

# CCA Advice on Meeting the Paris Agreement

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## Submission — Climate Change Authority – Updating the Authority’s Advice on Meeting the Paris Agreement

August 2019

### Introduction

The Australian Chamber of Commerce and Industry welcomes the opportunity to comment on the Climate Change Authority’s Advice on Meeting the Paris Agreement.

The Australian Chamber believes climate change has the potential to create major economic and social costs for Australia. Therefore, efforts to abate global warming are in the interest of Australian business.

While contributing only a small proportion of global emissions, Australia should play its role in reducing global atmospheric greenhouse gas concentrations. We should also be active in encouraging other nations to take steps in the global emissions reduction effort and lead by example in the Asia-Pacific region.

To achieve the most environmentally effective and efficient climate change policies, Australia should continue to engage proactively with the international community. Our international engagement should focus on the development of climate change policies that distribute the international burden of mitigation equitably. Any domestic initiatives should be in line with our global commitments while at the same time not compromise Australia’s international competitiveness.

Overall, the Australian Chamber believes Australia’s emissions reduction policies should balance the following principles:

- being stable, predictable and provide long-term certainty for business, so as to attract and sustain long-term investment.
- achieving lowest-cost emissions abatement by:
  - being market based;
  - being implemented at the national level;
  - permitting access to credible international offsets;
  - limiting the potential for carbon leakage.
- minimising harm to Australia’s international competitiveness.
- being consistent with our international commitments and obligations

In addition, climate change policy should be integrated with industry policy, in particular with energy and transport policy, and take into account the substantial contribution energy exports to our

economy. There also needs to be more emphasis on climate change adaptation and resilience, particularly in planning decisions and in infrastructure selection and design.

The following responds to the specific issues raised in the consultation paper.

## Net Zero Emissions

The Australian Chamber recognises that there are compelling reasons why businesses must respond to climate change, including changing customer and investor expectations, more frequent incidences of extreme weather events, rising insurance premiums, international policies and responses aimed at reducing demand for fossil fuels, and rising energy prices. We support the Government's commitment to 26-28% emissions reduction below 2005 levels by 2030. This is consistent with similar commitments made by other countries.

In developing targets for the next commitment period, we should be setting achievable goals that are ambitious in tackling emissions reduction, but at the same time do not have an unacceptable impact on the Australian economy, particularly in terms of increasing energy prices and affecting our international competitiveness.

While aspirational, the Australian Chamber is concerned by the notion that Australia set a target to move to net zero emissions by 2050. We consider this cannot be readily achieved without major structural changes across all sectors of the Australian economy. It needs to be clearly demonstrated that targets for the next commitment period will not lead to adverse consequences for economic growth, energy prices and international competitiveness.

Future climate policies should recognise that coal and gas produce a large proportion of Australia's electricity (85% in 2017-18<sup>1</sup>), as well as making a significant contribution to our trade balance, economic growth and employment. The Australian Chamber recognises that over time, reliance on coal and gas will be reduced. This transition needs to be gradual to limit the impact on the Australian economy.

## Sectoral and Economy wide policies

Australia's climate change policy should prioritise meeting short- and long-term emissions reductions targets at least cost. This is best achieved through a competitive, market-based approach to deliver sustainable long-term emissions reductions and economy-wide benefits.

Australia does not have a comprehensive climate change policy to provide the framework that then allows development of an integrated implementation strategy. Instead, we are working to meet the requirements of the Paris Agreement through a number of sectoral policies. The current suite of sectoral emissions reduction policies focus mainly on direct action. This is a highly regulatory approach, relying heavily on Government subsidisation of emissions reduction activities. In general, this regulatory approach could be better targeted to deliver improved outcomes.

In the energy sector, much of the focus on emissions reduction policy to date has been on subsidies associated with the Renewable Energy Target (RET), for investment in variable renewable electricity (VRE) generation, mainly wind and solar. RET subsidies have contributed to a boom in VRE investment over the past decade, such that wind, solar and hydro is now capable of generating enough electricity to meet up to 30% of midday demand — with roof-top and large-scale solar

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<sup>1</sup> ABS 4660, Energy Use and Electricity Generation

providing over half of this generation.<sup>2</sup> A recent report by the Clean Energy Regulator found there were enough projects committed in 2018 to achieve the RET of generating 23.5% of electricity demand from renewables by 2020.<sup>3</sup> The RET has clearly achieved its goal of increasing the amount of renewable energy in the system.

However, there have been some unintended consequences. Because VRE generation is dependent on weather conditions and/or the time of the day, it must be backed-up by dispatchable electricity generation to maintain reliability in the system. The narrow focus of the RET on VRE, as well as uncertainty over carbon emissions reduction policy, has crowded out investment in dispatchable energy generation over the past decade. This has contributed to falling reliability of the electricity network and increasing electricity prices.

Over the past decade, there has been negligible investment in new coal-fired power generation and minimal maintenance of aging existing assets. Similarly, there has been limited investment in gas power generation over the past decade. Gas was promoted as the alternative to assist the transition from coal-fired power to renewable energy. However, the uncertainty in carbon emissions reduction policy and ideological state moratoriums on gas exploration have constrained gas supply and substantially increased gas prices, curbing investment in gas power generation.

Wind and solar generation projects are now economically viable in their own right (for example roof-top solar has a typical payback period of 4 years). Therefore, it is timely to review the RET, with a view to it being phased out by 2030 as scheduled under the current legislation.

Future policies in the energy sector should be focused on integrating VRE generation into the grid, backed up by investments in dispatchable power generation, such as pumped hydro, battery storage and gas peaking plants.

