

Business
Council of
Australia



submission

Submission to the Department of the
Environment on the Emissions
Reduction Fund Green Paper

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*Working to achieve
economic, social
and environmental
goals that will benefit
Australians now and
into the future*

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The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

The Australian Government released the Emissions Reduction Fund Green Paper (the green paper) in December 2013.

The BCA submission seeks to make a positive contribution and to raise a number of matters in relation to the design and development of the Emissions Reduction Fund (ERF) as well as the safeguard mechanism.

Australia's policy response to the risks associated with climate change should be workable, at lowest possible cost, fiscally responsible, not make Australian industries uncompetitive if competitor nations do not take equivalent actions and provide the foundations for a long-term policy framework that is responsive to international negotiations.

It is only a strong economy with strong businesses that will have the capacity to invest in the technologies and process improvements to reduce emissions.

The BCA remains of the view that any policy instrument designed to address reductions in greenhouse gas emissions must be done within the context of a national energy policy which drives the development of our energy resources, supports a strong energy export industry, and provides for the secure, reliable and efficient delivery of competitively priced energy to households and businesses.

Key points

Australia should have a comprehensive and coherent energy policy that maximises Australia's competitive advantage in energy through efficient markets and drives growth in our energy exports, while minimising Australia's greenhouse gas emissions in line with global efforts.

With the current Energy White Paper process and the review of the Renewable Energy Target (RET) as well as the development of the ERF occurring over similar timeframes, it is essential to ensure the broader goals of energy policy shape the detail of policies designed to reduce greenhouse gas emissions.

The government is seeking the repeal of the current carbon pricing mechanism through the parliament. While the BCA urges the parliament to pass the repeal legislation, it also asks the government to set out a clear process for how it will manage the impact of delay in the repeal process.

The successful design of the ERF and safeguard mechanism would include the following features:

- Supports Australia in reducing global greenhouse gas emissions in line with global efforts using a single national approach, rather than a plethora of federal and state-based approaches.
- Supports Australia's future economic growth.
- Maintains the global competitiveness of Australia's industries.
- Provides for reductions in greenhouse gas emissions at lowest cost.
- Maintains the secure, reliable and competitively priced supply of energy.
- Supports a stable, technology-neutral, long-term investment environment.
- Prevents market distortions and reduces regulatory complexity.

The design of the ERF should encourage participation through administratively streamlined and transparent processes, as well as, approaches to measuring additionality and verification of emissions reductions that are in line with the level of risk.

While the green paper has identified energy efficiency opportunities as a possible source of abatement, care will need to be taken in assessing these, for example, to ensure there is not the potential for multiple funding sources of the same project and the duration of abatement.

The government has made clear its intention not to collect revenue through the safeguard mechanism and that the ERF and safeguard mechanism are 'designed to allow businesses to continue ordinary operations without penalty'. These requirements should be expanded to explicitly ensure that the safeguard mechanism does not impose a burden that disadvantages Australia's emissions intensive trade exposed or import competing industries.

The design of the safeguard mechanism will require comprehensive consultation with business on design elements including setting the baseline, measures of business-as-usual, approach to expansions, treatment of new entrants and options to address variations on business-as-usual. For this reason, time should be taken between now and 1 July 2015 to get the design detail right and the legislation in relation to the safeguard mechanism should be deferred until that time.

The BCA supports the government's consideration of the use of international credits as part of its development of the ERF, given international emission units currently present the lowest-cost way of meeting the government's 5% by 2020 target, and would have minimal impact on business and household costs.

Importantly, the approach to the ERF should provide maximum flexibility to business in the delivery of outcomes, while minimising market distortions between sectoral participants.

In parallel with the development of the ERF and safeguard mechanism, the government should continue to work with the states to reduce energy and emissions reduction red tape.

Recommendations

This submission makes the following recommendations:

- ensure Australia's economic growth and competitiveness are not adversely impacted as a result of implementing the ERF and safety mechanism
- integrate the design of the ERF into a broader energy policy framework
- ensure that the ERF and the safeguard mechanism do not impose a burden that disadvantages Australia's emissions intensive trade exposed or import competing industries
- the safeguard mechanism should not be legislated with the first tranche of the ERF legislation in 2014 as consultation is still required on the design detail
- design the ERF to include:
 - activity, facility, sub-facility and aggregated measures of abatement as options
 - a broad range of abatement methodologies approved as quickly as possible building on established Carbon Farming Initiative, state and international methodologies
 - additionality measured as whether the proposed project provides for reductions in emissions or emissions intensity
 - reverse auction process supports price discovery and is supported by early release of guidelines and operating rules
 - use of the prequalification process to weed out projects unlikely to succeed to minimise the risk of needing a make-good provision
 - where appropriate further streamlined national greenhouse and energy reporting scheme (NGERS) reporting should be used as a basis for any data collection, monitoring and verification.
- design the safeguard mechanism such that it does not impose a burden that disadvantages Australia's emissions intensive trade exposed or import competing industries and includes:
 - flexibility in choice of baseline measures including both absolute and intensity based measures

