

RESPONDING TO CLIMATE CHANGE: PROVIDING A POLICY FRAMEWORK FOR A COMPETITIVE AUSTRALIA

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I INTRODUCTION

Responding to the threat of possible changes in the Earth's climate over the coming century is one of the most complex policy challenges facing governments, industry and communities around the world. It is a global issue characterised by significant uncertainties for decision-makers, both in terms of the timing and scale of the possible impacts of climate change and in the challenge of developing an effective policy response.

Clearly, one of the key challenges is to develop effective and equitable international and national response frameworks that integrate actions to reduce global greenhouse gas emissions and adapt to long term climate change with other important policy objectives, such as the need to promote continued economic and social prosperity.

The Howard Government takes the issue of climate change seriously and remains firmly committed to dealing effectively with climate change. In April 1998, the Government signed the *Kyoto Protocol to the United Nations Framework Convention on Climate Change* ('*Kyoto Protocol*')¹ and over the past three years we have continued to work closely with other countries in the international negotiating process to realise its potential as a framework for addressing climate change. This has been a difficult and challenging process, as evidenced by the outcome of the Sixth Conference of the Parties to the *United Nations Framework Convention on Climate Change* ('COP 6') held in The Hague in November 2000.

Domestically, the Commonwealth Government has recognised the need to take action to reduce Australia's greenhouse gas emissions and has allocated approximately one billion dollars over five years to a comprehensive package of climate change initiatives designed to meet international obligations. This includes approximately AUD\$370 million allocated to measures to promote and develop Australia's important renewable energy industries, and AUD\$400 million allocated to the Commonwealth Greenhouse Gas Abatement Program.

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1 Opened for signature 16 March 1998, 37 ILM 22.

This program is designed to facilitate private investment in projects that will lead to substantial and sustained reductions in Australia's greenhouse gas emissions.

Under the Commonwealth Government's greenhouse response measures, Australia – on a per capita basis – spends as much as, if not more than, most other industrialised countries on climate change mitigation. Voluntary partnership-based programs such as the Greenhouse Challenge Program have also been very successful in building awareness of greenhouse gas emissions as a major policy issue at the highest level in corporate Australia. This has resulted in an impressive range of measures being adopted by industry to reduce greenhouse gas emissions.

While the Government remains fully committed to honouring Australia's international greenhouse obligations, it also recognises the imperative of maintaining the competitiveness of Australian industry. Australia, with its rich and unique endowments of natural resources, has developed efficient world-class export and import competing industries, many of which are located in regional areas. Industries such as the aluminium, liquefied natural gas ('LNG') and minerals processing industries generate significant wealth for all Australians and rely on the supply of cost-competitive energy. The importance of this can be seen by the fact that energy and emissions intensive products (eg, coal, aluminium, iron ore, wool and crude and refined petroleum) account for six of the top ten ranked Australian export commodities, most of which are supplied into the Asia Pacific region.

This means that how we respond together with other countries to the issue of reducing greenhouse gas emissions, is of fundamental importance to our economic future. Taking precipitate or costly action to reduce emissions, if not placed within a sensible international and domestic framework, would erode Australian industry's ability to compete internationally and would impose serious and damaging costs on the Australian economy. Similarly, costly action adopted in other countries may have a negative impact on Australian exports.

The Australian Bureau of Agricultural and Resource Economics ('ABARE'), at its annual Outlook Conference, highlighted that taking action to meet international commitments could reduce Australia's Gross National Product by between 0.5 and 0.8 per cent in 2010.² While this may appear a negligible cost to non-economists, it should be pointed out that, in present day terms, the impact of such action would be greater than that of the 1994-95 Australian drought. Similarly, other studies have identified that economic impacts would be likely to be focussed in rural and regional areas, with a significant loss of employment and investment in key industries located in these areas.³ Of course, such costs must also be measured against the environmental and economic costs of inaction. While these costs cannot be quantified at present with any degree of certainty,

2 Cain Polidano et al, 'The Kyoto Protocol: The state of negotiations and implications for the Australian economy' (Proceedings of the National Outlook Conference of ABARE, Canberra, February-March 2001) 58-63.

