

***AIGN Comments on Updating the Authority's  
Previous Advice on Meeting the Paris Agreement  
Consultation Paper (August 2019)***

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## TABLE OF CONTENTS

|   |          |
|---|----------|
| <b>AIGN COMMENTS ON <i>UPDATING THE AUTHORITY'S PREVIOUS ADVICE ON MEETING THE PARIS AGREEMENT</i> CONSULTATION PAPER (JULY 2019)</b> ..... | <b>1</b> |
| <b>1 BACKGROUND</b> .....   | <b>3</b> |
| <b>2 INTRODUCTION</b> .....   | <b>3</b> |
| 2.1 AIGN POLICY PRINCIPLES .....  | 3        |
| 2.2 ECONOMIC OVERVIEW.....  | 4        |
| <b>3 INTERNATIONAL CONTEXT</b> .....  | <b>4</b> |
| 3.1 INTERNATIONAL COMPARISONS.....  | 5        |
| 3.2 INTERNATIONAL UNITS.....  | 5        |
| <b>4 DOMESTIC POLICY</b> .....  | <b>6</b> |
| 4.1 LONG-TERM EMISSIONS REDUCTION STRATEGY .....  | 6        |
| 4.2 SECTORAL APPROACH .....   | 6        |
| 4.3 INVESTMENT AND TRADE COMPETITIVENESS.....   | 7        |
| 4.4 CLIMATE AND ENERGY POLICY.....  | 7        |
| 4.5 CURRENT POLICIES .....  | 7        |
| 4.5.1 <i>Emissions Reduction Fund and safeguard mechanism</i> .....   | 7        |
| 4.5.2 <i>Electricity generation</i> .....   | 8        |
| 4.6 COMPLEMENTARY POLICIES.....   | 9        |
| <b>5 CONCLUSION</b> .....   | <b>9</b> |

## 1 BACKGROUND

AIGN welcomes the opportunity to provide a submission to the Climate Change Authority on its consultation paper: *Updating the Authority's previous advice on meeting the Paris Agreement (July, 2019)*.

AIGN is a network of industry associations and individual businesses which contribute to the climate change policy discussion and see value in joint industry action on climate change to promote sustainable development.

In considering this submission, the Climate Change Authority (CCA) should note AIGN's broad membership base, and this submission should be read alongside member feedback.

## 2 INTRODUCTION

AIGN's position on climate change policy is underpinned by our principles, which have been the basis of AIGN's contributions to the climate change policy discussion for many years:

### 2.1 AIGN Policy Principles

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability<sup>1</sup>, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.

Australia should engage the international community to pursue global action to reduce greenhouse gas emissions leading to identified and beneficial environmental outcomes which:

- allows for differentiated national approaches;
- promotes international cooperation;

- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances and aspirations of all societies; and
- is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach to responding to climate change which:

- is consistent with the principles of sustainable development;
- is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long-term perspective;
- maintains the competitiveness of Australian export and import competing industries;
- distributes the cost burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively co-ordinated across all jurisdictions throughout Australia.

<sup>1</sup> Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective

capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.

Australia’s future greenhouse policy measures should:

- be consistent with the strategic national approach;
- be trade and investment neutral, in a way that does not expose Australian industry to costs its competitors do not face;
- not discriminate against new entrants to Australian industry nor disadvantage ‘early movers’ in Australian industry who have previously implemented greenhouse gas abatement measures;
- take account of the differing sectoral circumstances;
- be based as far as is practicable on market measures;
- address all greenhouse gases;
- address all emission sources and sinks; and
- balance, in a cost-effective way, abatement and adaptation strategies – both of which should be based on sound science and risk management.

## 2.2 Economic overview

For many years, Australia has been a destination for manufacturing industry, largely because of our competitive advantages in natural resources and affordable energy.

However, in a world that is increasingly addressing the impact of greenhouse gas emissions and moving toward pricing these emissions (or, already implementing climate change policies as we are in Australia), it is timely to revisit our vision for the Australian economy; our comparative advantages have changed, and the potential for economic growth

needs to be unlocked with a clearly defined and deployed plan.

