

Submission in response to the *Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review—Final Report*

by

U3A Climate Conversation Group, Canberra

to

Climate Change Authority

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Introductory Comments

Thank you for the opportunity to comment on the Final Report of the Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review. The *U3A Climate Conversation Group* is an informal grouping of Canberra citizens associated with the University of the Third Age. We are concerned about the impact of climate change and the consequent economic, ethical and moral responsibilities that fall on the current generation, and specifically on policy and decision makers. We have a particular concern that the interests of the current generation of young children, who have no voice in today's decision making, are not being adequately considered.

In this context we consider action to control and reduce carbon emissions requires higher priority and more urgent attention by the federal government and Australian society in general. This is an issue of such magnitude it requires broad political and societal acknowledgment since it will require consistent action over many decades and by successive governments, irrespective of political persuasion.

We consider that:

- Australia's 'framing of the problem and response' to climate change has been focused on an approach that is completely inadequate compared to the potential risk and impact of the climate change on the economy and habitability of Australia and well-being of Australians:
- Further as the world's 18th largest source of carbon emissions and the largest emitter per capita amongst OECD countries, we have an obligation to other global citizens to take strong action; and
- The full ramifications of the scale of the required change to decarbonise the economy are not being adequately discussed and communicated to the public, nor is the public's role in mitigating climate change.

It is in this context that we make the following comments on the Report Summary followed by specific comments on parts of the text of the full report.

The Importance of the Review: The Climate Change Threat and the National Interest

We agree that the Review of Australia's greenhouse gas emissions and targets is important. We are concerned about the effects of climate change and agree that climate change poses major risks for Australia's people, economy and environment. These issues are well described along with Australia's global role in Chapters 1-4 of Part A. However, what the report does not do is formally draw from this analysis the necessary consideration of the national interest, which the Climate Change Authority is required to do under its Act.

In a worst-case scenario, climate change presents an existential threat for living in some parts of the world and conceivably in parts of Australia. Indeed Australia stands to be one of the countries most severely affected by climate change - certainly amongst rich countries. Further, it cannot be assumed that climate change will proceed smoothly and it may be subject to sudden change as heat retention builds up - the concept of tipping points, where there is a rapid, irreversible shift from one climate state to another, has been extensively discussed in the scientific literature. From the point of view of risk analysis 'What therefore is the national interest in this context?' and 'How does this affect priorities in national decision-making and policies?'

Currently, the quality of the environment and the environmental services we derive from our climate, and upon which we rely, have been seen as an externality to the daily operation of the economy. The scale of the climate threat has the potential to reverse this position. Without climate change mitigation, the 'liveability', security and economy of Australia are under threat. In other words, our wellbeing and economic future are contingent on mitigation of climate change. Raising mitigation of climate change to the status of a priority in the national interest gives a much needed, strategic perspective for national decision-making. This is particularly relevant for the current generation of young children in our care whose lives will extend to the end of the century and who will be most affected by climate change.

Raising the need for mitigation of climate change 'in the national interest' also has the potential to help resolve the mutually incompatible attitudes towards mitigation of climate change on the one hand, and Australia's dependence on fossil fuel usage and exports on the other. Some elements of our political and business elite seem incapable of recognising that mitigating climate change involves decarbonising the world and Australia's economy.

A national interest statement would promote the necessary dialogue to resolve these conflicting views and assist the public in understanding the issues and the trade-offs that will affect their daily lives and the future of their children. The government needs to be encouraged to consider the medium to longer term effects of climate change and mitigation actions on the economy, and hence its spending priorities.

Recognition of the national interest in mitigating climate change would give Australia a national imperative for taking a leading international role and encourage other countries to do so. In turn this would help restore Australia's standing in the international community, which has suffered so egregiously because of its attitude to climate change at the recent G20 summit in Brisbane.

Recommendation: The Climate Change Authority give prominence to a national interest statement on the importance of mitigating climate change and recommend adoption by the government.

Where are we now?

As indicated in the Review, Australia's economy has stabilised in term of carbon intensity, but it is our contention that, compared to other nations, Australia's formal international undertaking to reduce emissions by at least 5 percent compared to 2000 levels is a minimalistic approach, particularly if only the 5 percent target is achieved. A 5 percent target would not be a credible start by Australia towards the goal of limiting global warming to less than 2 degrees.

As documented in Chapter 2 of the report, Australia stands to be one of the countries most severely affected amongst OECD countries. The government needs to be encouraged to take much firmer action, in line with our national interest and our responsibility as an international citizen.

