

Victorian Government Submission to ‘Updating the Authority’s Previous Advice on Meeting the Paris Agreement’ Consultation Paper

Introduction

Thank you for the opportunity to input to the Climate Change Authority’s updating of its previous advice on meeting the Paris Agreement.

The Victorian Government considers that policy choices for pursuing the Australian Government’s 2030 target under the Paris Agreement should be compatible with the transition to net zero emissions by 2050 – current and future policy settings and approaches should not make this long-term transition more difficult or costly.

This submission focuses on:

- the characteristics of sensible national climate change policy;
- the need for Australia to adopt a 2050 net zero emissions target;
- the process for developing national climate change policy; and
- key issues and opportunities for sectoral emissions reduction.

Consistent with the scope of CCA’s review, this submission does not address issues relating to climate change adaptation. This does not diminish the importance of strong national action on adaptation.

Characteristics of sensible national climate change policy

The Victorian Government believes sensible national climate change policy should have the following characteristics:

1) Alignment with the Paris Agreement

National policy settings should enable Australia to play its full part in global efforts to hold warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The Paris Agreement indicates that this requires global greenhouse gas emissions to reach net zero in the second half of this century and will require countries like Australia to undertake rapid reductions in emissions in accordance with the best available science. For its part, the Victorian Government has a target of net zero emissions by 2050. This target should be adopted by the Australian Government.

2) Bipartisanship in the national interest

Australia’s partisan debate on climate change has not served the national interests. It has stalled effective action on climate change rendering future action more urgent, difficult and costly. It has created a highly uncertain environment for business and investors, with the result that Australia is missing out on new economic development opportunities. A bipartisan approach to climate change policy is urgently needed and this requires leadership from the Australian Government. All policy options should be on the table, with preferred options being determined in accordance with the policy principles set out below [point 6)].

3) A long-term perspective

Policies to meet Australia's 2030 emissions reduction target must be considered in the context of the action required to achieve net zero emissions by 2050, and of the commitment made in the Paris Agreement to reviewing targets every 5 years. Policy choices for meeting the 2030 target must be compatible with those needed to achieve the longer-term transition to net zero emissions. Choices made now should not foreclose future options or make future action more difficult or costly.

4) All aspects of the transition being addressed

The transition to a net zero emissions economy must be orderly and well-managed. Opportunities should be captured, and the impacts on communities most at risk from the phasing out of 20th century technologies fully addressed. The Australian Government should invest in the planning, education and training that will be essential if new low and zero emissions technologies are to be deployed. Increasing workforce skills provides the best opportunities for employment and productivity improvement.

5) Effective integration of energy and climate change policy

Deep reductions in emissions from energy production and consumption are essential if Australia is to meet its obligations under the Paris Agreement. Strong, stable and integrated national climate change and energy policy is required to deliver these outcomes and ensure the continued affordability and security of Australia's energy supply.

6) Application of a consistent set of policy principles

Principles to guide Australia's national climate change policy should include:

- **Environmental effectiveness** – policy should achieve real emissions reductions at the national and global levels consistent with the goals of the Paris Agreement and the best advice of scientists.
- **Cost-effectiveness** – policy should enable Australia to achieve emissions reduction targets at least cost taking into account direct costs, the costs of compliance and administration and indirect or flow-on costs across the economy.
- **Fairness** – the distribution of costs, benefits and risks across communities, households and businesses should be taken into account in policy design¹.
- **International competitiveness** – policy should take account of the impacts on the international competitiveness of Australian business. It should position business to succeed in the global low carbon economy of the future, while preventing unnecessary loss of competitiveness by trade-exposed activities. It should enable structural and social transitions to occur in a manner that is efficient, fair and just.

¹ In this context, it should be recognised that the Commonwealth's tax and transfer system is a key mechanism for addressing equity issues arising from the transition to a net zero emissions economy.

- **Comprehensiveness** – policy should pursue emissions reductions across all sectors, while recognising that there may be technical limitations – particularly in the near term – in the capacity of some sectors to reduce emissions. This will require an integrated toolkit of measures, with individual measures tailored to address the factors that influence decisions that impact on emissions outcomes in each sector.
- **Stability** – Australia’s national climate change policy framework should be stable and subject to change only in exceptional circumstances. The framework should:
 - include measures that can be **scaled** to meet increasing ambition in emission reduction over time, consistent with the Paris Agreement and the five-yearly review of Australia’s commitments under the Agreement;
 - provide **flexibility** to respond to new information, the evolution of international agreements and developments in technology; and
 - be managed through **predictable processes** – changes to measures should occur in accordance with formally scheduled review timetables that provide opportunities for consultation and sufficient time for affected stakeholders to adjust.

