

INQUIRY INTO THE KYOTO PROTOCOL

*ACCI SUBMISSION
TO THE
JOINT STANDING COMMITTEE ON TREATIES*

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Background

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry.

Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people. This makes ACCI the largest and most representative business organisation in Australia.

Membership of ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. Each ACCI member is a representative body for small employers or sole traders, as well as medium and large businesses.

Comments

Our specific comments made only against Terms of Reference 1, 2 and 4 are detailed below. General comments about ACCI's approach to greenhouse policy are included at Attachment 1.

Term of Reference 1

“The implications for Australia of proceeding or not proceeding to ratify the Kyoto Protocol and meeting its target emissions levels by 2008 with regard to anticipated and /or predicted economic, environmental and social outcomes both nationally and in specific regional areas.”

ACCI does not support ratifying the Kyoto Convention in the absence of some key issues being finalised. These are:

- The rules governing sinks and agreement on the framework of the flexibility mechanisms (Emissions trading, Clean Development Mechanism and Joint Implementation); and
- Participation in the Kyoto Protocol by developing nations.

Without the successful resolution of these issues, we will have a protocol that sets targets on countries but without any means of achieving it. The flexibility mechanisms will be significant in assisting countries to adopt a range of measures and strategies to achieve reductions. Without them, there will be no opportunity for spreading the load, ie, for least cost abatement measures to be

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adopted globally. This would mean that countries like Australia will be in the position of implementing high cost carbon reduction to achieve its target and not be able to take advantage of lower cost opportunities elsewhere around the world.

These measures need to be uncapped, ie there should be no limits placed on them, as is being urged by some nations and conservation groups. What is needed is for there to be maximum opportunities for the reduction of global emissions. Greenhouse is, after all, a global problem that requires global results.

It will make little impact to world global emissions if Australia acts unilaterally. Even though we have amongst the world's highest per capita emissions, we contribute only about 1.5% of the total global emissions. For there to be any sustained reductions, the world's major emitters both from the developed world and the developing world, need to be party to this agreement. This includes the United States of America, China and India. Without their participation, the Kyoto Protocol will cover less than about 30% of the world's greenhouse emissions.

We also believe strongly that Australia should not take any action that does not have the effect of reducing global emissions.

Australia is making determined efforts to reduce its greenhouse emissions. The Commonwealth Government has outlaid nearly \$1B on a range of programs tackling greenhouse emissions in key sectors of the economy. These programs have already lead to a predicted abatement of greenhouse emissions in some areas and there will be greater reductions in the projected level of emissions once the programs are fully operational.

It is worthwhile keeping in perspective the contribution that industry in the broad makes to greenhouse emissions and the need to recognise that measures aimed at industry in isolation will only result in a partial reduction of greenhouse emissions.

In particular, the emissions of citizens through home energy consumption and transport usage are the largest component of total greenhouse gases. Land clearing also plays a significant role. The Government must recognise in any implementation of targets under the Kyoto Protocol, that as part of the problem, those sectors should also be part of the solution.

Term of Reference 2

“The veracity of conflicting current scientific theories on global warming and any solutions proposed for it.”

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ACCI acknowledges the global concern about the potential rise in temperatures as a result of increasing levels of carbon dioxide in the atmosphere and the desire by nations to address greenhouse emissions through a range of mitigation measures.

We note the uncertainty surrounding the scientific evidence as to what the ecological effects might be of increased temperature and whether this can be separated from natural climatic variability.

Earth's climate is not static and the long term pattern has been for periods characterised by glacial formation followed by warmer temperatures and rising sea levels. Even within these patterns, there have been permutations (eg the so called mini ice age of the middle ages).

The point underlining this discussion is that the Earth has adapted to changes in climate in the historical time scale and will undoubtedly adjust again if global temperatures rise. What seems to be the focus of the debate about increased temperatures is that all impacts on the environment will be negative, when some positive effects might also occur. In truth, the Earth's systems are so complex and the interactions so numerous as to be unquantifiable.

