



Climate transition

- Climate change looms large over Australia's future productivity performance. These impacts will principally be through three channels:
 - the projected physical impacts of climate change will directly impact productivity in agriculture, fisheries, tourism, and those sectors that rely on physical labour in heat-exposed environments
 - policy efforts to contain the costs of climate change, by both reducing emissions and adapting to a changing climate, will also impose costs
 - climate policies of the world's major economies risk reducing demand for key Australian exports.
- The productivity costs of global emissions reductions will be lower than the productivity costs of unmitigated climate change.
- Domestic emissions reduction policy is part of Australia's contribution to global efforts to avoid the worst effects of climate change.
- Having committed to 100% emissions reduction by 2050 (and an interim reduction of 43% of 2005 levels by 2030), Australia should put in place policy settings that will encourage least-cost abatement.
- Australia also needs efficient adaptation policy that will help to manage the costs of the climate change that is already 'locked-in', even if global greenhouse gas emissions were eliminated today.



Recommendations

Efficient adaptation policy

- Adaptation policy should support individual, household, and business decisions about what regions, sectors, and occupations they are best placed to transition into. Governments have a role in helping people make informed adaptation decisions and should avoid policy settings that inadvertently constrain them. This will involve:
 - avoiding the expansion of climate-related insurance sector interventions, and setting a medium-term phase out date for the Northern Australia Reinsurance Pool (recommendation 6.1)
 - giving people the information they need to make informed adaptation decisions – pre-sale disclosure of physical climate risks facing individual residential and commercial properties should be made mandatory (recommendation 6.2)
 - allowing individuals and households to face cost-reflective pricing when deciding where to locate - the costs of climate-defensive infrastructure (eg. sea walls and flood evacuation infrastructure) required by new developments should be incorporated into the cost of that new development (such as through developer levies) (recommendation 6.2)
 - not inadvertently constraining the movement of businesses and households between regions, sectors, and occupations – transitional assistance packages should not be made conditional on recipients committing to stay in a particular region, or transitioning to a particular sector or occupation (recommendation 6.3)
 - using cost-benefit analysis to help plan where activity should be located and assess proposed adaptation-related infrastructure investments – location decisions for residential, commercial, and industrial developments should be informed by rigorous cost-benefit analysis that incorporates up-to-date climate projections (recommendation 6.4).

Efficient emissions reduction policy

- Australia should build on its existing climate policy foundations to create a sustainable economy-wide approach to reducing our emissions.
- A key reform will be progressively turning the Safeguard Mechanism (SM) into Australia's principal economy-wide emissions reduction mechanism by (recommendation 6.5):
 - expanding it to include both the electricity sector at facility level (or, failing that, reducing the bulk of the headroom between current electricity sector emissions and the current sectoral baseline), and the transport sector, with ground transport emissions imputed to upstream fuel wholesalers
 - reducing facility thresholds from the current 100,000 tonne limit to 25,000 tonnes of carbon dioxide equivalent (CO₂-e)
 - setting baselines in absolute emissions terms, not emissions-intensity terms
 - allowing facilities to generate emissions credits for sub-baseline abatement.
- The integrity of Australian Carbon Credit Unit (ACCU) offsets recognised by the SM should be increased by (recommendation 6.6):
 - eliminating the 25-year permanence period for sequestration-related offset projects and designing a new class of sequestration-based offsets that align with the more perpetuity-based approach to permanence taken in the biodiversity market
- state and territory regulators stipulating the amount or proportion of biogas that existing regulations require of landfill gas project operators
- the Clean Energy Regulator (CER) publishing the offset reports submitted to them by ACCU project operators and audit reports of those projects.
- Australia's existing climate policies should be reviewed to assess their complementarity to an expanding Safeguard Mechanism, phasing out those found not to be complementary, and independently estimating and publishing the indirect carbon price of remaining measures (recommendation 6.7).
- Governments should pursue a least cost approach to securing electricity supply, with a Capacity Investment Scheme that allows participation by both households and businesses, implemented with a five year sunset clause (recommendation 6.8).
- Focusing support for research and development on frontier technologies where market failures are most apparent. The emissions abatement policy infrastructure set out above should be sufficient to drive commercial application of more immediately feasible technologies.

Australia should extend its existing climate policy foundations to create a sustainable economy-wide approach to reducing our emissions, that is capable of driving enduring emissions reductions across our economy. (Volume 1, p. 40)

