



DCC-IN-CONFIDENCE
BRIEF

Minister Wong: Information

Brief No: B10/59
Division/Agency: ETD
Public Affairs: No

SUMMARY OF THE ABATEMENT POTENTIAL, COST AND EMISSIONS IN 2020 OF THE OPPOSITION CLIMATE CHANGE POLICY

Timing: 3 February 2010

Recommendation	Approved/Noted
1. That you note this brief.	Yes / No
Minister's signature:	Date:

Your Office requested a summary brief on the Opposition's recently released climate change policy which includes analysis of emissions in 2020 under the proposed policy.

The overall Emissions Reduction Fund is the key vehicle for providing abatement. Our analysis shows that estimates of abatement for this measure are subject to very large margins of uncertainty over both cost and abatement with the amounts and costs claimed by the Opposition very difficult to support on the basis of relevant experience.

Notwithstanding this, the takeaway point is that we do not believe that it is realistic to expect any more than around 40 million tonnes of abatement in 2020 using this mechanism if the scheme is capped at \$1.2 billion on average. In other words, we believe that proposed scheme would deliver less than a third of the required abatement for the 5 per cent target at the proposed funding level. The result of this would be that emissions in 2020 would be 13 per cent above 2000 levels if no other policies were put in place.

- This conclusion holds, even if currently non-Kyoto compliant abatement, such as soil carbon, is included.
 - Australia's potential to permanently increase soil carbon levels is highly uncertain due to low rainfall and variable climate and there is no evidence that the inclusion of soil carbon would reduce abatement costs below those assumed in the estimates provided.
 - There are some potentially low-cost soil-carbon opportunities through changed management in crop systems. However, these represent less than 10 per cent of the feasible abatement identified by the Department of Climate Change. Remaining potential sources are more uncertain and would require more costly management action by farmers.

We believe, given the history of similar programs, that there would be a high likelihood that even this level of abatement would not be achieved.

DCC-IN-CONFIDENCE

- This estimate is based on the experience of the Greenhouse Gas Abatement Scheme (GGAS) taking a deliberately optimistic view of the capacity to scale up the scheme to greater levels of ambition (noting that the current estimate of GGAS abatement is under 5 million tonnes per year over the Kyoto period). We have scaled the current implicit carbon cost of GGAS for inflation to arrive at a conservative effective estimated purchase price of \$50 per tonne in 2020.
- It is also supported by analysis based on McKinsey data and a reality check against estimates in the DCC projections and the Treasury modelling. Past economic modelling of domestic action has suggested that, without use of international permits, Australian carbon prices would be significantly higher than the price we have used in calculations. Hence we are confident the above analysis is conservative.

Given the lack of information in the Opposition documentation we have had to make an assumption regarding the profile of the ramp up of the program for the last five years of the scheme. We have assumed that program increases by equal amounts over the five years in a manner consistent with the average cost that the Opposition reports. The implication of this is that the program costs \$2.08 billion in 2019-20.

The Emissions Reduction Fund is far more complex than has been implied by the Opposition, and certainly more difficult to implement than the CPRS.

Consultation

- APB, SCD, ALMD, Treasury (on broad assessment of policy mechanism and translation of household impacts)

Blair Comley
Deputy Secretary
(02) 6159 7102
3 February 2010

Cc: Office of the Minister Assisting, Mr Bamsey, Mr Carruthers, Ms Thompson,
Mr Hatfield-Dodds, Mr Sakellaris, Ms Wilkinson, Ms Harris, Ms Rowley, Mr Raether

Emissions projected to rise with Opposition package

