

Taking way too much credit

The Government plans to halve its already low Paris emissions target by using ‘carry-over’ credits from the Kyoto Protocol. This plan is unethical, undermines Paris, and is diplomatically damaging. If carryover is formally ruled out by the UN, Australia will have to make up the emissions gap through drastic emission cuts or buying international permits costing billions of dollars.

Briefing note

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Australia’s emissions have increased every year since 2014, when the Australian Government became the first country to repeal a national carbon pricing system.¹ Government projections from December 2018 show under the current suite of policies national emissions will continue to increase, rather than decrease. The projections also show Australia is not on track to meet its emission reduction target of 26% by 2030 from a 2005 baseline.²

Instead of addressing rising emissions with credible policy, the Government opted for an easier route. The Government plans meet its Paris target by using ‘surplus’ credits accrued under from the Kyoto Protocol (KP). KP is the previous climate treaty, covering 2008 to 2020. If countries ‘overachieved’ on their targets in one period of KP, the country was credited with this overachievement and had limited scope to ‘carry-over’ these credits to reduce effort required in the next period.

¹ Department of Environment and Energy (2019) *Repealing the carbon tax*
<http://www.environment.gov.au/climate-change/government/repealing-carbon-tax> (accessed 29 January 2019)

² Department of Environment and Energy (2018) *Australia’s Emissions Projections 2018*

In December 2018, the Government claimed it will use KP surplus credits to extinguish over half (52.8%) of its Paris Agreement target (see Table 1).

Table 1: Cumulative emissions reduction task 2021-2030

Australia's Paris Target - 2021-2030		Cumulative emissions reduction task (Mt CO ₂ e)
Projected emissions		5487
Target trajectory		4800
Voluntary action		8
Emissions reduction task		695
Australia's surplus credits from Kyoto Protocol		Cumulative emissions (Mt CO ₂ e)
<i>First KP period (2008-2012)</i>		-128
<i>Second KP period (2013-2020)</i>		-240*
<i>Total KP Surplus</i>		-367
% Paris target met with Kyoto credits		53%

Source: Department of Environment and Energy (2018) *Australia's Emissions Projections 2018*

There are a number of serious problems with this plan. This can be summed up into four key concerns with using the KP credits:

1. It is unethical and contrary to moral principles driving climate action,
2. It will undermine the Paris Agreement,
3. The credits are not authorised for this use and may not be available,
4. It will damage Australia's diplomatic relations with key partners, including many who have already ruled out using the credits.

Unethical

A country's approach to climate change is ultimately an ethical decision. There are moral principles that govern climate action and help frame the Paris Agreement, including:³

- Polluters should pay

³ And reside in the perambulatory language and accompanying COP decisions to the Paris Agreement.

- Those with the ability to pay more should
- Action now is better than action later.

Numerous Australian Governments, including the current government, have failed to uphold these principles.

The Morrison Government has no policy that requires polluters to pay or requires them to reduce emissions, nor does it believe it has a responsibility as an industrialised country to do more than developing countries, whose emissions are cited as excuses to put off further action.⁴

The UN Climate Convention states under its section on principles that all Parties should protect the climate system 'in accordance with common but differentiated responsibility and respective capabilities.'⁵ Developed countries like Australia are required to undertake the deepest emission reductions as beneficiaries of high-polluting industrialisation that has also provided the means to lead.

The Government also uses the perceived cost of climate action as an excuse to limit its efforts and justify its entitlement to loopholes, like the KP credits. There is an extensive body of literature confirming the very small to negligible economic impact from Australia taking on ambitious reduction targets.⁶ Using KP carry-over credits would only decrease Australia's emission reduction efforts.

Again this has a long history. From the mid-1990s, Australia has lobbied out of pure self-interest and as a result, according to then Foreign Minister Alexander Downer, faced "*quite openly hostile opposition*".⁷ The Howard Government was armed with research from the Australian Bureau of Resource Economics (ABARE) headed up by Brian Fisher. Just like the current Government's use of Brian Fisher's work,⁸ it was used to heighten the cost impacts and plead special circumstances for why Australia should do less.

