

## The Paris climate agreement and implications for Australia

December 2015

### Summary

The Paris agreement, while not perfect, will continue to drive the momentum to modernise and clean up economies. Clean energy in the power sector, already outstripping fossil fuel investments, is now set to become the dominant source of electricity around the world.

Over the last decade or more, momentum has been building in the real world, as more and more governments take steps to limit pollution and build new clean industries, and more investors start recognising and accounting for climate-induced financial risk. Paris marked this trend with many governments, businesses, investors and financial regulators taking additional steps to address climate change.

Five key elements of the historic Paris agreement:

**1 Stronger than expected global warming goals** not just to keep warming well below 2°C above pre-industrial levels, but also to pursue efforts to keep warming to 1.5°C, half a degree above current warming.

**2 A universal and durable agreement requiring actions from all countries**, and spanning decades, unlike previous agreements which needed to be renegotiated regularly.

**3 Bankable signals to investors** that policies will continually ratchet up, with five yearly reviews, to achieve net zero emissions through time.

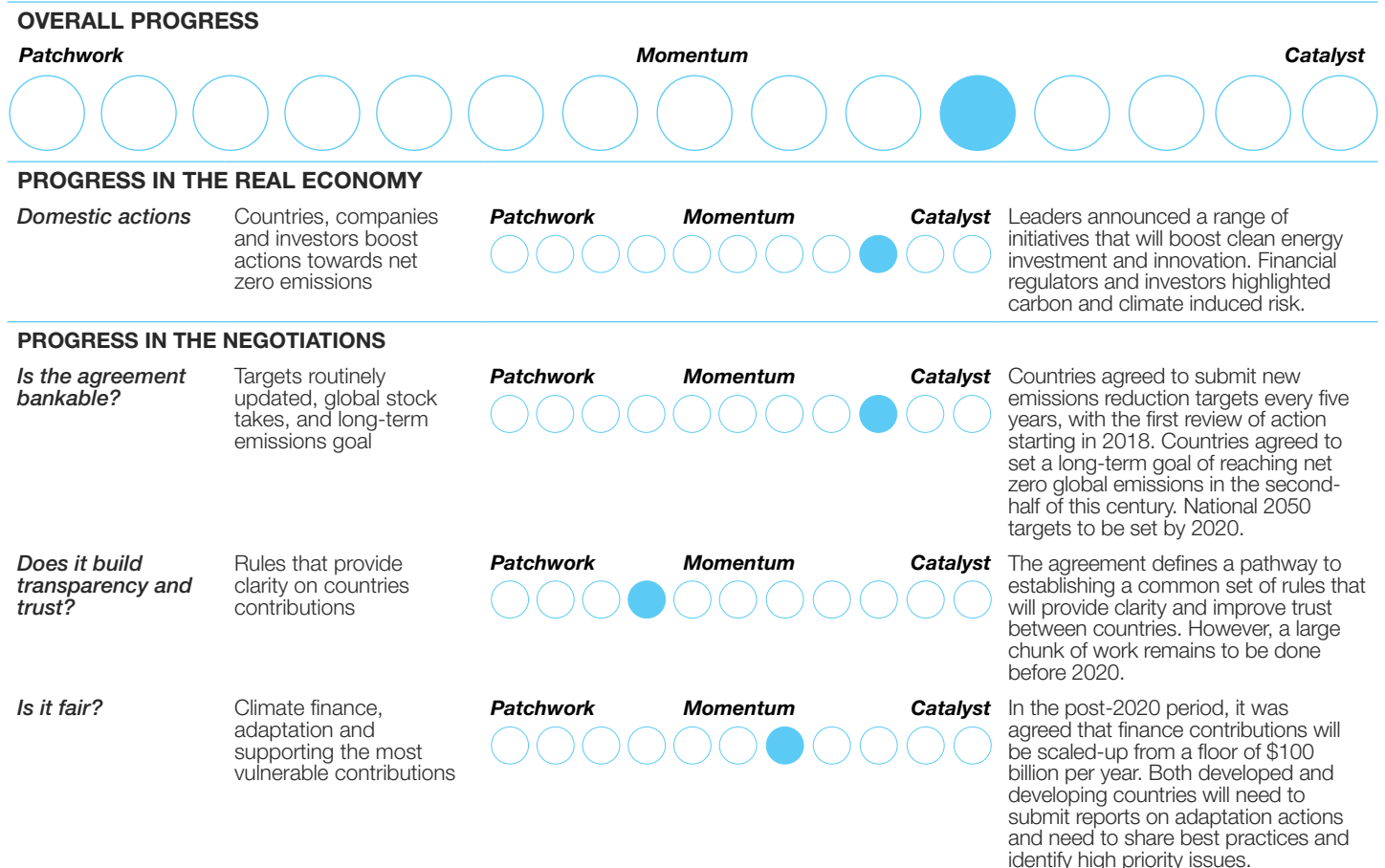
**4 A pathway to proper transparency and accountability** with work to do over the next four years.