The Emissions Reduction Fund (ERF) also has heavy regulatory-focus. The ERF directly purchases emissions abatement from activities in the land-based sector, as well as for waste management and energy efficiency. The Government has invested almost \$2 billion to date in the ERF to purchase emissions reduction (Australian Carbon Credit Units – ACCUs) and has budgeted a further \$2 billion to extend the program through the Climate Solutions Fund (CSF).

The Australian Chamber is concerned that a large proportion of this funding is going to activities that are unproductive (i.e. laying fallow agricultural land, reservation [exclusion from harvesting] of native forests) and don't provide additional economic or environmental benefits. There are also questions over the permanency of this carbon emissions reduction and/or carbon sequestration delivered by these activities. Many approved projects involve the purchase ACCUs for a shorter period (10 to 20 years), but require the carbon to be stored for an extended period (up to 100 years). It is uncertain how permanency of carbon storage can be enforced over the extended period and how risks such as natural disasters (fire, flood, etc.) are addressed.

The recent rebranding of the ERF into the Climate Solutions Fund offers the opportunity to refocus the program to provide multiple benefits, both economic and productivity benefits, as well as improved environmental outcomes. This should include greater emphasis on projects such as commercial tree plantations that can be harvested over a series of rotations, measures to increase the productivity and reduce emissions from livestock, and soil carbon enrichment through alternative agricultural practices.

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<sup>2</sup> Green Energy Markets <http://greenmarkets.com.au/>

<sup>3</sup> Clean Energy Regulator

<http://www.cleanenergyregulator.gov.au/About/Pages/News%20and%20updates/NewsItem.aspx?ListId=19b4efbb-6f5d-4637-94c4-121c1f96fcfe&ItemId=668>

Energy efficiency is another area where there is a high level of regulation. The 2019 National Construction Code involves a substantial tightening of energy efficiency standards for new commercial buildings from previous iterations. This will add significant cost to the construction of new commercial buildings, but the benefits in terms of its impact on emissions reduction are unclear. Similarly, for residential buildings, more stringent energy efficiency standards are adding to the cost of building new homes and this ultimately increases the final price paid by the homebuyer. This will have a negative impact on housing affordability, as well as on the number of homes built. This comes at a time when the goal of home ownership is becoming more challenging and the growth of the housing stock has fallen behind demand. Because the volume of new home building is small relative to the size of the total dwelling stock, it would be more effective to direct efforts to improve the energy efficiency of existing housing stock. This would provide a far greater return than high energy efficiency standards focused exclusively on new home construction.

## Supporting Innovation, Finance and New Industries

Australia has a highly educated workforce. This offers the potential for Australia to develop and capitalize on new emissions reduction technologies as they emerge.

The Australian Chamber supports competitive markets. However, we accept the government has a role where there is market failure, such as where the longer-term social and environmental benefit that cannot be monetarised and captured as part in the commercial benefits. We also agree that the Government can play a role in incentivising investment in emerging industries.

However, the focus of any Government support should not be through direct investment. Instead, it should be through incentives for research and development, supporting the development of skills, as well as assistance with access to finance for emerging industries. Measures that stimulate and support research and development will encourage innovation and the invention of new more energy efficient and/or low-emission technologies, without creating market distortions or barriers to entry.

Any Government support should be time limited with the focus on assisting new and emerging technologies during the early stages of development. However, once a technology is proven, it should be left to the markets to finance further development and commercialisation.

## International Credits

International credit have a role to play in the global system where all countries are committed to emissions reduction and are making a contribution to the overall effort. If international credits are part of the global system, then Australian companies should have access to them.

To the ensure integrity in the purchase of international credits a strict accounting system is needed. The government has a role in developing this accounting system to administer, facilitate and verify the purchase of international carbon credit units, their contribution to an organisations emissions reduction and Australia's overall emissions reduction.

Australia should continue to engage with the international community and play a leading role in the development of rules on international credits. It is important that there is a clear rules-based system around the creation and trade of international credits, to ensure the integrity of these credits, and reduce the risk of leakage and displacement by high emitting activities elsewhere.

Carry-over credits from the Kyoto emissions reduction period (prior to 2020) should be included in Australia's overall emissions reduction effort for the Paris Agreement period (to 2030).

Emissions are cumulative, not time limited. Overall, what is important is the total quantity of carbon emissions a country has released into the atmosphere. Carry-over credits are a legitimate reduction in Australia's total carbon emissions that contributes to global emission reduction effort. If Australia has overachieved on its targets in an earlier period then it should be rewarded by allowing the earlier excess credits to be included in the current calculation of emissions reduction. Australia should not be penalised for exceeding its target. To do so reduces incentive to strive to achieve its target.

## Conclusion

Climate change poses long-term risks to the global environment and the Australian economy.

It is important for Australia to play a role in the global emissions reduction effort and lead by example in international fora. Emission reduction targets need to be ambitious and achieved through a clear climate change strategy.

Australia should continue to engage with the international community, and provide leadership in emissions reduction that addresses the threat of climate change. In undertaking this action, it is also important to focus on the development of climate change policies that also minimise costs and distribute the international burden of mitigation equitably.

Australia's domestic emissions reduction policies need to also take into account that Australia is a resource-based economy, including the substantial contribution of our energy exports.

To deliver sustainable long-term emissions reductions and economy-wide benefits, emissions reduction policies need to be market-based. Most climate policies to date have taken a heavy-handed regulatory approach. These policies could be better targeted to improve the outcomes delivered.

In an area of public policy fraught with polarised views, Australia needs to take a measured, balanced and objective approach to the setting of our emissions reduction target. Future commitments must be ambitious but at the same time be realistic and seek to minimise the risk of adverse impacts on the Australian economy and our international competitiveness.