

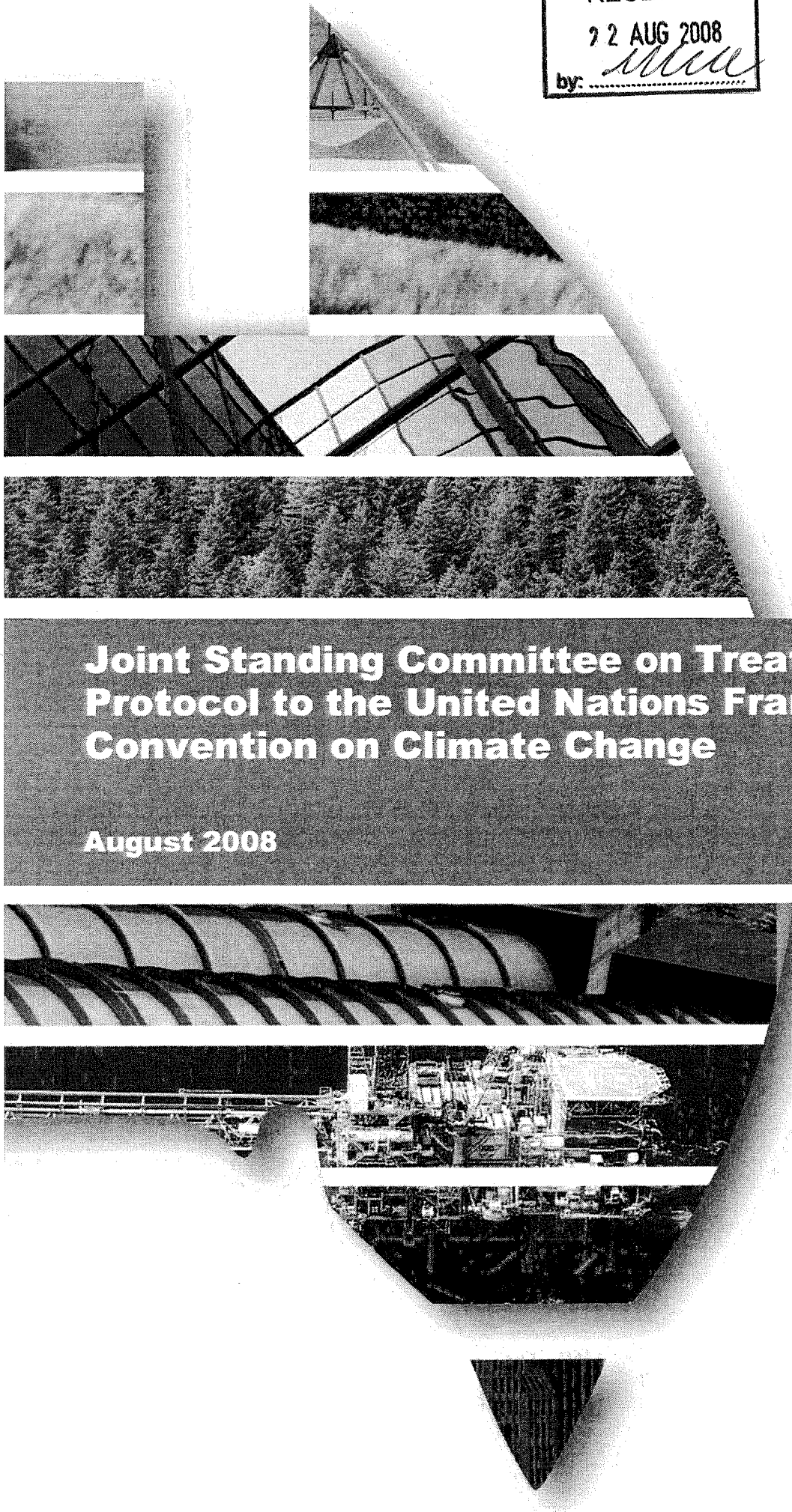
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AUSTRALIAN
INDUSTRY
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NETWORK

**Joint Standing Committee on Treaties: Kyoto
Protocol to the United Nations Framework
Convention on Climate Change**

August 2008



Joint Standing Committee on Treaties: Kyoto Protocol to the United Nations Framework Convention on Climate Change

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1 INTRODUCTION

AIGN makes this submission to the Joint Standing Committee on Treaties in the context of the negotiation of a post-Kyoto global agreement.

