Chapter 4

Arguments against ratification

Australia's ratification would make no difference to the coming into effect of the Kyoto Protocol

4.1 The Kyoto Protocol will come into effect under international law 90 days after a minimum of 55 countries, representing at least 55% of 1990-level greenhouse gas emissions of Annex I Parties (developed countries and economies in transition), have ratified it. While 120 countries have ratified the Protocol to date, their combined emissions at 1990 levels represent only 44.2% of emissions, well short of the required 55% emissions threshold. The only two countries whose emission levels would help meet the threshold are the United States, with 36.1%, or Russia, with 17.4% of Annex I Parties 1990 emissions. The United States has indicated it will not ratify the Protocol; Russia's position is said to be equivocal but at this stage Russia is opposed to ratification because of the adverse impact ratification would have on the Russian economy. Australia's total of 2.1% of 1990-level emissions will not assist in meeting the 55% threshold. If Australia were to ratify, it would be a symbolic gesture only.

Australia is already committed to meeting its emissions target, whether it ratifies or not

4.2 Australian Government representatives have advanced the argument that the main purpose of the Kyoto Protocol is to reduce global greenhouse gas emissions in order to limit climate change and its impacts. The Government is committed to meeting its Kyoto target (despite being under no legal obligation) and is on track to do so. Environment Minister, the Hon Dr David Kemp MP, has reiterated in Parliament that Australia is 'within striking distance' of this target.[1]

4.3 In his evidence to the Committee, Mr Ian Carruthers of the Australian Greenhouse Office (AGO) confirmed that this was the case:

> we can see from the latest and regularly published assessment of Australia's emissions trends that, by the time of the Kyoto target period, across a range of sectors greenhouse measures in Australia will have delivered emissions reductions of 67 million tonnes. To put that in context, at the time of Kyoto it was projected that Australia's emissions, without measures, would grow to 128 per cent above the 1990 level. With a 67 million tonnes reduction, the projection is that Australia will be around 110 per cent of 1990 levels. As the government has said, with the current measures we are within striking distance of achieving Australia's Kyoto target. With further actions, such as the government's focus on a good outcome on reductions in Queensland

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1 House of Representatives *Hansard,* 10 Feb 2004, p. 24195.

land clearing, there is every prospect for Australia to achieve its Kyoto target.[2]

4.4 In this context it is interesting to note that the European Union as a whole and 13 out of 15 of its member states are in danger of not meeting their Kyoto targets.

The Kyoto Protocol will not be effective in reducing global emission levels

4.5 It has been estimated that the Kyoto Protocol would reduce global emissions by about one per cent.[3] Faced with the enormity of the climate change challenge, this is an insignificant amount. The principal reason for this modest proposed outcome is that the treaty proposes legally binding emissions reduction targets only for developed countries and economies in transition. Developing countries, whose emissions are projected to constitute 47 per cent of global emissions by 2030, have no targets and are actively resisting the imposition of targets for future commitment periods.[4] This includes both China and India, the second and fifth largest emitters globally.[5] Emissions reductions by developed countries alone cannot prevent a dangerous accumulation of greenhouse gases in the atmosphere.

4.6 Developing countries were spared emissions targets through a recognition of the fact that they had every right to pursue economic development and through a tacit acceptance of the fact that developed countries were primarily responsible for the climate situation in which we find ourselves. This situation is clearly untenable in the longer term. The International Energy Agency (IEA) predicts that energy demand in 2030 will have increased by two thirds over current usage, and that fossil fuels will continue to dominate energy production as they are relatively cheap and convenient. Modernisation of developing country economies depends on the provision of infrastructure for energy supply and the consequences of rapidly expanding energy demand will include increased emissions of greenhouse gases.[6]

4.7 Compounding the problem of the lack of targets for developing countries is the likelihood that some at least of the Annex I countries will fail to meet their proposed targets. A press release from the European Commission dated 2 December 2003, relating to a progress report on greenhouse gas emissions, concluded that 13 out of 15 member states would miss their emissions reduction targets.

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2 Mr Ian Carruthers, *Evidence*, p. 58.

3 Kyoto Protocol Ratification Advisory Group, *Report: A Risk Assessment,* 2003, p. 5.

4 ibid.

