Australian Government
Climate Change Authority

Special Review on Australia's climate goals and policies

What is the Special Review?

The Climate Change Authority has conducted a wide ranging review into Australia's climate policies. The third and final report of the Special Review recommends what action Australia should take to implement outcomes flowing from the Paris conference.

How did the Authority approach Report Three of the Special Review?

In making its recommendations, the Authority considered the recent history of climate policy in Australia, the characteristics of different sectors of the economy, and the importance of a stable, effective set of policies to encourage investment in low emissions technologies and practices.

The Authority's Final Report on Targets for the Special Review noted that the final report of that review *"will be the vehicle for the Authority to present its analysis and recommendations* ***on how Australia's actual post-2020 targets might be most appropriately and cost-effectively implemented"*****,** consistent with the terms of reference.

What is the Authority recommending in Report Three?

The Authority recommends putting in place a coordinated set of policies to capture emissions reduction opportunities in different sectors: in other words, a policy toolkit. Around the world, countries tend to use a range of measures geared around the different emissions reduction opportunities in their economies.

The toolkit would feature a durable policy architecture, that builds carefully on existing policies including the Emissions Reduction Fund and the safeguard mechanism and incorporates some new policies, which can be scaled up to help achieve the Paris 2030 target and deliver deeper emissions reductions over the longer term. Figure 1 shows the relationship between current policy settings and the Authority's recommendations for each of the main sectors that produce emissions.

The Authority recommends the entire toolkit is subject to review every five years starting in 2022.

Reviews should assess Australia's progress in reducing emissions, as well as that of key countries, particularly our trade competitors.

The 2022 review should include assessing whether the enhanced safeguard should remain in place or another policy such as a market mechanism should be introduced and also cover transport.

The electricity sector

In the interests of policy stability and certainty, the **current Renewable Energy Target** should remain in place.

The Authority recommends that an **emissions intensity scheme**, a type of market mechanism to reduce emissions, be introduced in the electricity sector in 2018 (see Box). The scheme would set an emissions intensity baseline for the sector, which should reach zero well before 2050. Generators could purchase credits from energy efficiency projects to help meet their baseline obligations.

Key industrial and resource sectors

The Authority recommends **enhancing the existing safeguard mechanism** for three key industrial and resource sectors (known as 'direct combustion' – where facilities burn fuels to produce heat, 'industrial processes' – like cement production and 'fugitives' (like coal mining and LNG production).

- Safeguard mechanism 'baselines' that set limits on facilities' emissions should decline in line with Australia's Paris commitments.
- Coverage of safeguard baselines should be extended to more facilities.
- The Emission Reduction Fund should pay (through auctions) for projects to help safeguard facilities reduce emissions.
- To keep costs down and provide flexibility, safeguard facilities could use Emission Reduction Fund credits from the land sector and international permits and credits with some restrictions to reduce their emissions.

In general, the Authority recommends that Emissions Reduction Fund auctions continue until other measures, such as the recommended enhanced safeguard mechanism, provide a source of private demand for Emissions Reduction Fund credits. Over time, budget funding will play a decreasing role in reducing emissions.

An emissions intensity scheme for the electricity sector

One of the key elements of the toolkit is an emissions intensity scheme for Australia's electricity supply. The scheme would set a baseline for emissions intensity per kilowatt hour that would be linearly ramped down over time, reaching zero well before 2050. It would be a 'closed' scheme in which generators who operate above the allowed intensity will have to get permits. These can be purchased from generators who operate below the allowed intensity, or from eligible energy efficiency projects. There would be no revenue or cost to government.

To illustrate, today the average emissions intensity for Australia's electricity supply is about 800 grams CO_2 per kilowatt hour (g/kWh), well above countries like Norway (10 g/kWh) or France (60 g/kWh).[1]

An emissions intensity scheme would be a cost-effective, flexible way of reducing emissions from Australia's electricity supply. Over time, this will help other sectors reduce their emissions through switching from petrol, diesel and gas to lower-emissions electricity.

[1] Climate Change Authority calculation based on International Energy Agency 2015, *CO_2 emissions from fuel combustion*, Paris.

Other sectors

On **transport**, the Authority recommends that Australia introduce emissions reduction (carbon dioxide) standards for light vehicles, and conduct a cost-benefit analysis to investigate carbon dioxide standards for heavy vehicles.

Existing **energy efficiency** information and regulation programs such as building codes and appliance standards, in line with the National Energy Productivity Plan, should be continued and strengthened where cost-effective.

Current **low emissions innovation programs should continue** including through funding to CSIRO, research hubs and universities and other organisations.

Waste and synthetic greenhouse gases are small contributors to Australia's emissions and already subject to regulation. These regulations should be enhanced.

Addressing competitiveness concerns

Undesirable competitiveness effects can result when there are policy differences between countries.

An emissions intensity scheme in the electricity sector means price impacts on all businesses will be lower than under many other policies, and competitiveness concerns are likely to be less marked.

Safeguard facilities in emissions-intensive trade-exposed industries would be able to use robust, low cost international credits and permits to meet all their obligations and manage competiveness concerns.

International permits and credits

As a risk assurance measure to guard against higher than expected emissions growth, the Authority recommends the Government set up a fund to purchase robust international emissions reductions.

Note to Figure 1: Dotted boxes indicate areas where there appears to be a case for including a policy in the toolkit but further investigation is required. This diagram focuses on Commonwealth and nation-wide policies; some state-based policies that reduce emissions are not included here for simplicity. ERF auctions continue: in sectors covered by the enhanced safeguard mechanism to provide transitional assistance; in the land sector until the enhanced safeguard mechanism provides a source of demand; for ERF energy efficiency projects until the emissions intensity scheme provides a source of demand; for transport projects until light vehicle standards are in place; and for waste and synthetic greenhouse gas projects until enhanced regulation is in place. **Source**: Climate Change Authority.

Figure 1 Transition to the policy toolkit