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies. A list of AIGN members is at Attachment A.

All of AIGN's corporate members measure and report their emissions of the key greenhouse gases (GHG) in Australia and overseas, and are taking action to curtail them. Many, being multinational industries and corporations, are directly involved in emissions trading in Europe, or in various offsets programs around the world and all have exposure to the various Federal and State emissions abatement schemes already imposed in Australia. AIGN's association members participate in international dialogue and also report on emissions by their members and on abatement actions being taken.

AIGN engages in the climate change policy debate because the stakes for its members are very high. The impacts of policy measures on business competitiveness are particularly sensitive and, given the 'engine room' status of these industries, the implications are important for the national economy.

AIGN's members have a range of views on greenhouse policy. This submission accords with the views of AIGN members in general, though it differs in particulars, relating to both principle and detail, from the positions of some individual member associations and companies.

AIGN policy principles

AIGN has been an active participant in international and domestic deliberations on climate change policies since the early 1990s. Drawing on that experience, AIGN established in 2002 a set of climate change policy principles, which it uses to

assess the merits of policy proposals. These principles are set out in Box 1.

Box 1: AIGN Climate Change Policy Principles

Australian Industry Greenhouse Network's position on climate change is informed by the following principles:

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.

Australia should engage the international community to pursue global action to reduce greenhouse gas emissions leading to identified and beneficial environmental outcomes which:

- allow for differentiated national approaches;
- promote international cooperation;
- minimise the costs and distribute the burden equitably across the international community;
- are comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognise the economic and social circumstances and aspirations of all societies; and
- are underpinned by streamlined, efficient and effective administrative reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach to responding to climate change which:

- is consistent with the principles of sustainable development;
- is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long term perspective;
- maintains the competitiveness of Australian export and import competing industries;
- distributes the cost burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively co-ordinated across all jurisdictions throughout Australia.

Australia's future greenhouse policy measures should:

- be consistent with this strategic national approach;
- be trade and investment neutral, in a way that does not expose Australian industry to costs its competitors do not face;
- not discriminate against new entrants to Australian industry nor disadvantage "early movers" in Australian industry who have previously implemented greenhouse gas abatement measures;
- take account of the differing sectoral circumstances;
- be based as far as is practicable on market measures;
- address all greenhouse gases;
- address all emission sources and sinks; and
- balance, in a cost-effective way, abatement and adaptation strategies, both of which should be based on sound science and risk management.

2 THE KYOTO PROTOCOL

2.1 Background

The Kyoto Protocol (the Protocol) aims to enforce international action to reduce greenhouse gas emissions by establishing greenhouse gas emission assigned amounts based on 1990 emissions levels for countries listed in Annex B of the Protocol for the commitment period 2008-2012. It binds Parties to the Protocol to implement emissions reduction policies “in accordance with its national circumstances”.¹

Australia, as a party to the United Nations Framework Convention on Climate Change (UNFCCC) and signatory to the Kyoto Protocol, ratified the Protocol on 12 December 2007, with the Protocol entering into force for Australia on 11 March 2008. Australia has committed to an assigned amount of +8% of 1990 emissions, which is achievable according to government sources.² Whilst ratification does not specifically require a change in Australian law, meeting the commitments may require laws to implement abatement policies. In ratifying the Protocol, Australia is also required to make a financial contribution to the Kyoto Protocol Trust Fund.³

Australia’s ratification of the Protocol, whilst significant, coincides with the steps to negotiate the next phase of international commitments. The current commitment period of the Protocol is from 2008-2012. Article 3.9 of the Protocol provides that discussion of further commitment periods shall be

initiated at least 7 years before the end of first commitment period. To this end the Ad Hoc Working Group on Further Commitments for Annex B Parties under the Kyoto Protocol (AWG-KP) was established at the 1st Meeting of the Parties in Montreal in 2005.

