AUSTRALIA AND THE KYOTO PROTOCOL: HOW THEY CAN BREATHE LIFE INTO THE SECOND COMMITMENT PERIOD

GLOBAL VOICES UNFCCC AUSTRALIAN YOUTH DELEGATION

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UNFCCC

The United Nations Framework Convention on Climate Change (or UNFCCC) is a global mechanism that aims to provide an intergovernmental platform to mitigate the effects of climate change globally. Membership is almost universal across the world with 194 countries listed as members of the UNFCCC.

The ultimate objective of the UNFCCC is to stabilise the level of greenhouse gas emissions in the Earth's atmosphere as to stop any major disruptions to the world's environments and ecosystems as a result of human induced interference with the climate system. It was established at the Rio Earth summit in 1992 in response to international concerns about climate change. Its establishment was a formal recognition that climate change was an issue that simply could not be resolved by individual nations; a coordinated response was required.

Member-states attend an annual 'Conference of Parties' (or COP) to assess the level of progress in mitigating the effects of climate change and establishing legally binding obligations for countries to reduce their emissions. In 2012, the main COP will be held in Qatar.

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Abstract

The first commitment period of the Kyoto Protocol will end on 31st of December 2012 and a second commitment period (2CP) of the Protocol is currently on the negotiating table. Australia has announced that they will sign up for the 2CP at COP18 in Doha, with a 5% reduction target to 2000 levels under certain conditions. This is the lowest reduction target in their target range based on international progress and is not ambitious enough for Australia to make substantial gains. Australia's economy will benefit significantly through an increase in ambition that is comparable to other countries acting internationally.

Introduction

At the 18th Conference of the Parties (COP18) in late 2012, Australia will announce their emission reduction target for the Second Commitment Period (2CP) of the Kyoto Protocol under the United Nations Framework Convention on Climate Change (UNFCCC). Last year's COP17 in Durban agreed that the Kyoto Protocol will be succeeded by a new global climate treaty under the Durban Platform for Enhanced Action. Countries must take the necessary steps to make the transition into the next agreement as effective as possible. In Doha, parties will discuss what action is to be taken with the surplus units from exceeded reduction targets in the first commitment period of the Kyoto Protocol. This report discusses the four possible options for the future of the surplus units and discusses their effectiveness towards reducing carbon emissions.

Background

The Kyoto Protocol is often seen as the first real steps towards the reduction of emissions associated with climate change through the adoption of legally binding reduction targets, systems for compliance and the Kyoto mechanisms, including the Clean Development Mechanism (CDM), Joint Implementation (JI) and Emissions Trading (ET). The first commitment period of the Kyoto Protocol had many benefits. Countries that took Kyoto targets in the first commitment period were able to reduce their carbon emissions more than countries that did not ratify the Kyoto Protocol and they also committed more financially on mitigation actions[1]. Countries who signed the Kyoto Protocol also had higher Environmental Production Efficiency Rankings because 'findings suggest that the NGs (national governments) that have ratified the Kyoto Protocol are more likely to be environmentally production efficient as compared to the NGs that have not ratified the treaty'[2]. In countries that signed the Kyoto Protocol, business firms were also more likely to release pollution disclosures; 'setting limits on GHG emissions suggest that Protocol may have encouraged firms to a certain extent to disclose more GHG-related information'[3]. The Protocol also set the policies and systems in place that will continually be strengthened by the UNFCCC. The symbolic importance of the Kyoto

[1] Kumazawa R. The effect of the Kyoto Protocol on carbon dioxide emissions. *Journal of Economics and Finance* [serial online]. January 2012;36(1):201-210. Available from: Health Business Elite, Ipswich, MA. Accessed November 17, 2012.
[2] Feroz E, Raab R, Ulleberg G, Alsharif K. Global warming and environmental production efficiency ranking of the Kyoto Protocol nations. *Journal of Economic Management*[serial online]. February 2009;90(2):1178-1183. Available from: Academic Search Complete, Ipswich, MA. Accessed November 17, 2012
[3] M Freedman and J Biggi, *Global Warming Disclosures: Impact of Kyoto Protocol Across Countries,* Journal of International Financial Management & Accounting; Spring2011, Vol. 22 Issue 1, p46-90, 45p 22 January 2011

Protocol's first commitment period should not be forgotten. It created relationships between developing and developed countries, made climate change a global issue and created public awareness at a domestic level.

