

30 January 2004

Mr Michael McLean
Senate Environment, Communications, Information Technology
and Arts Legislation Committee
Parliament House
CANBERRA ACT 2601
Email: ecita.sen@aph.gov.au



Dear Mr McLean

Inquiry into the Kyoto Protocol Ratification Bill 2003

The Australian Business Council for Sustainable Energy (BCSE) welcomes the opportunity to make this submission to the Senate Environment, Communications, Information Technology and Arts (ECITA) Legislation Committee Inquiry into the *Kyoto Protocol Ratification Bill 2003 [No. 2]*.

About the BCSE

The BCSE is a member based industry association representing the sustainable energy industry in Australia. The BCSE is the leading advocate for sustainable energy in Australia and was formed in September 2002 through the merger of the Australian EcoGeneration Association (AEA) and the Sustainable Energy Industry Association (SEIA). Predecessors of these organisations date back to as far as 1976. The BCSE represents the broader sustainable energy industry covering renewables, waste-to-energy and gas-fired generation as well as energy efficiency.

The BCSE has more than 250 organisations as members ranging from installers and designers of renewable energy systems to large project developers and equipment manufacturers and including both energy retailers and energy service providers.

The sustainable energy industry and climate change

Energy generation and use fundamentally effects the operation of our businesses, homes and the economy more broadly. However, to meet our growing energy needs, millions of tonnes of carbon dioxide pollution is produced, contributing to the increasing level of human induced climate change.

Stationary energy is the single largest source of greenhouse gases, contributing more than half of Australia's total emissions of 543 million tonnes in 2001. Emissions from the stationary energy sector are dominated by electricity generation which produced 180 million tones of emissions in 2001, equivalent to 33 per cent of Australia's total emissions. Most of the electricity emissions come from burning coal in power stations which account for 80 per cent of Australia's electricity supply.

The sustainable energy industry is currently growing at approximately 25per cent per annum according to a survey undertaken by Mark Ellis and Associates in December 2002. Direct sales for the industry were estimated to be \$3.8 billion, this excluded the

contribution of gas fired generation and cogeneration. The industry directly employed an estimated 17,000 full-time people and 21 per cent of the surveyed companies made sales overseas.

Global action on climate change

Climate change is now widely accepted as being very real and immediate. Moreover, the need for deep cuts has been formally acknowledged by the Australian Government. The Foreign Minister, Hon Alexander Downer MP, has stated:

“If we are going to achieve stability in global temperatures in the years ahead then CO₂ emissions will have to be reduced by between one half and two thirds”.¹

The issue that we need to deal with is how we obtain the significant cuts to global greenhouse emissions in a cost effective and equitable manner. The Kyoto Protocol is an important first step in dealing with the issue on a global level.

The sustainable energy industry will be a significant contributor to reducing greenhouse emissions. Importantly greenhouse policy responses, both in Australia and overseas will have an impact on the development of the sustainable energy industry in Australia.

The business case for ratifying the Kyoto Protocol

The BCSE acknowledges that there are important environmental, trade and diplomatic issues that impact on Australia's ratification of the Kyoto Protocol. Our submission to the Committee focuses on the business case for ratification. In this regard the key points that we would like to highlight to the Committee are:

- Not ratifying the Kyoto Protocol reduces opportunities for Australian companies to sell emission permits to other developed countries that do not have the abatement opportunities that we have; and
- Not ratifying reduces export opportunities for Australian businesses, particularly to developing economies. This makes it more difficult to develop globally competitive industries – particularly in sustainable energy and environment industries.

Both of these issues are addressed in turn.

Opportunities to export emission permits

Australia's per capita greenhouse emissions are one of the highest in the world. Australia's performance in energy efficiency, cogeneration and renewables² is well behind other developed economies – including the United States. Therefore Australia has considerable scope to improve its performance.