7) Recognition of the valuable role of States and Territories in climate change mitigation policy

National action and leadership on climate change is important. However, States and Territories have a legitimate and important role to play in climate change mitigation. This is consistent with international experience which sees sub-national governments playing a leading role in efforts to reduce greenhouse gas emissions.

Australia’s States and Territories have different economies, resource endowments and competitive advantages. They have a responsibility to ensure climate change mitigation efforts suit their particular circumstances, and that structural and social transitions resulting from the move to a net zero emissions economy are fair and just.

States and Territories hold important policy levers which can contribute to reducing emissions consistent with the principles set out above. In addition, they have multiple objectives that coincide with climate change mitigation efforts – including stimulating economic and jobs growth, and encouraging innovation and technology development. Policies and programs in these areas can make an important contribution to Australia’s climate change action.

It should also be noted that, in the absence of long-term, coherent national climate change policy, states such as Victoria should and will play a key role in progressing the transition to a net zero emissions economy.

Long-term target

The Australian Government should adopt a target of net zero greenhouse gas emissions by 2050. It must also ensure that interim targets – including Australia’s 2030 target – provide a pathway consistent with meeting this target. This pathway should also:

- Be consistent with Australia playing its full part in global efforts to meet the global average temperature goals of the Paris Agreement. In this regard, the Australian Government should closely consider the advice of the Climate Change Authority regarding Australia's emissions budget to 2050 provided in '*Reducing Australia's Greenhouse Gas Emissions: Targets and Progress Review—Final Report*'.
- Provide for a smooth transition. Deferring action today will only require greater action in the future, increasing costs and disruption to the economy.

Process for developing national climate change policy

The Victorian Government stands ready to work constructively and collaboratively with the Australian Government on climate change policy development and implementation. Effective collaboration between the Australian and State and Territory governments would be welcomed by business and ensure our collective endeavours are compatible, efficient and effective. The Australian Government should establish governance mechanisms to facilitate this constructive approach.

Australia's long-term low greenhouse gas emissions development strategy – which Parties to the Paris Agreement have been invited to submit to the UNFCCC Secretariat by 2020 – provides an excellent opportunity for genuine Commonwealth-State/Territory cooperation in national climate change policy development and implementation.

Key issues and opportunities for sectoral emissions reduction

This section of the Victorian Government's submission discusses key areas for action by the Australian Government, with a focus on: economic opportunities from clean energy; strengthening energy efficiency standards for residential buildings, appliances and equipment; new light vehicle and updated fuel efficiency standards; and carbon crediting for the land sector.

Economic opportunities from moving to clean electricity

Moving to a clean electricity supply is an urgent priority if Australia is to meet its obligations under the Paris Agreement. A clean electricity supply is critical given that pathways to reducing emissions from other sectors are contingent on clean electricity – for example, electric vehicles. Limitations on the capacity of other sectors (e.g. agriculture) to reduce their emissions also mean reducing emissions from the electricity sector is critical if Australia is to meet emissions reduction targets and play its full part in meeting the goals of the Paris Agreement.

Australia's partisan debate on climate change and energy policy is not only holding up efforts to reduce emissions, it is damaging Australia's economic interests. The status quo in relation to climate and energy policy is causing:

- *Uncertainty for investors in the electricity sector.* Lack of investment in the sector creates risks to supply security and places upward pressure on prices. Uncertainty can also lead to finance providers imposing a risk premium that increases the cost of investments, impacting on the economics of projects and wholesale electricity prices.
- *Risk of disorderly exit by current operators.* A clear and stable policy environment for the sector's transition will support the orderly retirement of ageing plant and allow sufficient

time for investment in new plant. Orderly exit reduces risk to supply security and unanticipated upward pressure on prices. It also allows for transitional arrangements and support to mitigate economic and social consequences for regional areas.