We agree that further action is required to achieve real, absolute reductions in emissions.

We are concerned that in the absence of a carbon price, or other effective policies, emissions are expected to grow to 685 Mt – 17% above 2000 levels – by 2020. We note that this is an increase of 23.4 % above 1990 levels (554.9 Mt incl LULUCF) and 23.9% above levels in 2013 (552.9 Mt incl LULUCF). We are concerned that the currently capped Direct Action Plan alone is likely to be insufficient to achieve the necessary minimum 5% reduction.

We are therefore in full agreement that much more needs to be done and as a matter of priority.

What Does the Authority Recommend?

We agree with a carbon budget approach to develop emissions reductions goals for the short, medium and long term. **It is our contention that weak action now is morally indefensible**, as this will impose a greater emissions reduction burden on our young children in the future and on future generations.

We agree with, and strongly endorse, the Authority's proposal for a minimum 2020 emissions target of 15% below 2000 levels and that the carryover from the Kyoto Protocol be used to raise Australia's minimum target to 19% below 2000 levels. Such a response is in keeping with the current targets of the United States and the European Union.

We agree that medium and long-term goals need to be set for post-2020 emissions reductions. Post-2020 targets are essential for planning and will give the necessary certainty to industry. The Authority's recommendation for a 2030 target trajectory in the range of 40-60% below year 2000 emissions seems reasonable. This is broadly equivalent to 39% to 59% below 1990 levels and is comparable to the medium term target recently announced by the European Union.

We agree that targeted and sustained emissions reduction policies are needed now to drive a steady transformation of the Australian economy. Transformation of the economy will be contentious. In particular, there will be tensions between the idea of a national emissions budget in order to limit emissions and the real potential for stranded carbon assets – particularly coal assets. However, if the economy is to be decarbonised over time, then it will be necessary for Australia to realise there will be a limit to the time that we can be reliant on energy from coal, with subsequent high CO2 emissions. The sooner this is done the better, as it will give some of the necessary time to resolve conflicting views.

We are concerned that the Report is silent on the role of the public in mitigating carbon emissions. The extent of take up of roof-top solar by the public and small business indicates the public's willingness to play its part. However based on its recent experience with the Carbon Tax, the public is understandably cynical of carbon pricing schemes whereby the public bears the costs and vested interests and traders gain a benefit by gaming the system. We recognise that pricing carbon will be necessary to achieve economy wide emission reductions, but consider that there should be a direct connection between revenue collected and a periodic dividend to the public along the lines of that operating in British Columbia, Canada.

Recommendation: The Climate Change Authority give preference to carbon pricing mechanisms where there is a close correlation between revenue raised and periodic dividends to the public and recommend an appropriate option to the government.

We agree with the Authority's reasoning for its recommended goals.

What Are the Next Practical Steps for Australia?

We strongly agree that a strong and targeted suite of policies is essential for Australia to achieve the recommended goals. Ideally, and in order to provide a defined and certain path for industry, it is highly desirable that there be broad political support for the goals.

We agree that Australia can achieve substantial domestic reductions, especially by using less emission-intensive sources such as renewables for electricity generation. However, as illustrated by the Government's recent Energy Green Paper, there is a tendency to favour particular energy sources over others. It is essential that policies adopted are agnostic as far as energy sources are concerned, providing emissions goals are met. In principle, there may be a good case for maintaining the Renewable Energy Target (RET), as it has been successful in reducing emissions in the electricity sector, but with modifications such as proposed by us in our submission to the Energy Policy Green Paper (see Attachment).

We agree with the recommendation to use international emissions reductions as a bridge between domestic reductions and the recommended goals. From a financial perspective, this should be an attractive proposition, if the cost of purchasing reductions is low (\$0.5 to \$2 per tonne). In the scheme of the national budget, a cost of \$200-\$900 million over say 5 years to purchase genuine offsets is not large. It provides a cost-effective pathway until the country has geared up to provide increased domestic emissions reductions.

Recommendations

We agree with the recommendations outlined.

Additional Comments on Specific Topics

Page 40 – Cost of Climate Change to the Australian Economy

We agree that the economic cost of strong climate action now is likely to be less than the cost of inaction. The challenge of reducing emissions later will be much greater. The idea of taking early action should be attractive to the government from a long-term economic perspective.

Page 67 – Conditions for moving beyond 5 per cent

We note that a number of organisations, including the Australian Industry Greenhouse Network, the Australian Petroleum Production & Exploration Association, the Business Council of Australia and the Cement Foundation, were of the view that the conditions for moving beyond the minimum 5% target had not been met.