5 Trevor M. Power, *Issues and opportunities for Australia under the Kyoto Protocol*, (2003) EPLJ pp.459-60.

6 OECD/IEA, *World Energy Outlook,* Paris 2002.

The Kyoto Protocol will harm Australian industry

4.8 If Australia were to ratify the Kyoto Protocol, it would take on obligations not shared by its regional trading competitors. It has been speculated that if the Kyoto Protocol came into effect it would result in 'carbon leakage', with investments in smelters and refineries, mining and petrochemical projects going to developing nations not subject to emissions reduction targets.[7]

4.9 Much of Australian industry is highly dependent on the production of energy and greenhouse intensive goods. In evidence to the Committee, many representatives outlined how they might be affected should the Kyoto Protocol come into effect. Woodside Energy submitted:

> Australian trade-exposed, energy intensive industries would suffer competitive disadvantage from developing nations without emission targets under the Protocol and from the US which has elected not to ratify the Protocol. Competitors in these nations attract no additional production costs imposed by their governments to achieve compliance. This competitive disadvantage is illustrated clearly by the LNG export industry, in which almost all of Australia's competitors for new contracts are located in non-Annex B countries in Asia and the Middle East.[8]

4.10 The Australian Chamber of Commerce and Industry (ACCI) shared similar concerns. It submitted:

> A fundamental concern for Australian industry is that a number of our competitors do not have binding abatement targets under the current Kyoto Protocol rules. Consequently, these nations will not see a price signal within their domestic industries and will be able to enter global markets with lower cost structures. The scenario that Australian Governments must mitigate against is the situation where domestic greenhouse abatement policies introduce a price signal here that impedes our ability to remain internationally competitive.
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> The marginal cost of abatement will cascade through supply chains – being passed on from supplier to supplier. Ultimately, there will be a point in the chain where certain trade-exposed domestic industries will be unable to pass on the marginal cost as imported products will be less costly.[9]

4.11 A similar theme was taken up by the Plastics and Chemicals Industries Association (PACIA), which referred to the energy intensive nature of the sector:

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7 Australian Chamber of Commerce and Industry, Submission 35, p. 5.

8 Woodside Energy Ltd, Submission 31, p. 2.

9 Australian Chamber of Commerce and Industry, Submission 35, p. 5.

> Changes to the cost of energy, and costs associated with emission controls, will affect competitiveness. Many competing suppliers are based in Asia and other developing countries where there has been substantial investment in recent years in larger plants which achieve scale economies not realisable in a market the size of Australia. A loss of competitiveness, even due to shorter term market changes, can result in long term loss of market share.[10]

4.12 The Australian Aluminium Council (AAC) also referred to the impact of ratification on the aluminium industry's international competitiveness:

> the world market price for aluminium will be dominated by the availability of metal from countries without obligations under the Kyoto Protocol (non-Annex 1) or countries that don't intend ratifying (at least the US) or countries who will be large sellers of 'hot air' (Russia and Eastern Europe). Consequently, any increase in energy prices to the aluminium industry in Australia as the result of policies to abate greenhouse emissions cannot be passed on to aluminium customers.[11]

Cost-benefit analyses suggest that the costs of the Kyoto Protocol exceed its benefits

4.13 This is an inherently complex issue. Assumptions about the rate of emissions growth depend on factors that are difficult to predict accurately: such as population growth, productivity growth within different industries, and fossil fuel prices. The Protocol takes the position that the risks posed by climate change are so great that emissions must be reduced at any cost. Not all agree. It has been asserted that the fear of taking on a disastrously expensive commitment was one of the reasons for the nearly unanimous opposition the Protocol faced in the US Senate.[12]

4.14 On this issue, analysts McKibbin and Wilcoxen concluded:

> the treaty implicitly adopted the position that the risks posed by climate change are so great that emissions must be reduced no matter what the cost. However, too little is known about the dangers posed by climate change, and about the costs of avoiding it, to draw that conclusion. Nor is there any evidence that the targets set by the protocol are the optimal levels of greenhouse gas emissions, either for an individual country or for the world as a whole. If anything, cost-benefit calculations based on studies to date tend to suggest that the costs exceed the benefits, at least in developed countries.[13]

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10 Plastics and Chemicals Industries Association, Submission 23, p. 2.

11 Australian Aluminium Council, Submission 29, p. 2.

12 Warwick J. McKibbin and Peter J. Wilcoxen, Estimates of the costs of Kyoto: Marrakesh versus the McKibbin-Wilcoxen blueprint, *Energy Policy,* 32, 2004, p. 471.

13 ibid.

4.15 Most analysts have not even attempted to consider the cost-benefits for Australia in a potential second commitment period, given the high degree of uncertainty about its nature and scope.