Australia has some of the lowest cost abatement potential in the world. If we ratify the Kyoto Protocol we will be able to sell emission permits to countries with higher cost of abatement such as Japan and Europe, delivering local jobs and investment. As Australia is blessed with an abundance of sun, wind, biomass and world class gas reserves we are well placed to continue to enjoy an energy cost advantage

¹ ABC Radio News, 28 June 2002.

http://www.abc.net.au/news/politics/2002/06/item20020627170339_1.htm

² Excluding existing large scale hydro plant

over our competitors – through renewables and gas fired generation rather than coal.

The Australian Bureau of Agricultural and Resource Economics (ABARE) and McKibbin Software Group undertook detailed modelling for the Australian Greenhouse Office (AGO) in 2002 on the economic impacts on Australia ratifying the Kyoto Protocol. In addition the consultants also included an assessment of the likely value of international greenhouse emission permits.

Table 1 – International Emission Permit Prices
(US\$/tonne CO2 in 2002 dollars)

	2010	2015	2020
McKibbin (G-Cubed model)	3.95	7.5	9.99
ABARE (GTEM model)	7.36	10.35	

The consultants projections indicate that the future price of emission permits beyond 2010 will be in the order of US10/tonne, equivalent to A\$13/tonne³. Given that greenhouse constraints will continue to tighten further beyond the first commitment period, the likely cost of greenhouse permits is likely to increase considerably.

Modelling undertaken for the Ministerial Council on Energy (MCE), Energy Efficiency and Greenhouse Working Group⁴ showed that over a twelve year period there was considerable opportunity to reduce greenhouse emissions and that this would be at an economic benefit – not an economic cost. Specifically the economic impact of enhanced energy efficiency initiatives would be:

- Real GDP would be 1.8 billion higher
- 9000 increase in employment
- 9% reduction in stationary energy consumption
- 32 million tonnes per annum reduction in greenhouse emissions

Modelling undertaken for NSW Treasury as part of the introduction of the NSW Electricity Retailers Benchmark Scheme showed that adopting the scheme across the National Electricity Market would result in a 35.4 million tonnes per annum reduction at a cost of less than A\$13/tonne. This can be seen to be a conservative estimate as it was limited to electricity and also excluded some states and territories.

According to the latest greenhouse projections released by the AGO in September 2003, Australia is likely to be 110 per cent of 1990 emissions, approximately 13 million tonnes above the 108 per cent target for the first commitment period (2008 to 2012).

Australia, if it were to ratify the Kyoto Protocol would have access to flexibility mechanisms such as emissions trading. As the cost of abatement in Australia is expected to be lower than the international permit price then there would be considerable opportunity for Australia to reduce emissions further and then sell the permits overseas.

³ Based on an exchange rate of US0.75/A\$

⁴ Undertaken by the Allen Consulting Group and included in the Discussion Paper – Towards a National Framework for Energy Efficiency – Issues and Challenges.

An imminent example is the emissions trading scheme that European Union (EU) is implementing in 2005. The EU has stated that their scheme will be open to other countries that have ratified the Protocol.

Constraining access to international markets

Broader export opportunities are being lost to Australian businesses due to exclusion from markets in developing countries, in particular, due to Australia's position to not ratify the Kyoto Protocol.

In particular, Australia is excluded from participation in the Clean Development Mechanism and Joint Implementation actions of the Protocol. Such exclusions are set to increase, effectively locking Australian firms out of multi-billion dollar overseas markets for renewable energy products and services.

At a renewable energy trade mission to Latin America in 2002, Australian renewable energy businesses were advised by the Brazilian Government that it was difficult to do business with countries that do not ratify the Kyoto Protocol as the significant Global Environment Facility (GEF) is not available⁵. Similar experiences were reported by BCSE members that were seeking export opportunities in China.

Failure to ratify the Protocol is working to inhibit Australian businesses from gaining export contracts.

Ratification of the Kyoto Protocol is extremely important to the development of the sustainable energy industry in Australia. Importantly however not ratifying prevents Australia from effectively participating in the development of flexibility mechanisms, especially emissions trading.

We welcome the opportunity to elaborate on this brief submission at hearings of the Committee that we understand will be held in February.

Yours sincerely

Ric Brazzale
Executive Director

⁵ EcoGeneration magazine, Exporting Australian renewables, page 14.