



31 May 2013

Anthea Harris
Chief Executive Officer
Climate Change Authority

E: submissions@climatechangeauthority.gov.au

Dear Ms Harris,

Submission on Caps and Targets Review Issues Paper

Origin Energy Limited (Origin) welcomes the opportunity to make a submission on the Caps and Targets Review Issues Paper and would be pleased to discuss any aspect of this submission with the Authority.

About Origin

Origin is Australia's leading integrated energy company focused on gas exploration, production and export, power generation and energy retailing. A member of the S&P/ASX 20 index, the company has more than 5,800 employees and is a leading producer of gas in eastern Australia. Origin is Australia's largest energy retailer servicing 4.3 million electricity, natural gas and LPG customer accounts and has the country's largest and one of the most flexible generation portfolios with approximately 5,900 MW of capacity, through either owned generation or contracted rights. Origin is a significant investor in low emissions and renewable energy technologies and has diverse global renewable energy interests in geothermal, hydro, wind and solar technologies. Through Australia Pacific LNG, its incorporated joint venture with ConocoPhillips and Sinopec, Origin is developing one of Australia's largest CSG to LNG projects based on Australia's largest 2P CSG reserve base.

These diverse interests ensure that Origin considers policies such as those aimed at climate change mitigation from a position of first-hand knowledge. This includes an appreciation of the impacts of policies on our customers, investors, employees and the community. We are highly aware of the trade-offs that can be involved in balancing the interests of these stakeholders.

General comments on the Review

Origin is a member of a number of industry associations which have over the last few years developed a series of principles which underpin their approach to climate change policy and are highly relevant to this review. With that in mind, we support the submissions of the Business Council of Australia (BCA) and the Australian Petroleum Production and Exploration Association (APPEA).

As a general comment, Origin recommends that the Authority should spend less time analysing the details of a 2020 target and more to consider other ways Australia can contribute to meaningful action in the medium to longer term, particularly in the Asia-Pacific region. Ideally, Australia should be taking a more strategic approach which seeks to align our climate change mitigation policy with other key interests including economic and social development, and national security.

In addition, Origin offers the following specific suggestions about key issues:

- Scope;
- Strategic approach;
- Appropriate national comparisons;
- International action;
- Targets;
- Net and absolute targets;
- Covered and uncovered sectors; and
- Carry-over provisions.

Scope

The Issues Paper is broad in scope and it could be challenging to address all issues considering the relatively compressed timeframes for the review. We suggest that the Authority focus on the key objectives which in our view include:

- Recommending annual caps for the first 5 years of the flexible period of the carbon pricing mechanism; and
- Recommending a medium term target which more directly relates to Australia's international negotiations.

Historically, much of the discussion in Australia has been on targets for 2020. Whilst these are still important in the context of a domestic scheme they are becoming less relevant to the negotiation of a comprehensive global agreement, as such an agreement is not likely to *start* until 2020. Considering this, more focus should be given to medium term targets, such as for 2030, and to other ways that Australia can contribute to meaningful action.

Strategic approach

Whilst Australia's emissions reductions targets are a key consideration, we believe the Authority should take a more strategic view of what role Australia can play in building strong international action on climate change. It should then identify and prioritise actions in which Australia has a strength or comparative advantage. For example, this could include building key skills and technologies through the tertiary education sector; or sharing our experiences in designing and implementing various climate change policies with key trading nations.

We agree that Australia's action is important and the nation must have a credible pledge to take to international negotiations. On the other hand, we must be cognisant that Australia is considered a middle power and that in total accounts for only 1.5% of the world's emissions. Overstating the real impact that Australia may have on the decisions of other much larger countries may be counter-productive.

Recent changes in emissions levels in the United States put Australia's contribution into perspective. The US EPA reports¹ that from a peak of 7263 Mt in 2007, US emissions have fallen to about 6702 Mt in 2011, a reduction of almost 8%. To put this in context, the scale of this reduction (561 Mt) is about the size of all of Australia's emissions in 2011. These reductions are largely attributed to reduced emissions from the electricity sector - including a significant shift from coal to gas generation.

An example of a role Australia could play is as chair of the G20 summit in Brisbane in 2014. The G20 includes countries which cover the vast majority of world emissions and could be a relatively efficient platform to advance a global agreement. Australia is well placed through its good relationships with both the United States and China to build momentum towards such an agreement.

¹ US Environmental Protection Agency, *Inventory of US Greenhouse Gas Emissions and Sinks: 1990-2011*, 2013.

Another example to consider is what increased role Australia could play in the Asia Pacific region to provide tangible climate change mitigation benefits. This could include developing emerging baseload renewable technologies with our neighbours and investing to retain crucial forest sinks.

It is these examples of how Australia can provide significant, practical impacts that are worthy of more consideration. Further, these actions may give Australia additional economic and environmental benefits.