The arguments put forward are largely based on self-interest, not the national interest.

Page 72 – Summary of Australia's Capacity and Position on Different Metrics

We agree that Australia's 2020 target does not look comparable to key countries when measured by emissions per person. Apart from that, **we believe that emissions per person should not be a basis for setting emissions reductions targets and we recommend that this should be outlined to the government.** As the Report points out it is total emissions that count and a per capita measurement also includes a measure of population change. Reduce total emissions and the per capita emissions will also reduce, unless population levels falls. This point needs to be made clear in the report so that government understands this. We acknowledge that Australia's per capita emissions are the highest in the OECD and there is a need to reduce both Australia's emission intensity and total emissions.

- A recent example illustrates the confusion that can arise. On the 5th March, the Prime Minister made a statement in the Parliament that confused Australia's official emission reduction target of 5% ref 2000, with an announcement that emissions in 2020 would be reduced by 12% of 2005 levels. The change in the baseline makes it sound as though we are doing more than the official 5% target when in fact it is not the case. Furthermore, the 12% reduction was stated to be equivalent to a 30% reduction per capita. While this may be true, it is actual total emissions reductions that count, not the per capita reduction. The difference between the two figures is attributable to the anticipated population growth in Australia by 2020.

Page 94 – Factors influencing Large Industrial Efficiency

We note that most respondents identified higher energy prices as a driver of energy efficiency.

While the Report states that the Carbon Pricing Mechanism had an impact we note that, at the time of writing the report, the financial effect had been relatively small.

We recommend that it would be worthwhile to update data in the report to take into account the financial effect of the carbon price over the whole period that the carbon price was in place.

Page 95 – Effects of the Carbon Pricing Mechanism on Australia's Emissions

We note that at the time of writing the report the Authority felt that it was difficult to assess the impact of the carbon pricing mechanism.

It is our contention that a price on carbon in Australia has been effective in reducing emissions and this needs to be highlighted graphically to the government.

- A graph by Pitt and Sherry shows that since the removal of Australia's price on carbon, CO₂ emissions in the electricity sector have risen by ~2% while electricity demand has continued to fall [Source: www.pittsh.com.au Cedex Electricity Update February 2015]. Since 2008 emissions in the electricity sector have fallen and we are now seeing a reversal in this trend. Pitt and Sherry state *“Since the removal of the carbon price, Victorian brown coal generation has been steadily climbing back to the relatively stable level of total output it achieved up until the introduction of the carbon price.”*

Either a price on carbon, additional policies or preferably both, will be required to reduce

emissions sufficiently to avoid a projected 2 degree rise in global temperatures.

It is noteworthy that Page 60 of the Report mentions China's intention to introduce a nation-wide Emissions Trading Scheme. Information from Reneweconomy.com.au mentions "Just two months after Australia trashed its carbon price because it was 'too high' and would 'trash the economy', China has flagged that its planned carbon trading scheme will cover 40% of its economy and be worth up to \$65 billion." The National Chinese ETS is currently scheduled to commence in 2016. This shows that China is prepared to take early decisive action on pricing carbon in contrast to Australia where an effective price on carbon has been abandoned. The National Development and Reform Commission, China's top economic adviser, has mentioned that it is likely to regulate 3 to 4 billion tonnes of CO₂ and an expert from the ANU's Climate Change Institute has mentioned that the Chinese scheme suggests an indicative price of \$18 per tonne.

Accordingly we recommend that, as part of the Review, that the Authority provide updated information on international carbon pricing, including the action proposed by China.

If the Authority believes that carbon pricing is an effective mechanism, then the Authority should go further and strongly recommend that a price on carbon in some form be reintroduced.

We recommend that the Authority's Review draw the effectiveness of a carbon price to the government's attention.

While the current Direct Action Programme may be considered to be a price on carbon it is our contention that, in its current form it is unlikely to be as effective as a direct price on carbon or an Emissions Trading Scheme because:

- The Scheme is currently capped at \$2.55 billion;
- It does not necessarily place a constraint on all major emitters – it is an optional 'opt-in' scheme;
- It is the taxpayer who pays for the emissions reduction, not the polluter. As a consequence there is not the same incentive for big polluters to reduce emissions – they only have to do so if they want to.

Having pointed out the limitations of the existing scheme, we are not overly concerned about how emissions are achieved, so long as the targets are achieved.

