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KYOTO PROTOCOL AND IMPLICATIONS FOR AUSTRALIA

The United Nations Framework Convention on Climate Change (FCCC) arose from increasing international concern about the implications of climate change and a recognition that no one country can solve this global environmental problem alone. Australia signed the FCCC in June 1992 and ratified it in December 1992. The ultimate objective of the FCCC is to achieve stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous human-induced interference with the climate system.

The 1997 Kyoto Protocol to the Framework Convention on Climate Change extends the commitments of the FCCC and sets targets for reductions in future greenhouse gas emissions by each developed country. Australia has yet to ratify the agreement.

Developed countries, as a whole, will reduce their greenhouse gas emissions by at least five per cent by 2008-2012. Each country has a specific, differentiated target in recognition of their different economic circumstances and differing capacities to make emissions reductions. Countries such as Australia, Iceland and Norway will be entitled to increase their emissions from the 1990 baseline, although they will still be required to take substantive action to reduce emissions from their business as usual projected growth.

Australia's requirement is to limit the growth of our greenhouse gas emissions to 8% above 1990 levels in the period 2008-2012. Australia's target reflects unique features of our economy. Australia specialises in the production of energy and greenhouse intensive goods - more than 80% of our exports are greenhouse gas intensive. For example, Australia is a significant supplier of aluminium, high quality steel and agricultural products. In a sense Australia emits greenhouse gases on behalf of the countries that import these goods. Australia uses no nuclear power and little hydroelectric power and has a high level of population growth which will lead to a growth in energy demand.

Australia is unique in having over 20% of its greenhouse gas emissions attributed to land clearing activities.

Key features of the Kyoto Protocol

The Kyoto Protocol does not stipulate domestic actions by signatories and contains a number of 'flexibility mechanisms' for reducing greenhouse gas emissions.

It provides for the trading of emissions entitlements, thus enabling countries to buy emissions credits from other countries where emissions reductions can be made at low cost.

Through the establishment of a Clean Development Mechanism (CDM), developed countries can implement cooperative projects in developing countries to reduce greenhouse gas emissions and will be able to use the certified emission reductions achieved by such projects in meeting their emission target.

The Protocol's Joint Implementation mechanism allows a developed country to undertake project-based abatement action in another developed country, with a view to earning emission reduction credits that can count against its emissions target.

1998 National Greenhouse Gas Inventory

The 1998 National Greenhouse Gas Inventory 1998 showed that Australia's net greenhouse gas emissions for 1998, not including emissions from land clearing, had increased by 16.9% in the period 1990 to 1998. It is

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important to note that the National Greenhouse Gas Inventory results do not equate to the Kyoto Protocol accounting requirements. If the current best estimate of land clearing emissions is taken into account, Australia's emissions are estimated to have increased by 5.4% between 1990 and 1998. This nevertheless shows that Australia has a difficult task ahead.

The biggest contributor to emissions was the energy sector at 79.6% of emissions. The industrial processes sector and waste sectors are minor sources of emissions, contributing 2.2% and 3.4% of net emissions respectively. Industrial processes emissions increased 11.3% between 1997 and 1998, however 1998 levels were 18.4% less than 1990 levels, due largely to improvements in the aluminium sector. It should be recognised that energy used in industrial processes is reported under the stationary energy sector.

Where to from here?

While the Kyoto Protocol was agreed by countries at the Third Conference of Parties in December 1997 it is still to enter into force. Negotiations on a range of outstanding issues will continue at a meeting of the Conference of Parties in November 2000 at The Hague.

Of major concern to Australian industry is the fact that the Kyoto Protocol does not address the key issue of commitments by developing countries to reduce their emissions. Developing countries, especially major emitters like China and India, need to be involved in the global effort. Without their involvement, efforts by developed countries will be ineffective.

In addition, there are a number of technical and implementation issues related to the Protocol, such as arrangements for emissions trading, that require further consideration and negotiation.

The Australian Industry Group has welcomed the Federal Government's recent announcement that in meeting our international greenhouse obligations it recognises the imperative of maintaining industry's international competitiveness. In giving this guarantee the Government is adopting a sound and practical approach to greenhouse issues.

Ai Group has been calling for the development of a comprehensive greenhouse policy framework to address industry's needs for a greater level of policy certainty. Such a framework must balance the objective of Australia assuming a fair share of the burden to reduce greenhouse gas emissions with the imperatives of ensuring that:

- Jobs are not sacrificed
- The competitiveness of efficient industries is maintained
- Attention is paid to the social cost of adjustment, and

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- Policy responses are flexible and equitable across all sectors of the economy.

It is further essential that companies taking early action to reduce greenhouse gas emissions are not disadvantaged. Ai Group therefore welcomed the announcement that "the Government will take great care to avoid greenhouse policies and measures that disadvantage those companies which had moved early in undertaking emission abatement actions".

Ai Group also supports the Government's commitment to seek agreement in international negotiations on the implementation of flexibility mechanisms which promote least cost outcomes for industry and the economy, and resolution of uncertainties relating to greenhouse sinks. The Government's assurance that it will not unilaterally implement a mandatory domestic emissions trading scheme is also welcomed.

Ai Group argues that Australia must not ratify the Kyoto protocol in the absence of:

- satisfactory progress in negotiation on emissions trading
- ratification by major developed countries including the USA, and
- commitments by developing countries to reduce greenhouse gas emissions.