**5 Support for the vulnerable and poor nations** to be scaled up after 2025 from a floor of US\$100 billion.

The Paris agreement marks a critical point for Australian climate policy.

The government has recognised the need to work towards net zero emissions where: greenhouse gas emissions are balanced against natural and industrial processes of removing pollution from the air. The rest of the world is now accelerating down this path.

Figure 1: Summary of progress at the Paris Climate Summit, mapped against scenarios outlined in our pre-Paris Policy Brief.



Crucially, the government joined the “High Ambition Coalition”, which championed the 1.5°C goal, but its targets and policies are more aligned to global warming of 3-4°C. Our 2030 targets would still leave us as the highest per capita polluter in the developed world – alongside just Saudi Arabia in the G20.

The government played a mostly constructive role in the negotiations. However, in order to maintain international credibility and take effective climate action, there are four immediate steps the Australian government should now take:

- 1 Improve initial post-2020 pollution reduction target and commit to net zero emissions before 2050;**
- 2 Expand domestic policies and, in particular, have a plan to replace existing coal fired power plants;**
- 3 Increase “climate finance” investment to assist vulnerable countries; and**
- 4 Cancel our “Kyoto carry over” of surplus carbon credits.**

The government has always said they will revisit their policies in the light of global action.<sup>1</sup> The sooner this is done the better. The time for piecemeal, unstable and short-term policy is over. Australia’s current suite of climate policies and those under consideration will not drive the modernisation needed to clean up our economy, let alone meet our international commitments. This needs to change.

### More announcement than you can poke a stick at

The Paris climate summit took place against the backdrop of a world where all major emitters are taking steps to limit emissions and boost clean energy investment. Renewable energy is now the second biggest source of electricity worldwide and, with the initial commitments to action made in advance of Paris, it will be the biggest source in the 2030s.<sup>2</sup>

Nearly all governments are committing to reducing emissions. By the end of the summit, 185 countries representing nearly 98 per cent of global emissions,<sup>3</sup> had submitted intended post-2020 emissions reduction targets. This would not have been possible without Paris summit, which drove international action forward.

Paris was also an opportunity for countries to up their commitment to low-carbon development pathways.

India launched an international solar alliance of more than 120 countries, aiming to bring government, industry and research institutions together to rapidly increase investment in solar power generation. The African Union and African Development Bank jointly pledged to double the whole continent’s electricity generation capacity to 300GW by 2030, using only renewable energy sources. This is around six times Australia’s entire generation. Australia joined 19 other countries, including the US and China, in an innovation investment program called ‘Mission Innovation’, pledging to double its investment in clean energy research and development by 2020.

At a sub national level, nearly 1,000 cities and councils came together in Paris to sign their own declaration. The Paris City Hall Declaration pledges to meet and exceed

the expectations put forward by the Paris agreement and sets a target of reaching 100 per cent renewable energy, or an 80 per cent emissions reduction by 2050.<sup>4</sup> With its commitment to achieve net zero emissions by 2050, South Australia became the first Australian state to sign on to the “Under 2 MOU”.

