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Barriers to Effective Climate Change Adaptation
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003

Dear Sir/Madam

Submission on the Barriers to Effective Climate Change Adaptation Draft Report

The Australian Chamber of Commerce and Industry (ACCI) welcomes the opportunity to provide comment on the *Barriers to Effective Climate Change Adaptation* draft report.

Please find attached ACCI submission on the subject matter.

Thank you.

Yours sincerely,

Greg Evans
Director, Economics and Industry Policy

ACCI AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

ACCI Submission to the Productivity Commission Draft Report on the Barriers to Effective Climate Change

Australian businesses agree that they need to build their adaptive capacity to deal with the impacts of climate variability such that they remain better off than would otherwise be the case. Accordingly, businesses are best placed to make adaptation decisions in ways that reflect their own circumstances, resources constraints and risk preferences.

A recent survey by the Australian Institute of Management, which attracted responses from 936 business leaders and management personnel from across Australian industry and public sector, clearly highlights that the majority of Australian businesses have taken a wide-range of initiatives in response to climate variability. Table 1 also underscores that organisations with different resources constraints and risk management preferences take different adaptation initiatives in preparation for the impending carbon tax.

Table 1: Adaptation initiatives by sectors

	Not for profit	Owners managers/ sole traders	Partnership	Private Limited Company	Public Limited Company	Public Sector
				(Per cent)		
Reduce, Reuse, Recycle	73	83	64	74	78	87
Energy management (e.g. Switching off lights, computer etc. when not in use)	81	75	36	68	75	85
Improved employee awareness	54	58	45	52	62	74
Water management (e.g. installing water savings taps)	47	50	18	40	52	62
Increased use of Energy Star labelled products for the office	34	25	27	27	37	51
Introduced carbon emissions measurement/monitoring systems	8	0	9	12	21	20
Completed the National Australian Built Environment Rating System (NABERS) for existing buildings	7	8	5	3	12	16
Unsure	9	0	18	7	8	6
Other initiatives	4	8	5	7	3	8

Source: Australian Institute of Management 2012, *Australia's Carbon Tax*, March, Table 27.

Nonetheless, ACCI agrees that governments do have a role in facilitating effective adaptation strategies. In particular, governments should ensure that regulatory and policy frameworks do not impede the flexibility of business to respond to climate changes and blunt the price signal for effective private risk management.

ACCI's comments on individual chapters of the draft report are as follow:

Chapter 4: Assessing Reforms and Setting Priorities

ACCI is of the view that businesses are best-placed in making rational and effective decisions about adaptation. Therefore, government should only intervene if there exists a clear market failure and any government policy responses to address barriers to adaptation should go through transparent and robust cost and benefit analyses.

ACCI supports the 'real options' approach to adaptation policy as it recognises that where there is uncertainty about the future, there can be value in deferring investment until better information becomes available, while retaining the option to take action as the need arises. Under the 'real options' approach, reforms that would impose large costs now, with low benefits now and uncertain payoffs in the future, would be deferred until there is better understanding of the impacts. Therefore, ACCI supports the Commission's draft recommendation 4.1. This draft recommendation underpins ACCI's opposition to the *Clean Energy Future* plan (including a unilaterally imposed carbon tax) and related programs including the *Clean Energy Finance Corporation* which incur high up-front cost to the Australian economy and yet deliver barely discernible benefits to the environment.

In addition, ACCI is concerned that governments' knee-jerk policy responses to climate change in recent years have failed to meet the transparent and robust cost benefit analyses as discussed in the draft report. ACCI argues that government policy response to climate change adaptation, especially in the form of taxes and additional regulations, should go through the transparent and rigorous policy assessment as discussed in the draft report. The opportunity cost to comply with new regulatory measures and their distributional impact on the community including businesses should also be considered in the analyses. In addition, existing and future reform measures should be subject to ongoing independent review to ensure that policy measures continue to meet their initial objective or intent and do not impose excessive compliance cost burden.

Chapter 5: Building Adaptive Capacity

ACCI argues that one of the means to improve the ability of Australian community to adapt to climate variability is to ensure that government policies improve rather than impede the flexibility of the Australian economy.

