

**AIGN Comments on
Climate Change Authority's *2020 Review of
Emissions Reduction Fund
Consultation Paper* (April 2020)**

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1 INTRODUCTION

AIGN welcomes the opportunity to contribute to the Climate Change Authority's (CCA) legislated 2020 review of the Emissions Reduction Fund (ERF) by responding to the *2020 Review of the Emissions Reduction Fund Consultation Paper* (April 2020).

2 ABOUT AIGN

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. The CCA should note AIGN's broad membership base, and resultant diversity of approaches on climate change and energy policy.

In conjunction with this submission, the CCA should consider the submissions made by individual AIGN members. AIGN's policy principles form the basis of our input into climate change policy development (Attachment 1). It is critical to our members and the industries they represent, that effective, efficient, and enduring policies are put in place to support investment and orderly transition to a low-carbon economy.

AIGN supports the Government's overall objective of a national climate change policy that reduces domestic greenhouse gas emissions at least cost and supports effective international efforts, without compromising economic growth.

3 CONTEXT

AIGN supports the development of policy that responds to the challenges of reducing emissions while protecting energy security and reliability.

Whether sectoral or economy-wide, AIGN strongly recommends an 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.

3.1 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, drawing on diverse expertise in both public and private sectors. Any review of climate policy frameworks should be cognisant of where this strategy aims to take Australia's emissions profile and economic activity.

3.2 Economic overview

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

Within the context of 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.

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.

3.3 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 several potential future policy scenarios (which is, of course, a challenging criterium to meet).

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.

4 FEEDBACK ON CONSULTATION PAPER

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

These sectors can deliver large scale abatement, but typically have high capital expenditure requirements, which limits their ability to deliver projects through the ERF reverse-auction model.

AIGN recognises the remit of this review is exclusively the ERF and as such, recommendations and findings are expected to address the relevant legislation.

The Government has shown sustained interest in attracting abatement from industries that our members belong to (sometimes referred to as ‘hard-to-abate sectors’); the ERF has not been successful in delivering abatement in these sectors. AIGN made a submission to the King Review, which looked at encouraging abatement in these sectors but with a somewhat broader spectrum covering the ERF as well as, potentially, other initiatives. Should the CCA wish to reflect on whether the ERF is the appropriate vehicle for encouraging emissions reductions projects in all sectors of the economy, we address both ERF and non-ERF options for delivering abatement.

4.1 Streamlining existing ERF processes

The ERF is not ideally suited to foster abatement in most industrial sectors, though it has been more successful in drawing through land-based abatement.

AIGN is open to exploring options for improving the ERF to address this gap. Areas for review might include:

- Additionality requirements – finding a suitable balance between incentivising abatement and maintaining environmental integrity
- Crediting periods – broadening the range of ERF projects may require thinking differently about crediting rules to account for vastly differing projects and circumstances
- Facilities method – it would be prudent to revisit the detail, including incentives for part-facility projects and other criteria

AIGN members have also provided some specific suggestions on existing issues with the ERF:

- Facilities method – rather than requiring a categorical statement that the project would not have occurred in the absence of the ERF (or the ERF and other factors), align the statement of activity intent more closely with the offset integrity standards within the Act – e.g. require a statement that the project was “unlikely to occur in the ordinary course of events”
- Adjust offset standards to better reflect likely circumstances within industrial operations (e.g. projects may be brought forward in time, be increased in scale, made more certain or a higher priority by the incentive provided by the ERF)
- Industrial electricity and fuel efficiency (IEFE) method – the persistence model tool is still unavailable and requires project managers using the operating emissions model (sub-method 2) to use default decay factors. The decay factor table reduces the project value from 100% in year one, down to 25% of the abatement value by the seventh year; this is extremely conservative. Without a persistence model tool that covers a range of different fuel types and electricity, project managers cannot calculate their own decay factor and are at a disadvantage (which may certainly discourage projects from being put forward).

- There is currently no ERF method for discreet non-energy related GHG reduction projects which relate to single plants at a facility (e.g., process changes or investment in N₂O abatement). Proponents must include the entire facility's emissions under the facilities method - this does not allow a boundary to be drawn around the process change or abatement project to simplify a measurable project; it also increases audit costs dramatically.

4.2 Climate Solutions Fund

There is substantial opportunity for the Government to work with industry to leverage the \$2bn Climate Solution Fund to target late stage research, development, and deployment projects such as large-scale industrial energy efficiency, low-carbon technologies such as integrated solar thermal, carbon capture and storage, and other technologies.