- *Broader business confidence is undermined.* The problems arising due to the failure of national policy have adverse implications for broader business confidence, particularly for large energy users. Calls from the AiGroup and Business Council of Australia for a bipartisan approach to energy and climate change policy highlights this concern.

Strong, stable and integrated national climate change and energy policy is required to deliver Australia's Paris obligations while ensuring the continued affordability and security of Australia's energy supply. Transitioning the National Electricity Market (NEM) to clean electricity will create jobs and build skills and capabilities across the sector. If well-managed, it will see Australia avoid large future adjustment costs, give consumers greater control over their energy supply, and strengthen energy security. It will also create opportunities for international exports of services, leverage capital and attract investment.

National electricity sector policy must also actively address the implications for regional communities affected by the transition of the energy sector. This requires that the transition is planned and well-managed, including development of regional economic diversification strategies. Planning, education and training provide the best opportunities for employment and productivity improvement.

The 2017 *Independent Review into the Future Security of the National Electricity Market* (the "Finkel Review") noted that a lack of a long-term emissions reduction policy for the energy sector is creating investment uncertainty to the detriment of security, reliability and energy prices. To address this, the final report recommended a Clean Energy Target (CET) aimed at lowering emissions and prices.

While in July 2017, COAG Energy Council endorsed 49 of the 50 recommendations of the Review, the Commonwealth Government subsequently announced that it would not implement the CET, instead supporting a National Energy Guarantee (NEG). The NEG was aimed at bringing together climate and energy policy. The Commonwealth Government subsequently announced that they were abandoning the emissions obligation of the NEG.

The Victorian Government has always preferred to see a sensible, national approach to integrating carbon and energy policy consistent with international commitments, and will continue to work collaboratively through the COAG Energy Council to support the provision of reliable, secure and affordable electricity.

However, in the absence of strong, stable and integrated national policy, the Victorian Government is committed to ensuring Victoria benefits from the economic opportunities on offer. The Victorian Government is taking steps to commence the state's transition to a modern energy sector through:

- a legislated target of net zero emissions by 2050 with five yearly interim targets to keep Victoria on track to meet this target

- VRET, which sets a target of 25 per cent of electricity generation in Victoria coming from renewable energy sources by 2020 and 40 per cent by 2025, as well as a commitment to expand these targets to 50% by 2030
- encouraging the application of energy storage in Victoria, beginning with \$25 million for utility scale renewable energy storage projects
- actions to improve energy efficiency and energy productivity in all sectors of the economy
- the New Energy Technologies Sector Strategy that includes \$20 million for the New Energy Jobs Fund – for more detail, see https://www.business.vic.gov.au/_data/assets/pdf_file/0004/1275457/New-Energy-Technology-Strategy-web-version-20160308.PDF
- supporting the digitalisation of the sector through the Energy Data Hub Concept Study addressing consumer energy data access and sharing issues, and establishing the Centre for New Energy Technologies (C4NET) to encourage industry collaboration and to accelerate the integration of new energy technologies using Victoria's rich energy data.

These measures will stimulate substantial new private capital expenditure and contribute to direct economic activity and employment from investment in renewable energy generation, particularly in regional Victoria.

Hydrogen offers significant opportunities for economic growth and the potential to assist in the decarbonisation of Australia's energy sector. Victoria has announced the Victorian Hydrogen Investment Program to ensure our state captures the full benefits of a green hydrogen economy.

Victoria will also leverage its leadership role at COAG Energy Council to ensure the National Hydrogen Strategy enables opportunities for national coordination, action and commitment to position Australia to compete globally. However, state action and commitment will need to be supported by strong Commonwealth government leadership and investment, which will be critical to delivering an effective hydrogen development pathway for Australia.

National action to improve energy efficiency

National action to improve energy efficiency can deliver significant and immediate emissions reductions at low cost, while helping households and businesses reduce energy costs, contribute to a smooth energy transition and improve how buildings perform in extreme temperatures. Victoria is working actively with other Australian jurisdictions, including the Australian Government, to drive energy productivity improvements through the implementation of the National Energy Productivity Plan (NEPP).

Analysis consistently points to substantial opportunities to reduce emissions and achieve economic productivity benefits through energy efficiency².