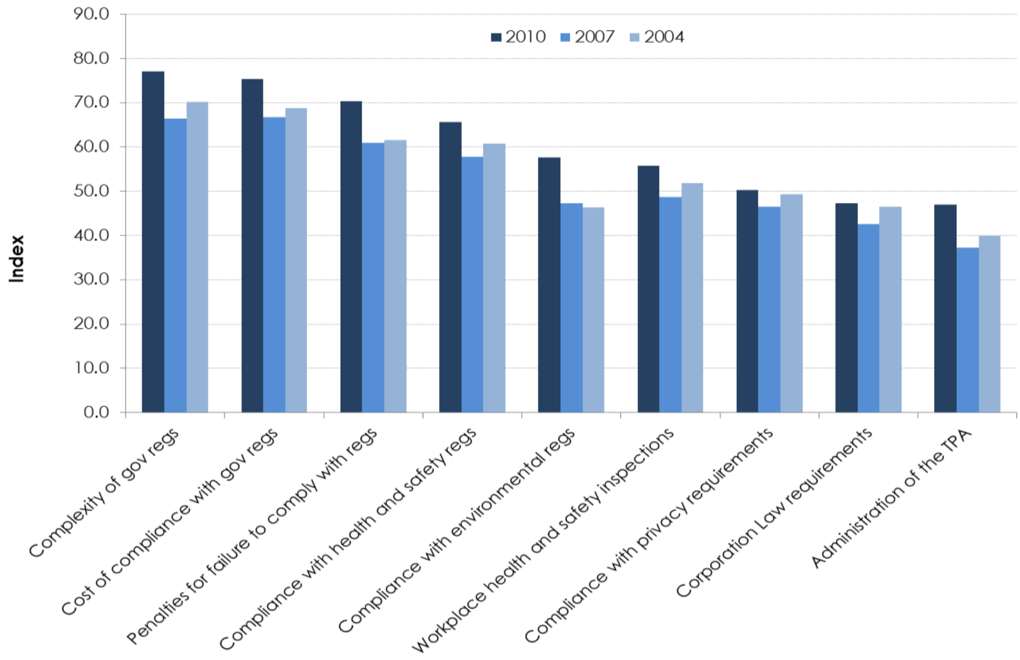
ACCI notes the recommendation to abolish conveyancing duty on property as it imposes additional cost on property transactions. For business, ACCI supports the abolition of conveyancing duty.

ACCI agrees that businesses that are flexible and less bound by government regulations are more able to respond effectively in the face of changing business environment, including the possibility of climate change. Therefore, efforts to reduce regulatory burden on Australian businesses should always be on the governments' reform agenda.

Figure 1 shows that businesses have become increasingly concerned about the complexity and compliance with government regulations and requirements since 2004. In 2010, 86 per cent of Australian businesses expressed major or moderate concern at the complexity of government regulations, with 82 per cent complaining about the costs of compliance with government regulations. Penalties for failure to comply with government regulations attracted criticism, where the combined major plus moderate concern was 74 per cent. 68

per cent of respondents were concerned about the burden of compliance with health and safety regulations. Compliance with environmental regulations was seen as a major or moderate problem by 59 per cent of businesses.

Figure 1: Business views on government regulation, 2004-2010



Source: *ACCI Triennial Pre-Election Survey*, 2010

It is also important for policymakers to recognise that, while regulations usually apply throughout the economy, small businesses suffer disproportionate regulatory costs compared to their larger counterparts. The reasons include:

- regulatory cost makes up a large proportion of overhead costs and net margin. At the firm level it often implies a direct reduction in profitability and retained earnings which may affect ability of small business to invest and prepare their businesses to changing climate;

- the nature of the compliance cost. Administrative costs tend to be fixed, so that changes in sales have no effect on the costs in the short-run. In other words, if sales go down but the costs remain unchanged this causes the break-even point to be raised; and

- diversion of entrepreneurial attention. In small companies the owner, senior manager or director has to deal with the paperwork while they instead could focus their attention on business management.

Chapter 8: Planning and Building Regulation

While industry agrees that changes to land-use planning and building regulations will assist climate change adaptation if and when it occurs, it is important to ensure that the benefits from these changes should exceed the costs to the community as a whole.

Building and construction industry recent experience with the National Strategy on Energy Efficiency (NSEE) has raised industry concerns about additional mandatory regulation to improve adaptation. The NSEE is designed to substantially improve minimum standards for energy efficiency and accelerate the introduction of new technologies through improving regulatory processes and addressing barriers to the uptake of new energy-efficient products. It states that new buildings will be constructed according to increasingly stringent energy efficiency standards that will lead to a reduction in energy consumption. Governments will set out a clear process and timetable for periodic review (for example, every three years starting in 2012) of energy efficiency standards so that over the life of this strategy energy efficiency requirements will be progressively increased. Six, seven and eight star buildings, or equivalent, will become the norm in Australia, not the exception.

Industry has serious concerns about this approach, which mandate increasing stringency for energy efficiency in new buildings without considering the economic cost to the community. The Government's own cost benefit analysis, i.e. the Australian Building Codes Board (ABCB) Regulatory Impact Statement, showed that the imminent move to 6-star will be at a great cost to the community, not to mention housing affordability. The cost to the community to move to 6-star in residential buildings was estimated to be $444 million.

In a report commissioned by Master Builders Australia entitled "*Energy-efficiency: building code star-ratings. What's optimal, what's not*", the independent research firm, the CIE, argues:

- it is a fallacy to assume that energy savings can be achieved at no resource cost;
- it is economically reckless to relentlessly pursue higher energy efficiency star ratings in buildings with no consideration of costs - this only creates political pressures to achieve incorrect economic targets;
- forcing home owners to build houses with higher star ratings (using mandatory minimum standards) will be financially detrimental to most new home owners and economically detrimental to the community; and
- higher star ratings will manifest in higher house prices and lower disposable incomes for Australians and it will not result in efficient reductions in greenhouse gases.