3 The Allen Consulting Group, *Meeting the Kyoto Target: Impact on Regional Australia*, Report for the Minerals Council of Australia (2000).

qualitative analysis would suggest that, under a number of scenarios, they could also be quite significant.

This clearly indicates that international and domestic plans of action must be based on an environmentally effective *and* economically cost-effective approach. We do not believe that sacrificing Australian jobs and economic growth under any circumstances is in Australia's national interest.

II THE INTERNATIONAL GREENHOUSE FRAMEWORK

In 1992 Australia was among the first group of countries to ratify the *United Nations Framework Convention on Climate Change* ('UNFCCC').⁴ The UNFCCC has now been ratified by 166 nations and represents the overarching framework within which international efforts to address climate change are to be developed and coordinated. The considerable current debate over the direction of the international negotiations makes it timely to review the objective of the UNFCCC. Article 2 of the Convention states that:

The ultimate objective of this Convention and any related legal instruments that the Conference of the Parties may adopt is to achieve, in accordance with the relevant provisions of the Convention, stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner.

In 1997, the *Kyoto Protocol* was adopted by the Third Conference of the Parties to the UNFCCC ('COP 3') after a three year process of intense negotiations following agreement at the First Conference of the Parties to the UNFCCC ('COP 1') in 1995 that the commitments provided under the UNFCCC alone would be insufficient to achieve its objective.

The cornerstone of the *Kyoto Protocol* is its regime of binding emission reduction targets for industrialised countries – being those countries included in Annex B to the *Kyoto Protocol* – across the period 2008-12, under which the total emissions of Annex B countries would be reduced to five per cent below 1990 levels. The *Kyoto Protocol* also provides for the use of innovative market-based 'flexibility mechanisms' – international emissions trading, the Clean Development Mechanism and Joint Implementation – which enable cost-effective achievement of emissions reductions through international collaboration.

The inclusion of the market-based flexibility mechanisms, along with the recognition of the role of carbon sinks, was critical in gaining support for the *Kyoto Protocol* from many industrialised countries, on the basis that these mechanisms would minimise the cost of meeting emission reduction targets. This was demonstrated by the ABARE report on a study conducted by the Stanford Energy Modelling Forum which compared the results from 13 different

4 Opened for signature 4 June 1992, 31 ILM 849 (entered into force 21 March 1994).

economic models. On average, the reduction in real consumption in industrialised regions was projected to be 70 per cent lower with international emissions trading than without trading.⁵ Consequently, much of the focus in the international negotiating process in the three years following COP 3 has focussed on the detail of how these provisions would operate.

A notable omission from the framework set out by the *Kyoto Protocol* was a regime of emissions reduction commitments for developing countries. In 1998, China and India ranked as the 2nd and 6th largest of the world's greenhouse gas emitters, while South Korea, South Africa and Mexico ranked 8th, 11th and 12th respectively. As a point of comparison, Australia ranked 13th with 1.4 per cent of global greenhouse gas emissions.

The importance of engaging all major emitters is underlined by recent projections by ABARE that greenhouse gas emissions from developing countries will exceed those from industrialised countries by the middle of this decade, even taking into account current actions to reduce emissions. In this context, it is also worth noting that the Intergovernmental Panel on Climate Change ('IPCC') recently identified that the imposition of greenhouse costs on industrialised countries alone would encourage a shift of emitting industries from industrialised to developing countries. This could actually see an increase in emissions from developing countries of 5-20 per cent of the emissions reductions undertaken by Annex B countries under the *Kyoto Protocol*.⁶

While acknowledging the need for industrialised countries to take the lead in responding to climate change, effective action by all major emitters, along with the development of rules for the unrestricted use of the market-based mechanisms, carbon sinks and the compliance provisions, remains of fundamental importance. The outstanding issues identified above clearly require resolution before Australia can contemplate ratification. Satisfactory outcomes on these issues will be critical in ensuring that Australia is able to reduce emissions at an acceptable economic cost.

III PROVIDING A BALANCED DOMESTIC GREENHOUSE RESPONSE

Despite the continuing uncertainty surrounding the international negotiations, the Government has implemented a comprehensive range of greenhouse gas abatement measures. These are set out in the Government's 1998 *National*

5 Cain Polidano et al, *The Kyoto Protocol and developing countries: impacts and implications for mechanism design*, ABARE Research Report 2000.4 (2000).

