



## GREENHOUSE POLICY

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### PRINCIPLES OF GREENHOUSE POLICY

ACCI acknowledges global concern over possible changes to the earth's climate caused by the enhanced greenhouse effect and accepts that the weight of scientific evidence increasingly supports the enhanced greenhouse hypothesis.

ACCI accords a high priority to climate change policy. Although the economics and the science guiding policy makers on this issue is developing, and sometimes called into question, ACCI believes there is enough evidence to suggest that industry, governments and the community must continue to understand and systematically address this issue.

However, any balanced assessment of the various policy options for addressing the enhanced greenhouse effect will be impossible without further impartial and rigorous research on its climatic, environmental, social and economic ramifications. This research is fundamental to address uncertainty about the global effects of greenhouse gas emissions arising from human activities and the even greater uncertainty about their regional impacts.

ACCI believes that the key principles of greenhouse policy are as follows:

- although there are uncertainties in the science of climate change there is sufficient reason to be concerned that increasing levels of greenhouse gases lead to interference with the world's climate system;
- Australia should contribute to global action by reducing its greenhouse gas emissions commensurate to its share of the problem;
- active participation of developing countries in the reduction of greenhouse gas emissions, particularly through commitments under the Kyoto Protocol, is essential to effectively address the global climate change problem and to minimise distortions to world trade;
- a strategic, nationally uniform, "whole of government" approach to greenhouse should be adopted in Australia to ensure policies and measures are implemented in a way that lowers the costs of meeting our international obligations and distributes the cost burden equitably and in the national interest across the community;
- future greenhouse policy should provide legal recognition for early action initiatives of corporations;
- the strategic approach to greenhouse should facilitate adjustment within the economy while recognising the dynamic nature of economic change and investment opportunities;
- market-based mechanisms usually provide a more efficient and least costly means of meeting Australia's international commitments however due to the market failures that exist, there may be a need for carefully considered government intervention;
- emission trading is a viable option for abating greenhouse gases but more work needs to be done to develop an appropriate and comprehensive model, taking into account the effect on trade impacted industries and sectors;
- in the absence of an agreed model for an emissions trading scheme the emphasis of policy measures should be on the provision of incentives to undertake the development of new technologies to reduce and abate emissions;

- Australia should oppose the introduction of a carbon tax. The setting of a ‘tax price’ that is equitable and efficient is extremely difficult and is likely to understate or overstate the original objective which is to achieve a certain pre-determined abatement target;
- despite any uncertainty regarding the potential environmental consequences of climate change, greater emphasis needs to be placed on the development of adaptation strategies; and
- government and the private sector have a responsibility to ensure that the whole Australian community fully understands the magnitude of the task we face in reducing greenhouse gas emissions and all of the issues and implications of greenhouse policies.

## POLICY OBJECTIVES

The guiding objective of both national and international policy on the enhanced greenhouse effect should be to balance the environmental, economic and social effects of policies in such a way that the outcomes minimise detrimental impacts on human welfare.

The adoption of a principled comprehensive greenhouse policy framework must reinforce the following national policy objectives and priorities:

- Australian jobs are not sacrificed;
- competitiveness of efficient Australian industries is maintained; and
- Australia assumes a fair share of the burden to reduce greenhouse gas emissions.

To underpin the achievement of this policy objective, ACCI believes that further rigorous and independent research is urgently required on:

- the global and regional climatic and environmental impacts of the enhanced greenhouse effect;<sup>1</sup>
- the social and economic consequences of these impacts; and
- the social and economic consequences of different policy options for addressing the enhanced greenhouse effect.

Achieving the guiding objective also requires:

- that policy should be based on the principle that the benefits accrued exceed the cost of measures;
- that policy measures should only be implemented when there is a reasonable expectation they will achieve their intended outcome; and
- that policy outcomes are strongly focussed on efficiency. This in turn requires:
  - a) using market-based mechanisms which allow the economy to adapt to emissions-reducing measures in the most efficient way possible. In contrast, prescriptive applied measures, if inappropriately applied, may result in minimal compliance, discourage innovation and rapidly become out of date;
  - b) neutrality of treatment between activities irrespective of whether they are undertaken by governments, businesses or consumers and regardless of sector or location;
  - c) symmetry of treatment between emission-producing and emission-absorbing activity, so that equal weight is given

to activities which absorb greenhouse gases (such as the creation of carbon sinks) and activities which reduce the output of emissions; and

- d) the involvement in policy making of those who will have to put greenhouse measures into effect, and in particular extensive consultation with industry.