⁴ Karp (2018) *Morrison says Australia won't provide more money for global climate fund* <https://www.theguardian.com/environment/2018/oct/08/scott-morrison-resists-calls-to-withdraw-from-paris-climate-agreement>

⁵ Article 3.1, UN Framework Convention on Climate Change

⁶ Swann and Merzian (2019) *A Model Line-up* <http://www.tai.org.au/content/new-analysis-brian-fisher-modelling-climate-outlier>

⁷ Hamilton (2007) *Scorcher: The Dirty Politics of Climate Change* p33

⁸ Fisher remains responsible for damaging research outlining climate action cost impacts that are 10 times greater than any other model for climate action – see Australia Institute analysis <http://www.tai.org.au/content/new-analysis-brian-fisher-modelling-climate-outlier>

While most developed countries had to cut their emissions, Australia lobbied for and got an increase to 108% above 1990 levels.

But that wasn't enough. At 1:42am on the evening of the final day of the negotiations, right before the gavel came down Australia blocked the global treaty.⁹ Australia demanded what is commonly called the "Australia clause", which allowed it to include carbon emissions from land clearing using a highly favourable baseline.

As a result Australia's target to keep emissions at 108 % of 1990 levels over the 2008-2012 period, resulted in Australia increasing emissions by 28%.¹⁰ Following Australia's efforts, the European Union's environmental policy spokesman Peter Jorgensen said that Australia's lobbying on climate change was "*wrong and immoral... a disgrace*".¹¹

In the second commitment period of the KP, Australia's emissions target was again quite generous allowing it to increase emissions – which it has.

So in both Kyoto commitment periods, Australia has been allowed to increase emissions. The government is now claiming 'overachievement' on those targets as reason to cut its Paris Agreement targets in half.

Prime Minister Scott Morrison stated:

We've got our commitments and we're meeting our commitments and we'll continue to do that. And we're very confident about our ability to meet those. Why? Because we've met the targets we've already set for ourselves and we will continue to be able to do that...¹²

⁹ Under the UNFCCC, there rules of procedure have never been adopted – a move led by Saudi Arabia in the early days to ensure that any one country could block progress. With consensus prevailing, it allows any one country the opportunity to hold up negotiations at the final hour and force a compromise to ensure a final agreement is made.

Luke Kemp (2013) *Think politics is frustrating? Welcome to climate negotiations*

<https://theconversation.com/think-politics-is-frustrating-welcome-to-climate-negotiations-15164>

¹⁰ Hamilton C (2015) *Australia hit its Kyoto target, but it was more a three-inch putt than a hole in one*, The Conversation, 16 July, available at <https://theconversation.com/australia-hit-its-kyoto-target-but-it-was-more-a-three-inch-putt-than-a-hole-in-one-44731>

¹¹ Smith and Howe (2015) *Climate Change as a Social Drama* p61

¹² Prime Minister Morrison (2018) *ABC Radio 11 October 2018*

<http://www.abc.net.au/radio/adelaide/programs/am/am/10340106>

it means that we're going to meet Kyoto 2 and we'll smash that number. We smashed Kyoto 1... and we'll continue our track record of delivering emissions reductions.¹³

The Prime Minister is boasting about meeting targets that Australia gamed through hard-ball negotiations that allowed Australia to increase emissions.

The final moral principle for climate change is inter-generational equity. The inequity of impacts over time is why legions of Australian school children have taken to the streets in frustration at climate inaction. They will have to deal with legacy of a high-emissions country and a much higher incidence of climate impacts.

Undermining

Under the United Nations Framework Convention on Climate Change (UNFCCC), parties to the Paris Agreement pledged emission reduction targets in their Nationally Determined Contribution (NDC). The parties have yet to decide on the rules regarding what can and can't count towards meeting a country's emission reduction target. However, all countries – including Australia – have already taken a formal position against KP carry-over into the Paris Agreement (which commences in 2021).

At the Paris COP in 2015, the same decision that approved the Paris Agreement (Decision 1/CP.21) sets out the intention of parties, that countries like Australia should voluntarily cancel any surplus units. The decision text is explicit:

106. *Encourages parties to promote the voluntary cancellation by Party and non-Party stakeholders, without double counting, of units issued under the Kyoto Protocol, including certified emission reductions that are valid for the second commitment period.*¹⁴

The Paris Agreement was always intended as a new treaty requiring abatement from all countries going forward. The Paris Agreement is not formally linked to KP, there is no provision for carry-over from KP, and parties to Paris agreed to try to stop this from happening.

