Very forward about going backwards

The country's short-term perspective and regressive approach to climate policy is drawing flak

Climate concerns: Australia's new policies have proved controversial

AUSTRALIA is one of the world's top 20 polluting nations, emitting more carbon per person than any other developed nation. And without a comprehensive emissions mitigation plan, Australia's emissions are projected to increase by 24% between 2000 and 2020 to 686 million tonnes of carbon dioxide (CO_2) equivalent.

Yet the federal government appears to be going backwards with its approach to climate policy. In Canberra, there seems to be little appreciation for the need to move to a low-carbon future, unlike in Washington and Beijing, where concrete action is starting to take shape.

When prime minister Tony Abbott's business-oriented Liberal-National coalition took power last September, one of the government's key pledges was to axe a contentious price on carbon, replacing it with what he calls the "Direct Action Plan" (DAP).

"Come hell or high water, he is determined to get rid of what he calls the tax, which is not an accurate way to describe what we have, which is carbon pricing. But he is 100% committed to getting rid of the carbon price, even if it's not the best policy outcome," a source working closely with the government on policy told *Petroleum Economist*. The source added that it seemed Abbott does not believe in climate change.

A former environment minister in the UK, Lord Deben, summed up the Australian federal government's behaviour over climate change and moves to reduce carbon emissions as "appalling". The government was "unwilling to listen to science or logic", the chairman of the UK government's climate advisory committee told *The Guardian*.

The Climate Change Authority, a federal agency, said Australia would need to bump up its 2020 emissions reduction target from its minimum 5% commitment on 2000 levels to at least 15% to make a responsible contribution to international efforts to limit global warming to 2 degrees Celsius from pre-industrial levels.

But Abbott's DAP proposal, designed to tackle rising carbon emissions, has been widely criticised for its inability to attract finance or deliver big cuts in harmful emissions, let alone hit the 5% reduction target. Conversely, the carbon price has been running for two years and is showing signs of working.

Still, the coalition appears more interested in cutting costs for businesses, rather than protecting the environment, at a time when most developed nations are seriously starting to address global warming.

A different approach

At a time when most major markets are moving towards a cap-and-trade system to cut emissions, the Abbott government is backing a system more akin to a baseline and credit scheme. The previous federal government tabled plans for an emissions trading system.

At the DAP's core is an Emissions Reduction Fund (ERF), essentially an incentive mechanism that offers firms access, via competitive bidding, to a pool of capital for emissions-reduction projects. The ERF is set to come into play this July, when Abbott is expected to pass the legislation through the Senate.

The government is effectively trying to encourage new projects to invest in technology that will tame emissions growth, which is important. But the fund will largely support low-cost abatement proposals, such as energy efficiency and soil carbon storage. It's unlikely to finance efficiency improvements on an industrial scale or carbon capture and storage (CCS) technology, which is costly.

During a recent visit to Australia, economist Jeffrey Sachs, who is also a special climate adviser to UN secretary general Ban Ki-moon, described the nation's predicament as "amateur hour, at a time when we actually need something more serious".

Sachs, who is also the director of the Earth Institute at Columbia University in the US, was particularly scathing of the government's decision to cut A$460 million ($426 million) from a CCS programme. In this year's federal budget, funding for clean energy schemes and the Australian Renewable Energy Agency have been slashed by the coalition government, citing the need to reduce the country's deficit.

Instead Sachs says Australia should be driving investment in clean technology and collaborating on research with big regional economies, such as India and China, particularly in exploring ways to clean up emissions from coal-fired power.

With the price on carbon to be removed and the renewable energy targets to be reviewed and possibly downgraded, Bernie Fraser, chair of the Climate Change Authority, which Abbott is seeking to dismantle, says that it's clear that the scale of the emissions reduction fund will be determined primarily by budget considerations, not by climate science. Pointedly, the authority recommends the use of market-based emissions schemes, such as carbon pricing, as well as the renewable energy target, which remains under threat.

Abbott's government claims the ERF will help it meet Australia's international commitment to cut emissions by at least 5% by 2020 from 2000 levels. Yet it has not presented any analysis to show that the fund can achieve the goal.

Analysis from Melbourne-based carbon specialists RepuTex suggests the ERF is under-resourced – the government has only set aside A$2.5 billion over four years – and doubts this is sufficient to buy the emissions abatement necessary to hit the 5% target. But "the caveat is that we don't yet know how the baseline mechanism will work," Hugh Grossman, executive director at RepuTex, told *Petroleum Economist.*

There are also concerns whether the total A$2.5 billion will be used to fund emissions reductions as only half of that has been allocated in the recent budget, says Elisa de Wit, Melbourne-based climate change specialist at law firm Norton Rose Fulbright.

