



AUSTRALIAN CHAMBER OF MANUFACTURES

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE
ON
ENVIRONMENT, RECREATION AND THE ARTS

INQUIRY INTO THE
REGULATORY ARRANGEMENTS
FOR TRADING IN
GREENHOUSE GAS EMISSIONS

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1. INTRODUCTION

The Australian Chamber of Manufactures (ACM) is Australia's premier multi-sectoral industry association representing manufacturing on environmental issues. ACM has been actively involved in environmental issues since 1970 and has fully supported the no regrets approach to Greenhouse Gas (GHG) emission abatement.

ACM, a signatory to the Greenhouse Challenge Program has supported and publicised the program to such an extent that over 30% of the current signatories to the program are ACM members.

From its inception, ACM has been supportive of the Greenhouse Challenge concept.

2. BACKGROUND

Although some debate remains surrounding greenhouse effect and its likely impacts, ACM recognises the need for a credible and effective response from the whole Australian community. However, the over-riding objectives for government must be to deliver the necessary environmental outcomes in the most cost effective way.

Arising out of the Kyoto negotiations, Australian emissions of Greenhouse gases must not exceed 108% of 1990 levels within the first budget period, 2008-2012. This compares with a 'business as usual' estimate of 128% of 1990 levels. Obviously, to achieve this reduction poses a great challenge to the nation.

The Government has assured Australia that its agreement will protect jobs, and expects, given the inclusion of land clearing, Australia's Kyoto commitment can be met with the package announced by the Prime Minister on 20 November, 1997. This package included initiatives such as:

- Sourcing electricity from renewable sources
- Benchmarking building energy efficiency
- Measures to encourage the establishment of carbon sinks
- Implementation of an Automotive Industry Environment Strategy

and highlighted the intention to go beyond a no regrets approach to GHG emissions. Prior to this package, the principle GHG reduction methodology was the Greenhouse Challenge Program.

ACM is concerned by the haste of the move from the no regrets approach. Elements of the November Greenhouse package and issues such as domestic emissions trading move significantly beyond no regrets. While acknowledging it may be difficult to meet the Kyoto obligations through a strictly no regrets philosophy, significant research and consultation should be undertaken to determine the most cost effective means to achieve acceptable outcomes.

The development and administration of a domestic tradeable emissions permit system for GHGs would be more complex than any tradeable permit system in operation anywhere in the world. Existing tradeable permit systems apply to single national (or sub-national) governments and typically operate for single pollutants or specific resources. What is being contemplated is of vastly greater complexity and scope than any existing scheme, and it is being considered on both a national and international scale. The potential transaction costs and other practical problems associated with moving in this direction should not be underestimated.

Despite this obvious complexity, ACM believes any system to be considered must include all GHG sinks and sources and can only be considered on a national scale. State or region based systems should not be considered. Also of paramount importance is domestic schemes, if adopted must compliment and support any adopted international schemes.

Framing a system which uses market signals to deliver efficient outcomes while limiting transactions/administration/compliance costs will be difficult but is imperative. Otherwise unnecessary costs will be put onto industry and the community as a whole, resulting in minimal benefit.

These problems must be worked through carefully and with full consultation with business and the wider community. Business considers it is essential for there to be a continuing extensive process of ongoing consultation by government to ensure that the best mix of policy options is put in place.

It is imperative this consultation begins with an investigation of the most effective and efficient means of tackling environmental problems. GHG abatement is one of a range of environmental issues facing the community today. Abatement activities should be viewed within the range of environmental issues facing Australia and prioritised accordingly. To this end, an emissions trading system may be seen as an appropriate tool for reducing GHG emissions, but its appropriateness must be examined within a process investigating all possible response strategies.

Should a domestic GHG emissions trading system be found to be a cost effective means of abatement, there are a number of issues to be considered.

3. *INTERNATIONAL EMISSIONS TRADING*

The recent climate change conference of parties in Kyoto endorsed the concept of international emissions trading as a means to achieve cost effective GHG reductions. Many nations, particularly the US and Japan, spoke strongly in favour of this as a means of reducing the cost of GHG abatement.

Although there remains significant uncertainty as to whether the nations, including the US, will sign and ratify the treaty, there will still be a framework and rules developed to see how an international GHG system may operate. This development process will necessarily be a very long and drawn out process due to the complexity of the issues involved. The Australian Government must actively participate in international discussions and negotiations relating to tradeable permits, to ensure Australia's national interests are protected. This is particularly important given Australia's desire for comprehensive coverage of sources and sinks and the proven resistance to this course from a number of major international interests.

The fact that developing countries have yet to accept any targets or timetables to reduce their GHG emissions presents problems for the competitiveness of Australia and Australian business in domestic and international markets.

Accordingly, to optimise environmental and economic outcomes, any international trading system must seek to include all countries. Achieving this should remain a key objective of Australia's international negotiating strategy.

4. *DOMESTIC EMISSIONS TRADING*

In November, 1997, the Prime Minister announced a policy package considered sufficient for Australia to meet its commitments for the first budget period. Therefore, ACM questions whether there is any need for a domestic permit trading system and if there is, what role it would play in the overall GHG abatement strategies.

