

Direct Action Safeguards: tapas, not the main course?

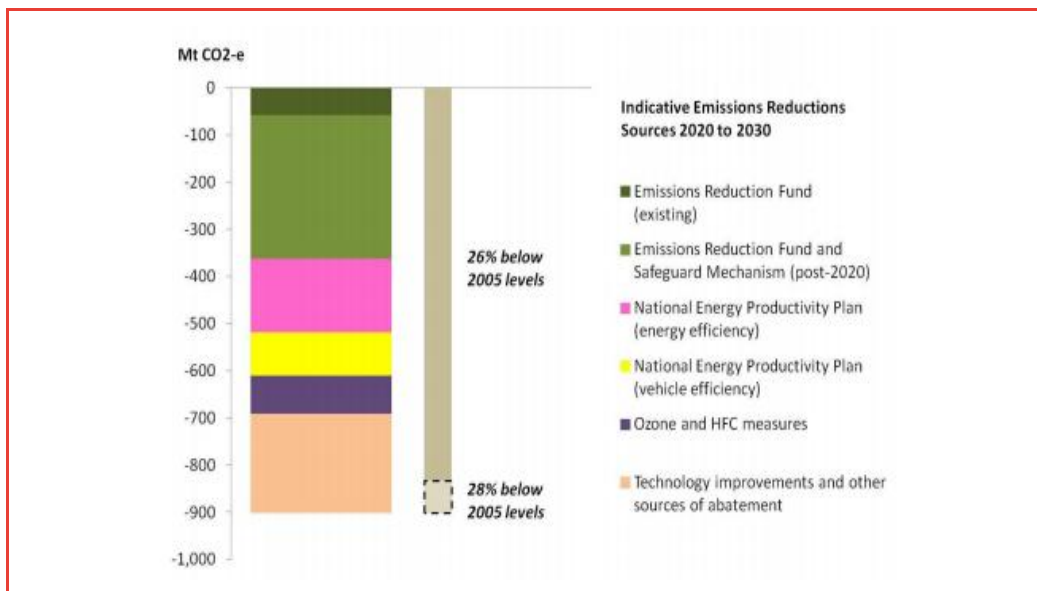
ACHIEVING AUSTRALIA'S PROPOSED EMISSIONS TARGETS

In August 2015, the Australian Government proposed a CO₂ emissions target of a 26%-28% reduction on 2005 emissions levels by 2030. More recently, the Government released draft details around the Direct Action Safeguards Mechanism. Because many expect that Direct Action is the main course to meeting Australia's appetite for abatement, some were disappointed when the Safeguards Mechanism was served up and fear we will struggle to meet our emissions targets by 2030. However, it seems that the Government only intends the Safeguards (and Direct Action) to be a tapas dish with several more policy dishes still to be served, each contributing to meeting our 2030 abatement challenge. And after all these domestic abatement policy dishes are served, even if it still looks like Australia may go hungry (not meet our future emissions targets) the potential to recognise international abatement credits could potentially loom as the kebab at the end of the night.

THE TARGET

In August 2015 the Australian Government proposed a CO₂ emissions target of a 26%-28% reduction on 2005 emissions levels by 2030. Other than the announcement itself, perhaps the most significant chart presented as part of the announcement is shown in Figure 1.

Figure 1: How the Government intends to meet the proposed 2030 emissions target



Source: <http://www.environment.gov.au/system/files/resources/f52d7587-8103-49a3-aeb6-651885fa6095/files/summary-australias-2030-emissions-reduction-target.pdf>

WHAT DOES IT MEAN?

This chart reveals two important pieces of information.

Firstly, the implied cumulative abatement task (to meet the 26-28% target by 2030) is around half that which is implied by Australia's last Business as Usual (BaU) projections. BaU projections do not take into account policy impacts before or after 2020 — meaning that 2020 BaU emissions projections are higher than the existing 2020 target even though Australia is on track to meet the 2020 target. The chart reveals that the Government's planning is clearly based on the assumption that **existing policies** (pre-2020) will mean that Australia is on track to meet the **2020** target, which will lay the solid foundation for meeting the **2030** target.

Secondly, it confirms that the Government is not planning to rely solely on the Emissions Reduction Fund (ERF) to deliver all of the abatement required to 2030. On the basis of this diagram, the ERF (and Safeguard Mechanism) is expected to deliver around 35% of the cumulative abatement task while a suite of other policies are expected to contribute the remainder. This includes policies directed at energy productivity/efficiency and vehicle efficiency. On face value, this appears to address concerns raised by critics about the potential cost of achieving post-2020 abatement targets using the ERF alone.

THE SAFEGUARDS MECHANISM

In September 2015 the Government released draft details of the **Safeguards Mechanism**, which has disappointed some for not being stronger. Many are still expecting that Direct Action (including the ERF and Safeguards) is the main course, hence the importance placed on the role of the Safeguards. Arguably, the problem lies more with the Government's setting of expectations than the policy itself. As implied by the chart above, the Government appears to be of the view that Direct Action is not the main (only) course but more of a tapas dish, with several more policy dishes still to be served. In this context, a range of policies will contribute to Australia meeting our future emissions targets and until all of the plates are served up it is difficult to judge whether there will be enough on the table to meet our 2030 obligations. At this stage, Australia is certainly on track to meet the 2020 target with current policy settings. But until the other policy dishes (on energy/vehicle efficiency, for example) come out, it is difficult to say whether the Safeguards Mechanism is adequate. At this stage, it can only help to have more dishes on the table and open to scrutiny. Certainly more details around some of these policies would be helpful to provide investors with greater certainty and clarity in this area.

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Of course, even after all of the currently planned policies are served up, there will still be opportunities to reassess Australia's emissions trajectory between now and 2030 to determine whether we need to order more policies (or ramp up the existing policies). And at the very least, if the domestic abatement kitchen is closed by that stage, the possibility of recognising abatement permit imports from overseas could potentially be the kebab at the end of the night to ensure that Australia remains on track to meet our 2030 target.

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