AIGN SUBMISSION TO JOINT STANDING COMMITTEE ON TREATIES

PARIS AGREEMENT

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1. Executive Summary

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies, including at the international level.

It supports the Australian Government's ratification of the Paris Agreement. The key objective of the Paris Agreement must be to encourage investment in low-cost abatement activities, with an emphasis on reducing atmospheric greenhouse gases (ie. as long as reductions are real, it does not matter where they occur).

The success of the Paris Agreement will depend on effective implementation. While acceptance of the Agreement is an important step, there remains significant differences between countries in their targets and policy approaches and, importantly, the resultant impact on businesses.

In this respect, AIGN considers that from a domestic policy perspective, ratification only increases the requirement to monitor the performance of our major trade competitors, thereby minimising any trade competitiveness impacts, until all parties to the Agreement are undertaking comparable efforts. As such, issues around trade competitiveness remain valid in any future policy considerations in Australia, and must be addressed to minimise differences in the cost of carbon.

It will be equally important for the success of the Agreement that measures to ensure the integrity of Nationally Determined Contributions (NDCs) are developed, implemented and followed. The expertise Australia has developed in respect to systems that measure and report on performance in reducing emissions could be made available to assist developing countries that have not previously been required to report on performance.

Ratification of the Agreement also highlights the need for long term, stable and predictable policies to provide the environment conducive in investment in the reduction of emissions across the Australian economy consistent with Australia's 2030 commitments.

2. Introduction

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to respond to the Inquiry by the Joint Standing Committee on Treaties examining Australia's proposed ratification of the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC).

AIGN engages in the climate change policy debate as the stakes for its members are very high. 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. 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.

As an active participant in international and domestic deliberations on climate change policies since the early 1990s, AIGN contributed to the policy positions Australia took to Paris through, for example, input into the Prime Minister's Taskforce (established last year) to recommend on Australia's 2030 climate change emission reduction targets. A set of climate change policy principles, which AIGN uses to assess the merits of policy proposals, are set out in Attachment 1.

The Paris Agreement refers to the Agreement reached by the Parties to the UNFCCC at Paris in December 2015 to *"combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future"*. A key aspect of the Agreement is the binding requirement on all Parties to put forward their best efforts through *"nationally determined contributions" (NDCs) and to strengthen these efforts in the years ahead"*.[1]

In this submission, AIGN highlights key issues for consideration by the Australian Government post-ratification, noting that while the Agreement is an important step, significant differences remain between countries in their targets and policy approaches and, importantly, the resultant impact on businesses. It should not be assumed that all countries will impose comparable costs as may apply in Australia, and therefore trade competitiveness issues will remain valid.

- It will be important that the differences in carbon costs between Australian industry and its competitors are monitored, and that appropriate policies are put into place to prevent carbon leakage.
- Access to international units should be a key component of any post-2020 policy environment that applies in Australia, noting the work to be undertaken by the UNFCCC in this area.
- The expertise Australia has developed in systems for measuring and reporting on performance in reducing emissions (NGERS) could be made available to assist developing countries that have not previously been required to report on performance.
- long term, stable and predictable policies are required to provide the environment conducive in investment in the reduction of emissions across the Australian economy consistent with Australia's 2030 commitments.

In considering this response, the Committee should note AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy. This response accords with the views of our members in general. However, at times there are variations in the positions of individual members on specific issues. It is therefore important that the Committee considers AIGN's comments alongside any responses made by our members.

[1] http://unfccc.int/paris_agreement/items/9485.php

3. Climate Change and Australia's Performance in Reducing Emissions

AIGN acknowledges that the prosperity, improved living standards and social conditions that industrial economies have experienced over the last 200 years, has been as a result of activities that we now understand have had an impact on the global climate through increased atmospheric levels of GHG.

The continued, increasing release of emissions from a growing base of industrialising economies threatens to see levels of GHG rise to critical concentrations, with the potential for serious adverse impacts globally and in Australia, as referenced in the work of the CSIRO and others.

This link between economic prosperity and activities that generate GHG dictates that improved environmental outcomes must be achieved at the lowest possible cost to the community. To do otherwise will harm social conditions, in particular, those economies that are more vulnerable to the impacts of climate change.

AIGN has consistently advocated that Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability, to global action to reduce GHG emissions and to adapt to the impacts of climate change.

