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WWF-Australia Submission to the House of Representatives Standing Committee on Economics' Inquiry into the Amendment (International Emissions Trading and Other Measures) Bill 2012 and associated bills.

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1. Introduction and key recommendations

WWF-Australia welcomes the opportunity to make a submission to the inquiry into the Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012 and associated bills.

WWF-Australia is part of the WWF International Network, the world's largest and most experienced independent conservation organisation, with 80,000 supporters in Australia, five million supporters worldwide and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural resources and to build a future in which humans live in harmony with nature. WWF has been an advocate for national and international action to avoid dangerous climate change for more than two decades.

Key recommendations

WWF-Australia makes the following recommendations:

- Parliament should support the passage of the Clean Energy Amendment bills.
- Parliament should support the linkage with the EU ETS, ensuring that environmental integrity is maintained.
- The Government should join the EU in committing to the second commitment period of the Kyoto Protocol and inscribing target of at least 25 per cent by 2020.
- Parliament should maintain support for complementary measures such as the Renewable Energy Target (RET), including:
 - Maintaining the current 45,000 GWh 2020 RET target,
 - Increasing the RET out to 2030 to between 137,000 and 169,000 GWh, equivalent to 43-53per cent of BAU electricity projection.

2. Emissions Trading Scheme

WWF reiterates its long-held support for a price on pollution as the primary mechanism to reducing Australia's greenhouse gas pollution, supported by complementary measures. WWF believes an emissions trading scheme (ETS) is the most economically efficient and environmentally effective price mechanism. WWF notes that this view is in line with the conclusions of many economists and in particular by two seminal Australian reports to Government on climate change: the Prime Ministerial Task Force on Emissions Trading prepared under the Howard Government, also known as the *Shergold Report*¹, and the *Garnaut Climate Change Review*².

While WWF believes the Clean Energy Package could be improved, especially with respect to over compensation to industry, WWF still believes it's an important first step and provides the following benefits:

- The provision of certainty around pollution reduction targets;
- Minimises national budgetary risk because it is revenue neutral;
- It provides an economic incentive to reduce pollution and switch to cleaner technologies, goods and services;
- It enables the market to determine where pollution reduction will occur, which can drive innovation and efficiency throughout the economy;

¹ Prime Ministerial Task Force on Emissions Trading (2007) Report of the Task Group on Emissions Trading http://pandora.nla.gov.au/pan/79623/20080117-2207/dpmc.gov.au/emissions/docs/emissions_trading_report.pdf

² The Garnaut Climate Change Review (2008) Final report <http://www.garnautreview.org.au/CA25734E0016A131/pages/draft-report>



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- Delivers least cost abatement in covered sectors;
- Sends a long-term price signal for large-scale investment;
- In the absence of a price signal, support for the deployment of emerging technologies through mechanisms such as grants, a Renewable Energy Target Scheme (RET) or a feed-in-tariff will be *more costly and required for a longer period of time* than with a carbon price; and
- Enables international linkage

Research commissioned by WWF-Australia by independent analysts – Climate Risk – found that removing the carbon-pricing scheme altogether would leave an AUD\$67 billion deficit in renewable energy investment requirements to transition to low carbon energy sector by 2050; this shortfall would need to be addressed using other policy measures³.

3. Global momentum continues to build

The proposal to link Australia's ETS with the European ETS comes as momentum at the global level continues to build.

In July this year Australia became the 33rd country to commence a national carbon pricing mechanism. Sub-national schemes are also in place in Canada and the US, including the world's eight largest economy – California. China is piloting emissions trading in seven key industrial regions, which together account for approximately a quarter of the nation's GDP. South Korea, Australia's third largest export market, has passed legislation to begin an emissions trading scheme from 2015. New analysis from the Department of Climate Change show that from 2013 there will be more than 50 national or sub-national emissions trading schemes in place around the world, covering a combined population of more than 850 million people and accounting for around 30 per cent of the global economy.⁴

Domestic policies around the globe have translated into real action on the ground with the global market for clean energy growing by 70 per cent since 2007. In 2011 alone close to \$260 billion was invested in renewable energy globally, more than fossil fuel power sources, like coal and gas. Importantly this includes both developed and developing countries, with China attracting the largest share of asset finance in 2011.⁵

4. Maintaining or strengthening environmental integrity provisions

In principle WWF-Australia supports linking Australia's ETS with other schemes around the world, including Europe. While most of the public discussion has centred on the potential economic benefits, such as access to lower cost abatement, linking also provides potential environmental benefits, which are briefly outlined below.

