The need for a national carbon emissions trading scheme for Australia

Submission to the Prime Minister and Cabinet by Environment Business Australia
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Introduction

Environment Business Australia (EBA), representing the environment and sustainability industry, has been actively engaged in the debate on climate change and the need for greenhouse gas emissions (GHG) reduction. EBA strongly recommends that Australia develop a national emissions trading system as an integral part of a National Energy Policy.

Business certainty over infrastructure project cycles (15 years+) is critical for industry and investors. Uncertainty over our ability to compete globally will cost us more in both short and long terms than assertive action to cut GHG emissions. EBA has recommended that the Productivity Commission undertake an analysis of the impacts of climate change and actions to address climate change, across all sectors. This would be most effective if done in parallel with scenario planning of where we want Australia to be in 10, 20, 30 and 50 years' time.

Emissions trading, introduced in the short term, to match the timing of the EU trading scheme, will help to avoid bigger longer term market distortions. It will also help to de-politicise an issue that requires a concerted effort from all levels of Government, the community, and all sectors of industry. It is encouraging to see emissions trading being considered as a highly important part of a policy framework that would drive investment in transition, and provide the flexibility to meet community desires.

Increasingly more business leaders are agreeing that it is no longer in the national interest (or theirs) to continue protecting production status quo at all costs. EBA believes that Australia's next wave of competitiveness will come from harnessing the opportunities presented by sustainability. International markets are increasingly demanding sustainable production and consumption and we expect this trend to continue and to increase.

Former UN weapons inspector Hans Blix called climate change the biggest terrorist threat facing the world as did British Prime Minister Tony Blair. The former head of the UK's Meteorological Office, John Houghton, refers to climate change as the ultimate weapon of mass destruction.

The insurance and reinsurance sectors are keenly aware of the fact that they will face the initial brunt of climate change impact and that this could have the potential to close down insurance availability as we know it.

Australia has not been shielded from the impacts of climate change. In the past year we have suffered the worst and hottest drought recorded, severe bushfires, increased dust storms, cyclones, hail storms, and soil erosion, and we face the possibility of decreasing rainfall and river system breakdown. In Europe, there is a heat wave of unprecedented severity, and forest fires continue to rage there as well as in North America.

These devastating events are an insidious attack on our national security – specifically our health, quality of life, environment and economy. Carbon already emitted has a life span of 80 or more years in the atmosphere and the carbon concentration in the atmosphere will continue to grow. There is therefore real urgency in achieving significant reductions. We cannot afford to wait as Des Moore, former deputy secretary of the Federal Treasury, recently suggested. Future generations may have better and less expensive technologies to address climate change but in the interim the carbon concentration continues to develop, and we hand our competitors in other countries our potential share in future markets.

Carbon constraints will not only reduce emissions they will also force us to look for more productive and efficient ways to do business. This may produce threats to some sectors of Australian industry but it may also provide opportunities. The environment and sustainability industry is keen to work with Government to help create the framework that will help all sectors go through the necessary transition to this carbon-constrained future. Our objective is to make *Australia a sustainability superpower* and we certainly do not want to stifle economic growth and competitiveness. Nevertheless, we do recognise that some sectors will have difficulties in this transitionary period. Ascertaining the risks and the risk management course is therefore highly important for individual companies, insurers and re-insurers, bankers, investors and institutional fund managers. The longer the transition time the greater the ability to make the necessary changes in an equitable manner.

It is significant to note that global frameworks of action can be successful. The Montreal Protocol to reduce the emissions of chemicals that damage the ozone layer appears to be showing signs of success - the 'ozone hole' is decreasing in size. Without a framework for global action this probably would not have happened and it is worth recalling that the Montreal Protocol was almost as contentious in its day as the Kyoto Protocol is today. However, there has been no meaningful damage to the chemical industry as a result of this far-reaching initiative.

Canada ratified the Kyoto Protocol over six months ago, and in spite of threats of company relocation or diversions to investment business is continuing to invest in that country.

