Power Australia: A flawed but welcome new law to fight climate change Down Under

written by Melissa (Mel) Sanderson | September 21, 2022

Australia has a new environmental law of the land. It may not be perfect but it is consequential. Keep in mind that eight years ago, the previous Government repealed the nation's environmental law which included a carbon pricing scheme.

Subsequent drastic climate events, including a punishing heat wave, huge fires which made international news and unprecedented strains on the power grid lent a sense of urgency to developing a new national environmental policy. Just as was the case in the United States, political change has turned a nation's policy from climate denier to climate change combatant. Furthermore, and not coincidentally, the new law, officially called the Climate Change Bill 2022 but known as 'Power Australia', has been promulgated by Labor (loosely speaking, read Democrats in the US), with help from the Greens, and isn't popular with Conservatives (read Republicans). But just as the Inflation Reduction Act miraculously passed both Houses in the US, so too did the Power Australia bill become law.

What does the Australian law do? Well, it aims to achieve a 43% reduction in emissions below 2005 levels by 2030, and net-zero by 2050, partially by mandating that 82% of Australia's electricity will be provided by a pantheon of renewables. It requires "climate benefits" to be measured annually but does not include stipulations for conducting such measurements. Nonetheless, the key objectives are broadly in line with other global commitments and the law puts Australia firmly back in the climate game.

According to press reports, “The law was broadly welcomed by business groups and the environmental movement.” Climate Change Minister Chris Bowen said “Legislating these targets gives certainty to investors and participants in the energy market and will help stabilize our energy system.”

No law is ever perfect, of course, and therefore this one has its critics. The main complaint about the law is that it doesn’t include a “carbon count” mechanism. What does this mean? It refers to two important aspects not codified in the law, the first of which, as mentioned above, would be a version of a carbon credit scheme encouraging companies to offset their carbon discharge. These are in place in the US and Canadian climate laws, and play an important role in encouraging the energy industry in particular to invest in renewables to avoid gradually increasing “carbon fines” on their operations.

Perhaps more importantly, the law doesn’t deal with the so-called social cost of carbon emissions. This refers to a cost-benefit analysis conducted on proposed projects in which, if a project is deemed to result in increased carbon emissions, the social cost of carbon multiplied by the expected emissions is added to the cost of the project, while conversely, if the project reduces carbon emissions, the calculated carbon savings are deducted from the project cost. Particularly in public-private projects, this savings makes the project more attractive and reinforces carbon reduction market decisions.

In both the US and Canada, federally-funded infrastructure projects are required to perform the social carbon cost calculation, while in the US, 14 States, including California and New York, also use this measure. At the State level in California, the law also requires all privately funded infrastructure projects – including proposed mining activities – to apply the social calculus. The Biden Administration has set

the social figure at $76/ton, applicable to all federal projects. A new study conducted by researchers at the University of California Berkeley and the NGO Resources For The Future, published in 'Nature" this month, sets that cost at $185/ton.

So what makes up the "social cost" of carbon? The short answer, according to Stanford University: the main components are what happens to the climate and how these changes affect economic outcomes, including changes in agricultural productivity, damage caused by sea level rise, and declines in human health and labor productivity. Although already hard enough to quantify, many economists and social activists argue that this doesn't go far enough but should also include social justice factors – for instance, the human damage done by building highways through the heart of cities and isolating or destroying entire communities. The $185/ton cited in the 'Nature' study attempts to include these factors, as well as (inter alia) risks to insurance companies resulting from sea level rise and persistent flooding.

So, back to Australia, where environmentalists hope that the social cost of carbon will be included in the implementing legislation setting the standards for measuring carbon reduction progress or lack thereof. Reportedly the national Infrastructure and Transportation plan already incorporates social cost considerations and could serve as a template for a national measurement standard.

In any event, this is a strong step for Australia in the fight to save the planet.