Australian Government
Climate Change Authority

CLIMATE CHANGE AUTHORITY

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THE CLIMATE CHANGE AUTHORITY RELEASES REVIEWS OF THE CARBON FARMING INITIATIVE AND THE RENEWABLE ENERGY TARGET

Statement by the Chair, Mr Bernie Fraser

22 December 2014

The Climate Change Authority has today released two reports covering its reviews of the Carbon Farming Initiative (CFI) and the Renewable Energy Target (RET). These reviews are required in the relevant Acts of Parliament establishing the two schemes.

The Authority is a statutory body established under a separate Act to provide independent and transparent advice to the government on a range of climate change policy issues, including appropriate emissions reductions targets for Australia, and the various policy instruments available for pursuing those targets. The two schemes under review were created as parts of a broad set of measures to combat the risks of climate change and the Authority has reviewed them in terms of their roles in this broader policy framework, as well as in terms of their individual goals and performances.

Carbon Farming Initiative (and later, Emissions Reduction Fund (ERF))

The CFI was introduced in 2011 to complement the carbon pricing mechanism - in effect, to seek out opportunities to reduce greenhouse gas emissions in sectors such as agriculture, waste management, land use and forestry, which for various reasons, were not covered by the carbon pricing mechanism. Participants in the scheme received credits for approved reductions in emissions which could be sold to eligible entities under the carbon pricing mechanism.

Like other schemes of its type, the CFI was administratively intense, resulting in relatively high transaction costs. These, together with gaps in coverage and uncertainty about future prices of credits, worked to constrain participation in the scheme.

Overall, the Authority judged that the scheme had performed reasonably well, achieving real reductions in greenhouse gas emissions equivalent to around 10 million tonnes of carbon dioxide (10 Mt CO_2) over the past four years—with about 60 per cent coming from landfill and waste treatment projects, and a further 30 per cent from projects that avoided deforestation.

The CFI legislation was amended in November 2014 and the scheme was expanded to become the ERF. Participants in the CFI were rolled into the ERF which now covers all sectors of the economy. Under the ERF the government will purchase emissions reductions through auctions, and $2.55 billion has been allocated for this purpose to date. The Government has stated that it may consider additional funding in the future.

The ERF incorporates significant design improvements compared with the CFI, including greater certainty around future prices for credits (as projects receive a fixed price for the life of the purchase contract). Other changes to streamline procedures and lower transaction costs are also improvements.

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It retains, however, much of the administrative intensity and complexity inherent in schemes where credits are assessed on outcomes against pre-determined baselines. In such schemes there can be no certainty that the credits awarded to participants always relate to emissions reductions which are genuinely additional to those that would have occurred in the absence of the scheme.

On this point, the big difference between the CFI and the ERF which replaced it is the much greater scale of the latter – and the much greater consequences of the risks that the scheme might not only miss some real opportunities to reduce emissions but also (and perhaps more worryingly) result in large payments for reductions that would have occurred anyway.

This will be a constant challenge for the scheme's administrators. The Authority's two recommendations on the ERF relate to this point:

- the first is that enhanced ‘additionality’ tests be considered in respect of individual projects that would generate a large volume of credits (and therefore receive a large payment) under the scheme; and
- the second is that the ongoing appropriateness of the ERF for achieving emissions reductions in particular situations be subjected to independent and periodic review.

With its recent creation, and the earlier repeal of the carbon pricing mechanism, the ERF has become the spearhead of the Government’s climate change policy.

The relevant legislation was passed only last month: no auctions have been conducted to this time, and the details of the potentially significant ‘safeguard mechanism’ have still to be disclosed. For these reasons it is too early to be reaching firm conclusions on the capacity of the ERF to deliver emissions reductions on the scale required to meet Australia's current and prospective targets. On the basis of its current configuration and funding, however, the Authority considers it unlikely the ERF would deliver even the minimum 5 per cent target without significant complementary action, such as purchases of appropriate international permits and the maintenance of a robust RET.

Renewable Energy Target

Electricity generation in Australia is responsible for one-third of the nation's total greenhouse gas emissions. Large, on-going reductions in emissions in this sector are therefore unavoidable as Australia strives to reach its targets.

The main burden of this task currently rests with the RET which, by creating a market for additional renewable electricity, encourages investment in new renewable generation capacity.