AIGN also supports a review of the remit of agencies such as ARENA and CEFC to promote a technology-neutral approach and support the pull-through of all low-emission technologies.

4.3 Beyond the ERF

When it comes to encouraging abatement in hard-to-abate sectors, it is worth considering whether the ERF is suited to achieving this without significant redesign, which may in turn compromise the effectiveness of the scheme for the land sector offset-type abatement projects it has had success with. Some concepts being considered at present by the Government include:

4.3.1 Safeguard mechanism crediting below baselines

This would require considered and targeted rules to meet the dual objectives of driving abatement and maintaining scheme integrity. Conditionally, it would have the potential to provide opportunities for projects which have not been feasible under the ERF due to issues such as: scale (e.g. a small project in

large plant); complexity or ineffectiveness of ERF methods; cost of application for ERF methods; capital expenditure.

Other issues would also need to be addressed, including treatment of facility closures, NGGI accounting, type/s of permits to be used, and treatment of international units if relevant.

4.3.2 Technology-focused opportunities

In general, sensible co-funding strategies can be a useful way to address the kinds of hurdles faced by projects based on emerging technology. These strategies can secure capital for newer technologies that have not had time to prove themselves in the marketplace and can be a difficult risk proposition for commercial lenders. Government support could play a useful role here. Deeming credits from such projects could be an option to address questions of project viability over its lifetime.

4.3.3 Knowledge, innovation and capability

There is a strategic need for further research, development and deployment support of low emissions and clean energy technologies.

Directing ARENA and the CEFC to channel funding into research, development, deployment and early stage commercialisation of these technologies would be a sensible option for smoothing the transition to a low carbon economy.

4.4 Complementary policies

While complementary policies have a role to achieving Australia's emissions reductions, AIGN's preference is for an effective efficient 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,¹ which advocated an agreement between Commonwealth and State/Territory Governments to clearly delineate responsibility for all areas of the climate change policy portfolio, and

¹ <https://www.finance.gov.au/publications/strategic-reviews/>

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 governments 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 completed with input from stakeholders.

4.5 Carbon credit market

Considering Australian emissions reduction targets, as per the Paris Agreement, AIGN members have a strong interest in seeing a deep and liquid market for carbon credits develop.

The market for Australian Carbon Credit Units (ACCUs) is limited and largely dominated by the ERF.

The CCA could usefully investigate the liquidity of the ACCU market for potential future compliance needs within the ERF safeguard mechanism, and more broadly to support Australia's emissions reduction trajectory. This could include, for example, improving the flow of information to support market growth and price discovery (e.g. a comprehensive supply-side public registry of ACCUs to counterbalance the publication of demand-side information relative to liable entities) and access to international units.

4.5.1 International units

The role of ACCUs is also determined by their relationship with the international carbon market.

AIGN supports action to reduce emissions and deal with climate change. The Australian Government's commitment to the Paris Agreement is the cornerstone of our country's ongoing contribution to the global effort to reduce emissions. Australia has built a strong foundation for further action through our commitment to the Kyoto Protocol, and our action to reduce emissions based on our Kyoto Protocol commitments.

As a logical extension of this position, AIGN has long supported Australian entities having the ability to participate in the international market, both by supplying high quality units, and by being able to purchase them. There is no rational basis on which to prevent Australian suppliers of verifiable emissions reductions to provide units to the international market, just as there is none for excluding verifiable international abatement from being recognised within Australia.

4.5.2 Carbon credit definitions

On a technical note, the language often used around emissions reduction units, especially terms like "Kyoto unit" and "non-Kyoto unit" will need to be reassessed and updated for a Paris Agreement world. While issues around certain aspects of the Paris Agreement remain open there may be some ambiguity as to the best approach but it would certainly be a worthwhile endeavour to work through various likely policy scenarios once the Kyoto Protocol second commitment period winds up.

5 CONCLUSION

The ERF has been useful in driving abatement from selected activities in the land sector. However, AIGN does not believe it is well-suited to driving large-scale abatement in the resources and industrial sectors. Land sector projects are fundamentally different from the kinds of abatement that could be encouraged in sectors such as manufacturing and transport. Therefore, AIGN recommends exploring other policy options for encouraging emissions reduction projects in hard-to-abate sectors, in part to avoid creating potential hurdles for the sectors in which the ERF has proven successful.

Thank you for the opportunity to provide input to the CCA's 2020 review of the ERF. AIGN welcomes future opportunities to engage in this process. Please contact AIGN's Chief Executive, Susie Smith (ceo@aign.net.au) with any questions about this submission.

AIGN Policy

Principles

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.²

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.

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 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.