Major announcements also came from the financial sector in Paris. Mark Carney, the Governor of the Bank of England and Chair of the G20’s Financial Stability Board, the world’s core prudential finance regulators, announced a new global taskforce aimed at highlighting the financial exposure of companies to the risk of climate change. The taskforce will be led by former New York City Mayor, Michael Bloomberg.

### Australia in Paris

Australia was mostly constructive in the Paris negotiations. It supported keeping global warming well below 2°C, and to pursue efforts to limit the temperature increase to 1.5°C, and placed a high focus on the extremely important aspect of regular five yearly reviews.

Australia made a number of announcements. The headlines were announced by the Prime Minister on the first day of the meeting, highlighting the need to achieve net zero emissions. The government also announced that Australia will become a member of the 20-country ‘Mission Innovation’ initiative, will ratify the second commitment period of the Kyoto Protocol and contribute at least \$1 billion over five years to help the world’s poorest nations participate in climate change solutions. These were positive early steps.

However, Australia’s climate finance contribution falls short of our commitment to scale up contributions towards the collective goal of US\$100bn by 2020 reinforced in the Paris agreement. It also matches our annual contributions from 2010-13, while other countries like Canada, Germany and the UK are at least doubling support.

Australia disappointingly did not sign on to a fossil fuel subsidy communique being promoted by New Zealand. They refused to do so expressing concern about the communique’s recognition of the need to include public health, as well as other social and environmental costs, when analysing fossil fuel subsidies. This is known as the “social cost of carbon” and is applied by the International Monetary Fund, UK and US in decision making.<sup>5</sup>

Australia also announced its support for other rainforest, savannah and “blue carbon” (mangrove, sea grass, etc.) initiatives which are important natural sinks for greenhouse gas emissions. Like our woodlands, in which land clearing is once again escalating in Queensland, they can also be sources of greenhouse gas emissions if they are destroyed or poorly managed.

Australia joined the High Ambition Coalition of nations spanning Pacific Islands, African nations, Brazil, Europe and the U.S. While not a formal negotiating bloc, this Coalition, led by the Marshall Islands’ Foreign Minister Tony de Brum, provided crucial momentum and ballast against those seeking to obstruct progress.

## Paris outcomes

### Stronger than expected global warming goals

Countries agreed to not only keep the previously agreed less than 2°C goal in sight, but also to pursue avenues to keep warming below 1.5°C. This is a safer limit for low lying islands and other highly vulnerable countries. Countries will need to show how their target is a fair contribution to meeting the 1.5-2°C goal.

All countries agreed on aiming to reach global peak greenhouse gas emissions as soon as possible, and to undertake rapid reductions thereafter, in accordance with best available science. They recognised the need for net zero emissions, but didn't use that exact term. Rather they agreed to: "achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century".<sup>6</sup>