Parallel to this process, the 13th Conference of the Parties (COP), under the *Bali Action Plan*⁴ launched a process to negotiate a long-term international agreement for action beyond 2012. The Action Plan established five elements of the negotiation, adaptation, mitigation, technology, finance and a shared vision for long-term cooperative action, in accordance with Convention principles, “*particularly the principle of common but differentiated responsibilities and respective capabilities, and taking into account social and economic conditions and other relevant factors.*”⁵ This decision of the Parties established a subsidiary body under the Convention, the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

Both groups are due to report their work to the 15th Conference in Copenhagen in 2009.

It is in the context of the negotiation of an international agreement beyond 2012 that this submission considers Australia’s ratification of the Kyoto Protocol.

2.2 Differentiated obligations

A critical principle of the UNFCCC is the concept of “common but differentiated responsibilities and respective capabilities”⁶. Despite more promising dialogue at the recent United Nations Framework Convention on Climate Change (UNFCCC) conference in Bali, even with some agreement about

¹ Kyoto Protocol, Article 2.1.a

² Chapter 5 Australia’s Fourth National Report to the UNFCCC

³ 2008 Contribution to Kyoto Protocol Trust Fund: US\$164,689. Contribution in subsequent years estimated to be US\$210,000. Source: National Interest Analysis [2008] ATNIA 21, Kyoto Protocol to the United Nations Framework Convention on Climate Change. http://www.aph.gov.au/house/committee/jsct/25june2008/treaties/kyoto_nia.pdf

⁴ Decision 1/CP.13, Bali Action Plan.

⁵ Ibid

⁶ United Nations Framework Convention On Climate Change, 1992, http://unfccc.int/essential_background/convention/background/items/2853.php

the size of the global emissions abatement task that needs to be addressed, agreement on how that task is equitably shared among nations, including developing countries, will be difficult to achieve.

In AIGN's view, a global scheme to regulate greenhouse gas emissions is unlikely to be attainable if promoters persist with a Kyoto Protocol paradigm involving centralised rulemaking, monitoring and enforcement, with inadequate flexibility to accommodate differing national circumstances and continual (and often surprising) change. It would seem likely that important nations such as China and the USA would not be able to commit to a global agreement of this kind.

In considering how obligations might be equitably shared, the current dialogue continues to use the language of 'developed' versus 'developing' countries. In AIGN's view, this is unhelpful. This categorisation fails to distinguish the economic progress of some countries, which are currently identified as developing, relative to some countries listed under Annex I to the Convention. For this reason, and despite the principle of "common, but differentiated responsibilities", there has been limited progress on assigning any responsibility to many countries that are currently defined as 'developing' but are at least as, or will soon be as, wealthy as many 'developed' countries.

AIGN commends the discussion of individual country obligations contained within the Australian submission to the UNFCCC, *Initial views on a long-term global goal for emission reductions*⁷, which advocates a process for establishing a new grouping of countries that are 'advanced' and those that are 'less developed', and how the latter might graduate to 'advanced' status over time. The former should be ready to take on commitments from 2012. The Australian submission identifies this alternative

approach to differentiating countries on a basis of GDP per capita, and suggests that all UNFCCC Parties, particularly the top 15 emitters, will need to contribute towards collective mitigation efforts if the UNFCCC's goals are to be met.

2.3 Budget period length

One of the significant elements of the Kyoto Protocol has been that the agreement is for a 5-year budget period. Such a short period is unhelpful for business.

It is generally agreed that the key to achieving significant reductions in global emissions will be in uncovering and deploying new low emission technology. Equally, while governments have a significant role to play, it is accepted that both R&D and market deployment of these technologies will be driven by industry.

The Protocol's problem then is that, while 5 year budget periods will induce low-hanging-fruit emission abatement, it falls far short of the 'bankable' horizons for significant investments. Typically, for a major investment, a 15 to 20 year 'bankable' period is required.

The lesson then is that the international agreements must strive for longer budget periods. It is probably the case that the next agreed budget period for advanced countries would extend from 2013 to 2020. However, for robust business investment decisions which allow more efficient management of uncertainty, a budget period to 2030 would be much more effective – although, if that agreement was open to significant renegotiation, any gains in investment confidence may be undone.