- capacity to manage variations in the production cycle and impacts on business-as-usual
- options to respond to emissions beyond business-as-usual levels
- use of five years actual measures of emissions on new projects for setting of baselines.
- reconsider the five year limit on ERF funding bids so as to provide for longer-term investments and to prevent front ending of project costs
- reconsider the timing of the proposed 2015 review of the ERF and safeguard mechanism
- the government should make sure it has the capacity to purchase international permits as part of the development of the ERF and provide for access to international permits as part of the safeguard mechanism.
- in developing the ERF the government should consider establishing a strategic reserve within the design for the purchase of quality, verifiable and reportable international emissions certificates as a buffer and in case domestic abatement opportunities are not sufficient to meet the target, or are at a cost much higher than the international permit price
- the government should continue to work with state and territory governments to remove or rationalise energy and emissions reduction red tape.

Introduction

There is a bipartisan commitment to reduce Australia's emissions by 5% by 2020, on 2000 levels.

The government has introduced legislation to repeal the carbon price mechanism so that it can replace this policy instrument with the ERF and safeguard mechanism at the centre of its Direct Action Plan to achieve the 5% emissions reduction target.

In designing the detail of the ERF and its implementation, the government should pay particular attention to developing a workable, lowest-cost policy which does not compromise the competitiveness of Australian industry and the efficient operation of Australia's electricity markets while providing the foundations for a long-term policy framework that is responsive to international negotiations and global sectoral agreements such as the international agreement on a market-based measure for aviation emissions.

This submission outlines the BCA energy policy framework and the need to integrate emissions reduction policies within this framework, considers the impact of any delay in the repeal of the carbon pricing mechanism and discusses a number of critical matters in relation to the government's emissions reduction policies, including the:

- design elements of the ERF
- issues to be considered in the development of the safeguard mechanism
- need to minimise and remove ineffective policies
- need to further streamline the NGERs
- proposed 2015 review of the Direct Action policy
- importance of maintaining flexibility in the ERF and safeguard mechanism so that international emissions reduction permits can be used to meet the emissions reduction target at lowest cost and manage compliance costs.

The BCA looks forward to ongoing consultation with the government on the detailed design and implementation plan for this policy.

BCA energy policy framework

For too long Australia has developed its policy response to the risks associated with climate change mitigation policy in isolation of energy policy with the end result that we are putting one of the key drivers of Australia's comparative advantage at risk.

With the current Energy White Paper process and the review of the RET as well as the development of the ERF occurring over similar timeframes, it is essential to ensure the broader goals of energy policy shape the detail of policies designed to reduce greenhouse gas emissions.

A stable and predictable environment for investment and business activity in the energy sector in particular, and the economy more broadly, requires a national energy policy that can deliver on the vision of:

- maximising Australia's competitive advantage in energy through efficient markets
- driving growth in our energy resource development and exports
- delivering reliable, efficient and competitively priced energy to households and business
- realising these growth opportunities while meeting best practice environmental standards and managing Australia's greenhouse gas emissions in line with global efforts.

As our energy system is governed across all levels of government, Australia's energy policy framework needs to be adopted and implemented collectively and guided by a set of principles that reflect the following:

1. Energy is most efficiently delivered through well-functioning markets, supported by effective and efficient policy, regulation and processes.
2. The environmentally responsible development of energy resources should be supported by efficient and streamlined energy policies, regulation and processes.
3. Energy policies should:
 - recognise that energy is critical to our economy, and that security of supply should be delivered cost effectively
 - be stable and predictable to give the market confidence that long-term investment decisions can be made and adequate returns earned
 - provide a level playing field for the market to invest and operate within and they should be technology and fuel neutral
 - support market-driven outcomes and timely market responses to changes in demand.
4. Government regulation should be minimal, efficient and justified against objectives.
5. Government interventions should be a last resort, targeted at identified market failures, and designed and implemented with least market distortion.
6. The objectives and principles of energy policy should be recognised in related policy development, such as environmental and greenhouse gas emissions reduction policies.
7. Energy and greenhouse gas emissions reduction policies should support Australia's future economic growth and not compromise Australia's global competitiveness.
8. Australia's greenhouse gas emissions reductions measures should be, commensurate with global action, broadly based across the economy, and achieve emissions reductions at least cost.