The volume of greenhouse gas emissions from a given country is not a good measure of that country's impact on global emissions

4.16 A perceived flaw in the Kyoto Protocol is that it contains no mechanism to recognise or reward actions which, although they may cause an increase in one country's emissions, bring about a net decrease in global emissions. The example frequently advanced was the recent Australian $25 billion LNG contract with China. This will add some one million tonnes of carbon dioxide annually to Australian greenhouse gas emissions, but will reduce China's emissions by some seven million tonnes by replacing coal-fired power.

The Protocol lacks credible compliance measures

4.17 Those opposed to the Protocol point to the lack of credible compliance measures as a major flaw in its design. The main penalty to be imposed on countries which fail to meet their emissions target is a reduction in emissions target for the post-2012 period – targets which remain to be negotiated and which could be subject to manipulation. The costs of independent monitoring of emissions levels could also be prohibitive.

Alternative mechanisms

4.18 The argument most frequently advanced for ratifying the Protocol is that it is the one international mechanism that is currently on the table, and that it must be supported, whatever its flaws, in the interests of being seen to be addressing the global warming crisis. This is simplistic. The Committee heard evidence that Australia was actively pursuing bilateral agreements, such as the Climate Action Partnership with the USA, in which the two countries will collaborate on climate change science, reduced-energy and renewable energy technology, capacity building in developing countries and greenhouse accounting in the forestry and agriculture sectors. Australia is also cooperating with the European Union, Japan, New Zealand and China on climate change initiatives and is assisting Pacific nations to build their capacity to adjust to the consequences of climate change.

4.19 While it is true that no alternative global approach to addressing climate change is on the table, the matter has certainly been considered. As Mr Langman told the Committee:

> We have certainly talked at length with a wide range of countries about how we can build a more global approach that will gradually draw in a larger number of emitters. We have had discussions on that topic with the European Commission and Japan. We participate in an informal process involving key countries – China, India, Brazil, the EC, the United States, Canada and others – that Japan has organised. There have been two

> meetings of that small group. We have discussed this topic with the United States and Canada. It is in some ways the key topic. In spite of all the formal processes and procedural issues we dealt with at the ministerial meeting in Milan, it is the topic that is on everybody's lips. It is what people are thinking about and talking about. There are no definitive and easy answers yet.[14]

Of course, there is the example of the Montreal Protocol.

Technological solutions

4.20 Part of the challenge in developing a response to climate change is to do so without threatening the living standards in developed nations while still accommodating the natural developmental aspirations of developing nations. Australia has rich resources of fossil fuels; its energy production is highly fossil-fuel dependent; and more than 80 per cent of our exports are greenhouse gas intensive. The clear imperative is to harness technology to enable us to continue to enjoy the benefits of these assets but to reduce or eliminate entirely their emissions. In this regard, the Government is supporting the work of the CSIRO Energy Transformed program which is developing zero-emission coal technologies involving gasification and geosequestration.

4.21 Many developing countries are also rich in fossil fuels and will use these resources as the most cost-effective that are readily available to them to provide basic energy services. As Mr Langman pointed out in evidence to the Committee:

> if there is a massive expansion of fossil fuel, coal based energy production in countries like India and China over the next 20 to 30 years, we will have a huge task in dealing with the potential climate change that could arise ... it seems critical that part of the long-term solution needs to be to work with those countries on the technologies that make a difference.[15]

Problems associated with Kyoto's flexibility measures

4.22 Emissions trading was devised as a way of making the cost of Kyoto compliance more palatable. In order to meet their emissions targets, ratifying countries with a high emissions load could buy carbon credits (or the right to emit an agreed amount of fossil fuel emissions) from countries with credits to spare, for example credits generated by a carbon sink such as a new forest. Traded volumes have been reckoned at about 71 million tonnes in 2003, with the market price of the right to emit a tonne of carbon dioxide or its equivalent ranging between $US 4-6.[16] The problem here is obvious. As Minister for Industry, Tourism and Resources, the Hon Ian Macfarlane

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14 Mr Christopher Langman, *Evidence*, p. 63.

15 Mr Christopher Langman, *Evidence*, p. 61.

16 Simon Grose, Irony, problems in emissions trading, *Canberra Times,* 17 Jan 04, p. B6.

MP, pointed out, 'Kyoto is fundamentally flawed and doesn't reduce emissions. It simply trades emissions between emitters'.[17]

4.23 The Australian Greenhouse Office worked on a national emissions trading scheme for some years but has recently desisted, on the grounds that it was uncertain that the Kyoto Protocol would be ratified.

17 *Australian Financial Review* 16 January 2004, p. 10.