Australia's former Prime Minister, Kevin Rudd, ratified the Kyoto Protocol on behalf of Australia on 12th December 2007 and it entered into force on 11th March 2008. Because of this, Australia has been and remains legally bound to maintain its national greenhouse gas emissions at (or below) 108 per cent of its 1990 emission levels for each year from 2008 to 2012 under the Kyoto Protocol. However, in 1997, Australia was able to negotiate an inclusion into the Kyoto Protocol which is often referred to as the 'Australia Clause'. The 'Australia Clause', is found in Article 3.7 of the Kyoto Protocol. Article 3.7 states that it 'allows Annex 1 nations for whom land use change and forestry represented a net emissions source in 1990 to include this amount in the 1990 national emissions inventory for the purposes of calculating their agreed target'[4]. Australia's fossil fuels were meant to rise by only 8 per cent according to its Kyoto Target. However, while they have risen much more significantly than that, Australia has still been able to meet its 8 per cent Kyoto target. Currently, Australia has the highest carbon emissions per capita and is the 15th country in the world by aggregate emissions[5].

In April 2012, Australia legislated the Clean Energy Act that implemented a domestic price on carbon.

Russia, Canada and Japan have already withdrawn from the Kyoto Protocol and New Zealand has announced they will not be signing on to a second commitment period. In addition to Australia, the EU, Switzerland and Norway have said they will commit to a 2CP. This means that it is likely that following COP18 in Doha, the Kyoto Protocol will continue with fewer countries involved in the second commitment period compared to the first. The agreements determined at COP18 will determine how effective the Kyoto Protocol will be prior to the transition into the next global treaty in 2020.

The Australian Labor government has stated its support for the Durban Platform. Prime Minister Julia Gillard described the Durban Platform as a 'remarkable step forward'[6]. Greg Hunt from the conservative Liberal Party has also said they would support the Kyoto Protocol 'our clear goal and intention is to be part of a further commitment period but of course we would need to see the final terms'[7]. This provides certainty to Australia's negotiating team. Currently Australia has a 5 per cent

[4] UNFCCC, *Kyoto Protocol to the United Nations Framework Convention on Climate Change,* Article 3.7, P.4 <http://unfccc.int/kyoto_protocol/items/2830.php>

[5] Christina Figueres*, Lowy Lecture Series: Global Action on Climate Change: How The World is Responding to the Challenge - Christina Figueres,* 24 October 2012, < http://www.lowyinstitute.org/events/lowy-lecture-series-global-action-climate-change-how-world-responding-challenge-christiana?fb_action_ids=4501127922366&fb_action_types=og.likes&fb_source=aggregation&fb_aggregation_id=288381481237582> accessed 5 November 2012

[6] *Gillard Hails Climate Deal,* Sydney Morning Herald [web page], <http://www.smh.com.au/environment/climate-change/gillard-hails-durban-climate-deal-20111212-1oquk.html>, 12 December 2011, accessed 22 October 2012

[7] D. Wroe, 'Coalition ready to back Kyoto 2', The Age [web page] (2012), <http://www.theage.com.au/opinion/political-news/coalition-ready-to-backkyoto-2-20120815-24938.html>, accessed 19 October 2012.

reduction target under 1990 levels. The government has stated that it would pledge between 5 and 25 per cent under the proposed global agreement[8].

Economic Gains of Increased Ambition for Australia

Carbon mechanisms like the CDM have created some increase in overall trade and ambition among countries. But the supply of excess carbon credits in the market is much bigger than the demand. The supply and demand needs to be balanced for the market to work effectively and thus ambition needs to be increased.[9] If the Kyoto Protocol is met by countries with increased ambition, this would work to balance the CDM and keep the cost effectiveness of mitigation actions low.

This increase in ambition is relatively inexpensive to achieve. At the moment, Australia has only proposed a reduction target of a range between 5 and 25 per cent depending on the outcomes of the negotiations. The WWF has stated that the government are likely to negotiate a weak target to reduce the immediate impact on the Australian economy and currently the government has proposed only 5 per cent[10]. The Climate Institute and the WWF both recommend a 25 per cent reduction target by 2020[11]. The WWF stated in their report 'If Australia does not move directly to a 25% target, the Government must ensure it does not rule out moving to this target at a later date'[12]. While a higher target may have a larger impact on Australia's economy in the short term, the economic implications for Australia with a 25 per cent reduction target would be minimal compared to a 5 per cent target. To achieve a target of 25 per cent, Australia would only need to reduce its GDP by a further 0.5 per cent than it would with a target of 5 per cent according to the Commonwealth Treasury who have projected that 'the Australian economy would grow by $426 billion instead of $435 billion over the period 2010-2020'[13]. In this scenario, it would only take 2 months to account for the extra $9 billion[14]. Ultimately, the sooner Australia proposed a more ambitious emissions reduction target, the less cost it will be for the country;