² For example, see ClimateWorks Australia 2014, *Pathways to deep decarbonisation in 2050: How Australia can prosper in a low carbon world: Technical report*, Melbourne

The Australian Government has a key role to play in driving improvements in energy efficiency. Policy levers available to the Australian Government can facilitate energy efficiency action at the scale required to achieve substantial emissions reductions.

The strengthening of energy performance requirements for new commercial buildings under the National Construction Code 2019 is a step in the right direction and the development of a Trajectory for Low Energy Buildings – which has resulted in regulatory work to increase the energy performance of residential buildings in 2022 – will result in significant emissions reduction for this sector.

The work underway on energy performance standards for new buildings is complemented by the expansion of the Trajectory for Low Energy Buildings to existing buildings, with policy options to be considered by COAG Energy Council in December 2019. While the predictions are that by 2050 half of all of Australia's buildings will be constructed after 2019 and therefore built to higher energy performance standards, the impact of climate change on buildings that exist now will be more significant. Vulnerable households living in inefficient homes that predate energy efficiency standards will be particularly impacted.

The 2019/20 review of the NEPP provides a timely opportunity to analyse the contribution energy efficiency can make in the energy transition and the cost-effective pathways to emissions reduction.

The Victorian Government believes the Australian Government should continue to strengthen the role of energy efficiency and energy productivity in contributing to long-term emissions reductions. The NEPP should be strengthened and appropriately resourced to achieve energy productivity benefits over the long term (to 2030 and beyond). Key actions to be considered include:

- Ongoing support for the strengthening of energy performance requirements for residential buildings in the National Construction Code (NCC) now underway, and the trajectory to strengthen these requirements over time. As part of the Trajectory for Low Energy Buildings, support for actions to improve the energy efficiency of existing buildings that have national applicability, while acknowledging that some of the policy levers will be state and territory based. This should include a focus on policy options that address barriers to improved energy efficiency experienced by vulnerable households, at scale.
- Continuing to provide strong support for successful policies and programs, including the Equipment Energy Efficiency Program (by expanding the products covered and streamlining regulatory approval processes for minimum standards for appliances and equipment), ARENA funding for energy productivity, the Clean Energy Finance Corporation and the Commercial Building Disclosure Program.

New light vehicle standards and updated fuel efficiency standards

Transport accounts for around one sixth of Australia's emissions. Emissions from the sector must be reduced for Australia to play its part in global efforts to meet the goals of the Paris Agreement and if net zero emissions are to be achieved by 2050.

States and Territories have an important role to play in reducing emissions from the transport sector – for example, by encouraging modal shift and enhancing integrated transport and land use planning.

It is critical that action is taken to reduce greenhouse gas emissions from motor vehicles and to accelerate the rollout of zero emissions vehicles over time – including electric vehicles powered by clean electricity.

The Victorian Government believes introduction of effective vehicle emissions standards is a key opportunity to reduce transport emissions. The Australian Government’s Ministerial Forum on Vehicle Emissions 2016 draft Regulation Impact Statement (RIS) *Improving the efficiency of new light vehicles* and *Vehicle Emissions standards for cleaner air*, as well as the *Better fuel for cleaner air discussion paper* indicated a new fuel efficiency/CO₂ emissions standard could reduce Australia’s greenhouse gas emissions while also reducing fuel costs for vehicle owners, and that proposed changes to vehicle noxious emissions and fuel quality standards would complement this reform while generating major public health benefits.

The Victorian Government supported the broad direction of the proposed light vehicle and fuel quality standard reforms, noting the net benefits of RIS’ draft vehicle emissions standards increased in line with the level of ambition. The Victorian Government submission indicated the final RIS should investigate the option of a stronger Australian vehicle fuel efficiency standard than originally proposed. The Victorian Government notes some recent changes to national fuel quality standards in 2018 were driven primarily by environmental and public health concerns and have limited relevance for greenhouse emissions. The Victorian Government continues to support the urgent introduction of stronger vehicle fuel efficiency standards as a key emissions reduction opportunity.