With the growing importance of reducing emissions, Australia has an opportunity to meet demand in a world that will continue to require natural resources and manufactured goods. Our current operating environment – especially in respect of the cost and supply of energy – does not adequately promote our competitiveness within the region.

Australia has the potential to be an attractive investment destination, meeting our emissions reduction goals while nurturing a thriving economy and ensuring the security and reliability of our energy supply. AIGN recommends this as a key focus for the Government as it develops its long-term emissions reduction strategy.

## 3 FEEDBACK

AIGN notes that the Climate Change Authority (CCA) is seeking feedback on the following:

- Its previous recommendations
- Achieving a net zero emissions economy in the long-term
- Sectoral and economy-wide policies
- Supporting innovation, finance and new industries
- International context

### 3.1 International context

As a signatory to the Paris Agreement, Australia is committed to reducing emissions to achieve the Paris goals of limiting global warming to 2°C or less, if possible, as well as reaching net-zero emissions by 2050 – 2100. A 2030 emissions reduction target range of 26 – 28% on a 2000 baseline has been set for Australia, with

increased ambition expected with each new commitment.

AIGN notes that the CCA reflects on advice from UNEP and IEA that the world must do more to meet Paris Agreement temperature goals (consultation paper, p 2). AIGN supports continued talks at the UNFCCC and within other forums to encourage enhanced global ambition. At the same time, AIGN members need assurances that Australia will move responsibly on increasing ambition and, by extension, the cost of reducing emissions for the private sector (notably trade-exposed entities). Any increases in ambition that place Australia ahead of international competitors will need to be implemented with a careful policy suite that does not disadvantage Australian businesses, causing shrinkage and/or leakage as a result of the carbon cost.

### 3.2 International comparisons

When evaluating the ambition of other countries, Australia should consider their reporting parameters, and what comparable effort looks like within that frame. The EU, for example, with high population density and relatively low heavy emitting industry activity, looks better on a per-capita production basis than on a per-capita consumption basis, and has accordingly chosen to frame its commitments with the former metric. Australia's emissions are high on a per-capita production basis because of our relatively small population and higher mining and manufacturing activity; we will therefore compare poorly on this basis with a region like the EU. In fact, this comparison may not adequately reflect the scope and scale of emissions reduction activity in Australia.

### 3.3 International units

AIGN has always supported access to international units as part of a sensible climate policy framework. The integrity of Australia's domestic policy must be maintained in any linking arrangement with international markets. This should be achieved through rational rules governing the environmental integrity of international units that may be used in Australia to meet domestic climate policy obligations. These rules should be robust and inspire the market with confidence that international units represent genuine emissions reductions.

However, quantitative restrictions on international units cannot be justified from a policy perspective. The atmosphere is unable to distinguish between emissions reductions from different locations; as a result, domestic abatement cannot be said to be superior to abatement from overseas. Provided environmental integrity standards are met, there should be no other limitations on the use of international units. In any case, it is generally expected that rigorous standards would result in a much smaller pool of available units than currently available under the CDM.

With respect to carryover units from the Kyoto Protocol, similar environmental integrity standards are necessary. The Government has effectively banked a quantity of credits, or units, within the Protocol – emissions reductions over and above our baseline. Conceptually, these units may be used to offset other emissions. In AIGN's view, the carryover of units from the Kyoto Protocol to the Paris Agreement will be possible as long as the rules of the Paris Agreement include the sources and activities associated with these units. This is necessary to ensure environmental integrity and avoid double-counting.

### 3.4 domestic policy

AIGN supports the CCA’s approach of focusing on policy rather than targets in this review. The policy suite, and its foundational design, are at least as important as the targets and trajectories for emissions reductions. While the latter are clearly significant, it is the former that ultimately determine sectoral, as well as facility-level, impacts and costs on Australian households and businesses. These, in turn, have far-reaching consequences on economic health.

