmark in the form of a national budget that forms part of a global budget will assist investors to interpret Australia's abatement task and progress.

Providing an indicative emissions reduction trajectory will assist investors to forecast the strength of policy measures that are likely to result over time including the period 2030 - 2050. A trajectory can help investors to place short term policy volatility, as in the case of what Australia is currently experiencing, in context.

Recent analysis performed for the investment community about future emissions trajectories and their consequences are helping to inform investors about the risks associated with emissions intensive investments. The Carbon Tracker Initiative is an example of the type of investment risk analysis that can be informed by a budget and trajectory approach. This analysis and understanding about risks to emissions intensive assets can be supported by the work of national governments.[2]

We are therefore seeking an indicative emissions reduction trajectory from 2013 to 2050 consistent with Australia's share of global effort under the contraction and convergence approach.[3] An indicative trajectory should be provided based on emissions budget equating to a 67% chance of avoiding 2 degrees of warming. These trajectories should be reviewed periodically. We no longer consider that a budget and trajectory consistent with 50/50 confidence of avoiding 2 degrees to be useful as it is highly likely to understate the level of abatement that will be necessary as a result of future policy agreements.

4. Use of International emissions reductions

Accessing international abatement to assist with Australia's abatement task is necessary to reduce the cost of transition. IGCC discusses this at length in the submissions referenced below.

5. Australia's progress towards its emissions reduction goals

As long term investors IGCC cannot stress the importance of policy stability enough. Investors will invest in low-carbon assets where they are reasonably confident that the policy framework that supports low-carbon investment will be in place for the life of the investment and the level of the support will be high enough to make the investment profitable.

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[2] www.carbontracker.org

[3] In our submission on the discussion paper, IGCC outlined its thinking on the contraction and convergence approach. www.igcc.org.au/Resources/Documents/IGCC_CCA_Caps%20and%20Targets_submit.pdf

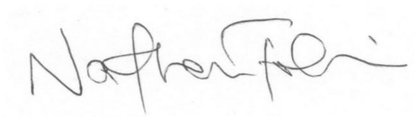
There is now a pervasive uncertainty in Australia's climate policy and investment environment. Uncertainty leads to a lack of investment or where investment decisions must be made, low cost, short-term investment options. IGCC does not expect that replacing a long-term policy framework in the form of carbon pricing with a short term policy framework, (three – six year horizon) will alleviate this uncertainty. Investors are more concerned about policy settings that will apply for the next 20 years than the next three years. Further information on the consequences of repealing key elements of Australia's policy framework can be found in our submissions on the proposed carbon price repeal[4] and evidence to the Senate Environment And Communications Legislation Committee Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 And Related Bills (Public) Inquiry.[5]

Jurisdictions that have greater policy stability than Australia include the United Kingdom, Ireland, the United States, Germany, Canada and a range of South American Countries. IGCC members currently prefer infrastructure investments in these jurisdictions to Australia. Examples can be provided privately to the CCA.

6. Conclusion

We thank the CCA for its work, which is assisting the investment community to understand Australia's future emissions reduction task. We continue to believe that the CCA is playing an important role in Australia's evolving climate policy response and IGCC would hope to see the organisation continue to operate.

Yours faithfully,



Nathan Fabian
Chief Executive
Investor Group on Climate Change

[4] www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Clean_Energy_Legislation/Submissions
[5] www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Clean_Energy_Legislation/Public_Hearings