The present RET arrangements comprise the Large-scale Renewable Energy Target (LRET), which covers wind and other large-scale generators, and the Small-scale Renewable Energy Scheme (SRES) , which helps households, small businesses and community groups with the upfront cost of installing small-scale systems, such as rooftop solar PV systems and solar hot water systems.

When the current arrangements were put in place in 2010, these two schemes, together with existing hydro-electric generation, were broadly targeted to meet at least 20 per cent of then-projected total demand for electricity in 2020. The largest and most prominent part of this calculation was the 41,000 GWh set in legislation as the target for LRET in 2020.

It is this particular target which has been the focus in recent calls to, if not abandon the target altogether, then at least cut into it. One proposal is to reduce the LRET so that the overall target for renewables would represent a ‘real’ 20 per cent target—that is, 20 per cent of currently projected demand for electricity in 2020 (which is significantly lower than it was at the time the 20 per cent figure was first mooted). On this basis the LRET for 2020 would drop from 41,000 GWh to about 25,500 GWh.

The Authority does not see any magic in a ‘real’ 20 per cent figure, or in other figures of this kind. What really matters is that sustained emissions reductions be made in the electricity sector and, in the absence of better alternatives, this means the RET—and LRET in particular—will have to continue to lead this transformation. The Authority is not, therefore, recommending any reduction in the level of the LRET.

The Authority acknowledges in its review that—largely because of the general erosion of bipartisan support for the RET and heightened speculation around the LRET which has flattened investment in the sector—there is now some doubt that the 41,000 GWh target can be achieved in 2020. Rather than reduce the level of the target, the Authority recommends that the 2020 target year for LRET be pushed out by, say, up to three years.

The Authority also acknowledges that forecasts of electricity demand have declined a lot from the levels anticipated a few years ago and that this is adding to the adjustment problems of some incumbent (fossil fuel based) generators. Extending the LRET target date in the manner recommended will not do a lot to ease those problems. But nor will slashing the target: the underlying difficulties in the sector will remain, the lost emissions reductions will have to be made good elsewhere, and negative signals will have been sent on the long term future for renewables.

In a separate recommendation on the RET the Authority has proposed that consideration be given to the nature and time-frame of possible RET arrangements in the post-2020 period, with particular regard to increasing and extending targets, and expanding coverage to a wider set of technologies. This reflects the Authority's view that, particularly in the absence of credible alternative policies, RET-type arrangements might be required to support increased penetration of renewables in electricity for some time.

The review includes some discussion of the question of exemptions from electricity costs under the RET for emissions-intensive, trade-exposed (EITE) industries. It notes that existing exemptions provided to some businesses are based on their overall emissions intensity, whether or not those emissions are related to electricity use. The Authority has not recommended any broadening of these exemptions but has suggested that if further exemptions were granted, this should be on the basis of electricity intensity, rather than emissions intensity.

The Authority made no recommendations in relation to SRES in this review. It noted that subsidizing household solar PV is a relatively expensive way to reduce emissions in the electricity sector but did not recommend any changes, largely because the assistance will soon begin to phase out, and the overall costs are relatively modest.

The Big Picture

The CFI and RET schemes essentially targeted opportunities to reduce emissions in particular sectors not always accessible through broader measures (such as the previous carbon pricing mechanism, for example). Although not perfect, these schemes have generated significant reductions in greenhouse gas emissions—reductions that otherwise would have to be made good elsewhere, if they were made up at all.

The Authority has argued consistently throughout its short life that an effective policy response to the risks of climate change requires favourable winds on at least two fronts:

- first , a broad community consensus that climate change poses real risks to the community; and
- secondly, a well-stocked toolbox to be able to tap into opportunities to reduce emissions wherever they occur.

Neither exists today. The earlier broad political consensus has ruptured in recent years, and no early repair is in prospect. And the tool box is feeling less weighty, with the removal of the carbon pricing mechanism, an unproven ERF, and an uncertain outlook for the RET. The Authority's recommendations and conclusions in the two reports released today have been framed against this background, and in the knowledge that in matters to do with climate change, policy makers have to plan for the long term, which is way past 2020.

In formulating its advice, the Authority is obliged to think about the long term, and as countries negotiate a framework for stronger climate action beyond 2020, the Authority will be considering Australia's contribution—including emissions reduction goals, and the policies needed to meet them—in its special review next year.

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