¹³ Prime Minister Morrison (2018) *Scott Morrison joins Insiders 30 September 2018*
<http://www.abc.net.au/insiders/scott-morrison-joins-insiders/10322646>

¹⁴ UNFCCC (2015) *FCCC/CP/2015/10/Add.1 (Decision 1/CP.21)*
<https://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf>

Unavailable

Use of Kyoto carry-over assumes the Paris Agreement is a successor to the Kyoto Protocol. That is certainly the view of the government. Senator Simon Birmingham told Senate Estimates on 18 February 2019:

the Paris agreement is a successor agreement to the Kyoto Protocol. It would appear to be a consistent application of some of the rules and definitions to see carryover provisions continue.¹⁵

The Senator fails to point out the limits on carry over in the KP.

KP had strict rules that limit carry-over between periods. The credits accrued in the first KP commitment period (2008-2012 – totalling 128 MtCO₂e) can only be carried into the second period (2012-2020) and could not apply to any potential third period.¹⁶ This means there is no carry-over surplus from the first period of the KP into the Paris Agreement period.

Moreover, the credits from the first period should be consumed by the second period.

Australia's target under the second KP commitment period is a *conditional* range. Australia committed to reducing its emissions by 5% unconditionally. It also committed to reduce emission by as much as 15% to 25% below 2000 levels by 2020.¹⁷ The higher targets were contingent on commensurate action from other countries.¹⁸ In 2014, the independent Climate Change Authority found that these conditions of commensurate action have, in fact, been met enough at least to raise the target to 15%.¹⁹

¹⁵ Senator Birmingham (2019) Senate Estimates 18 February 2019

https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/f507c5ce-625c-4895-ac48-7d0b5d498499/toc_pdf/Environment%20and%20Communications%20Legislation%20Committee_2019_02_18_6941_Official.pdf;fileType=application%2Fpdf#search=%22committees/estimate/f507c5ce-625c-4895-ac48-7d0b5d498499/0000%22

¹⁶ Hannam (2018) *Scott Morrison's pea-and-thimble trick*

<https://www.smh.com.au/environment/climate-change/scott-morrison-s-pea-and-thimble-trick-20190226-p51090.html>

¹⁷ Australian Government (2015) *Quantified economy-wide emissions targets for 2020*

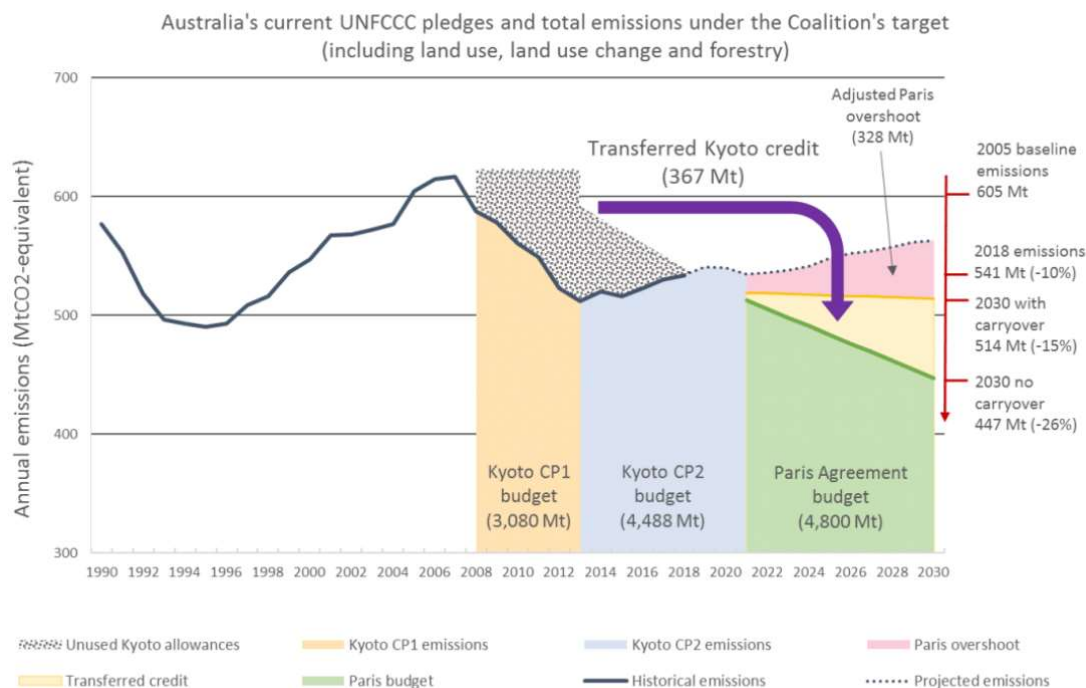
http://unfccc.int/files/meetings/cop_15/copenhagen_accord/application/pdf/australiacphaccord_app1.pdf