It is through the lens of this vision and set of principles that the BCA makes the following comments in regard to the development of the ERF and the safeguard mechanism.

Repeal of the carbon price

With respect to the repeal of the carbon price, the BCA is concerned that if the legislation is not passed before 1 July 2014, and the date of repeal remains uncertain, that retrospectively seeking to recoup the cost of the carbon price from the energy sector and large energy users will add significant complexity and risk to the process. The BCA urges the government to provide certainty and set out a clear process for how it will manage such a situation should it arise.

Design of the ERF

Overview

The government's commitment that the safeguard mechanism is not a revenue raising instrument is welcome, however, it should go further and not impose non-recoverable costs on business that would adversely affect their competitiveness.

The implementation of the ERF will be, for some companies, at least the third different policy in five years that they have been required to comply with to reduce greenhouse gas emissions and energy use.

The continual change in emissions reduction policy instruments brings significant uncertainty and additional costs as well as greater risks for companies especially where longer-term investment decisions are involved.

There are substantial benefits to business, the community and the environment in building a bipartisan approach to emissions reduction, thereby reducing the risks associated with continued policy changes.

There is a need to ensure the compliance and regulatory costs of the ERF do not impose further significant costs and administrative burdens for business.

With this in mind, the ERF needs to be designed with clear and simple guidelines, transparency in assessment of eligibility to bid into the ERF, relevant and targeted reporting where necessary, and a range of publicly available standard contracts with clear terms and conditions making clear the responsibilities and liabilities of those bidding into and winning funds.

Governance arrangements should build on existing infrastructure where possible. The National Greenhouse and Energy Reporting (NGER) Act should be used as much as possible to meet reporting and auditing obligations to keep administrative costs at a minimum.

The substantial level of audited company data already provided to the government should form the basis of governance arrangements, removing the requirement for companies to replicate processes already undertaken.

Assurance processes in the ERF should be streamlined. There is benefit in moving back to the NGER framework, which uses a risk-based approach, for reporting and verifying of emissions.

In relation to critical elements of the ERF and safeguard mechanism, the BCA makes the following comments.

ERF design principles

The BCA endorses the principles identified in the green paper to underpin the design of the ERF, namely, funding will be provided for projects that provide emissions reduction beyond business-as-usual at lowest cost, using simple and cost-effective administrative arrangements.

A fourth principle should also be considered, namely, ensuring trade exposed businesses can maintain their competitiveness and are not disadvantaged with increased compliance costs that they are not able to pass onto customers.

In the current environment it should, however, be recognised that accessing measureable, reportable and verifiable international emission reduction credits will provide emissions reductions at lower costs than many of the abatement opportunities in Australia. This issue is discussed in more detail later in this submission.

What form of abatement will the fund purchase?

While the green paper, speeches and media commentary suggest the government is seeking permanent change in the emissions rates of the Australian economy, the emphasis in the green paper is on processes more relevant to aggregate tonnes of abatement.

Clarity is needed as to whether the government is seeking enduring emissions reductions from bids into the fund or once-off reductions in aggregate emissions for the duration of the fund as this will impact on the types of projects bid into the fund.

The white paper should make clear the government's intention in relation to the type of emission reductions it is seeking so as to assist potential bidders.

Categories of abatement and methodologies

The BCA supports the view that there should be several primary categories of abatement:

- activity methodologies for specific emissions reduction activities and projects
- facility-based approach where emissions reductions can be identified at the facility level
- sub-facility approaches where emissions reduction opportunities within a large facility can be credited without reference to the overall facility emissions
- opportunities for aggregation of small-scale actions which in their own right may not meet a minimum size requirement under the fund.

Where appropriate, data collected under NGERs should be used as a basis for measuring, monitoring, verifying and auditing. Again, every effort should be made to use established data collection processes and every effort should be made to simplify these where possible.

It will be important to maximise the number of methodologies available for the activity based abatement and to ensure the process for measuring, monitoring, verifying and auditing are aligned to the level of risk of not achieving the abatement, while being administratively efficient. As part of this the government should provide for the fast track of key sectoral methodologies and a simplified process for conversion of existing methodologies developed under international schemes.

What is essential though is that the methodologies are transparent, scalable and flexible, while being administratively simple in operation for both the government and potential participants.