> 'the risk of moving too slowly on emissions abatement goes beyond missing out on future market opportunities. There is also a risk that Australia will be left stranded with a fossil fuel dependent economy as the rest of the world accelerates investments in cleaner alternatives. This risk was outlined by a recent study, which found that around 80% of the world's known fossil fuel reserves will need to be left in the ground if the international community is to achieve the cuts to global emissions required to keep global warming below 2°C'.[15]

In addition, the inevitable decline in fossil fuels globally and Australia's capacity to embrace a range of renewable technologies means this transition would also represent an investment. Northern and

[8] Department of Climate Change and Efficiency, *Fact Sheet: Australia's emission reduction targets,* < http://www.climatechange.gov.au/government/reduce/national-targets/factsheet.aspx> Accessed 2 November 2012
[9] High Level Panel on the CDM Policy Dialogue, *Climate Change, Carbon Markets and the CDM: A Call to Action,* September, 2012. P.23
[10] WWF, *Protecting the National Interest: Australia's Future Commitments under the Kyoto Protocol,* 28 August 2012
[11] WWF op. cit P1. and The Climate Institute, *Australia and the Future of the Kyoto Protocol,* March 2012 P.3
[12] WWF op cit P1
[13] Commonwealth Treasury (2011), *Strong Growth, Low Pollution: Modelling a carbon price*, <http://archive.treasury.gov.au/carbonpricemodelling/content/report.asp.> cited in WWF, op. cit., P.10
[14] ibid
[15] WWF, op.cit, P.10

central Australia are well suited for solar energy production, and the coastal regions for wind and hydro energy production[16]. Investing more in clean energy would reduce carbon emissions, create jobs and provide increased social awareness to green energy and climate change. Australia must strive to become the world leader in clean energy.

Coral reefs around the world and Australia's Great Barrier Reef are under threat. Globally, coral reef ecosystems are also an extremely valuable resource with 500 million people relying on them for their livelihood[17]. The Great Barrier Reef is one of the natural wonders of the world and is also one of the parts of Australia's eco system that is at a high risk from climate change. The reef is an Australian icon and one of Australia's biggest tourist attractions. A report from the Reef Research Centre estimates reef based tourism to be worth over $1 billion dollars per year, with 1.5 million tourists visiting the reef per year[18]. The reef is necessary for the continued existence of many of Australia's marine animals and contributes to Australia's fishing industry[19]. But a majority of the reef is under the threat of extinction:

> 'declines in productivity and reef-building capacity are already likely for many coastal reef areas on the central Great Barrier Reef; climate change left unmitigated could see them terminally degraded before 2050. Yet this outcome can still be avoided through a realistic combination of local and global management actions'[20].

The research also shows that increased ambition is needed globally to mitigate the destruction of the Great Barrier Reef[21]. Australia must act to ensure the survival of the Great Barrier Reef to protect a large portion of the tourism industry. Therefore, Australia should increase their initial reduction target of the second Kyoto Protocol to stimulate the CDM, make clean energy investments and save the Great Barrier Reef and its tourism industry. This will not only have climatic but economic benefits for Australia.

What Australia's target should be into the transition to the Durban agreement

According to Australia's Department of Climate Change and Energy Efficiency, 'Australia is working constructively in the UNFCCC towards a legally-binding global climate outcome that is effective, fair and efficient. Australia also takes an active role in the negotiations to advance and protect our national interests'[22]. To effectively reduce GHG emissions 'Substantial GHG-reduction targets need

[16] Yusaf T, Goh S, Borserio J. Potential of renewable energy alternatives in Australia. *Renewable and Sustainable Energy Reviews* [serial online]. June 2011;15(5):2214-2221. Available from: Academic Search Complete, Ipswich, MA. Accessed November 17, 2012.

[17] Wilkinson, C 'Status of Coral Reefs of the World:'. *Australian Institute of Marine Science*. Townsville, 2004 Volume 1, pp.301

[18] Reef Research Centre, *People on the Reef,* <http://www.reef.crc.org.au/discover/people/facts_people.htm> accessed November 15 2012

[19] ibid

[20] Wooldridge S, Done T, Thomas C, Gordon I, Marshall P, Jones R. Safeguarding coastal coral communities on the central Great Barrier Reef (Australia) against climate change: realizable local and global actions. *Climatic Change* [serial online]. June 2012;112(3/4):945-961. Available from: Academic Search Complete, Ipswich, MA. Accessed November 14, 2012.