2.4 International negotiations and emissions trading

An international framework that progresses the national commitments under the UNFCCC will be

⁷ <http://www.greenhouse.gov.au/international/pubs/sharedvision-submission.pdf>

critical in meeting any ambition to implement an international emissions trading scheme. Until this happens it would seem improbable that an international emissions trading scheme that encompasses the majority of emissions in the majority of countries will emerge soon.

On the other hand, the EU has committed to continuing its scheme beyond 2012 and it is possible that individual countries, or groups of like-minded countries, could implement emissions trading schemes. While this is not the only possible outcome, the result would likely be a 'constellation' or 'patchwork' of different national and regional schemes, with scope for new countries and regions to eventually link with each other.

If this assessment is realistic, the chance of a single, global and economically efficient emission price emerging to inform short to medium term investment in major capital plant and infrastructure is very remote. It is not unlike the probability of all global trade barriers being removed in the next 20 years – that is, AIGN expects any global scheme to have transitional competitiveness distortions.

This assessment should by no means be taken to be a pessimistic view. Rather it is reached with full recognition of the need to accommodate the genuine aspirations of all nations, not least those of 'less developed' countries, to meet their social and economic objectives; and the cause for optimism is that many countries are likely to adopt their own 'targets' in the absence of an international agreement.

In these circumstances, Australia needs to continue its work through the UNFCCC, regional fora and technology fora, including the Asia-Pacific Partnership on Clean Development and Climate and the Carbon Sequestration Leadership Forum.

3 AUSTRALIA'S INTERNATIONAL CONTRIBUTION IN THE DOMESTIC CONTEXT

Current Australian domestic policy developments cannot be considered in isolation from the international negotiations that are progressing under the UNFCCC. The position that the Australian Government takes in negotiating its future international commitments has critical implications for the design of a domestic emissions trading scheme, and the determination of the emissions 'cap' in that scheme.

3.1 An Australian emissions trajectory

Through the Garnaut Review, and the process to develop a domestic emissions trading scheme, the Government is considering what 'trajectories' or 'budgets' of emissions it might set for Australia post-2012. This is currently being done in the absence of a good understanding of what the majority of 'advanced' countries might also be willing to do.

The modelling that is currently being undertaken by the Australian Government is critical in understanding the impacts of a carbon constraint upon the economy. While AIGN supports a rigorous and robust approach in undertaking this work, it is critical to an informed public debate that information about scenarios and assumptions being used in that modelling be released for consideration and general debate before the modelling is finalised. A further debate would then be required for the community to appreciate the strengths and weaknesses of the modelling, and the overall implications of the results.

In AIGN's view, the Australian Government must be cautious in adopting an overly ambitious domestic 'trajectory' or 'budget' for its emissions trading scheme in advance of a better understanding of the position of other 'advanced' countries.

Remembering that Australia's share of global greenhouse gas emissions is approximately 1.5%⁸, there is, generally speaking, little or no global environmental benefit (in respect of global greenhouse emissions) in Australia imposing a harsher carbon constraint relative to other 'advanced' countries' commitments.

3.2 Treatment of emissions intensive trade exposed industry in the absence of a global agreement

As specified under the Convention, in setting an Australian trajectory or budget, and negotiating a new international commitment, Australia must fully consider the circumstances of its economy relative to other advanced countries – particularly Australia's emission trends, GDP growth, population growth, energy sources and Australia's resource endowment, upon which much of our economic prosperity is based. In the absence of an agreement among advanced countries, this means building into Australia's emission budget room for new emission intensive trade exposed projects in Australia.

As mentioned above, AIGN believes agreement will be difficult to reach and drawn out over many years. In these circumstances, other approaches need to be explored in parallel with negotiation of a comprehensive global agreement. One such approach derives from Professor McKibbin's work, and is endorsed in Professor Garnaut's draft report⁹.

The proposition is that the countries that are competing for new investment in globally traded emission intensive goods (GTEIG) would agree to equally tax those new projects. In this way, investment decisions in those new projects would

not be distorted by the absence of a comprehensive global emission reduction agreement. Further, once a GTEIG agreement is struck between countries, there would be no need to retain an offset for competitive loss in the Australian emissions trading scheme.

