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Victoria should lead on cohesive, national climate change policy

Submission from Tony Wood, Energy Program Director, Grattan Institute, to the Victorian Government's 2015 Review of the Climate Change Act 2010.

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There are no restrictions on publication of this submissions or requirements for anonymity. The submission contains no personal information of third party individuals.

1 Summary points

- The international community has agreed to keep the average global temperature increase from climate change to less than two degrees Celsius. The Australian Government will set a national emissions reduction target and a domestic policy to achieve the target. If this target is accepted internationally as representing Australia's fair share then a separate Victorian target would serve no justifiable purpose.
- If the Federal Government's target falls short of Australia's fair share, the first choice for the Victorian Government should be to play a lead role with other states and territories to convince the Federal Government to increase the target.
- Any Victorian policy to go beyond the national target and policy should build on and be consistent with the direction and structure of the national position. It should fall away or merge with national policy if and when that deficiency no longer exists.
- The Government should be very clear on the objective that it seeks to achieve through a climate change policy or target. Any policy to support climate change mitigation, greater adoption of renewable energy, energy efficiency or de-investment in coal-fired power generation will add costs for Victorians, and may reduce costs for other Australians by forcing Victorians to shoulder an undue proportion of the load.
- A climate change overlay should be applied to all major government policy initiatives, particularly where infrastructure or planning is involved. The overlay should extend to agriculture and other areas likely to be affected by climate change.
- Because energy is such a critical contributor to climate change, energy and climate change policies must be integrated, ideally through the same ministry.

2 Introduction

This submission responds to the terms of reference of the 2015 Review of the Victorian Climate Change Act 2010.

Grattan Institute is an independent think-tank focused on Australian domestic public policy. We aim to improve policy outcomes by engaging with decision-makers and the community.

The Inquiry is seeking submissions on issues associated with the existing 2010 Climate Change Act. The 2012 Review and the current and likely future of climate change policy at a Federal level are two critical elements of the environment in which this Review is taking place. The potential for action by other states or territories and their relationship with Victorian policy add to that environment.

The 2015 environment for climate change policy is very different from the one that existed during the Howard Coalition Government. At that time, Victoria took a lead in developing a state-based emissions trading scheme in the absence of policy leadership at the Federal level. In 2015, there will be a national emissions reduction target and a policy to achieve it. The target is likely to fall short of what is demanded by the science and a bipartisan agreement on policy will not exist.

In a highly uncertain and evolving policy environment, the Review will be most effective if its recommendations to the Victorian Government assist in setting clear purpose, objectives and structure for a state climate change policy and associated legislation.

We make no comments on the legal or drafting aspects raised by the Review. Section 3 of this submission seeks to address the terms of reference.

3 The terms of reference

The terms of reference of the inquiry ask whether the operation of the Act meets its stated purposes. A more relevant question for Government should be: what is the purpose of the Act? Or, what are the Government's objectives in relation to climate change action?

The purposes of the Act have effectively changed as a result of the review in 2012. While it could reasonably be argued that the Act is effective in achieving its stated purposes, it is not clear that these purposes reflect the climate change policy objectives of the current Government.

The Victorian Government will receive more informed and useful contributions to a review of the *Climate Change Act 2010* if it does more to clarify its climate change objective. Is the goal of policy to:

- ensure Victoria makes a fair contribution to meeting global emissions reductions; or
- ensure Victoria makes a fair contribution to meeting Australia's emissions reductions; or
- Victoria reduces greenhouse gas emissions by a set target; or
- Victoria reduces *Victorian* greenhouse gas emissions by a set target; or

some other, similarly specific, objective?

The Act can support the Victorian Government's meeting its

climate change objectives in a number of ways. It could be developed in a manner that provides a broad framework under which the Government can deliver climate change policies. It would potentially:

- Set out Victoria's broad objectives for climate change;
- Set a Victorian target (if that is one of the Government's objective); and
- Establish mechanisms to ensure that reducing greenhouse gas emissions becomes a core component of all policy development across Government.

Alternatively, the legislation could be far more prescriptive. Such an Act would specify the policy or policies that the Government would pursue to meet its emissions reduction target.

We believe the Act's role should be skewed towards the former rather than the latter, for the following reasons:

1. At a state level, climate change policy needs to be flexible and respond to developments in national and international policy, technology and climate science. Enshrining particular initiatives in legislation reduces that ability.
2. The Victorian Government's climate change policies are still to be properly defined. For these to be effective, the development process will take time and much consultation. Including even high-level initiatives in the Act may hamper their development, leading to policies that are not as effective

or efficient.