Australia's contributions to future global emissions reductions should take into account the global situation, and must take a realistic view of our trading performance, particularly noting Australia's industry structure. Due to our natural resources advantage, Australia is home to a relatively large share of emissions-intensive production, resource and extractive sectors, particularly in relation to our population size. Arguably, this is an economically and environmentally efficient outcome from a global perspective, and could continue to be so in the future. In addition, unlike many other developed countries, Australia has a high rate of population growth and continues to experience moderate economic growth.

Australia's emissions in 2011 were around 1.3% of the estimated global total (including land use and forestry) and are declining as a percentage of global emissions, while total emissions from developing economies increase significantly.

Over the last two decades, Australia has become significantly less emissions-intensive and is on track to meet its target under the second commitment period of the Kyoto Protocol. However, it should be noted that some of this achievement is based on a fall in economic activity, particularly in the manufacturing sector, which is obviously not a desired outcome and contrary to the Government's intent of economic growth and increased investment.

In 2015, Climateworks noted: *"Since 1990, the overall emissions intensity of Australia's economy has almost halved and emissions per capita have decreased by approximately 25% over this period (ABS 2012, 2013a; DOE 2014)".*[2]

It is also noted that Australia's carbon productivity has improved considerably. The PricewaterhouseCoopers' 'Low Carbon Economy Index 2014' highlighted that over the period 2008 to 2013, Australia reduced emission intensity by 4.6%, whilst on average, GDP grew by 2.6% pa.

2 *Pathways to Deep Decarbonisation*, Climateworks, 2015.

4. The Paris Agreement

4.1 Snapshot of the Paris Agreement

The Paris Agreement, as signed by the 195 parties to the UNFCCC in December 2015, concluded a 4-year negotiating round. The Paris Agreement articulates two ambitious emission goals, as noted below.

- A peaking of emissions as soon as possible (with a recognition that it will take longer for developing countries).
- A goal of net GHG neutrality (expressed as *"a balance between anthropogenic emissions by sources and removals by sinks"*[3]) in the second half of this century.

The Paris Agreement, when it comes into force, will replace the existing Kyoto Protocol. It represents a significant departure from previous international efforts for addressing climate change, in that it implements a common framework that *"ends the strict differentiation between developed and developing countries that characterized earlier efforts…[As such] the Paris Agreement reflects a 'hybrid' approach blending bottom-up flexibility, to achieve broad participation, with top-down rules, to promote accountability and ambition"*, as noted by the Centre for Climate & Energy Solutions[4]. Hopefully, this will also put to an end some of the bickering between developed and developing countries over levels of effort and responsibilities for past emissions, which has hindered progress at the international level.

The Agreement establishes binding commitments for all parties to submit Nationally Determined Contributions (NDCs) and to pursue domestic measures aimed at achieving them. It commits all countries to report regularly on their emissions and the progress made in implementing and achieving their NDCs, in addition to undergoing international review. New NDCs are to be submitted every 5 years.

In summary, the Paris Agreement and the accompanying Conference of the Parties (COP) decision:

- reaffirm the goal of limiting global temperature increase to well below 2º Celsius, while urging efforts to limit the increase to 1.5º;
- establish binding commitments by all parties to make NDCs, and to pursue domestic measures aimed at achieving them;
- commit all countries to report regularly on their emissions and *"progress made in implementing and achieving"* their NDCs, and to undergo international review;
- commit all countries to submit new NDCs every 5 years, with the clear expectation that they will *"represent a progression"* beyond previous ones;
- reaffirm the binding obligations of developed countries under the UNFCCC to support the efforts of developing countries, while for the first time encouraging voluntary contributions by developing countries too;
- extend the current goal of mobilising $100 billion a year in support by 2020 through 2025, with a new, higher goal to be set for the period after 2025;

[3] http://bigpicture.unfccc.int/printtool.html?article%5B62%5D%5B%5D=62

[4] http://www.c2es.org/international/negotiations/cop21-paris/summary

- extend a mechanism to address *"loss and damage"* resulting from climate change, which explicitly will not *"involve or provide a basis for any liability or compensation"*;
- require parties engaging in international emissions trading to avoid *"double counting"*;
- call for a new mechanism, similar to the Clean Development Mechanism under the Kyoto Protocol, enabling emission reductions in one country to be counted toward another country's NDC;
- development of rules for *"internationally transferred mitigation outcomes"* (COP 22); and
- IPCCC to report on impacts of 1.5ºC by 2018.[5]

Whilst the Paris Agreement is a treaty under international law, only certain provisions are legally binding. For example and owing to the US political environment, emission targets and financial commitments are not binding.

To promote rising ambition, the Agreement establishes two linked processes, each on a 5-year cycle.

