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SUBMISSION TO AUSTRALIA'S REVIEW OF CLIMATE CHANGE POLICIES

I am an economist at the Australian National University's Crawford School of Public Policy. My research fields include environmental economics and energy economics. I teach postgraduate-level Environmental Economics.

Emissions Reduction Fund

In 2015-16 I carried out a research project on the operation of Australia's Emissions Reduction Fund (ERF). I concluded that the scheme is susceptible to funding projects that would have happened anyway ("anyway projects"). An example is avoided deforestation projects on land that farmers were not intending to clear. The likely non-additionality of some ERF projects compromises the scheme's ability to reduce emissions. There are many other downsides of the scheme, including (a) its budgetary implications and (b) emissions leakage.

An economy-wide abatement subsidy scheme like the ERF should not be a central component of Australia's climate policy. I recommend that public expenditure on Australian carbon credit units (ACCUs) be ended and the ERF closed.

References: Burke (2016a, 2016b), Jotzo and Burke (2014).

Pricing carbon

For facilities covered by the National Greenhouse and Energy Reporting (NGER) scheme, the best approach to incentivising emissions reductions is a carbon price. A rising carbon price would be capable of delivering a low-cost transition to a low-carbon economy.

The easiest way to price carbon is with a carbon tax.

An alternative is an emissions trading scheme (ETS). There are various types of ETS. For the electricity sector, one is an emissions intensity baseline-and-credit scheme. This approach has recently received support from a variety of stakeholders. To be worth pursuing, the scheme would need to be calibrated to achieving substantial emissions reductions.

Australia's former carbon price had been working well: emissions were down and inflation remained low. Australia would be well served by a return to carbon pricing.

Electricity sector

With increasing electrification of our energy system, shifting to low-carbon electricity generation is the most vital domestic decarbonisation challenge. Fortunately, there have been large reductions in the cost of renewable energy and storage technologies.

If schemes that price carbon are ruled out politically, I recommend that the federal government instead pursues an ambitious Renewable Energy Target (RET) for 2030 as well as a longer-run target of 100% of electricity from zero-carbon sources. These targets would ensure that new renewables generation capacity enters the grid and that an appropriate long-run signal is provided to the market.

An agency could be tasked with ensuring a smooth transition of Australia's electricity sector, including an orderly retirement of existing fossil-fuel generators. Structural adjustment arrangements could be made available for employees of retiring fossil-fuel plants.

Taxpayer support for coal

Taxpayer support for new coal mines and new coal-fired generators would be inconsistent with our Paris pledge to act to restrict global warming to 1.5°C. It would also break our G20 and APEC pledges to phase out fossil fuel subsidies, and be against standard principles of good economic management. I recommend that the prospect of any such support be ended.

Offsets

If the ERF is ended, the offsets market could then be left to private-sector participants. Ideally domestic offset arrangements should be tightened to only cover projects that:

- (1) Provide quite credibly genuine emission reductions, and
- (2) Provide emissions reductions that are difficult to achieve using other policies.

Criterion (2) would rule out offsets from facilities that currently report their emissions under the NGER scheme. It would also rule out the prospect of offsets being generated from avoided deforestation, as reductions in deforestation can be more directly achieved by other approaches, such as regulation.

Australia's emissions target

Australia's climate policy ambition should not be limited to our stated target of reducing emissions by 26–28 per cent below the 2005 level by 2030. The falling cost of renewable energy and storage technologies means that it is possible to aim for a more ambitious decarbonisation. A target of net zero carbon emissions by 2050 would provide a clear long-run signal to investors, and would be in keeping with our Paris pledge to act to stabilise the climate.

International issues

Questions over the additionality of international carbon credits mean that – like ACCUs – they should be handled with care.

If low-price international permits are imported, the question to be asked is: why are they low-price? If it is because these permits do not represent credibly additional emissions reductions, Australia's emissions reduction effort has been compromised.

Climate change is a global challenge. Perhaps the best example Australia could set is to rapidly decarbonise our economy. This does not rule out specific investments to achieve emissions reductions overseas, for example via credible reforestation projects in developing countries. There are also opportunities for Australia to share our experience in adopting solar and wind technologies with developing countries. Clean energy could become a priority of our aid program.

Economy of the future

The low-carbon economy of the future is one that can provide high living standards for the Australian people. It can be built off modern technologies and Australia's rich endowments of renewable energy. The transition involves many exciting opportunities.

I would be happy to be contacted about my submission.

Sincerely,

Dr. Paul Burke

References

Burke, P.J. 2016a. 'Undermined by adverse selection: Australia's Direct Action abatement subsidies', *Economic Papers* 35(3): 216–229. Open access link: <http://econpapers.repec.org/paper/eencepwp/1605.htm>.

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Jotzo, F and Burke, P.J. 2014. 'Direct Action subsidies: Wrong way, go back', *Inside Story*, <http://insidestory.org.au/direct-action-subsidies-wrong-way-go-back>.