Strengthening the environmental integrity of the global carbon market

Australia's ETS has a number of crucially important features to ensure it delivers real, measurable and verifiable reductions in carbon emissions, including:

- an emissions cap, which places a hard limit on the number of Australian-issued permits in circulation;

³ WWF and Climate Risk (2012) Our Clean Energy Future: 100% Renewable Energy Powering our Future. http://awsassets.wwf.org.au/downloads/cl043_our_clean_energy_future_100_renewables_powering_australias_future_24sep12.pdf

⁴ <http://www.climatechange.gov.au/minister/greg-combet/2012/media-releases/June/MR-127-12.aspx>

⁵ Bloomberg New Energy Finance (2012), *Global trends in clean energy investment*, <http://bnef.com/Presentations/download/84>



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- robust emissions accounting methodologies, based on agreed international rules;
- strict rules on the use of international and domestic offsets, including qualitative and quantitative restrictions;
- extensive coverage of the Australian economy; and
- strict compliance provisions for liable entities.

Linking with countries and regions, such as Europe, where equally strong provisions are in place will help to ensure these environmental integrity provisions become the global standard. This is particularly important at this point in time when there are a number of different schemes being developed around the world, including in China and South Korea.

Assuming European and Australian governments wish to maintain the environmental integrity of their schemes, it will be up to governments in other countries seeking to link to Australia and Europe to ensure their schemes have equally strong provisions in place. Overtime this will strengthen the overall environmental integrity of the global carbon market.

We note that there is also a risk that international linking could see a weakening of environmental integrity provisions. This is something that WWF-Australia would strongly oppose. International linking should be conditional on the environmental integrity of national schemes being maintained or strengthened.

Enabling stronger targets in other countries

Linking carbon markets improves the economic efficiency of carbon pricing, which should help to enable countries to commit to stronger emission reduction targets.

Despite the important progress achieved at the domestic level, and the resulting surge in clean energy investments, in aggregate, current policies and commitments around the world still fall short of what is needed to avoid dangerous climate change. Indeed even with these policies and measures in place, it is projected that this would see the global average temperature rise by around 3.5°C above pre-industrial levels by the end of this century.⁶ While this is significantly less warming than would occur in the absence of these policies and measures, it falls well short of the international community's goal of keeping global warming to below 2°C.

Creating a global carbon market, which the Australian-EU linkage forms the beginning of, will help drive stronger targets amongst participating countries, and build greater momentum towards concerted global action.

Enabling stronger targets in Australia

Australia is amongst the most vulnerable of developed countries to the impacts of climate change, with significant risks to infrastructure, natural resources, agriculture, health, the environment and our economy. Both the Australian Government and the Opposition support the view that it is in Australia's national interest to see atmospheric concentrations of greenhouse gases stabilised at 450 ppm CO₂-e with the goal of keeping global warming below 2°C. Many others, including WWF, believe Australia should be supporting a goal of limiting global warming to 1.5°C.

Without question, the most important criteria the Australian Government should apply when determining its 2020 target must be the contribution this will make towards achieving the stated national interest goal of keeping global warming below 2°C. Detailed global modelling undertaken as

⁶ Hohne, N. et al (2011), *After Durban: Risk of delay in raising ambition lowers chances of 2°C, while heading for 3.5°C*, Climate Action Tracker, http://climateactiontracker.org/assets/publications/briefing_papers/CAT_Durban_update_2_20111211.pdf



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part of the Garnaut Review, concluded that a 25 per cent target for 2020 would represent Australia's fair contribution to a coordinated global response consistent with a 450 ppm CO₂-e stabilisation pathway.⁷

Both the Government and the Opposition support a 2020 target range of between 5-25 per cent. However, Australia's 25 per cent target is conditional on a significant number of criteria being fulfilled, specifically stronger ambition and action in other countries. If these criteria are not met, the Government has committed to adopting a 5 per cent target unconditionally, and moving to a 15 per cent target if the conditions are partially met.