Appropriate international comparisons

We suggest that Australia's emission reductions be compared against a broader range of countries which include those who have similar structures to their economy and emissions profile. The historical reliance on comparing Australia to other OECD nations is a simple starting point but is not necessarily appropriate for a number of reasons such as Australia's growing population and Australia's larger proportion of exports from the resources and mining sectors. Other countries that could also be included for comparison are growing economies in Asia and the Americas such as South Korea, Indonesia, China, India, Mexico and Brazil.

International action

In addition to appropriate comparisons of national pledges, Origin believes it is very important to examine in detail what action is actually taking place in these nations and to what extent this impacts particular industries, especially key Australian export industries. On this point we highlight the APPEA submission to this review which details a list of key LNG export competitor countries.

Recent reports for the Australian Government have correctly identified the growth in countries which have implemented or are in the process of designing various climate change policies but it could be argued that such reports have tended to overstate the ambition of such schemes.

Regarding emissions trading scheme style policies, our initial analysis shows that the majority of domestic schemes currently in place could be characterised as having a "soft-start" where there is a high proportion of allocated permits and/or a low initial price. In some ways this is similar to the original design of the Carbon Pollution Reduction Scheme (CPRS) which was intended to start with a price of AUD 10. Schemes which could be characterised in this way include the New Zealand ETS, Regional Greenhouse Gas Initiative (US), Californian cap and trade scheme, and those in Tokyo and Quebec. The European Union ETS previously stood out as a trading scheme which had relatively broad coverage, less reliance on permit allocation and a meaningful price. However, the significant price reduction in the scheme in recent years has changed this. Now it is the Australian scheme with its relatively high fixed starting price, relatively broad coverage and moderate allocation of permits to industry which stands out.

The above list is designed to be illustrative and we suggest that the Authority should conduct a much more detailed investigation. Features which are worth analysing include the coverage of the scheme, targets, relative prices, level of permit allocation and availability of offsets. Cost impacts on key industries should also be examined as this can vary significantly depending on features such as permit allocation. Further, there are other key policies such as those that support renewable energy and energy efficiency which must also be investigated to give a more holistic analysis.

Origin strongly supports the development of such domestic schemes as an important contribution to regional and ultimately international action. Besides the currently operating schemes listed above, important developments are also taking place in key countries such as China and South Korea, whilst the World Bank Partnership for Market Readiness is providing support for emerging nations such as Chile and Mexico to start designing policies that are appropriate for their circumstances. Starting with good scheme design and robust emissions reporting systems provides the foundations on which greater ambition can be built over time. However, we believe it is in the public interest for more accurate information and analysis to be undertaken. Ideally, the Productivity Commission work on international action would take place in conjunction with this review.

Targets

As stated above, we believe that there are two priorities that the review should focus on - annual caps for the 2015-16 to 2019-20 period which relate to the 2020 target; and a medium term target which more directly relates to Australia's international negotiations.

Regarding the 2020 target, Origin believes that the starting point should be the commonly understood 5% reduction on 2000 levels by 2020. This is not an easy target to meet and is commonly referred to as a 23% reduction on estimated business as usual emissions. We do not believe that there is sufficient evidence to support moving beyond the 5% target at this point in time and we support the analysis provided in the BCA and APPEA submissions on this point.

Further, Origin is concerned by the Authority's approach to the 2020 target which appears to suggest that as Australia is currently expected to be a price taker on international markets then the actual caps set will largely be irrelevant to Australian liable parties. This is not a prudent approach due to the many uncertainties involved. Chief among those is the regulatory risk inherent in carbon markets, well evidenced by the ongoing debate in Europe on whether to intervene to increase the EU ETS price. We believe the best course of action is to set the caps in the Australian scheme based on a best central estimation of meeting the 5% target - not a higher or lower target.

Regarding medium term targets we support the detailed comments made by the BCA in its submission to this review. More generally, please refer to our comments above on appropriate ways to compare international action.

Net and absolute targets

It is important to highlight the different ways in which Australia's target can be portrayed. The Government's stated 5% target is a net target which allows for the import of international permits. Treasury modelling estimates that to reach this target a high proportion of international permits will be required. This contrasts with the Coalition's 5% target which is an absolute target which requires all abatement to occur in Australia. This could be viewed as a much more ambitious target, as all other things remaining equal, domestic abatement is expected to occur at a higher price than that sourced internationally. These points are not well understood by the general public and the Authority could play a useful role in further investigating these important issues.

Covered/uncovered sectors

The carbon pricing mechanism covers about 60% of Australia's emissions. It would be inappropriate for this sub-section of Australia's economy to bear all the costs of meeting the nation's targets. Origin supports the submissions of the BCA and APPEA which call for a simple, proportional splitting of the abatement effort between the covered and uncovered sectors.

Carry over provisions

Australia has built up a modest surplus of allocations from the first Kyoto period. It would be prudent for the Government to hold this in a reserve to act as a form of insurance for unexpected events. The existence of a carry-over should not be automatically used to tighten caps or targets. Keeping a "strategic reserve" is a common practice internationally, whether in specific trading schemes or at a national level.

If you have any questions regarding this submission please contact Matthew Kaspura (Manager Carbon Policy) on (02) 8345 5287.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim O'Grady', with a stylized, cursive script.

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