Some industry associations have suggested that there is a risk of companies relocating overseas – carbon leakage – if Australia adopts emissions trading because the 'perceived' costs may add to companies' operating costs. However, an obvious question poses itself to those who suggest that export oriented, energy intensive companies may abandon Australia because of our commitment to share the global burden of addressing the atmospheric overload of carbon dioxide and other greenhouse gases. "Exactly which reputable companies are maintaining that they will seek a 'licence to pollute' from their shareholders, insurers and bankers, abandoning sunk assets in the process of relocating to a less stable economic and political regime in order to seek marginal reductions in energy costs for an indeterminate period?"

While debate over the economics of climate change is healthy, it is important that the financial impacts of the negative externalities are also considered. The arguments presented by some sectors are too simplistic and do not concern themselves with the wider-reaching economic ramifications of decreased rainfall, river system degradation, dryland salinity, eco-system services losses, decreased agricultural production, and increased dangers to health and livelihoods.

These negative side-effects are eventually paid for from consolidated revenue and EBA would argue most strongly that "preventing harm is far less expensive than trying to reverse or repair damage".

There has been much debate over recent weeks on the 'uncompetitive' short-term pricing of renewable energy. We recommend, in the strongest possible terms, that this be re-evaluated on a longer-term and whole-of-nation basis. As carbon, through GHG emissions, is increasingly seen as a liability on the balance sheet, the current short-term higher costs of renewable energy, energy efficiency and cleaner production may no longer appear so undesirable.

While greenhouse gas abatement and mitigation may appear to have high upfront costs this investment would be less expensive than adaptation to the irrevocable impacts of increased climate change. As Australia's leading climate change expert, Graeme Pearman said recently, Governments face "an enormous challenge" to reduce greenhouse gas emissions to levels that would stop the world getting hotter, sea levels rising and farmland drying up.

EBA is committed to working with all levels of Government and all sectors of industry to help identify solutions and opportunities that will deliver better energy security and economic resilience. We will be pleased to assist with an education program to bring home the relevance of temperature rises. A one degree rise in temperature seems small to most Australians used to rapidly fluctuating temperatures in summer. However, the impacts of just one degree include extremes of weather variability; changes in disease patterns and prevalence; and decreases in rainfall combined with hotter temperatures. The potential impacts on both river and groundwater water supply are likely to have negative effects on agricultural productivity and dryland salinity.

Expert advice that we have sought from international investors, lawyers, insurers and climate change experts suggests that the EU trading scheme will drive a current European $60 billion carbon reduction market to a vast $600 billion market. The value of trades alone is expected to be around US$1.8 billion per annum per annum between 2008 and 2012.

The 1999 PMSEIC report identified a $750 billion global market and recommended aggressive action to ensure Australia's participation. We concur with the PMSEIC recommendation that a framework is need to encourage Australian companies to compete for and access a fair share of the market. We are therefore most encouraged by development of the National Energy Policy.

The environment industry, currently worth $16.7 billion per annum to the Australian economy (and aiming for $40 billion by the end of the decade) sees significant growth opportunities from energy efficiency, greenhouse gas emissions (GHG) abatement, and mitigation efforts such as sequestration (both biological and geological). We further believe that renewable energy sources have much to offer Australia and our neighbours in the region. Emissions trading is an excellent way to galvanise research and development into this area of innovation and we believe this will benefit the international competitiveness of *all* sectors of industry.

Even if a grey new world is at the far end of the spectrum of scenarios - is it a risk we are prepared to take? The climate change litigation programs recently launched around the world demonstrate that markets are starting to take carbon obesity very seriously. Sustainability is the new driver of innovation and competitive advantage – and the markets are already there waiting for us. Investment, construction and amortisation cycles are in the order of 25-40 years for major infrastructure, therefore the energy choices we make now will decide our level of competitiveness for decades to come. The fact that we have a healthy and vibrant economy is all the more reason to invest in the future of our country by seriously addressing climate change and increasing our relevance, resilience and competitiveness in the process.

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