WWF-Australia does not support the Government's current approach to target setting.

Given the urgency of the risk posed by climate change, and the access to lower cost abatement from the EU linkage, Australia should be willing to move to a 25 per cent target as its minimum contribution to global efforts.

5. The importance of the Kyoto Protocol

WWF-Australia believes it is in Australia's national interest to sign-up to a second commitment period of the Kyoto protocol. The Kyoto Protocol remains a crucial legal and diplomatic bridge to having a new and more effective international climate treaty in place by 2015, with binding pollution targets for all major countries. The Kyoto Protocol also provides some of the key foundations of the international carbon market, including the Clean Development Mechanism (CDM) and rules for emissions trading between countries. The market architecture provided by the Kyoto Protocol has taken more than a decade to build and is the bedrock of both the Australian and European emission trading schemes.

Uncertainty about the future of the Kyoto Protocol creates significant risk for businesses looking to invest in emission reduction activities. This risk originates from two sources. First and foremost, the lack of clarity about what international targets countries will be bound to has made it difficult to predict the level of demand for international carbon permits. This makes it difficult to forecast future carbon prices, which in turn makes it incredibly difficult for businesses to invest in emissions abatement activities.

The second source of risk is the lack of clarity about the future rules of the international carbon market. While not perfect, the Kyoto Protocol does provide a set of rules and rule making procedures, which businesses and other investors have learnt to work with. Understandably, the prospect that countries may move away from the Kyoto Protocol undermines business confidence in the global carbon market, which makes it difficult to invest in anything beyond short-term emissions abatement measures. For Australian businesses this risk is somewhat muted by the fact that the Kyoto Protocol's rules are embedded in the *Clean Energy Act*. However, uncertainty about the future of the Kyoto Protocol raises the prospect of future amendments to the rules governing the Australian carbon market. This makes it difficult for Australian investors to decide which activities to put their money into and clouds decision making for long-term investments which have significant implications for future carbon price liabilities.

The linkage to the EU ETs scheme is the perfect opportunity for Australia to join the EU in signing the second commitment period of the Kyoto protocol and providing even more certainty and benefits for Australian business.

6. The importance of complementary measures

⁷ Garnaut, R. (2008), *The Garnaut Climate Change Review*, <http://www.garnautreview.org.au/index.htm>



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If passed, the Clean Energy Amendments Bill 2012 will mean that there will be no price floor in Australia's ETS. Instead the Australian carbon price will closely track the European price. Some commentators have suggested that this may mean the Australian carbon price is actually higher than it would have been if the existing arrangements were to be retained. However, there is also a possibility that carbon price will be significantly lower than the proposed floor price. This uncertainty underscores the importance of having complementary policies, like the Renewable Energy Target, in place to ensure low pollution investments and transition continue, irrespective of the carbon price.

While the Australian economy is currently in the grips of a mining boom we risk losing sight of the longer-term trends in the global economy. The global market for clean energy was valued at close to \$260 billion in 2011, a five-fold increase since 2005.⁸ This is just the tip of the iceberg. According to the International Energy Agency (IEA) if countries implement *existing* policies and commitments, globally around US\$6 trillion will need to be invested in renewable energy power plants over between now and 2035.⁹

Australia has abundant access to renewable energy and it is very popular amongst the public. However, the report, Our Clean Energy Future¹⁰, commissioned by WWF, finds that under current emission trading price projections if the Renewable Energy Target was scrapped or reduced and not increased out to 2030, most renewable energy industries will stall, some for decades. The RET plays an important safety net until the carbon price is higher enough to facilitate shift away from fossil fuel energy to renewable energy.

The risk of moving too slowly on emissions abatement goes beyond missing out on future market opportunities. There is also a risk that Australia will be left stranded with a fossil fuel dependent economy as the rest of the world accelerates investments in cleaner alternatives.