A question not yet resolved is the extent to which the fund will rely on methodologies that are Kyoto compliant. The answer to this has implications in the context of Australia meeting its agreed target of 5% reduction in greenhouse gas emissions below 2000 levels by 2020. Under the current international agreement only Kyoto compliant emission reductions can be counted towards this target.

It will be important for the government to identify how it will address any gap in achieving the target as a result of including non Kyoto compliant methodologies in the ERF.

Energy efficiency as a source of abatement

The green paper identifies energy efficiency as a possible source of abatement opportunities.

Care will need to be taken in assessing bids premised on energy efficiency. In particular, there will be a need to:

- identify whether bids premised on an energy efficiency initiative have also been able to access state government energy efficiency funds and in that case the bid should be excluded
- factor in how to ensure the ongoing nature of the energy efficiency initiative – it is one thing to provide low-cost infrastructure such as low-wattage light bulbs to households it is another to assume the household continues to replace these with the same low-wattage light bulb
- assess the impact and implications of the different levels of emissions intensity in electricity supply across the states and territories and decide how to factor this differential into any bids
- factor in the possible impact on the ERF overall of having some projects such as energy efficiency bidding on the basis of deemed energy savings and being paid up front vs those bidding into the fund with projects that will take some time and be measured through NGERs at a future time.

Additionality

The green paper has sought to redefine additionality relative to previous government comments in speeches and presentations.

The shift away from the initial definition – ‘abatement purchased by the fund cannot be required under existing regulatory requirements’¹ to that of abatement being ‘new’ and ‘voluntary’ and not based on past investments will bring with it added complexity and potentially limit emissions abatement opportunities to be included in the fund.

In an effort to ensure the ERF is used to purchase emissions reduction beyond business-as-usual, there is a risk that the tests of additionality themselves become a deterrent to prospective participants if they are overly prescriptive, limiting and complex. There are significant difficulties with both financial additionality and common practice tests.

One way to address this situation is to test additionality by way of asking **does the proposed project provide for genuine reductions in emissions or emissions intensity** and including the potential for bids based on previous investments that will bring emissions reductions in the future.

Banding

The ERF has been promoted as a market-based mechanism and as such market forces should determine the lowest-cost abatement opportunities. The ERF should be technology and methodology neutral so as to ensure all abatement opportunities are considered subject to their cost.

While it has been suggested that banding the ERF to attract a range of different abatement opportunities would be advantageous, the BCA does not support such an approach. The primary focus in designing the ERF should be to ensure lowest-cost abatement. Banding has every chance of inflating costs and skewing bids to particular forms of abatement in each band.

Reverse auction process

As the government progresses the design of the reverse auction system, the priority should be to ensure an auction process that is easily understood and easily accessed, that is administratively simple and transparent, with the capacity to scale up over the life of the fund in line with bidder interest and interaction with the fund.

A further important consideration will be to ensure the final design assists in providing for price discovery and transparency.

Confidence in the bidding process will be enhanced by the early public release of guidelines and operating rules for the pre-qualification and auction bidding processes by the Clean Energy Regulator.

Prequalification stage in the bidding process

The use of a preliminary assessment stage to provide the opportunity for a due diligence process is endorsed subject to the process being streamlined and not costly for prospective project proponents.

Five-year time period

As discussed in the previous BCA submission on the terms of reference of the ERF the five-year time period for bids is of concern. The government should consider whether the five-year timeframe will lead to higher than expected bidding prices as project proponents front-end the costs of proposals to manage risk i.e. projects may require substantial upfront expense which would normally be spread over a longer period but to manage the risk proponents will set a bid price to recover costs within the five-year period.

1. The Honourable Greg Hunt MP, Minister for the Environment, ‘The Coalition Government’s Plan to Tackle Climate Change, Reduce Emissions and Reduce Pressure on Electricity Prices’, Paper to the Carbon Market Institute Workshop, Melbourne, 24 October 2013.

Similarly, the government will need to clarify when the five years will take effect from. For example, is it the date of contract execution; the date the contract conditions precedent are satisfied (the date the contract takes effect) or the period of the offtake schedule in the contract, that is the period over which the emissions units are to be sold to the government?

The government should give consideration to extending the five year period and whether there is a way to provide an element of up-front funding for projects requiring early capital injections.

Make-good provision

The provision as outlined in the green paper has shifted government risk associated with not meeting the 5% reduction to project proponents. A more appropriate approach would be for the government to undertake due diligence during the prequalification process to ensure it only accepts bids that are not at risk of meeting the abatement proposed.

