

Business
Council of
Australia



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Submission to

**The Renewable Energy Sub Group Secretariat
Department of Climate Change**

In response to

**Design Options for the Expanded National Renewable
Energy Target Scheme Discussion Paper**

July 2008

INTRODUCTION

The Business Council of Australia (BCA) represents the Chief Executives of over 100 of Australia's leading companies. The BCA develops and advocates, on behalf of its Members, public policy reform that positions Australia as a strong and vibrant economy and society. The businesses that the BCA Members represent are amongst Australia's largest employers and represent a substantial share of Australia's domestic and export activity. Therefore they have a significant interest in the scope and direction of economic reform.

In its submission to the 2007–08 federal Budget, the BCA set a goal for Australia to lift its living standards into the top-five band of the world's developed economies by 2012 and in the process, provide additional opportunities and the means to pass on prosperity to future generations.

Such an economic growth goal is not at odds with effective environmental management, but does require reforms aimed at 'internalising' environmental costs and risks, most notably with regard to greenhouse gas emissions and the risks associated with climate change. The introduction of such reforms in the absence of a global response however, must be in a manner that does not disadvantage Australia's competitiveness and ensures a smooth long term transition to a low emissions economy in line with global action.

With the election of the current federal government there is a renewed focus on national and international responses to climate change and in particular the design of a national emissions trading scheme.

The federal government is taking a leadership role in establishing clear national policy, governance and legal frameworks which facilitate the reduction of green house gas emissions and prepare Australians to adapt to the possible impacts of climate change.

The federal government has identified both the setting of emissions reduction targets and the implementation of a national emissions trading scheme by 2010 as key components of its climate change policy response.

The federal government has simultaneously announced the implementation of a renewable energy target (RET) with an expected starting date in mid 2009, a review in 2015 and phasing out between 2020 -2030.

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The key challenge in considering the RET policy is whether it will ensure Australia can achieve its emissions reduction in the most cost effective way.

Whilst the RET may stimulate the development of renewable energy sources it remains unclear whether this will be done in the most economically efficient manner and whether it will bias the options for renewable energy expansion in a narrow manner.

The implementation of the Australian emissions trading scheme should be the primary vehicle to achieve emissions reduction.

Additional policies and programs should only be introduced to address a specific market failure not addressed through the emissions trading scheme.

The BCA has undertaken extensive research and work with its members to identify the key considerations and principles that should underpin international approaches to emissions reduction, the setting of emissions targets and the design of a national linkable emissions trading scheme.

Throughout this work it has become apparent that the plethora of federal and state based programs related to emissions reduction and the take-up of alternative forms of energy supply have the potential to reduce the effectiveness of the emissions trading scheme, increase regulatory and administrative burden of business and prevent the attainment of lowest cost emissions reduction.

Many of these programs were initiated at a time when there was not a coherent national approach to climate change and no commitment to an emissions trading scheme. This has now changed and consideration needs to be given as to whether the implementation of the RET scheme should continue in light of the implementation of the Carbon Pollution Reduction Scheme announced by the federal government.

PRINCIPLES TO GUIDE EMISSIONS REDUCTION RELATED PROGRAM DEVELOPMENT

The essential starting point for any set of principles to guide program development should be the policy framework features identified by Minister Wong in her speech of 6 February 2008:

- An efficient and effective national emissions trading scheme will be 'at the heart' of emission reduction efforts;

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- Measures put forward to be additional to emissions trading must clearly identify and demonstrably address market failure; and
- The emissions trading scheme and any additional measures must 'reduce emissions at least cost' and 'push down the costs of emissions reductions'.

To these the following principles should be added:

- Where an area of the economy which has emissions is not included in the emissions trading scheme, programs should be developed over time; and
- Any measure introduced in addition to the emissions trading scheme should be introduced as part of a national response and in a nationally consistent manner.

ISSUES RELATED TO THE PROPOSED RET

An assessment of the RET in light of these principles would suggest the RET policy should not be proceeded with.

Other issues that warrant consideration include the following.

Modelling

The discussion paper has sought responses on design detail in the absence of modelling to explain the impact of alternative design options.

The discussion paper explores possible quantum of renewable energy over time as well as percentage targets. Without the modelling of the impact of emissions trading on energy consumption, determining the quantum of renewable energy required and therefore the annual targets is not possible.

Similarly it is unclear how either approaches to banking will impact on electricity prices and the operation of the RET policy in the absence of modelling and the appreciation of the intersection with the emissions trading scheme.

Trade exposed emissions intensive industries (TEEIs)

Both the RET discussion paper and the federal government's green paper have not addressed the impact of a RET on TEEIs and what arrangements will be considered. In

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the absence of the supplementary paper on TEEIs which the department has indicated is forthcoming it is worth noting some key issues.

At a minimum should the RET proceed the approach will need to be equivalent to that which has been taken in both the Victorian and NSW State schemes i.e. the amount of electricity consumed by emissions intensive, trade exposed industry should be netted out from total electricity consumption and excluded from the assessment of parties liable to meet the annual RET targets.

Such an approach will assist in managing the impact and not lead to an increased burden on other businesses, other than that related to the price impact.

Duration and phase out

Should the government proceed with implementation of the RET then a clear strategy for the conclusion of this policy at the earliest time should be identified as part of the final design detail. A key element of such an approach should be the alignment of the RET penalty price with the emissions trading permit price from the commencement of the emissions trading scheme.

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