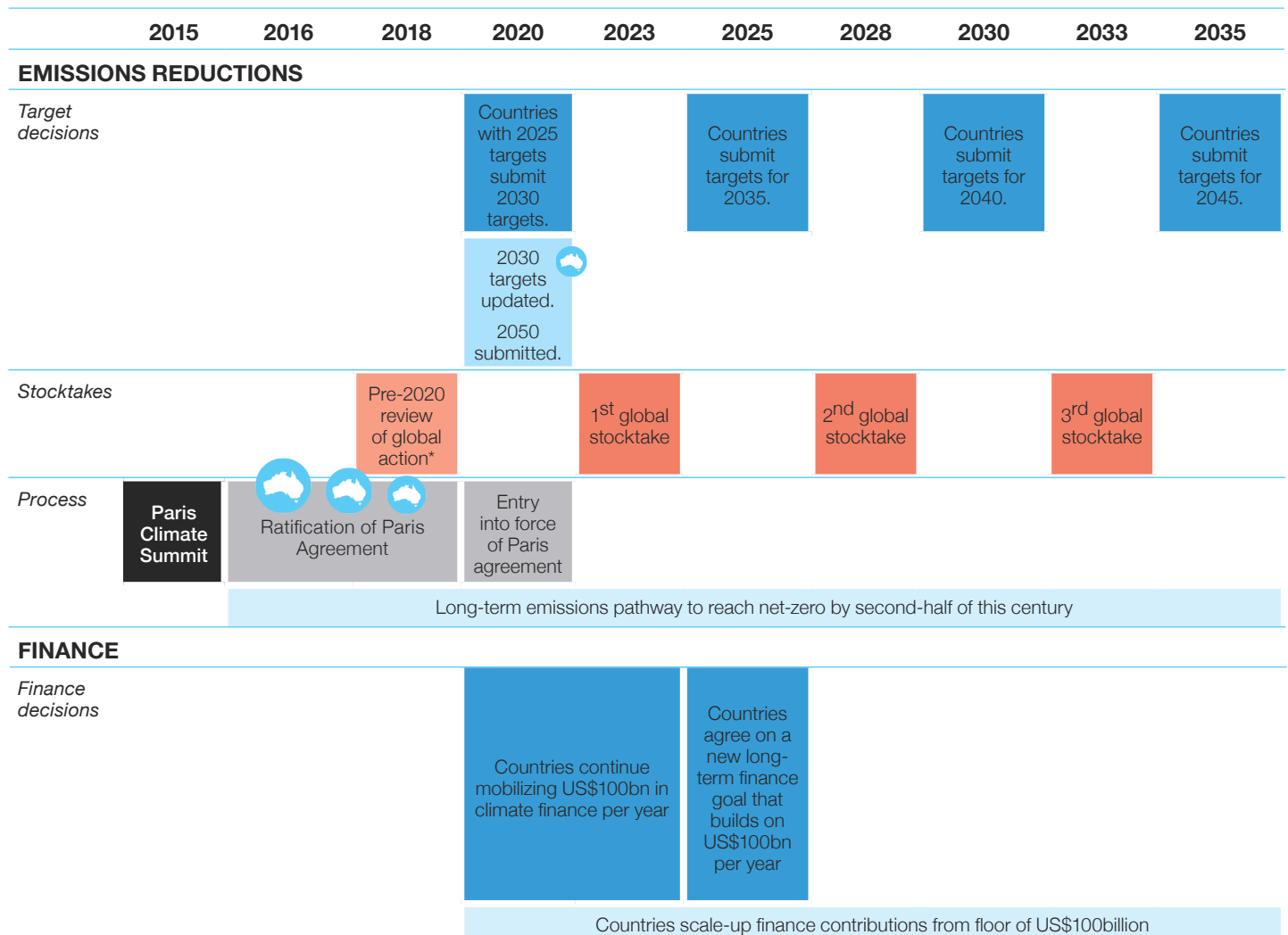
Yet science suggests that all greenhouse gases would need to be at net zero by 2050 to have a chance at avoiding 1.5°C warming. To have a chance of avoiding 2°C, we would need to be at net zero between 2060 and 2070. Carbon dioxide (CO<sub>2</sub>) emissions from energy and industry, which last longer in the atmosphere, would need to be at zero earlier than other gases.

### A universal and durable agreement requiring actions from all countries

Key elements of the agreement include its durability and processes of review. The Paris Agreement will be more than a one-off deal - all countries have agreed to an enduring regime that ramps up action over decades. This contrasts with previous agreements that had to be renegotiated every decade or so.

The agreement sets up a five yearly 'stocktake' of global progress, which will inform the submission of stronger commitments countries will make every five years, as demonstrated in Figure 2. Each updated target must be a progression of action over the last one, and reflect each country's best efforts. Countries have also been invited to develop long-term national emissions targets for 2050, by 2020, so that business and communities have a clear pathway for planning.

Figure 2: Review cycles for emissions reductions and finance under the Paris agreement.