There are other positive benefits of greenhouse policy which also should be taken into account in the appraisal of the net national interest. The benefits of any measures may well include environmental benefits such as biodiversity conservation and mitigation of land degradation processes such as salinisation or tree decline. Sinks too will play an important role in this regard not just for their carbon dioxide absorption abilities but for habitat conservation or water table management.

## International Strategies

Global warming is a truly international issue. No single country acting in isolation will succeed in significantly affecting the level of global emissions. Because of this global dimension, key initiatives to address the enhanced greenhouse effect are being undertaken through a series of international negotiations and treaties, most notably under the Kyoto Protocol. This global action is necessary and appropriate.

ACCI is concerned, however, that the Kyoto Protocol as currently formulated will achieve little in its efforts to address the enhanced global greenhouse effect. Its key flaw is that it seeks to address a global issue in terms of national boundaries.

This is compounded by the fact that the Kyoto Protocol only binds Annex 1 (developed) countries. While historically, developed countries have contributed most to the past accumulation of greenhouse gases, developing countries now contribute about half of current emissions, a proportion projected to grow rapidly in the foreseeable future. The scope of the Kyoto Protocol therefore is already inadequate to address current sources of emissions.

Further, the potential for the Kyoto Protocol to encourage emissions-intensive activities to switch from developed to developing countries ('carbon leakage') will further undermine the objective of reducing global emissions.

Regardless of the international framework, Australia's unique circumstances will make reducing emissions difficult. A large land area and resources rich in fossil fuels make it more reliant on extractive and agricultural industries than other developed economies. Transport also accounts for a relative large share of emissions.

Despite the recognition of Australia's circumstances as expressed by a differentiated target<sup>2</sup>, implementation of the Kyoto Protocol will impose added difficulties for Australia relative to other Annex 1 countries.

In addition, the Protocol works against Australia's resource and agricultural exports as they compete with non-Annex 1 countries and it does not sufficiently account for the effects of trade on global (as opposed to national) emissions.

Therefore, implementation of the Kyoto Protocol will impose a significant direct and regulatory cost on these exporters for little gain in global (as opposed to Australian) emissions, for example, natural gas exports where the benefits accrue to the importing country not Australia.

The full and flexible use of carbon sinks<sup>3</sup> should provide opportunities for Australia and should be pursued with vigour.

While the Kyoto Protocol is flawed, it is neither desirable nor feasible for Australia to walk away from international efforts to address climate change. Australia has more prospect of achieving beneficial changes in international agreements on emissions if it is a participant in the process.

The Australian Government's international focus should be to move emissions policy towards a more effective mechanism for limiting the global growth of greenhouse gas emissions. In particular, its longer term aims should be to pursue:

- measures which promote a positive variation on “carbon shifting”, by encouraging emission-intensive activities into locations, jurisdictions, markets and technologies where they can be pursued most efficiently in terms of emissions per unit of output (in the long term, location and jurisdiction should make no difference to the treatment of emissions producers); and
- means of equitably including developing as well as developed countries within the global greenhouse gas emissions control regime.

In the short to medium term, there are measures which Australia can pursue which will improve the effectiveness of current international arrangements. Australia should aim to:

- support a position which changes the calculation of Annex 1 countries’ net impact on global emissions to more effectively recognise the impacts of international trade, whether within or outside the Annex 1 countries; and
- pursue measures to minimise detrimental “carbon shifting” of emission-producing activities from Annex 1 countries to non-Annex 1 countries.

Until issues such as developing nation participation and the involvement of the USA are resolved, ACCI believes that the Government should not consider ratification of the Kyoto Protocol.

## Domestic Implementation

While ACCI supports a cautious approach to international agreements it does not mean that Australian governments should not undertake a broad range of domestic measures.

Australia should pursue domestic emission reduction and sequestration measures, both as a matter of good policy and because it is prudent to anticipate what is likely to become an obligation, whether under Kyoto or some future international treaty.

However, Australia should also now be developing adaptation strategies because climate change arising from increased CO<sub>2</sub> levels will take decades or even centuries to become evident. Even if emissions are reduced immediately, climate change effects will continue to occur for decades to come. As a result, we will need to adapt to climate change irrespective of any measures to reduce greenhouse emissions.