[21] ibid

[22] Department of Climate Change and Energy Efficiency, *Shaping a global solution*, <http://www.climatechange.gov.au/government/international.aspx> accessed 5 November 2012

to be defined on the global level'[23]. The proposed international agreement is worldwide, so it is in Australia's and the World's interest to maximise the effectiveness of the negotiations creating this globally wide agreement. An ambitious second commitment period under the Kyoto Protocol is critical to progress towards the Durban Platform for Enhanced action and the treaty that is to come out of those negotiations, thus it is in Australia's interest to increase their ambition. Many of the biggest emitters such as the USA and China have showed support for the Durban Platform and the second commitment period is an important legal and political bridge before it succeeds the Kyoto Protocol. Australia should do whatever it can to make the transition into the new agreement as smooth as possible. But what should Australia's target be? According the Climate Institute a '5 per cent target is no longer defensible as a fair contribution. The international community will expect Australia to move to the higher end of its target range'[24]. Australia is planning to sign onto the next agreement with a 25 per cent target by 2020, so an increase in ambition early will able them to transition into the 25 per cent target range with less pressure and more flexibility to tweak their domestic policies. Australia should increase their minimum target to at least 12.5 per cent and increase it even further depending on action by other countries. Increasing the minimum to at least half of the 25 per cent target will make it easier to reach 25 per cent by 2020 and will also be more respected internationally. Optimally, Australia should sign on with its maximum target at COP18, but this is very unlikely to happen due to the economic impacts and Australia's domestic political environment.

Surplus Assigned Amount Units

Countries that exceeded their Kyoto target in the first commitment period have surplus tradable Assigned Amount Units (AAU) from the Kyoto mechanisms; the CDM, JI and land use[25].

> According to the Kyoto Protocol and the Marrakesh Accords, countries with Assigned Amount Units (AAUs) that are not required for achieving their Kyoto target in the first commitment period (CP1; 2008–2012) could carry-over and use or trade these surplus AAUs in subsequent commitment periods. Since the total reduction expected from the pledges is much less than 1.8 GtCO2eq (gigatonnes of CO2), current rules of no restrictions on the carry-over of surplus, except for the 2.5 % limit for CERs and ERUs, could lead to no emission reduction compared to business-as-usual emission levels by 2020[26].

At COP18 the Parties will decide what to do with the carry over units. There are currently four proposed options. Option 1 is the current rules, implying no restrictions for carryover and use of surplus units. Option 2 restricts carry over to only a percentage of the surplus units from the first commitment period. The percentages are likely to be 1, 2, 5 or 10. Option 3 is similar to option one, but the units cannot be sold. This means that countries can use the unit to reach their target in the

[23] A. Michaelowa, S Butzengeiger, M Jung, M Dutschke, *Beyond 2012- Evolution of the Kyoto Protocol*, April 2003
[24] The Climate Institute op cit
[25] Elzen M, Meinshausen M, Hof A. The impact of surplus units from the first Kyoto period on achieving the reduction pledges of the Cancún Agreements.*Climatic Change* [serial online]. September 15, 2012;114(2):401-408. Available from: Academic Search Complete, Ipswich, MA. Accessed November 14, 2012
[26] ibid

2CP, but can't trade them for profit. Option 4 leads to no trade over of surplus AAUs from the first to the second commitment period[27].

Following the dissolution of the Soviet Union and the Eastern Bloc in the 1990's, the reductions in those countries were reduced by reasons not connected to climate change policy. This is why at Doha, an agreement should be made which promotes emission reduction and action towards fighting climate change but also rewards those who are exceeding their targets by effective domestic emission reducing policies. It should not reward countries that meet their targets by other means. Option 1 and 3 will allow very little mitigation, if not any in the second commitment period and therefore are not suitable options for reducing global warming[28]. The WWF recommend option 4[29]. Although option 4 would be the best option to promote ambition and reduce carbon emissions, countries will want to be rewarded for exceeding their targets. Option 2 would allow for this to occur, but a 1 or 2 per cent carry over should be considered to keep climate reduction the main focus of the Kyoto Protocol.

Recommendations

- Australia should commit to an emissions reduction target of more than the minimum 5% target range
- Negotiate an option for the transfer of surplus assigned amount units (AAU) that maximises global levels of ambition

Conclusion

Australia needs to pledge a more ambitious target to the second commitment period of the Kyoto Protocol. Australia can potentially increase the effectiveness of the Kyoto Protocol while benefiting economically with an early increase in ambition. Economically, Australia could stimulate the CDM, mitigate the destruction of one it its biggest tourist attractions the Great Barrier Reef and become a world leader in clean energy technology. In addition to this, the second commitment period will transition into the next treaty which will include the world's biggest emitters. It is up to Australia to make this transition period as smooth as possible. A higher initial reduction target would create a better political environment as well as allowing more flexibility to reach the 25 per cent target by 2020. Finally, surplus AAUs should be managed in such a way that promotes emission reduction in the second commitment period. An Australian increase in ambition could increase the world's ambition which would create a more effective Kyoto Protocol.

[27] ibid
[28] ibid
[29] WWF op cit

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