Electric vehicles, as a key method of switching from fossil fuels, will become an increasingly important means of achieving emissions reductions in the transport sector, contingent upon clean electricity. The *Improving the efficiency of new light vehicles* RIS raised the possibility of giving importers credits for importing electric and other low-emissions vehicles. While such credits may increase the availability of electric and other low emission vehicles in the Australian market, market uptake of these vehicles will require further action by all jurisdictions. The Ministerial Forum’s February 2016 *Vehicle Emissions Discussion Paper* canvassed a broader suite of measures to foster the market roll-out of electric and other low emissions vehicles, including: information and education programs, taxation measures and fleet purchasing policies to complement vehicle emissions standards. The Victorian Government is disappointed that the Ministerial Forum has not examined these complementary measures further and urges the Australian Government to do so.

ClimateWorks’ April 2016 report *The Path Forward For Electric Vehicles In Australia* highlighted specific opportunities for action, including:

- development by the Australian Government of a national electric vehicle (EV) roadmap;
- measures to increase demand for lower emission vehicles and fuels (e.g. up-front purchase rebates, parking, registration and transit lane benefits);
- measures to encourage the supply of supporting infrastructure;

- incorporating low emission vehicles into government vehicle fleet purchasing; and
- amending Luxury Car and Fringe Benefits Taxes and novated leasing arrangements to incentivise a shift to low and zero emissions vehicles.

Infrastructure Victoria's 2018 review into automated and zero emissions vehicle infrastructure concluded that the transition to these vehicles would provide a range of important benefits for the state, including lower greenhouse gas emissions, reduced traffic congestion, improved accessibility, lower disadvantage and higher economic growth. The review also highlighted some of the strategic challenges that governments will face in ensuring an effective transport transition. These include increased demand on the energy network, changes in some transport-related industries, and the need for further development of public transport. The Victorian Government is willing to work constructively with the Australian Government and other States and Territories to develop and implement measures to support the uptake of low and zero emissions vehicles. **The Victorian Government welcomes the inter-jurisdictional work underway to develop a long-term national strategy to transition the transport sector towards the use of lower and zero emissions vehicles.**

Carbon crediting in the land sector

Research, including by CSIRO³ and ClimateWorks⁴ (2014), finds that the Australian land sector has significant potential to store carbon, and to mitigate and offset greenhouse gas emissions over coming decades. If well-managed, land sector changes can reduce Australia's emissions and provide important co-benefits including biodiversity, water, soil, recreation and new regional/rural economic opportunities.

However, large-scale, cost-effective carbon emissions reductions and sequestration in the land sector require businesses, farmers and other landholders to have the necessary information and incentives to actively pursue carbon sequestration opportunities. Land sector projects are administratively complex and carbon and environmental plantings can take decades to generate large-scale emission reductions. Long-term, stable and transparent national policy is essential for building confidence to realise cost-effective carbon sequestration opportunities in Australia's land sector.

The Victorian Government believes a crediting mechanism is required to provide effective and efficient incentives for the land sector. The existing Emissions Reduction Fund (ERF) and its forerunner, the Carbon Farming Initiative (CFI), have achieved emissions reductions and carbon sequestration in Australia's land sector. However, the **existing ERF arrangements should be reformed to provide more effective and efficient incentives for reducing emissions from the land sector**. This should include addressing the shortcomings in the ERF including: the absence of a long-term source of demand (other than through Federal expenditure); the absence of an effective secondary market; and the lack of long term incentives due to the current 10 year contracts which are too short for many sequestration projects to generate positive emission reductions.

³ CSIRO 2015, Potential for Australian land-sector carbon sequestration and implications for land use, food, water, and biodiversity: Report for the Australian National Outlook 2015, Australia.

⁴ ClimateWorks Australia 2014, *op. cit.*

The Australian Government should also continue to develop a broader range of methodologies to better reflect the range of carbon abatement opportunities across Australia’s land sector. Current methodologies favour certain types of land sector projects, such as ‘savannah burning’ – which are geographically limited in scope. The limited range of available land sector methodologies has resulted in ERF funding being unevenly distributed between States and Territories. **New ERF methodologies appropriate for land management practices in southern states are required.**

The Victorian Government recognises the value of Victoria's Crown land to sequester carbon, particularly those areas of Crown land that can deliver complementary outcomes and co-benefits across a range of values. Crown land provides a range of goods and services to the Victorian community and with the emerging market for carbon there is an opportunity to facilitate carbon sequestration projects by private entities on Crown land for mutual benefit – to sequester carbon and reduce emissions, optimise biodiversity outcomes and present other opportunities (i.e. recreation).