6 Working Group III, 'Climate Change 2001: Mitigation – Summary for Policy Makers', Vol III in *Intergovernmental Panel on Climate Change, IPCC Third Assessment Report: Climate Change 2001* (2001) 10.

*Greenhouse Strategy*⁷ and the 1999 *Measures for a Better Environment* statement.⁸

Importantly, the principles by which the Government's program of domestic action is developed and implemented are:

- the need for Australia to have a strategic and comprehensive greenhouse response which is tailored to address our particular national interests and circumstances;
- to integrate greenhouse considerations with other Government commitments;
- to pursue greenhouse action consistent with equity and cost-effectiveness and with multiple benefits;
- recognition of the importance of partnerships between governments, industry and the community in delivering an effective greenhouse response; and
- the need for action to be informed by research.

The Government's approach recognises the need to balance greenhouse action with economic and social priorities. Consistent with the above principles, response measures have therefore been developed with regard to our particular national circumstances. As noted previously, the hard-earned competitive advantage held by many Australian export and import competing industries is based heavily on the availability of competitively priced energy, generated by Australia's large reserves of fossil fuels. Australian industries supply many other economies with energy and/or greenhouse emission intensive products such as aluminium, coal and agricultural products. As is expected of a vibrant and growing economy, Australia has maintained a high population growth rate relative to other industrialised countries and our use of transportation is high due to our widely separated and decentralised cities.

Australia has benefited from high levels of economic growth since the mid 1990s which, while increasing national greenhouse emissions, has also brought continued wealth creation, jobs and economic prosperity. The Government recognises the need to continue our strong economic performance and further realises that this will require Australia to remain a competitive location for on-going economic investment.

To minimise the uncertainty over the future direction of Australia's greenhouse policy and to maximise investor confidence in the competitiveness of Australia's world class industries the Government, in August last year, provided a series of important greenhouse commitments to Australian industry. Under these commitments the Government will:

- pursue cost-effective greenhouse gas abatement policies and measures in order to minimise the burden for business and the community so that Australian industry can remain competitive;

7 Australian Greenhouse Office, *The National Greenhouse Strategy* (1998) <<http://www.greenhouse.gov.au/pubs/ngs/ngs.pdf>> at 20 April 2001.

8 John Howard, *Letter to Senator Meg Lees*, Press Release (29 May 1999) <http://www.pm.gov.au/news/media_releases/1999/letter3105.htm> at 20 April 2001.

- only implement a mandatory domestic emissions trading scheme if the *Kyoto Protocol* is ratified by Australia, has entered into force and there is an established international emissions trading regime;
- take great care to avoid greenhouse policies and measures that disadvantage those companies which had moved early in undertaking emission abatement actions, or that discriminate against new industry entrants;
- avoid greenhouse policies and measures that unduly limit access to the most cost-effective greenhouse mitigation options;
- negotiate the implementation of the *Kyoto Protocol* flexibility mechanisms so that they operate in an efficient and transparent manner;
- resolve the outstanding methodological issues relating to greenhouse sinks as soon as possible; and
- involve industry from inception through to the implementation of new greenhouse gas abatement policies and measures that impact on industry.

In providing these commitments the Government is not signalling to industry that it will be exempt from future possible greenhouse measures. The act of reducing Australia's greenhouse emissions is likely to entail some cost. However, the Government is indicating that greenhouse policies and measures will be advanced in a manner that does not render otherwise competitive industries uncompetitive.

IV CONCLUSION

The Howard Government recognises the potential threat posed by global warming. To meet this threat, the Government has worked constructively with other Parties in the international negotiations to further the *Kyoto Protocol* in a manner consistent with our national interests. We have also developed a comprehensive program of domestic response measures that covers all sectors and sources of greenhouse gas emissions. The Government has pursued these objectives within a framework of responsible management that balances them with the needs of Australian industry and the broader community. Given the many uncertainties and complexities that characterise the climate change issue, I believe that this approach provides a platform to pursue sustained economic growth and responsible environmental management to the benefit of all Australians.