¹⁸ Meinshausen and Talberg (2015) *FactCheck: has Australia met its climate goals, while other nations make 'airy-fairy promises'?* <https://theconversation.com/factcheck-has-australia-met-its-climate-goals-while-other-nations-make-airy-fairy-promises-44656>

¹⁹ Climate Change Authority (2014) *Reducing Australia's Greenhouse Gas Emissions – Targets and Progress Review – Final Report* <http://climatechangeauthority.gov.au/files/files/Target-Progress-Review/Targets%20and%20Progress%20Review%20Final%20Report.pdf>

Tim Baxter at University of Melbourne finds a 15% target would consume all carry-over credits from the first commitment period of Kyoto, wiping out the 128 million tonnes and rendering it unavailable to use towards the Paris target (see Figure 1 below).²⁰

Figure 1: Australia's current UNFCCC pledges and total emissions under the Coalition's target (including land use, land use change and forestry)



Source: Tim Baxter (2018) In a Canter? Demystifying Australia's Emissions Budget for Paris
<https://www.youtube.com/watch?v=xOisdjzv8Gs>

Finally, the second commitment period of the Kyoto Protocol has not come into legal force. While many countries have ratified it, including Australia, and these countries are treating it as if it is in force, this is legally not the case. If it does not come into force then it is unclear that any credits from 'overachievement' will legally exist. Their use will therefore be highly dubious.

²⁰ Baxter (2018) In a Canter? Demystifying Australia's Emissions Budget for Paris
<https://www.youtube.com/watch?v=xOisdjzv8Gs>

Undiplomatic

The Australian Minister for the Environment Melissa Price has said it is “really good news” that Australia has a surplus of KP credits and maintains the country “is entitled to use carryover and that’s what we are going to do.”²¹

In arguing this case Australia will find stiff diplomatic opposition from many like-minded developed countries and usual allies.

At the last negotiating session in December 2018, the New Zealand Minister for Climate Change came out against the use of the credits stating "Paris is a completely new legal construct" and it was "never intended" for KP credits to be carried over. "We would discourage any country from using [them]," he concluded.²²

At the Paris COP in 2015, the UK, Germany, Denmark, Sweden and Netherlands jointly announced voluntary cancellation of surplus credits.²³ Together they cancelled 634.9 million surplus units from first commitment period, as well as additional amounts from the second period. The total is more than double the credits Australia is trying to use. They said

"By cancelling surplus units we hope to send a strong positive signal of support for an ambitious global climate agreement here in Paris."²⁴

Recently, climate negotiators from the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety stated they believed no value should be ascribed to surplus Kyoto units and that carry-overs should be banned. They maintained that Kyoto units from both the first and second commitment periods should not be eligible for use towards Parties' NDCs under the Paris agreement.²⁵

Australia will also find opposition from small island states on the front line of impacts. In a recent speech in Melbourne, Fijian Prime Minister Frank Bainimarama called on Australia to increase its emission reduction efforts. While Pacific neighbours are

²¹ AAP (2019) *Australia increased pollution under Kyoto* <https://www.sbs.com.au/news/australia-increased-pollution-under-kyoto>

²² Hannam (2018) *New Zealand rules out using 'Kyoto credits' for Paris, Australia shtum* <https://www.smh.com.au/environment/climate-change/new-zealand-rules-out-using-kyoto-credits-for-paris-australia-shtum-20181211-p50llv.html>