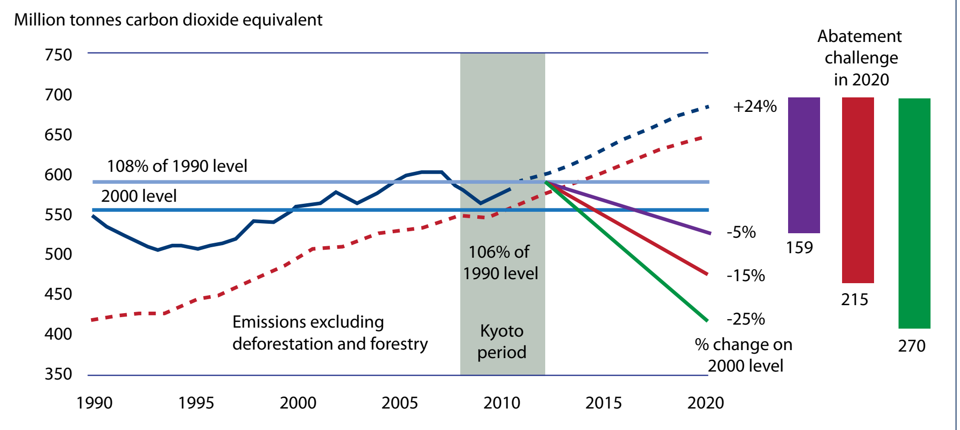
It's not clear where the emissions reduction will come from, nor is it certain what reduction can be achieved through an incentive approach, she said. De Wit added there is also uncertainty about how quickly projects can ramp up, given the five-to-six-year window.

Bloomberg New Energy Finance (BNEF), a research firm, described the policy as largely an exercise in wishful thinking. The government, it said, had "acknowledged that it will be difficult to ensure emissions reductions that it funds will be genuine". BNEF added: "It is not yet sure how to guard against this, and has asked industry for its ideas, but this is likely to be a continual problem for this sort of scheme."

Indeed, the government may well end up funding emissions reductions that would have occurred anyway.

The second aspect of Abbott's proposed policy is a baseline and compliance mechanism, whereby the government will set limits for polluters. They will face penalties if they breach the limits specified. However, the scheme is still being designed, with draft legislation expected next February. Final implementation is scheduled for July 2015. It's unclear how the baselines will be set and penalties imposed.

Figure 1: Australia's emissions trends, 1990 to 2020



Source: Australian government
Note: trajectories to the 2020 target range are illustrative

Shortfall

Under the previous Labor government's Carbon Price Mechanism (CPM), set to be immediately repealed once the DAP legislation is enacted in July, polluters would have been able to buy cheaper carbon permits from international markets to meet domestic caps. It also put a price on carbon.

While the DAP should lead to more domestic emissions abatement than the CPM, it is forecast to fall short of Australia's 5% emissions reduction target. RepuTex says the shortfall is estimated at about 188 million tonnes of CO_2 equivalent – a significant gap.

Conversely, the CPM is forecast to meet Australia's target – be it a 5% or 15% reduction – through the sourcing of an extra 275 million international emissions offsets.

At a minimum, RepuTex expects the ERF will lead to the domestic abatement of 123 million tonnes through to 2020, which is similar to the domestic abatement achieved under the CPM, but well short of the 431 million tonnes needed to hit Australia's minimum 5% emissions reduction target.

"Should the government introduce a secondary market for companies to trade offsets to maintain their emissions at required levels, the DAP could achieve significant domestic emissions reductions, far more than CPM," says Grossman.

But while the DAP is 100% focused on domestic emissions abatement, it's a much more expensive route as companies are prevented from buying the cheaper international credits.

That said, most companies are fairly happy to see the end of the CPM, which includes a relatively high carbon tax, now around $23 per tonne, says Grossman.

On the other hand, firms will miss the international framework of the previous scheme, which not only provided market certainty, but access to sophisticated offshore financial products and much larger market liquidity.

On the whole, heavy emitters, such as coal miners and the liquefied natural gas players, have "dodged a bullet" as participation in the government's incentive scheme is voluntary for the first 12 months, but it remains to be seen what happens after that, adds Grossman.

If left unchecked, RepuTex forecasts emissions from the coal mining and LNG industries will rise nearly 34% by 2020. **DE** ●