Indicates declining formal opportunities for Australia to announce more credible post-2020 emissions reductions targets.

\* Review will take place before the new agreement comes into force, and is called a "facilitative dialogues" instead of a stocktakes.





The agreement has: stronger than expected warming goals; effectively, a net zero emissions target; regular five yearly reviews; and commitments to scale up and review climate finance investments. This means there are clear signals to business and investors that domestic policies will need to strengthen over time. The transparency and accountability framework is not fully developed, but there is a pathway for these to be established before 2020 when the agreement starts.

As such, the outcome, while not perfect, will more than boost pre-existing momentum and can help catalyse the climate action needed.

The international politics of climate change are catching up with the real-world, where we have seen significant shifts in domestic policies, investment choices, and community opinion over recent years. Transformation is already occurring and Paris has confirmed the direction of travel out of traditional fossil fuels and into clean energy sources. The agreement will further galvanise investors and industry around the growing opportunities of a clean economy.

### Next steps

The international process will continue in 2016. Countries will work to put all the details in place so that the Paris agreement can come into force in or before 2020. For example, a capacity building committee will operate over the next few years to help developing countries build the knowledge and technological skills necessary to meet their current and future targets and adaptation needs. A workplan has also been put in place to develop the rules and procedures that will keep countries accountable to their contributions.

A global agreement on climate change facilitates the transition to a net zero carbon economy and helps countries work more collaboratively. But it is effective domestic policies that will keep global warming well below 2°C.

### What this means for Australia

The Paris agreement marks a critical point for Australian climate policy. The government has agreed to scale up action towards net zero emissions and the rest of the world is accelerating down this path. The time for piecemeal, unstable and short-term policy is over. The real work for Australia starts now. While international agreements can mark and drive momentum, it is domestic actions taken by governments that will reduce emissions.

Australia needs to:

- 1 **Improve initial post-2020 pollution reduction target and commit to net zero emissions before 2050;**
- 2 **Expand domestic policies and, in particular, have a plan to replace existing coal fired power plants;**
- 3 **Increase “climate finance” investment to assist vulnerable countries; and**
- 4 **Cancel our “Kyoto carry over” of surplus carbon credits.**

### Time to scale up our national target

Australia’s current post-2020 target will not see us pulling our weight towards limiting warming to below 1.5-2°C and does little to bring Australia in line with other developed countries.<sup>8</sup> If other countries followed Australia’s lead, the world would warm by 3-4°C. Meeting the government’s 2030 target could see our per capita emissions fall to 16 tonnes - still much higher than other developed countries, and the highest of any G20 country other than Saudi Arabia.<sup>9</sup> We would also have the most pollution intensive economy of any developed nation.

While there is acknowledgement of the need for a net zero emissions economy, some in government suggest this target should be “by the end of the century”. As noted above, for the new warming goals to be taken seriously, this needs to be achieved around mid-century. The government has accepted the need for developed countries to show leadership, and it is clear that to do our bit towards these global goals, Australia should reach net zero emissions well before 2050.

The longer we delay setting a credible target, the greater the risk that we will need to take more draconian action at a later date to keep up with global action. Failure to deliver on the details and spirit of the Paris agreement to scale up action will also see Australia face an increasingly negative reaction from other countries in both climate change and other international fora.

Australia should:

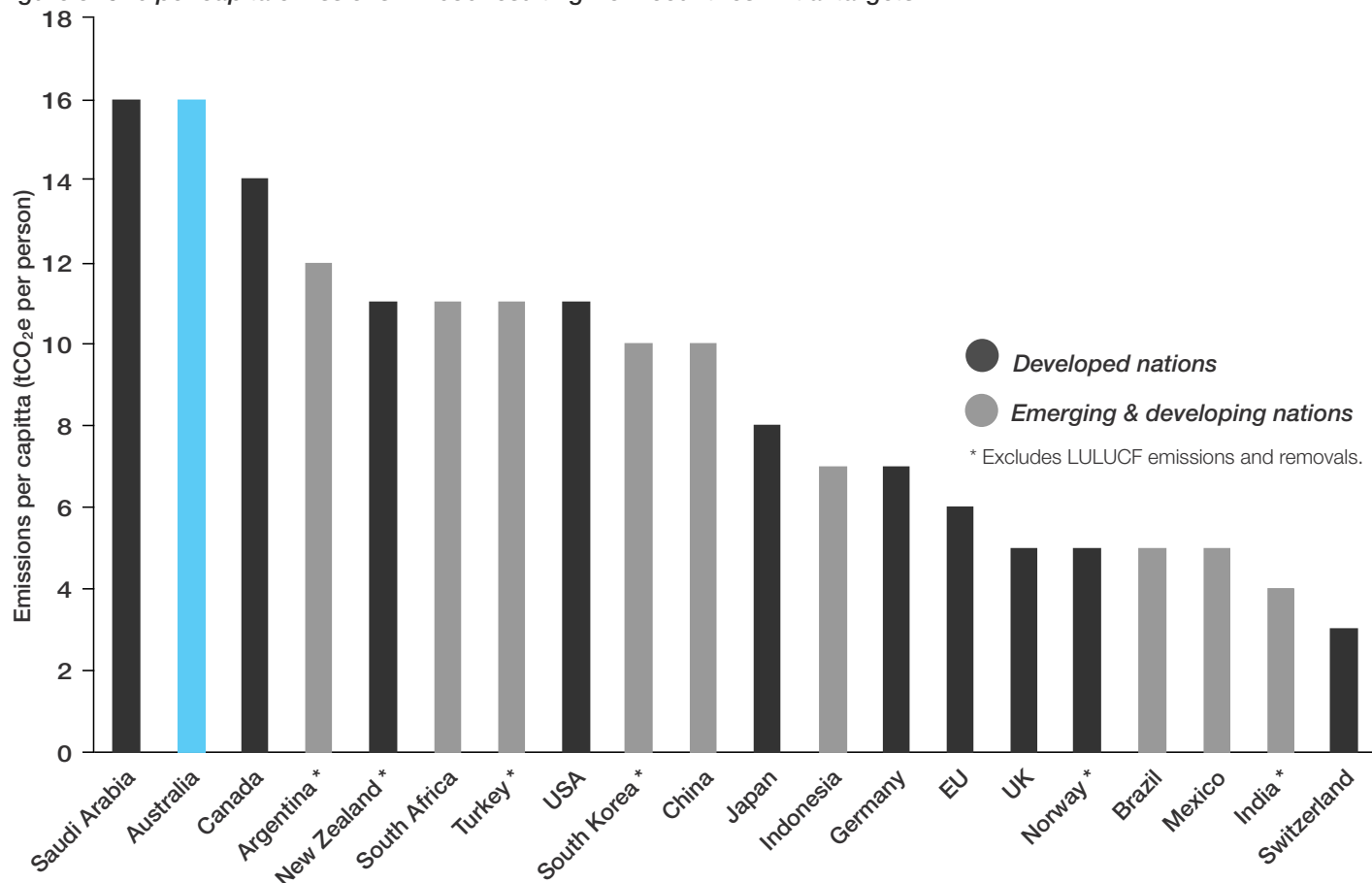
- + **Update its target to one that is consistent with limiting warming to less than 1.5-2°C** when it ratifies the Paris agreement. This would require emissions reductions of around 65 per cent below 2005 levels by 2030.
- + **Establish a long-term emissions reduction target of net zero emissions before 2050.** The combination of shorter-term targets and longer-term goals provides the community, including business, with a greater level of information and confidence in Australia’s transition to a net zero emissions economy. This can better facilitate long-term decision-making and investment. The government has indicated it will develop a long-term target as part of its 2017-18 domestic policy review.