Australia should prepare with adaptation strategies for the expected changes to climate that will occur before abatement measures can realistically be expected to take effect. Business, governments and the wider community should develop strategies for changes in agriculture, nature conservation and the built environment including housing and transport.

Australian businesses have already made substantial progress in their efforts to restrict emissions. The National Greenhouse Strategy is based on “no regrets” measures across all sectors. To date, this has been an effective strategy to develop awareness of greenhouse issues by the community and to implement a range of no net economic cost measures in partnership with business and industry.

Wider measures beyond “no regrets” will affect all industries and all sectors of the community and their effects will extend beyond business costs and practices to the environment and social and economic welfare. These effects are poorly understood as yet, either by specialists or the wider community.

“No regrets” measures should remain the most immediate priority in emissions abatement. They are consistent with Australia preparing for climate change in an uncertain period while more costly and complicated measures are given proper consideration.

Voluntary responses to greenhouse should be encouraged in preference to regulation. Voluntary participation in programs

engenders a greater sense of cooperation and ownership by business, community groups or households. Voluntary measures require little or no policing, are not onerous administratively and therefore minimise compliance costs for business.

Measures beyond “no regrets” should not be implemented without a full cost/benefit analysis being first undertaken. Further, such measures should not be implemented until there has been an informed assessment of the full impacts of such measures.

ACCI is concerned that the lack of informed debate on greenhouse will lead to a lack of understanding of what the true costs are likely to be. This in turn could lead to the adoption of measures whose costs far exceed their benefits.

## **Emissions Trading**

Under the Kyoto Protocol, a global emissions trading mechanism has been identified as a potentially effective international framework for controlling emissions while fulfilling the overriding principle of minimising the social, economic and environmental costs of greenhouse policy.

However, ACCI is less convinced of the potential benefits of emissions trading within Australia. In particular, its benefits may be overstated because of our dependence on greenhouse gas producing fossil fuels.

Further, ACCI is concerned that the domestic emissions trading agenda is being driven by organisations likely to gain financially from an emissions trading regime without proper consideration of the impact on those who would be required to pay. In the process, the key objective – achieving the least economic impacts in return for the greatest environmental benefits – could be given relatively low priority in the design of trading mechanisms.

A domestic emissions trading regime should not be implemented until all issues raised by business have been subjected to a cost benefit analysis and the international emissions trading framework has been finalised.

The Government should be careful to ensure that vested interests do not drive the greenhouse agenda in a way that is not consistent with the overall national interest.

## **THE POLICY FRAMEWORK**

The concentration of carbon dioxide in the earth’s atmosphere is increasing more rapidly than it has at any time during the past 1000 years. By the middle of this century carbon dioxide levels will be approximately twice the level at the end of the 18th century when the industrial revolution started.

Scientific modelling of the increased concentration of greenhouse gases in the atmosphere suggests that it will result in a rise in the earth’s average temperature of between 1.6°C and 5.8°C over the next century. While the resultant climatic effects are still not well known, the models generally predict increased frequency of extreme weather events and changes in precipitation patterns, temperatures and sea levels.

There is however, even greater uncertainty over the impact of increased greenhouse gas levels on regional climates and ecosystems than on the global environment.

Against this scientific framework is the need for Australia to have a policy response to the enhanced greenhouse effect within a strategic “whole of government” framework that integrates Australia’s future economic, environmental and social goals. The Government response should be developed in a concerted and integrated fashion that takes into account the Government’s policies on the economy, the environment, employment, energy, trade and investment, regional development, transport and innovation.

The scale and magnitude of the task requires that governments, business, the community and environment groups play

a part in finding a solution.

**Endnote:**

- <sup>1</sup> Carbon dioxide and other gases trap the reflected heat from the sun to provide the Earth with its equitable climate - the natural greenhouse effect. The enhanced greenhouse effect refers to the increased concentration of CO<sub>2</sub> in the atmosphere due to human activities.
- <sup>2</sup> It was accepted at Kyoto that because of countries' unique circumstances and starting points, different targets should apply.
- <sup>3</sup> Carbon sinks: vegetation, eg forests that store carbon, hence lowering the amount of carbon dioxide in the atmosphere.

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