Page 97 - The Future Role of Policy

We note that the Authority states that Australia will need to transition to a low-emissions economy to continue to be competitive. We can only agree.

For a government concerned about Australia's budgetary situation we see this as a very strong argument. The need for the government to be actively involved in developing policies and industry plans to transition to a low-emissions economy does not stand out in the existing report – this is in contrast to the publications by the IEA which advocate strong policy actions across all sections of the economy. If the argument for emissions reduction

is not a sufficient reason for government to take stronger action, then economic arguments related to Australia's competitive position in a changing climate might be a stronger reason.

We recommend that the need to transition to a low-emissions economy in order to be competitive needs be highlighted during the review.

Page 110 – Carryover from the First Commitment Period of the Kyoto Protocol

We note mention of the option that the carryover from the First Commitment Period of the Kyoto Protocol could be used as a 4% contribution towards Australia's current official 5% reduction target below year 2000 levels. Under this option Australia's effective 2020 target would be only 1% below 2000 levels.

We are concerned that mention of the carryover in conjunction with the current official unconditional 5% reduction target could mean that Australia might only have to reduce emissions by 1% in order to meet its minimum target, and that this might be an attractive “out” for the government, particularly when the government is of the view that budget expenditure is already too high. This assumption is reinforced by the information in Box 10.2 of the report in which government assumes that all surplus emission rights from the first Kyoto Protocol will count towards the 5% minimum target.

We recommend that the Authority's Review needs to clearly state that use of the carryover to achieve a 5% reduction is not an acceptable solution and is not recommended, as such an approach would not be responsible in an international context.

**Attachment: Extract From Submission in Response to the Energy Green Paper 2014
By 'The Climate Conversation Group', Canberra to Department of Industry
Australian Government**

Comments on Chapter 2, Electricity Prices

Evolving to a more sophisticated tariff, regulatory and grid management system is an important component of energy policy. It allows greater customer discretion at least cost and sends robust commercial signals to market participants.

However in the absence of an articulation of the relation between GHG Policy and Energy Policy, there is a fundamental contradiction regarding the role of renewables and fossil fuel generation in electricity generation on the one hand, and reduction in GHG emissions on the other. The primary reason for including renewables in the generation mix is to reduce GHG emissions whilst generating electricity. The RET is essentially a 'Direct Action Measure'. The RET can only be seen as a subsidy for electricity generation if the benefits of reducing GHG emissions are ignored. To be technology and regulatory neutral, as the paper aims to do, requires that GHG objectives apply equally to all technologies.

It should be noted that the application of the Diesel Fuel Rebate to off-road use in coalmines militates against reduction in GHG emissions since it is a subsidy to fossil fuel generators.

The problem of financial viability for some fossil fuel generators in the market is a by-product of the aim to reduce GHG's through the RET. Because of their low operating costs and their non-dispatchable¹ nature, renewable generators can undercut fossil fuel generators in a market with excess generation capacity.

The solution should not be to reduce the RET which will slow progress towards the achievement of Australia's GHG goals, but rather the regulatory system should be adjusted to provide a level playing field for all generators whilst providing a driver for reduction in GHG emissions.

Reducing the RET has the effect of increasing sovereign risk for renewables investment at the same time that the government is concerned about increasing sovereign risk for gas exploration investment if a gas reservation policy were introduced (Chapter 3).

The preferred way of reducing GHG emissions is through an efficient carbon trading system. In its absence, a way of leveling the playing field is to modify the RET into a Carbon Reduction Target (CRT) which operates in the same way as the RET, but where the certificates are related to GHG emissions foregone. The overall level is controlled by a legislated CRT for the industry as a whole and administered by a regulatory system analogous to that operating for the RET. The benefits of such an approach are:

- It integrates GHG reductions into the electricity generation system.
- Along with any price signals it encourages replacement of old inefficient generating system with less polluting ones.

¹ Dispatchable generation refers to sources of electricity that can be dispatched at the request of power grid operators; that is, generating plants that can be turned on or off, or can adjust their power output on demand (Wikipedia)

- It is technology neutral.
- When required, on a periodic basis the legislated target can be amended to meet new GHG commitments.
- It provides certainty to the industry as to the parameters that will govern the electricity market into the future.

This highlights the need for a GHG Policy that looks beyond 2020 and one that is integrated into Energy Policy and is agnostic as to energy sources.

Recommendation 3: GHG mitigation goals that are technology neutral be a formal part of the governance of the electricity generation system with the Renewable Energy Target being replaced with a Carbon Reduction Target operating in an analogous manner.