### Implement scalable, durable and effective domestic policies

Australia’s current suite of climate policies will not modernise our economy, or meet our international commitments going forward. This needs to change. Our current initiatives do not put us on a path to meet our current inadequate 2030 pollution reduction target, let alone meet future targets that improve progressively. For example, the recent auctions under the Emissions Reduction Fund have achieved 2 per cent of the required reductions to do our bit in a less than 2°C world.

The Prime Minister has stated we need to achieve net zero emissions. This is the key benchmark to judge domestic policy settings against. The challenge is not just to achieve certain percentage reductions but to establish a prosperous zero carbon economy.

Figure 3: G20 per capita emissions in 2030 resulting from countries' initial targets.



Recently, the government has begun working to establish regulations to phase down super greenhouse gases used primarily in refrigeration (HFCs). It has also established a ministerial process to develop the “world’s best” vehicle standards. These are welcome, but insufficient steps.

An essential element of achieving net zero emissions is the decarbonisation of the electricity sector before 2050. This requires both a phase out of high carbon coal-fired generators, and a phase in of renewable or near zero carbon power. The Climate Institute recommends that the government implement a regulated and planned phase out of coal generators consistent with a near zero emission electricity system, starting no later than 2020, ideally before.

### Do our bit to support vulnerable nations

Improving resilience to climate impacts should be central to Australia’s aid program. It is in our national interest. Without climate resilience, Australia will increasingly be called to clean up and support countries after they suffer growing climate change impacts. The current contribution of \$200 million a year, while a welcome first step, falls well short of what other countries are putting on the table. To play our part towards the agreed US\$100 billion goal, by 2020 Australia should be contributing ~\$1.5 billion a year.

Contributions can be made through the Green Climate Fund or by way of bilateral agreements. The government should prioritise the unique challenges of least developed countries and small island developing states. This will need to be scaled up through time. It highlights the need for the government to develop innovative and sustainable funding sources, as well as the need to leverage more private sector investment for zero carbon development and resilience projects in developing countries.

### Cancel the Kyoto carry over

The agreement calls on countries to voluntarily cancel any emissions credits that have accumulated under the first period of the Kyoto Protocol rather than carry them over to help meet 2020 targets. These credits were generated because we over-achieved on our weak 2008-2012 pollution increase target. A number of countries like Germany and the United Kingdom have cancelled their carry over units so they can boost ambition before 2020 and focus their efforts on modernising their economies. Australia should too.

### Endnotes

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- 2 International Energy Agency (2014) 'World Energy Investment Outlook', OECD/IEA, Paris.
- 3 World Resources Institute (2014), CAIT Climate Analysis Indicators Tool: WRI's Climate Data Explorer, WRI, Washington, D.C.
- 4 Cities for Climate (2015), 'Paris City Hall Declaration: A decisive contribution to COP21', December 4, [http://www.uclg.org/sites/default/files/climate\\_summit\\_final\\_declaration.pdf](http://www.uclg.org/sites/default/files/climate_summit_final_declaration.pdf).
- 5 The Climate Institute (2014), 'Counting all of the costs: recognising the carbon subsidy to polluting energy', [http://www.climateinstitute.org.au/verve/resources/TCISocialCostOfCarbon\\_PolicyBrief\\_September2014.pdf](http://www.climateinstitute.org.au/verve/resources/TCISocialCostOfCarbon_PolicyBrief_September2014.pdf).
- 6 UNFCCC (2015), 'Adoption of the Paris Agreement', Draft decision -/CP.21, <http://unfccc.int/resource/docs/2015/cop21/eng/l09.pdf>.
- 7 The Climate Institute (2015), 'Paris Climate Summit: Catalyst for further action?', [http://www.climateinstitute.org.au/verve/resources/Paris\\_Policy\\_Brief\\_Final.pdf](http://www.climateinstitute.org.au/verve/resources/Paris_Policy_Brief_Final.pdf).
- 8 The Climate Institute (2015) '2030 emissions reduction targets compared', <http://www.climateinstitute.org.au/verve/resources/2030--Emissions-Targets-Compared-Factsheet.pdf>.
- 9 Ibid.