²³ Sweden, Denmark, Germany, Netherlands and UK (2015) *Five EU Member States decide to cancel surplus of Kyoto Protocol units – Joint Press Release* <https://www.regeringen.se/artiklar/2015/12/five-eu-member-states-decide-to-cancel-surplus-of-kyoto-protocol-units/>

²⁴ Ibid

²⁵ Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (2019) *Correspondence with The Australia Institute*

usually restrained in criticising individual countries efforts, their patience with Australia appears to be wearing thin. Following his speech, Prime Minister Bainimarama admitted:

I was no shining example of traditional Pacific politeness when I'm speaking for people whose homes and livelihoods are destroyed by rising seas. I don't have time to be quaint or cute... we have politicians next door [in Australia] saying we can't expect them to act on climate...²⁶

The opposition Australia will face in pursuing KP carry-over comes in the context of Australia's long history of "pursuing narrow self-interest with little regard for the environment or the diplomatic implications of demanding special [climate] concessions."²⁷ As far back as 1997, Sydney Morning Herald correspondent James Woodford observed:

The British Foreign Secretary, Robin Cook, was so sarcastic in his put-down of Australia's stance on greenhouse that almost the entire room burst into sniggers at the Federal Government's expense.²⁸

Further damaging Australia's international reputatiuon in this way will only make it harder for Australia to achieve other diplomatic goals.

Expensive mistake

If the KP credits are ruled out or unavailable, Australia will have to make good on its gap in emission reductions in another way. This will involve either rapid increases in emission reductions or purchasing international units. Short notice may leave Australia little option but to buy at least some units. This could be limited to KP credits from the just the first commitment period or the full amount (see Table 2). Either way, the cost could be substantial.

²⁶ Graue (2019) *Fiji's PM admits his lack of 'Pacific politeness' when speaking on climate change*
<https://www.abc.net.au/radio-australia/programs/pacificbeat/fiji-pm-admits-lack-of-pacific-politeness-on-climate-change/11109966>

²⁷ Hamilton (2007) *Scorcher: The Dirty Politics of Climate Change*

²⁸ Ibid

Table 2: Covering the gap

	First KP period	All KP credits
Volume of lost 'surplus'	128 Mt	367 Mt
2019 ACCU spot price²⁹	\$16.75 /t	\$16.75 / t
Total cost	\$2.1bn	\$6.1bn
Government's 2030 price³⁰	\$50 /t	\$50 /t
Total cost	\$6.4 bn	\$18.6 bn

At the current domestic market spot price for an Australia Carbon Credit Unit (ACCU) offsetting the first KP period would cost \$2.1 billion and offsetting all KP credits would cost over \$6 billion dollars.

The price of carbon credits (both domestic and international) will likely rise over the next decade. Assuming the government will have to cover the gap in 2030, at the end of the first commitment period of the Paris Agreement the price could be higher. The government has referred to a 2030 market price of \$50 per tonne,³¹ putting the cost of covering all KP carry-over units at over \$18 billion.

Conclusion

The majority of Australians recognise climate change is an emergency and the country needs to mobilise with the same cooperation and commitment as a war effort.³² Instead, the Government is proceeding with a plan of action that is unethical, undermines environmental outcomes, and will damage Australia's diplomatic standing.

In addition, relying on the KP carryover could cost over \$18 billion. Instead of taking such a reckless and expensive gamble the government should present credible policies to reduce emissions, as desired by most Australians.

²⁹ Demand Manager (2019) *Latest Spot Trades at 8 May 2019*

<http://www.demandmanager.com.au/certificate-prices/>

³⁰ Benson (2019) *Revealed: Shorten's carbon costs to hit \$25bn*

<https://www.theaustralian.com.au/nation/politics/revealed-shortens-carbon-costs-to-hit-25bn/news-story/85f53340ee869086102effda0eea200f>

³¹ Benson (2019) *Revealed: Shorten's carbon costs to hit \$25bn*

<https://www.theaustralian.com.au/nation/politics/revealed-shortens-carbon-costs-to-hit-25bn/news-story/85f53340ee869086102effda0eea200f>

³² Merzian (2019) *Poll: North/South Divide on Climate Action Exposed as Political Myth*

<http://www.tai.org.au/content/poll-northsouth-divide-climate-action-exposed-political-myth>