ACM also believes there is a significant time period between now and the first budget period. Accordingly, Australia need not and should not be hasty in establishing a domestic permit system.

Any domestic tradeable permit system must not be developed as a revenue gathering exercise. Australian industry is already sufficiently taxed and a trading system used as a revenue raiser would equate to another tax on business. The focus of the system should be environmental improvement, not revenue.

Any domestic trading strategy must be developed mindful of the need to facilitate smooth adjustment in response to changes to the national commitment arising from the adjustment processes in the Protocol. It must also allow transition to the second budget period without violating the property rights of the participating legal entities.

The system must provide certainty so that industry can invest for the future.

Should an Australian tradeable permit system be established, it must be capable of interfacing with an emerging international tradeable permit system.

5. IMPLEMENTATION

5.1 Structure

If a domestic emissions permit system can be justified, a flexible and “principle based” means of regulating the domestic tradeable permit system would be needed.

Any system developed would need to be done within a full consultative process with stakeholders. It should be capable of evolving to accommodate a wider and wider range of activities as technologies develop for GHG abatement.

ACM believes Australia’s response to Greenhouse Gas Emissions Trading must be done in line with the following principles.

6. PRINCIPLES OF GREENHOUSE GAS ABATEMENT POLICY

The ACM considers that the Australian policy response to GHG emissions abatement - both domestically and internationally - should embody the following fundamental principles:

Action to abate and/or reduce greenhouse gas emissions should:

- Deliver cost-effective improved environmental outcomes. Policies which impose costs without substantially improving environmental outcomes must be rejected.
- Be comprehensive in terms of gases, sources and sinks. This will enable the achievement of desired outcomes with greatest equity and at lowest cost. Systems covering less would not be able to deliver true cost effectiveness.
- Be cost effective. Administration costs, transaction costs and economic disruption must be minimised if adverse economic impacts are to be avoided.

- Enhance the competitiveness of Australian industry. Protection of international competitiveness is required in the Intergovernment Agreement on the Environment. Australian industry remains vulnerable to external pressures. Policies which increase costs relative to cost conditions in other countries will adversely impact on the competitiveness of Australian industry.
- Meet the need for growth in the Australian economy. Australia cannot achieve acceptable levels of employment and community prosperity without economic growth. All GHG abatement systems provide a framework which will allow for growth while achieving desired environmental outcomes.
- Be equitable both internationally and domestically. Economic costs borne by Australia must be equitable relative to those borne by other countries. Any costs borne internally within Australia as a result of GHG emissions abatement, including those related to trade impacts, must also be borne fairly. Costs must be shared across the whole community and not disproportionately by any one firm or sector.
- Maximise the certainty enabling business and others in the community to plan and invest.

Applying these fundamental threshold principles to the issue of emissions trading, three broad aspects are considered in turn in this submission.

6.1 Property rights

The total number of permits and their allocation will be of pivotal importance. Initially, there must be sufficient permits provided to meet the needs of all sectors of the community. The system framework must ensure individual industries or sectors are not unfairly treated.

The clear definition and protection of property rights is fundamental to the promotion of equity, economic efficiency. This will reduce uncertainty for firms to allow them to plan and create. Permits should be regarded as property rights and subject to absolute protection against confiscation or devaluation without full, adequate and commercial compensation.

6.2 Allocation and design of permits and allowance for future growth

The most critical aspect of a tradeable permit system is the allocation of permits. This is a major issue and if it is not done equitably, it could adversely affect individual businesses and sectors.

To prevent distortions and adverse effects on the costs of Australian business, permits would need to be allocated free to firms located in Australia.

The international benchmark for gases varies between 1990 and 1995 under the Kyoto Protocol. Such benchmarks will have a direct bearing on the total volume of permits which can be allocated within any domestic tradeable permit system which might be established within Australia. However, it does not follow from this that these base years should provide the benchmarks for initial allocations of permits to users within Australia. This is a matter which Industry and Government will need to consider through ongoing consultations. The adequate allocation of permits for not only current but also future growth would be paramount to the system providing the necessary certainty and direction for industry. In addition to the complex issues associated with initial allocation of permits, further critical issues which must also be subject to detailed consideration and consultation include:

- allocating permits for growth;
- determining who is able to be allocated permits;
- allocating permits to accommodate the expected emissions during the full economic life of a particular project or activity;
- how to allocate and account for changes to Australia's target from one budget period to the next.

7. *CONCLUSIONS*

ACM recognises the challenge which is before the Australian Government if the Kyoto Protocol is ratified. Australia is faced with a huge challenge to hold GHG emissions to an increase of 8% while population increases by 30% in the same period.

It is doubtful if this challenge could be met through a strictly no regrets approach, but variance from that approach should be researched and considered.

The Prime Minister's package will go a long way towards meeting the Nation's obligations under the Kyoto protocol. The establishment of a GHG emissions trading regime may be a mechanism to deliver cost effective abatement processes but to determine its appropriateness, significant consultation and research should be undertaken.

Under current obligations there remains sufficient time for this research and consultation to occur. ACM sees no compelling reason to move with haste towards a domestic GHG emission trading scheme.

Should domestic GHG emission trading be found to be appropriate, the adoption of the principles as outlined here in any environmental regulatory system will be paramount to the effectiveness of that system.