Based on 700 model simulations conducted by *Pitt & Sherry and Energy Partners* using AccuRate software, the CIE found that in all new house designs evaluated, marginal costs escalate rapidly above 6 stars, while benefits continue to diminish. For many new house designs this occurs at a lower star rating (around 5 stars). Even quite large increases in electricity prices or falls in construction or design costs will make very little difference to the conclusion that raising the minimum mandated star rating above current levels will be economically detrimental to Australia.

Based on the previous poor governments' performance in introducing new regulations without proper considerations of costs and benefits to the community, ACCI believes that the draft recommendation 8.1 should read:

> *"As a priority, land-use planning systems should be revised to ensure that they are sufficiently flexible to enable a risk management approach to incorporating* ***realistic***

and likely *climate change risks into planning decisions. In doing this, consideration should be given to:*

- *transparent and rigorous* ***~~community~~*** *consultation processes that enable an understanding of* ***~~the community's~~*** ***critical stakeholders'*** *acceptable levels of risk for different types of land use*
- *the timeframe of risks and the expected life time of proposed land use*
- *the costs and benefits of different types of land use."*

This is to ensure that only realistic climate change risks with high probability of occurrence are included in planning decisions, to reduce the compliance burden of businesses as well as to ensure the benefits ensued far exceed the additional cost imposts to the community. To achieve effective and efficient climate change adaptation through changes in land-use planning systems, it is important that all critical stakeholders are consulted, as narrowing the consultation to just involve local community might cause the problem of NIMBY-ism that delay crucial land use and infrastructure decisions.

Chapter 12: The Role of Insurance

It is concerning that insurance taxes revenue has grown significantly over the years, increasing from $2.0 billion in 1998-99[1] to $5.0 billion in 2010-11. This represents a revenue growth of 150 per cent, which was mainly driven by increases in the value of insurance premiums rather than the rates of the insurances taxes. In addition, taxes on insurance in Australia are high compared to other countries. The 2006 *International Comparison of Australia's Taxes* report found that of the OECD-10 countries that were examined in the report[2], Australia was the only country listed with double digit insurance taxes and only Australia, New Zealand and Japan applied a value-added taxes or GST to insurance contracts. According to the Henry Taxation Review, insurance taxes are the second most inefficient Australian taxes, with a marginal welfare loss of around 68 cents for every dollar of additional revenue raised.

Insurance taxes increase the cost of insurance to policyholders and thus individuals and businesses must pay more to achieve the same level of risk reduction. Thus these taxes can deter individuals and businesses from entering the insurance market or taking out adequate level of insurance to manage climate-related risk effectively. Beyond the first round impact of these taxes, the rates of non-insurance and under-insurance reduce the size of insurance market and thus reduce the ability of insurers to pool the risks leading to an increase in insurance premiums. Moreover, low income earners have a higher incidence of non-insurance or under-insurance which makes them more vulnerable in the case of loss.

Therefore, ACCI supports the draft recommendation 12.1 to phase out the state and territory taxes and levies on general insurance to encourage private management of climate-related risks through insurance.

[1] Australian Government 2010, *Australia's Future Tax System: Report to the Treasurer*, Part Two Detailed Analysis, p. 471.

[2] The OECD-10 countries examined in the report were Canada, Ireland, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States.

ACCI supports the government initiatives in helping consumer understand the insurance contract which will increase the scope of consumers to use private insurance to manage their climate-related risks effectively. Thus ACCI supports the standard definition of ‘flood’ in insurance policy and requirements for a ‘key fact sheet’ that set outs which hazards are covered in a household insurance policy and which are not. Publically available up-to-date information on hazard mapping will also assist consumers including businesses making rational choices when deciding whether to insure their assets against climate-related risks.

Nonetheless, ACCI agrees that poorly designed regulatory intervention in insurance market will create barriers to effective climate change adaptation. For example, while the Government proposed regulations for mandatory flood cover will benefit those consumers that have already taken out flood cover, it would impose costs on the community through higher premium costs to all policyholders and the possibility of a reduction in choice for consumers as some insurers may decide to withdraw all insurance covers in high risk areas.

Therefore, ACCI supports the Commission’s draft recommendation 12.2 which calls on the Government to only proceed with reforms that require all household insurers to offer mandatory flood cover if it can be demonstrated that benefits to the wider community exceed the costs involved.

ACCI also supports draft recommendation 12.3 which calls on governments not to subsidise premiums for household or business property insurance. Subsidies will artificially reduce the cost of climate-related risks and impede households and businesses from any structural adjustment to adapt to changing climate. Moreover, government expenditure on insurance subsidies will put further burden on government budgets which are already strained in meeting future spending related to ageing population.