Another approach would be for the same countries that are competing for new investment in GTEIG to negotiate their emission reduction budgets such that they exclude new GTEIGs. This concept is known as the 'above the cap' approach. Again it is only necessary until such time as a comprehensive global agreement is put in place.

AIGN believes that more work needs to be done to identify and analyse potential international approaches that might progress the negotiations.

3.3 Impact of a carbon constraint

The impact of carbon constraint for Australia that is disproportionate to other advanced countries should not be underestimated. The implications for Australia will depend on how comprehensive the coverage of the global constraint is, and how quickly the constraint is imposed relative to the cost of technologies that are available to meet the task.

If the constraint is globally comprehensive, AIGN would expect the Australian economy to be more exposed to larger negative economic impacts relative to most other advanced nations. This is because the structure of the Australian economy is more emissions intensive, and its trade exposure is more emissions intensive, than other advanced countries likely to take on similar emissions reduction commitments. If the constraint is confined to a few countries, the economic implications for the Australian economy could be severe depending on the level of emissions reduction and whether Australia could successfully offset the trade exposed industry loss of competitiveness until a global framework is implemented.

⁸ World Resources Institute, *Navigating the Numbers: Greenhouse Gas Data and International Climate Policy*, Chapter 2, 2005, http://archive.wri.org/publication_detail.cfm?pubid=4093

⁹ Garnaut Climate Change Review, *Draft Report*, June 2008

The economic implications for Australia, and for other nations for that matter, are also more severe the more the task is misaligned to the availability of lowest cost technology. There is little point in imposing a high cost on the economy if the technologies to achieve radical emission reductions at least-cost are not available.

In the expectation that the current international negotiations are not able to draw emission reduction commitments from most countries with which Australia competes, the impact of such an emission constraint on the competitiveness of Australian industry needs to be properly considered. Trade exposed industries include the **export** oriented emission intensive industries encompassing energy, mining and minerals processing, and **import** competing emission intensive industries across general manufacturing including chemicals and plastics, cement, pulp, paper, glass, sugar and petroleum refining (many of whom have already reduced their emissions significantly and have few remaining low cost options). They also include some trade exposed agricultural industries with high emission intensities such as livestock and some cropping.

The energy intensive industries, and their importance in the Australian economy (both directly and in providing the essential energy services that support the rest of the economy), have built their presence on the back of Australia's resource endowments and, in particular, the nation's advantage as a producer of low cost energy. These Australian advantages in world trade will be dissipated if carbon emissions are significantly penalised in the absence of a global constraint, and Australia's economic growth will be weaker with diminished investment in these industries.

Lower investment in these industries in Australia, however, is unlikely to dampen investment in those industries worldwide. All of them have a history of

building new facilities in the most competitive locations — and for these industries, emissions costs, if comparable to energy costs, would be a key competitiveness driver. An important characteristic for Australia, in respect of emissions intensive industries, is that our competitors (see Attachment B), almost without exception, include countries in the developing world where the prospect of GHG emissions penalties being imposed is distant, unless a new paradigm around 'advanced' countries can be negotiated. Locating these industries in the Middle East, Asia or elsewhere, rather than in Australia, at Australia's cost in terms of reduced economic development and income, would be to little avail in the goal of reducing global emissions.

This is the 'carbon leakage' problem, often downplayed in developed country circles, which is a very real issue for Australia, given our unusual export profile relative to other developed countries. These realities are not unfamiliar to policy makers, and industry would be obliged to interpret any decision by government to impose cost penalties like an emissions trading scheme, in the absence of a global framework, and without appropriate transitional measures, as a judgement that the environmental benefits, including the agreed need for developed countries to 'take the lead' in this matter, are of greater value than the adverse consequences for growth, employment and regional development.

4 CONCLUSION

Australia's ratification of the Kyoto Protocol must be considered in the broader context of forthcoming international negotiations and current domestic policy developments.

AIGN would urge that future negotiations of Australian commitments under an international framework should not be compromised by decisions

made by governments with respect to a domestic policy agenda. Australia's share of global emissions are such that there will be little gained by adopting comparatively harsh domestic emission trajectories or budgets prior to the successful negotiation of a new international framework. Accordingly, Australian domestic policy will need to be flexible to account for changes in knowledge and international circumstances, whilst accommodating the management of uncertainty so that industry can make sound investment decisions.