3. Some portfolios have already committed to emissions reduction activities, which are included in other pieces of legislation (the Victorian Energy Efficiency Target for example). Including policies in the *Climate Change Act 2010* would appear retrospective and may hamper ministers from adjusting their policies to other factors that affect their portfolio.

It is difficult to effectively address the terms of reference of the Review without understanding the Government's climate change policy objective and the role the Act is intended to play in achieving it. The Victorian Government should clearly communicate its objective before amending the legislation.

The rest of this section addresses the Review's specific terms of reference.

3.1 Is the current operation of the Act effective in achieving its stated purposes?

The circumstances for national and state climate change policy have changed since the Act was developed and some aspects of its purpose may be less or more relevant in 2015. The Act sets out its eight main purposes. Purposes three to eight relate to state-specific activities that support national or international action in regard to adaptation, carbon sequestration etc. We do not have expertise to comment on these.

The Act's first purpose was to establish a target to reduce Victoria's greenhouse gas emissions. The target was set as a

requirement on the Minister to ensure that, by the year 2020, the amount of Victoria's greenhouse gas emissions was 20 per cent below the amount of Victoria's greenhouse gas emissions for the year 2000. The target was removed in 2012 after an independent review found that the Victorian target was no longer necessary, following the introduction of a national carbon price. That carbon price was itself abolished in 2014.

It is clearly possible to establish a target in the Act to reduce Victoria's greenhouse gas emissions. However, the environmental impacts of climate change impose a global cost, while action to reduce Victoria's emissions imposes a local cost. In determining government policy, two more important questions arise.

3.1.1 Is the target an aspiration or will its achievement be mandated with supporting legislation and/or regulations?

If the target is an aspiration, then the Government may use it to seek to influence national policy and to frame complementary actions such as community mobilisation at a state or local level. If the target is to be achieved via legislated action, as the Act originally envisaged, then a more nuanced and quantitative structure is required.

3.1.2 What does the target mean in a national and international climate change context?

International action in 2015 is framed around the international commitment to constrain the average global temperature increase from climate change to less than 2 degrees Celsius. Sovereign

nations and groupings such as the European Union will set targets that are expected to equal this objective. These targets and the global outcome will be tabled and debated at the international conference (COP21) in Paris in December, 2015.

Australia's Federal Government has committed to contribute its fair share with a strong and credible post-2020 target, which is expected to be announced in August, 2015. Whether the initial target is sustained or renegotiated between now and early 2016 remains to be seen.

The Climate Change Authority has recommended that based on climate science and international actions to date, Australia's target to represent its fair share should be a 30 per cent reduction in emissions against 2000 levels by 2025, and 40 to 60 per cent by 2030.

Through the above process, there will be a national target and a domestic policy will be developed to meet that target. If Australia's target is accepted internationally as representing its fair share, then a separate Victorian target would have no justifiable purpose.

If Australia's target is seen to represent less than its fair share, either because the global aggregation of targets falls short of the objective, or because Australia's position is rejected, then the Victorian Government may consider it has a role to play in setting its own target. However, this could be a complex and even self-defeating task, as the next paragraphs illustrate. Therefore, the Victorian Government's first priority should be to seek to persuade the Commonwealth to reset the national target.

It would serve little purpose for Victoria to set a state target that

simply results in lower contributions from other states and territories to the national target. The result would be to impose a cost on Victorians with no environmental benefit. The only logical approach would be for Victoria to set a target that extends the national target. Such a target and its accompanying legislation would have to be crafted in the context of the national target and national domestic policy, both of which are currently unknown.

The Government would need to be clear whether a target relates only to emissions generated within the state of Victoria, or whether it covers emissions generated outside Victoria to produce goods or services, such as electricity, consumed within Victoria. It would serve little purpose to reduce emissions in Victoria by shutting brown coal-fired power stations if the electricity is simply generated from coal-fired power stations in another state. The national nature of Australia's energy markets, and the interaction of a state target and policy with national equivalents that will also be evolving, will need to be considered to avoid unintended consequences.

Uncertainty at an international and national level means that any legislation to set and deliver a Victorian target must be flexible -- designed so that it can respond to emerging international and national policy developments -- and predictable in how this flexibility will be delivered. For example, a Victorian target could be set in response to a perceived inadequacy at the national level. If this inadequacy were subsequently removed, then a defined process to abolish the Victorian target would be needed, without loss of value of any property rights that might have been established in the context of Victorian legislation.

During the last term of the Federal Coalition Government led by

Prime Minister Howard, state governments moved to establish a national climate change policy in the form of a cap and trade emissions trading scheme. It has been suggested that several states might revisit such an approach in 2015/16.

