

## CLIMATE CHANGE OP ED

Heather Ridout, Chief Executive, Australian Industry Group

The nation's commitment to addressing climate change was conceived in times of prosperity, in times of low unemployment, high profits, budget surpluses and unquestioned economic security. It was shaped by the politics of prosperity.

Despite the optimism, implementing national initiatives which put a price on carbon for the first time with considerable uncertainty over the progress towards an international agreement, was always ambitious and was aptly described as a *diabolical* dilemma.

The global economic and financial crisis has made charting the right course in terms of the shape of the Government's Carbon Pollution Reduction Scheme (CPRS) an even more diabolical dilemma. This is particularly the case because it has cast further doubt on the prospects for concerted international action.

At the heart of the economic crisis is a global collapse in business and consumer confidence. Even without the prospect of the CPRS, restoring that confidence over the next few years will be very difficult. Restoring business and consumer confidence, while at the same time proposing a regulatory regime that will cost Australian businesses close to \$8 billion in the 2010-11 year rising to between \$14 billion and \$18 billion per year a decade later, will be extraordinarily difficult.

The fallout from the global financial crisis has added pressure to the start date and presents a strong case for the Government to look seriously at alternatives to best manage the initial years in ways that still involved us meeting our commitments under the Kyoto Protocol.

One option is to adopt a start that was akin to a pilot scheme or a dry run. This could involve for example minimum cost burdens and placing emphasis on education about how to comply with reporting obligations rather than imposing heavy penalties on errors and misunderstandings.

Another option is to reconsider whether 2010 is an appropriate time to implement the scheme in Australia. The Australian Industry Group has been consistent in our view that we should not start until we have confidence that the architecture of the scheme is robust and that we should not be wedded to a particular start date. This could give businesses more room to manoeuvre through the current downturn without having at the same time to juggle hasty preparations for a new regulatory burden and the management of such large cost imposts.

In either case the need for a definite transition to the full scheme would be needed both to give business greater certainty and to reinforce Australia's position in international negotiations.

Another major issue for business is the impact the emissions trading scheme on trade exposed industries. The White Paper needs to provide much stronger protections for those businesses than foreshadowed in the Green Paper released in July. This is a vital area because of the potential damage to competitiveness that would occur if Australia imposes costs that are not faced by competitors operating in countries that fail to put a price on emissions of greenhouse gases.

A number of measures are critical in this regard. The first is for a sensible unilateral commitment on the part of Australia. Ai Group has suggested that a return to 2000 emission levels by 2020 would be a suitable minimum position. Relative to current projections, even this apparently modest target would require us to strip out of our economy one in every six tonnes of our annual emissions by 2020 and reduce our per capita emissions by 20% relative to 2000 levels.

The Government should also make it very clear that any advance beyond this minimum undertaking would require clear and credible commitments from other countries. At the moment the outlook for such commitments from our major competitors is not encouraging. If this were to change at Copenhagen and, in the context of significant improvements on the Kyoto architecture, all major emitting countries indicated a greater willingness to come on board than currently appears to be the case, Australia could then offer to commit to deeper reductions.

In addition to establishing a sensible 2020 target, two major changes to the Green Paper proposals are needed. These are for a greater allocation of permits to the most Emissions Intensive Trade Exposed (EITE) businesses and a reorientation of the Climate Change Action Fund (CCAF) towards less emissions intensive trade exposed businesses.

The greater allocation of permits would allow several improvements in the approach to permit allocation in the Green Paper. There should be a broader eligibility for permits from the outset and EITE businesses should be able plan for higher rates of growth than anticipated in the Green Paper. Additional changes should give recognition to low value-added industries and businesses that have significant cost imposts from indirect emissions other than electricity.

The CCAF should be reconstituted as a second prong of measures for trade exposed industries. It should fund programs aimed at bringing businesses up to speed with the changes and disseminate information on ways to improve energy efficiency and it should provide strong encouragement for innovation and investment in low emissions practices and processes.

The final requirement is that the Australian CPRS needs to be able to deliver the required reductions in emissions in a cost-effective way. This means having a system that includes as many emissions as practicable. It means having an

approach that harnesses market forces to select the technologies and processes that will deliver reductions at least cost. And it means removing unnecessary, duplicating and overlapping regulatory measures imposed by federal, state and local governments.

None of this will be easy and the CPRS White Paper is a major headache for the Government.

Even in the best of times it was going to be difficult. In the worst of times it is going to be very difficult indeed.

## Calculation of Costs of Permits

The economy-wide cost of permits is estimated using data on:

- the total level of emissions in the year;
- the expected proportion of emissions covered by the CPRS;
- the quantity of permits that need to be purchased (i.e. the total amount less the proportion allocated to Emissions Intensive Trade Exposed industries); and
- the estimated permit price (based on Treasury modelling).

The following table sets out the calculations for the 2010 year and for the 2020 year. Two estimates are provided for the 2010 year: one for level of emissions 5% less than 2000 levels and the other based on a level of emissions 15% less than 2000 levels.

	Estimated emissions (million tonnes of CO <sub>2</sub> -e) <sup>1</sup>	Proportion of emissions requiring a <i>purchased</i> permit (%) <sup>2</sup>	Estimated Permit Price (current dollars) <sup>3</sup>	Cost of Permits (current dollars)
2010	600	56%	\$23	\$7.73 billion
2020				
5% reduction on 2000 levels	522.5	56%	\$47	\$13.75 billion
15% reduction on 2000 levels	467.5	56%	\$67	\$17.54 billion

1. Based on a level of 550 million tonnes for 2000 and an estimate of 600 million tonnes in 2010. See *The Australian Government's Initial Report under the Kyoto Protocol*

<http://www.climatechange.gov.au/inventory/publications/unfccc-report.html>

2. Proportion of emissions covered (70% in 2010 and 80% in 2020) less proportion of covered emissions that are allocated to EITE industries (20% in 2010 and 30% in 2020).

3. Based on Treasury modelling in *Australia's Low Pollution Future*, p.139 converted to current dollars.

The cost of permits does not include the two other sets of costs. These are the costs of compliance and the other is the cost of abatement of emissions.