Attachment A: AIGN membership

Industry Association Members

Australian Aluminium Council
Australian Coal Association
Australian Institute of Petroleum
Australian Industry Group
Australian Petroleum Production and Exploration Association
Australian Plantation Products and Paper Industry Council
Australasian (Iron and Steel) Slag Association
Australian Trucking Association
Cement Industry Federation
Federal Chamber of Automotive Industries
Minerals Council of Australia
National Association of Forest Industries
National Generator's Forum
Plastics and Chemicals Industries Association

Individual Business Members

Alcoa of Australia Limited
Adelaide Brighton Cement
BP Australia Limited
Caltex Australia
Cement Australia
Chevron Australia Pty Ltd
CSR Limited
ExxonMobil
Hydro Aluminium Kurri Kurri
Origin Energy Limited
Qenos Pty Ltd
Rio Tinto Australia Limited
Santos Limited
Shell Australia Limited
Thiess Pty Ltd
Tomago Aluminium
Wesfarmers Limited
Woodside Petroleum Limited
Xstrata Coal Australia Pty Ltd

Attachment B: Trade Exposed Competition

ACTIVITY/PRODUCT	COMPETITOR COUNTRY
Alumina	China, Brazil, India, Russia, Jamaica Growing: Guinea, Vietnam, Malaysia (with Australian bauxite)
Aluminium	China, Brazil, India, South Africa, Mozambique, UAE (Bahrain and Dubai), Argentina, Russia, Iceland, Canada, USA. In 10 years time: Libya, Congo, Malaysia, Qatar, Saudi Arabia, Vietnam and Guinea
Automobiles and automotive parts	Japan, Thailand, United States, Germany, Republic of Korea, South Africa, Spain, United Kingdom, Belgium, Sweden, France, Italy, Austria, Mexico, Slovak Republic, Netherlands, China, Taiwan, Turkey, Portugal, Middle East, Singapore 80% of cars sold in Australia are imported, 50% of cars made in Australia are exported
Chemicals & Plastics	Chemicals and Plastics (C&P) are globally traded commodities and products with over 80 countries reporting C&P sectors with a turnover of more than \$1bn. Exports from Australia are 69% APEC, 10% EU and 21% other, while imports are 55% APEC, 22% EU and 23% other. Both export and import competition continues to move towards APEC economies coupled with significant new capacity coming on stream in the Middle East. Australian manufacture of trade exposed C&P's include (but are not limited to) Plastic Raw Materials (e.g. polyethylene, polypropylene, PVC, polyurethanes and polystyrenes), Ammonia, Ammonium Nitrate, Urea, Chlorine, Methanol, Hydrogen Peroxide, Surfactants, Industrial Gases and a vast array of Plastic Conversion products.
Clinker and cement	Japan, Indonesia, China, Malaysia, Thailand, Philippines, Taiwan
Coal	
Coking Coal	Canada (increasing), Indonesia (increasing), Mongolia (increasing), Russia (steady to small increase), USA (decreasing in the long term but exports to stay at current levels in next 5 years or so)
Thermal Coal	China (decreasing), Colombia (increasing), Indonesia (increasing), Kazakhstan (steady), Mongolia (increasing to Chinese market), Russia (steady), South Africa (increasing), Vietnam (decreasing), USA (increasing)
Glass and insulation	Thailand, China, Indonesia
LNG	Qatar, Indonesia, Malaysia, Algeria, Nigeria, Trinidad & Tobago, Egypt, Brunei, Oman, UAE
Mining and Mineral Processing	Chile, Canada, Korea, Brazil, India, USA, Russia, Peru
Pulp and paper	China (increasing), Indonesia (increasing), Korea (increasing), Brazil (increasing), Chile (increasing), New Zealand (stable), Europe (decreasing), Canada (decreasing)
Refined Petroleum Products	Singapore, Middle East
Sugar	
Refined	Middle East, South Africa
Raw	Brazil, India, Thailand



**AUSTRALIAN
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T +61 2 6295 2166

www.aign.net.au