- A *"global stocktake"* to assess collective progress toward meeting the Agreement's long-term goals. The first stocktake will take place in 2023.
- Submission by parties of new NDCs, *"informed by the outcomes of the global stocktake"*.

A new Ad Hoc Working Group on the Paris Agreement has been established to consider issues requiring further rules or guidance, along with a number of other consultative bodies etc, focusing on specific aspects of implementation of the provisions of the Agreement.

The Agreement was opened for signature on 22 April 2016, and 174 States and the European Union signed the Agreement. Currently, there are 180 signatories to the Agreement. For the Paris Agreement to come into force, it will need to be ratified by 55 parties, representing 55% of total global GHG emissions.

As of 6 October 70 parties had acceded to the Agreement, representing slightly over 58% of total global GHG emissions.

4.2 Ratification of the Paris Agreement

As previously commented, from an AIGN perspective the key objective of the Paris Agreement must be to encourage investment in low-cost abatement activities, with an emphasis on reducing atmospheric GHG (ie. as long as reductions are real, it does not matter where they occur). AIGN welcomes the ending of the past differentiation of commitments between developed and developing countries as a key aspect of meeting this objective, as well as the development of the NDC approach.

Reducing emissions on a shared global basis will be important in addressing the challenges of climate change and, in this respect, AIGN supports the ratification of the Paris Agreement. It also welcomes the shared commitment by all major Australian political parties to the ratification of the Agreement, and would hope that this signals a more bi-partisan approach to climate change polices in Australia. The constant uncertainty and change over the past decade on climate change policy has inhibited industry investment in least-cost abatement approaches.

[5] Source: www.unfccc.int

AIGN considers, however, that there are a number of areas of policy with particular significance to Australia that will have substantial implications following the Paris Agreement coming into force, which appears likely in late 2016.

These issues are addressed in following section.

4.3 Implications of the Paris Agreement

4.3.1 Trade Competitiveness

Reducing emissions can be costly. Activities that give rise to GHG emissions occur across all sectors of society and while the effects of increasing levels of atmospheric GHG are felt globally, the impacts from the emissions reduction policies will be regionally enforced and impact each sector of an economy differently.

The success of the Paris Agreement will depend on effective implementation of measures to reduce emissions and the transparency of reporting on these reductions. For Australia, the commitments of our major trading partners must play a part in determining how we meet our commitments.

Australian industry competes with a diversity of countries, for example:

- In the LNG sector, which is on the cusp of becoming one of Australia's major export industries, competitors are Qatar, Malaysia and Indonesia.
- For the aluminium industry, major competitors include China, Russia, Canada and, increasingly, the economies of the Middle East.
- The United States is the major supplier of imported food and groceries, whilst Brazil is the dominant sugar exporter.
- Coal is Australia's largest energy export and competes with sources such as Indonesia, South Africa, United States and Russia.
- In the steel sector, China is the largest steel producer, manufacturing almost half the world's steel. Other major producers, which are import competitors of Australia's steel industry, include Taiwan, South Korea, India and Japan.

As countries develop policies to meet their targets, we are seeing further differences emerge in their approaches and the costs imposed on domestic business. These differences will be critical in determining possible impacts on Australian businesses. For example, the 180 NDCs submitted to the UNFCCC last year highlighted a wide variety of approaches by our trade competitors to reducing emissions, including the timing of the introduction of measures.

They highlighted that no single policy approach will emerge, but rather a patchwork of different national and regional schemes to reducing GHG emissions, including emissions trading, baseline and credit mechanisms, taxes and regulation. These approaches may be economy-wide or sector-specific, national, sub-national or regional. In addition, policies are being implemented over different timeframes and at different speeds. A considerable number of emerging countries with a range of competing energy-intensive industries did not outline any major climate change policies in their NDCs, or made them conditional on other factors (such as funding support). This not only includes many Gulf State economies, who are Australia's major competitors in the area of LNG and other energy-intensive industries (eg. aluminium), but also a number of our Asian economies. Approaches may or may not include mechanisms to address trade-competitiveness issues.

The implications of the varying approaches to reducing emissions highlights that if Australia (with a large share of emissions-intensive production, resource and extractive sectors) raises the cost of production in the Australian economy at a higher rate than in other economies, it will put itself at a relative disadvantage and reduce the economic welfare of Australian citizens for no appreciable change in the global level of emissions.

In this respect, it is important when examining the policy approaches and implementation timetables of parties to the Agreement, that comparisons are undertaken with those countries that are our major trading competitors (not simply our trading partners), as it is their approaches that will have implications for Australian industry. This will continue to be an important issue until climate change policy costs become more common globally and begin to converge. The Paris Agreement, while an important step, shows that significant differences remain between countries in their targets and, importantly, the resultant impact on businesses.