In addition, it is simplistic to say that greenhouse alone is responsible for impacts on life or property. A rapidly increasing world population especially in developing nations with poor social infrastructure will increase the magnitude of any destructive climatic events. Adaptation (which may include mass migration) may be an inescapable fact of future generations, irrespective of greenhouse impacts.

As a result of the uncertainty of the science, ACCI believes that there is little to be gained in engaging in a debate about the potential effects of climate change.

Many in the international community have demonstrated a desire to adopt a prudent approach with respect to this issue, which ACCI supports. ACCI believes that ongoing research in this area, especially where policy decisions are going to be made on the basis of the science, is a necessity.

Term of Reference 4

“The economic, environmental and social implications of a punitive approach to any domestic regulation of industry including such proposals as a carbon tax and an incentive-based approach.”

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ACCI believes that any legislation for reducing greenhouse gas emissions should only be considered as a last resort. Generally we believe that any legislative measures are unlikely to be cost effective and may end up creating distortions in the market place. This has the effect of stifling market creativity to address problems and instead may entrench unproductive activity.

The *Renewable Energy Bill 2000* introduced into Parliament recently proposes to legislate for an additional 9600Gw of electricity from renewable energy sources. There is a view that the legislation is unlikely to stimulate large investment into wind or photovoltaics but rather see investment if it is to occur at all, flow into relatively low value Biomass generation. At current prices, Biomass still costs significantly more than coal or gas generation but is cheaper than wind or photovoltaics.

In addition, it may be that those liable under the *Renewable Energy Bill 2000* to meet targets, (electricity retailers and other large electricity buyers), will pay the impost rather than invest in any technology and then seek to pass the higher costs onto consumers, effectively increasing the cost of energy.

Ultimately, under any scenario, it will be consumers who will bear the cost of higher prices.

The renewable energy proposal is also drawing criticism from conservation groups. If the biomass scenario becomes the favoured option under the renewable energy legislation, it throws up a potential environmental consequence. It is this: the demand for woodchips from native forests is likely to increase (until plantations could supply). This will put pressure on more areas of forest to be clearfelled to supply woodchips. As conservationists are generally opposed to the harvesting of native forests, on biodiversity, old growth, and habitat grounds, they therefore will not support energy generation from this source. Through their campaigns and actions, they are likely to sway public support against biomass generation or reduce the security of supply from native forests, both of which would dissuade development. This demonstrates how unintended consequences can occur when there are attempts to regulate the market place.

It is important that the Government does not try and pick winners in the renewable energy market but rather provide the conditions that will allow an objective evaluation of the competing technologies by the market place.

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Australia needs to be mindful of the economic implications of more expensive energy which will be to increase costs across the economy leading to inflationary pressures. In addition, the potential to undermine Australia's competitiveness is also significant. Export and import competing industries will be at risk from those countries that do not ratify the Kyoto Protocol.

This could lead to relocation of industry, the so called "carbon leakage" effect to non Kyoto countries with impacts on Australian projects including those in regional Australia. This would have significant multiplier effects on regional economies, further eroding prospects for long term prosperity in these areas.

ACCI sees that a critical issue for the Government to consider is a long term energy strategy which addresses the real future needs of Australian industry while taking into account the obligations to reduce greenhouse gas emissions. If there needs to be a longer term transition to other energy sources to meet Australia's future greenhouse gas emissions, this needs to be planned for and introduced over a sufficient time frame to allow all sectors of Australian industry to adjust.

ACCI believes that Australia should, in the short to medium term, take advantage of improvements in technology, combined with demand side management policies across all sectors, including residential, commercial, transport and agriculture.

In addition, it would be ideal if greenhouse measures also addressed some of Australia's significant land management challenges including, water conservation and harvesting, soil and tree cover loss, salinity, habitat and biodiversity values. These are core issues for Australia irrespective of what happens as a result of climate change.

In conclusion, ACCI believes, Australia is making significant attempts to reduce greenhouse emissions. Due to our unique circumstances, we have more challenging issues than many other countries. However, we should not be expected to shoulder more than our fair share and we must be vigilant that other countries are not seeking to obtain competitive advantage from hiding behind the Kyoto Protocol. The world must act together to achieve lasting reductions and not be motivated by self-interest.