This risk was outlined by a recent study, which found that around 80 per cent of the world's known fossil fuel reserves will need to be left in the ground if the international community is to achieve the cuts to global emissions required to keep global warming below 2°C.¹¹ This analysis should be sending alarm bells through the Australian stock exchange, which is heavily geared towards fossil fuel investments. If this analysis is correct, then billions of dollars' worth of assets owned and invested in by Australian listed businesses could be worthless. Indeed, according to the IEA, global demand for coal is projected to flat-line from the early 2020s if current policies are implemented; if stronger climate change policies are adopted, demand for coal could peak before 2020 and decline sharply thereafter.¹² This underscores the importance of ensuring we have policies – including a strong emissions reducing target – to help diversify our economy and mitigate the risk of being left with a carbon dependent local economy in a carbon constrained global economy.

The cost of delaying efforts to reduce carbon emissions has also been highlighted as a major risk by the IEA, which has described delayed action as a 'false economy'. The IEA estimates that failing to invest in clean energy infrastructure prior to 2020 will lead to more than a four-fold increase in the cost of cleaning up the energy sector post-2020.¹³

⁸ Bloomberg New Energy Finance (2012), *Global trends in clean energy investment*, <http://bnef.com/Presentations/download/84>

⁹ IEA (2012), *World Energy Outlook 2012*.

¹⁰ WWF and Climate Risk (2012) Our Clean Energy Future: 100% Renewable Energy Powering our Future. http://awsassets.wwf.org.au/downloads/cl043_our_clean_energy_future_100_renewables_powering_australias_future_24sep12.pdf

¹¹ Carbon Tracker Initiative (2010), *Unburnable Carbon: Are the world's financial markets carrying a carbon bubble?*, <http://www.carbontracker.org/wp-content/uploads/downloads/2011/07/Unburnable-Carbon-Full-rev2.pdf>

¹² IEA (2012) *World Energy Outlook 2012*.

¹³ IEA (2011) *World Energy Outlook*, www.iea.org/



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While in theory a carbon price can support the investments required to transition to a low pollution economy, this depends on the carbon price being sufficiently strong. Having a range of complementary policies in place will provide a crucial safety-net to ensure the transition to a low-pollution economy continues if the carbon price remains low.

WWF-Australia is advocating for the following complementary policies:

- Extending and expanding the Renewable Energy Target: Analysis by Climate Risk for WWF-Australia shows that it will be critical to extend and increase the RET out to 2030 to prevent a stalling of the industry after 2020.¹⁴ Given uncertainty about future carbon prices, increasing the RET will provide a safety net for Australia's renewables industry, ensuring there is no investment shortfall should the carbon price be low. WWF recommends a 2030 target of between 137,000 and 169,000 GWh, equivalent to 43-53per cent of BAU electricity projection.
- Emissions performance standard for new power plants: To provide certainty to power sector investors and avoid the risk of locking in gas generation, the Government should introduce an emissions performance standard for electricity generators to achieve the following:
 - An emissions standard of 400-450 kg CO₂-e/MWh for new generators between 2012 and 2019.
 - An emissions standard of 150-200 kg CO₂-e/MWh for new generators after 2020.
 - A retrofit of all non-peaking gas plants built between 2012 and 2019 to achieve a low emissions standard of 200 kg CO₂-e/MWh or less within 15 years of construction.
- Energy efficiency policies: Energy efficiency has a crucial role to play in achieving 100per cent renewable energy by 2050, but remains the poor cousin of low carbon policy. Numerous studies show that price is not the only barrier to energy efficiency. Therefore a carbon price on its own may be insufficient to drive energy efficiency. Efforts by the Department of Climate Change and Energy Efficiency to investigate an energy efficiency target and energy savings scheme must be accelerated and commitments made now to implement these policies.

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¹⁴ WWF and Climate Risk (2012) Our Clean Energy Future: 100% Renewable Energy Powering our Future. http://awsassets.wwf.org.au/downloads/cl043_our_clean_energy_future_100__renewables_powering_australias_future_24sep12.pdf