Even when a policy covers a particular economic sector, the costs that entities within the sector are exposed to may not be the same as the headline costs of the policy. This is due to the practice of compensating, shielding or exempting emissions-intensive, trade-exposed (EITE) industries from part or all of a policy's costs. This is done in recognition of the inability of a domestic sector to influence the world price of goods and commodities, and the resulting competitive disadvantage of climate change policy costs in this context.

The following table taken from 'Emissions Trading in Practice: a Handbook on Design & Implementation'[6] highlights the range of approaches in place within different emissions trading schemes.

TABLE 3.1 **Allocation Methods in Existing ETSs**

ETS	Free Allocation vs. Auction	Free Allocation Recipients	Free Allocation Type
EU (phase I and II)	Mixed, minor share auctioned	Power generators, manufacturing industry	Mixed, large share of grandparenting, increasing share of benchmarking
EU (phase III and beyond)	Mixed, large and increasing percentage auctioned	Manufacturing Industry and aviation	Fixed sector benchmarking
New Zealand	Mixed, few freely allocated. No auctioning has yet taken place	Emissions-intensive trade exposed (EITE) activities	Output-based; some grandparenting, now ended
Switzerland	Mixed	Manufacturing Industry	Fixed sector benchmarking
RGGI	100% auction	None	N/A
Tokyo	100% free allocation	All	Grandparenting based on entity-specific baseline set on any consecutive three years in the period 2002–07.
Saitama	100% free allocation	All	Grandparenting based on entity-specific baseline set on any consecutive three years in the period 2002–07
California	Mixed, increasing percentage auctioned	Electric distribution utilities and natural gas suppliers on behalf of ratepayers; emissions-intensive and trade-exposed industrial activities	OBA—with output and sector-specific emissions-intensity benchmarks, some grandparenting, very few sectors (industry); based on long-term procurement plans (electricity); historical data (natural gas)
Québec	Mixed, most auctioned—increasing with time	Emissions-intensive trade exposed (EITE) activities	Output-based benchmarking
Kazakhstan	100% free allocation	All	Grandparenting
Republic of Korea	100% free allocation	All	Grandparenting (for most sectors), benchmarking (for cement, refinery, domestic aviation).

6 *Partnership for Market Readiness; International Carbon Action Partnership. 2016. Emissions Trading in Practice: A Handbook on Design & Implementation. World Bank, Washington, DC (https://openknowledge.worldbank.org/handle/10986/23874 License: CC BY 3.0 IGO).*

The seven trial emissions trading schemes underway in China do not include all relevant industries, and apply a very loose cap. Similarly, details have not been provided as to how the seven trials underway in China (which only cover 20% of the population) will translate to a national ETS scheme.

In Australia, there continues to be a range of existing Federal and State climate change branded policies. Some of these have been, and continue to be, the subject of review and incremental change. In parallel, development of new policies continues at both Federal and State level, either being implemented or offered as alternatives.

If Australia takes action that increases costs and reduces competitiveness in an industry or the economy at large, lower cost imports not subject to the same imposts will reduce the market for Australian producers, with obvious flow-on consequences for employment, investment and economic activity. This has been recognised in Australia under past policy frameworks with the provision of specific arrangements for EITE industries.

The need for such arrangements was identified as early as the 2008 Garnaut review[7] and subsequent 2011 Garnaut Update[8], where it was acknowledged there was a need to correct for the distortion created when Australia's trade competitors do not implement a comparable price.

Until our major competitors are imposing comparable costs, issues around trade competitiveness remain valid in any future policy development in Australia, and must be addressed to minimise differences in the cost of carbon. With such a policy environment, it is important to understand the trade impacts, not only at the economy level, but also at the sectoral and facility level; and to determine the degree and duration of arrangements covering trade competitiveness.

AIGN is undertaking work to develop a better understanding of the impact of various carbon policies on different trade-exposed sectors of the Australian economy using a case study approach. The case study material should assist policymakers both in understanding the trade impacts at the sectoral and facility level, and in designing arrangements to offset the competitiveness impacts on trade-exposed industries.

4.3.2 Transparency of Reporting

The introduction of the NDCs across the 180 parties who provided such policy documents, will see a number of countries introduce policies to reduce GHG emissions for the first time. Noting the importance under the Paris Agreement of encouraging participants to increase levels of commitment and the role of 5-year stocktakes, the ability of countries to monitor, review and verify the impact of climate change policies plays a significant role in comparing policies across countries and in providing confidence that a climate change policy has rigour.