Importantly, our domestic approach needs to be informed and consistent with our international obligations under the Paris Agreement. Yet not only the overall Paris goals must be kept in mind, but also the way these are being interpreted and implemented by other countries around the world. Australia’s climate policy instruments will need to be designed so that they provide institutional stability to support investment and economic health, while being able to respond fluidly to any changes in the international space – which, it is to be hoped, will result in increasing ambition. However, the design of Australia’s climate policy must not lock us in to a path that anticipates the scale of increasing ambition over time.

### 3.5 Long-term emissions reduction strategy

In AIGN’s view, the long-term strategy is a crucial area of work for Government, meriting its own consultation process. It will influence the direction of not only climate policy, but economic activity and investment patterns in the coming decades; it therefore needs to be designed thoughtfully and well, drawing on diverse expertise in both public and private sectors.

As a first step, the Government should set out clear policy objectives beyond simply reducing

emissions around which to develop its policy suite. For example, we should aim to leverage our abundant natural resources, support manufacturing, drive innovation, and not disadvantage trade-exposed industries compared to our international competitors.

The development of the strategy provides an opportunity to ensure that climate change policies are consistent with the Government’s vision for a healthy economy and its social and environmental policies.

It also offers a valuable gateway to discuss Australia’s options for designing an effective and enduring climate policy framework. Since the ratification of the Paris Agreement, a conversation about how Australia’s policy landscape will transition to meet mid and long-term emissions reduction goals has been needed.

### 3.6 Sectoral approach

AIGN’s principles support a climate change policy framework that distributes the costs of achieving emissions reductions equitably across the community.

Within the current framework, although many sectors of the economy are participating in some way in achieving Australia’s target, the costs are by no means shared equitably. The electricity sector has a captive market and can pass costs through to consumers (including industry and households), the agricultural sector is able to generate income on a voluntary basis, and large industrial emitters are subject to limitations under the safeguard mechanism. This arrangement does not meet criteria of equitability, efficiency or longevity, which is a greater risk with a sectoral approach compared to an economy-wide policy.

Nevertheless, a sectoral approach, as recommended by the CCA given current policies and trends, is capable of delivering a

framework to facilitate efficient emissions reductions from a thriving economy. Such an approach would require closer overview and careful monitoring of flow-on impacts between sectors. Ideally, sectoral policies would be linked in some way (e.g. fungibility of emissions units across schemes).

Whether sectoral or economy-wide, AIGN strongly recommends a reasoned, evidence and principles-based approach to policy development; one that prioritises institutional stability and economic efficiency; that focuses on developing enduring, flexible and sensible policies; that delivers broad coverage to ensure the responsibility of reducing emissions is equitably shared; and that creates an environment in which Australia's trade competitiveness is supported.

### 3.7 Investment and trade competitiveness

The last ten or so years have demonstrated that policy uncertainty is a key risk factor for investment, acting as a significant disincentive. Long-term policy stability is highly desirable, indeed necessary, to potential investors, requiring bipartisanship across a range of issues, including climate and energy policy.

In the current environment, a proposal must look viable under a number of potential future policy scenarios (which is, of course, a near-impossible criterium to meet). Australia, situated as we are in a stable and competitive region, struggles to compete for investment against our regional neighbours in this environment.

While AIGN is heartened by the ratification of the Paris Agreement and the positive atmosphere around worldwide efforts to reduce emissions, remaining realistic about how and when countries will act is essential. Due to the

bottom-up nature of the Paris Agreement, countries will be moving at different paces and introducing a wide variety of policies to meet their targets. The emergence of a carbon price (or proxy for the same) will be the work of some years.

Taking measures to safeguard our trade competitiveness will be essential to ensure Australia's approach is successful in reducing emissions, rather than simply pushing them offshore. Measures to safeguard trade competitiveness can be designed in a way that creates marginal incentives for action without placing an onerous and inequitable overall cost burden on industry.

## 3.8 Climate and energy policy

AIGN supports the development of policy that responds to the challenges of reducing emissions while protecting energy security and reliability. This has been a complex policy space for many years, and we hope a bipartisan approach that will support investment will be developed and implemented in the near future.