The notable difference between then and 2015 is that in 2006 there was no national target or domestic policy. Therefore the complexity of policy interaction described above did not arise. This is unlikely to be the case today. For the states and territories to act together to design an ETS would be much more complex, particularly if one or more jurisdictions were not to participate.

The Act's second purpose was to make it easier for the Victorian Government to consider climate change issues in specified areas of decision making.

Several reports, including the 2008 Garnaut Climate Change Review, have described the economic, environmental and social impact of unmitigated climate change on Victoria. These potential impacts are so diverse and damaging that the Government should include a climate change impact assessment in all its major reviews, decisions and considerations.

3.2 Does the Act provide a sound foundation for action (by government, business and community) on both climate change mitigation and adaptation?

Any answer to this question must begin by assessing international and national commitments and legislation to address climate change. Beyond the issues identified above, any State Government should facilitate actions by stakeholders where

regulations or approvals may be needed to support national legislation, or to address state-specific market failures or barriers.

3.3 Is the Act sufficiently robust to deal with changes over time in the range of factors that impact on Victorian Government climate change policy?

This submission has addressed issues concerned of broad climate change policy and evolving developments in climate policy, science and technology, with a particular focus on the role of targets. Issues concerned with state regulations such as planning are beyond our knowledge and expertise.

3.4 How might the Act be improved to achieve the Government's commitment to action on climate change mitigation and adaptation?

We are unable to address this question as we are not aware of any documentation of the Government's commitment to such action. If such documentation were available, we would be pleased to comment.

3.5 Is legislation the most appropriate mechanism for an emissions reduction target?

The appropriateness of legislation to set an emissions reduction target will depend on the Victorian Government's policy objective in having such a target. The objective may be expressed in three ways:

- Victoria's climate change target ensures Victoria plays its fair share in meeting Australia's fair contribution to reducing global

greenhouse gas emissions;

- Victoria sets an absolute target to reduce greenhouse gas emissions; and
- Victoria sets an absolute target to reduce *Victorian* greenhouse gas emissions.

In the case of the last two examples, the Act could be an appropriate mechanism for setting a target as the target would not need to vary according to international and Federal action on climate change.

Yet as section 3.1.2 makes clear, we argue that if Victoria is to set a target, the mechanism will need to be flexible to ensure that Victorians do not end up making a disproportionate contribution to meeting Australia's emissions reduction targets

The risk of a disproportionate contribution relates more closely to the first objective set out above. In this instance, there would be an alternative to setting the specific target in the Act. The Act could define what is meant by:

- Victoria's fair share; and
- Australia's fair contribution to reducing global greenhouse gas emissions.

This approach would mean that the actual target is set through regulations that are revisited on a regular basis to take into account the changing Federal and international environment.

3.6 What is the appropriate mechanism to monitor and report on progress in accordance with the Act?

We have no relevant knowledge or experience in this area.

4 Concluding comments: emissions reduction policy at a state level

Over the past 10 years, Australia has seen the birth and death of Federal and state government policies and legislation aimed at tackling climate change. Much of this debacle is due to the absence of a bipartisan approach to national policy.

In 2015 history may be repeating itself. As in the years before 2010, some state governments see an absence of credible national climate change policy, and understandably want to move toward initiating sub-national targets and actions. If and when the Federal Government adopts targets and policies to credibly address climate change, these state-based initiatives would have to be phased out.

The best solution will be the development of a long-lasting, credible national policy that enjoys the support of all sides of politics. State Governments, including Victoria's, should do all they can to help achieve this outcome.

In its absence, state governments should consider climate change policies that could eventually develop into a credible national solution. Investigating the possibilities of a state-based cap and trade emissions trading scheme would be a logical step. Yet such a scheme would be complex because it would have to co-exist with a national policy and some states may not participate.

Such a target or policy will also need to be in addition to national action. If it is not, Victoria will do more of the heavy lifting than other jurisdictions, and Victorians will bear disproportionately the

cost of meeting Australia's emissions reduction targets.

Any Victorian target or policy must have a clear exit strategy to respond to the emergence of a credible Federal policy. This will prevent Victorians from bearing higher costs than they should.

Finally, any climate change policy needs to be integrated and coordinated across the Government. At present Victoria has separate ministers for climate change and for energy, both of whom are pursuing policies that will help reduce emissions. Because energy is so closely linked to climate change it is important to integrate these streams of work. While this can be done under separate Ministers, combining the portfolios may enable more effective climate change and energy policies to be developed and implemented across the Government.

For queries, please contact:

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