It requires accessible, transparent and accurate reporting systems, and many countries are experiencing difficulties with developing rigorous measurement, reporting and verification (MRV) arrangements. Australia is in a good position on this issue given the high level of transparency in Government and corporate reporting, and the history of schemes such as Greenhouse Challenge and the National Greenhouse & Energy Reporting System. It cannot be assumed that other countries are in the same position, and Australia should look to provide access to expertise on a bilateral and multilateral basis.

7 http://www.garnautreview.org.au/2008-review.html

8 http://www.garnautreview.org.au/update-2011/garnaut-review-2011.html

4.3.3 Access to International Units

Allowing access to international permits is consistent with AIGN's principle of least-cost abatement. AIGN does not, however, support quarantining domestic abatement efforts from global action, as this could have the effect of increasing the cost of abatement.

Under the Paris Agreement, a workstream has been implemented to develop a new mechanism, similar to the Clean Development Mechanism under the Kyoto Protocol, enabling emission reductions in one country to be counted toward another country's NDC. Australia should be deeply engaged in this workstream involving those international parties with a genuine interest in the trade of international units, including Article 6 of the Paris Agreement.

We support the Climate Change Authority's continuing comments that allowing access to international abatement opportunities reduces the risks associated with achieving a stated abatement task, compared to achieving this task through domestic abatement alone. As the Authority commented in its recent report[9], *"credible international reductions in the form of tradable units could complement Australia's domestic climate action"*. The Authority further commented that *"Australia should only allow robust sources of international permits and credits to be used to meet toolkit obligations, and set strict eligibility criteria for permits and credits based on their environmental integrity"*.

[9] *Towards a Climate Policy Toolkit – Special Review on Australia's Climate Goals & Policies*, Climate Change Authority, August 2016 (http://climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/files/Special%20review%20Report%203/Climate%20Change%20Authority%20Special%20Review%20Report%20Three.pdf)

5. Future Australian Climate Change Policies

Climate change policy has been an area of considerable change and uncertainty over the past decade and, as highlighted by current debate over the Renewable Energy Target, this can have the effect of inhibiting industry investment, particularly for long-lived investments. Therefore, in considering new policies that encourage least-cost abatement and maintain international competitiveness, it will be critical that they are framed with the following overarching objectives:

- Provide policy predictability and stability.
- Long-term and national in approach.
- Developed in a consultative manner.

Proposed policies to achieve the target should then be assessed against the criteria outlined in AIGN's principles (refer ***Attachment 1***).

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 those 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 coordinated across all jurisdictions throughout Australia.

Climate change policies should be implemented at the national level to avoid the costly duplication that may arise from a competing set of national and state based mitigation policies. This includes a national emission reduction target.

AIGN is aware that under the Council of Australian Governments (COAG) a considerable amount of work has already been undertaken to remove competing policies, particularly in the area of energy efficiency, where the proliferation of policies added to industry costs for no appreciable outcome.

AIGN does not support state based renewable energy targets, as the potential development of uncoordinated policies and targets has the potential to cause distortions to the operation of the national electricity market and potentially increase costs as has been evidenced in recent weeks in South Australia. In an interconnected national electricity market the actions of one State has the potential to impact on others in an unplanned manner. Policy developments in such areas as energy efficiency should be undertaken through the work of the COAG Energy Council, and in close consultation with stakeholders, with the aim of securing a truly national approach.

Any consideration of implementing new policies at the State level should only apply in an environment of demonstrated market failure or where there is strong evidence that a national approach is not working or has not been attempted. State Governments have a major role to play in such areas as adaption.

6. Conclusion

Thank you for the opportunity to provide input into this process. AIGN is committed to engaging constructively with the Committee in this review by providing feedback to assist in understanding the ways in which our members are affected by significant national policy decisions.

If we can be of further assistance, please do not hesitate to contact Alex Gosman on (02) 6295 2166, or by emailing alex.gosman@aign.net.au.

Attachment 1.
AIGN Policy Principles

The 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. Further, Australia should engage the international community in pursuing identified and beneficial environmental outcomes through greenhouse gas emissions reduction action that:

- allows for differentiated national approaches;
- promotes international cooperation;
- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances, and aspirations of all societies; and
- is 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 that:

- is consistent with the principles of sustainable development;
- is consistent with other national policies, including those 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 coordinated across all jurisdictions throughout Australia.

Australia's future greenhouse policy measures should:

- be consistent with the 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;

Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.