## 3.9 Current policies

### 3.9.1 Emissions Reduction Fund and safeguard mechanism

Since the CCA's most recent advice on the safeguard mechanism was given to Government, a consultation process was held on amendments which have now been passed. These included changes to baselines, restricting access to baseline increases except under special circumstances.

With respect to declining baselines in line with Australia's emissions reduction targets, this proposal would require a significant reworking of the mechanism. It is inextricably linked with the CCA's recommendation of allowing access



to domestic and international units to meet obligations. Furthermore, and just as crucially, the mechanism must build in a robust design feature to address trade competitiveness.

If baselines were to decline in line with ambitious targets without access to fungible emissions reduction units and without consideration for competitiveness impacts on trade-exposed industry, it would result in facility closures to meet abatement goals (with associated economic and social impacts). The safeguard mechanism is not designed to address trade competitiveness, the Emissions Reduction Fund is not designed to facilitate large-scale generation of units, and there is no access to the international carbon market at this time. Fundamentally redesigning the safeguard mechanism would be vital if this recommendation is to be adopted.

As for lowering the threshold to widen the mechanism's coverage, AIGN is not opposed to this as it would be in line with our principle of broad, economy-wide distribution of the costs of reducing emissions. It would be prudent to consider a phased approach with support for smaller entities as they familiarise themselves with their obligations.

Lastly, the CCA's recommendations around measures to improve profitability, emissions reductions and other environmental benefits in the agricultural sector could be addressed by improving the ERF with better methods for crediting abatement, and bringing entities that fall within the threshold into the safeguard mechanism.

### 3.9.2 Electricity generation

While it is clear that a stable policy framework to encourage investment, improve affordability and reliability, and reduce emissions is needed in the electricity sector, it is unclear what this framework might look like. AIGN supports a

considered and consultative approach to dealing with this complex policy area.

AIGN also supports the ending of the RET in 2030 as legislated. The price of renewable energy has been steadily improving since the introduction of the RET, and it will leave a strong renewables industry in Australia by 2030. The Government is in a position to develop a policy that covers the whole energy generation sector, and renewables should be included in the framework as the RET ends.

### 3.10 Supporting the implementation of low emission technologies and projects

AIGN notes, that whilst the Emissions Reduction Fund in its current form has been successful at pulling through land sector emissions reduction projects, that there has been limited uptake from the resources and industrial sectors.

These sectors can deliver large scale abatement, but are typically have high capital expenditure requirements, which limits their ability to deliver cost effective projects through the ERF. There is substantial opportunity for the Government to work with industry to leverage the \$2bn Climate Solution Fund and target late stage research, development and deployment projects such as large-scale industrial energy efficiency, integrated solar thermal (or other low carbon technology), carbon capture and storage, and other technologies.



### 3.11 Complementary policies

While complementary policies have a role to achieving Australia’s emissions reductions, AIGN’s preference is for an effective national policy approach with broad participation, which would ultimately reduce the need for additional policies.

AIGN continues to support the findings of the 2008 Strategic Review of Australian Government Climate Change Programs,<sup>2</sup> which advocated an agreement between Commonwealth and State/Territory Governments to clearly delineate responsibility for all areas of the climate change policy portfolio, and found an excessive number of programs in existence (a finding that remains relevant today).

However, AIGN acknowledges that some complementary policies may be appropriate. These should be weighed against a set of principles requiring the Government to demonstrate that there is indeed a market failure that is not addressed by the overall climate policy framework, and that any proposed complementary policy adheres to the same principles of efficiency, effectiveness and simplicity as the overall framework. This scoping work is best done with input from stakeholders.

For example, work on the National Energy Productivity Plan (NEPP) could focus on areas where demonstrated information failures and split incentives continue to hamper action on energy efficiency, such as households and small businesses.

## 4 CONCLUSION

Thank you for the opportunity to provide input into the CCA’s revised advice to the Government on meetings its obligations under the Paris Agreement. AIGN welcomes future opportunities to engage in this process, and encourages the CCA to contact Susie Smith (AIGN, CEO), with any further questions regarding this submission

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<sup>2</sup> <https://www.finance.gov.au/publications/strategic-reviews/>