The government also should have the capacity to further mitigate any risk by including a buffer in the auction process to accommodate any under-delivery.

Non-payment for the non-delivery of abatement should be sufficient incentive for companies to meet their contractual obligations. The BCA does not support an additional make-good provision.

Safeguard mechanism

Purpose of the safeguard

The government has signalled its intention to proceed with the development of a safeguard mechanism for all major emitters irrespective of whether these companies are bidding into the ERF.

The government has indicated it is not intended that this mechanism be used to adversely impact on companies operating in a business-as-usual manner.

The government has also advised it is not intended that the safeguard mechanism be used to raise revenue or directly contribute to achieving the 5% emissions reduction target, instead relying on the ERF.

In light of this, there does not appear to be a clear rationale for requiring all companies to develop baselines for the purpose of the safeguard mechanism. This rationale should be clarified in the white paper.

Start date for the safeguard mechanism

The BCA endorses deferring till 1 July 2015 the introduction of any safeguard mechanism. As the green paper has rightfully noted the setting of baselines will take time and there is a need to do this in consultation with affected individual companies. Legislating for the baselines in 2014 would be premature.

Safeguard design principles

The government has made clear its intention not to collect revenue through the safeguard mechanism. At the same time it has also noted that the ERF is 'designed to allow businesses to continue ordinary operations without penalty.' These requirements should be expanded to explicitly ensure that the safeguard mechanism does not impose a burden that disadvantages Australia's emissions intensive trade exposed or import competing industries.

Reliance on historical emissions may not be an appropriate starting point given the impact of the global financial crisis and economic downturn may mean the data collected under NGERs is an under estimate of business-as-usual.

Consequently, a flexible approach needs to be taken to the setting of baselines and to ensuring any baseline is set having consideration for what may be ordinary operations. This will range from giving consideration to the business slow down that has occurred in many sectors over the last few years to the implications of changing key operating parameters (e.g. geology) that may influence baselines such that historic averages are not representative of potential future emissions and for some industries the duration of the production cycle may exceed the five year period being proposed.

Government should ensure companies have access to a broad range of actions to manage the impact of going beyond the baseline. Options that should be included are:

- giving companies the opportunity to explain and defend their emissions exceeding a baseline with the view to determining an appropriate response
- providing companies with a buffer period in which to make changes or invest to reduce emissions
- recognising that production will vary from year-to-year and allowing companies to determine the most representative approach to forecasting potential emissions
- where a company is subject to a compliance requirement the option to access and use international permits to meet the compliance obligation should be available.

Specifying baselines

The setting of baselines for major emitters is a threshold issue. The ease of calculation and relevance of the formula to be used will vary across companies and industry sectors.

While a measure of absolute emissions is administratively simple and may work well for those companies that have consistent production levels, it will not be the appropriate measure for companies and industry sectors that see substantial fluctuations on production be that driven by exchange rates, global demand levels, market dynamics or changes in the pattern of consumption.

There is also a need to accommodate the changing emissions profile of resource sector facilities over time as the easier to access deposits are removed. As an example, in all likelihood, mines will become more emissions intensive as the extraction period extends. This may put such facilities at risk of breaching baselines even though they are operating at business-as-usual levels.

A further matter that will need to be accommodated, so as not to disadvantage companies seeking to incrementally improve the production, is increases in emissions as a result of incremental process improvements designed to increase production by smaller increments than a major expansion would provide. Such improvements in performance may well mean a facility operates above historical production and emissions levels may make absolute emissions an inappropriate measure for a baseline.

Such circumstances do not equate with the initial baselines proposed in the green paper 'using data that represents a high point in historical emissions for a facility' nor are they covered by the proposal to 'ensure baselines accommodate situations where a facility increases production in the future back towards fully installed capacity.'

In these circumstances a combination of an absolute and emissions intensity baseline may be appropriate such that for example where the absolute emissions increase by a predetermined percentage without an increase in emissions intensity, the threshold for the safeguard mechanism is not met.

For these reasons the government should consult with individual industry sectors and relevant emitters to determine the most appropriate approach for that sector and/or company.

Both absolute and intensity based baselines should be an available option for use by companies.

New entrants and significant expansions

The green paper has proposed that new entrant facilities and significant expansions of existing facilities have baselines set with reference to industry average emissions or possibly in the case of new facilities or expansions where a final investment decision has not been made, best practice emissions.

Requiring an assessment of best practice, where a final investment decision has not been made, introduces a further investment decision hurdle in company's business decision making. This could be seen as putting additional regulatory barriers in front of those seeking to invest in new or expanded projects in Australia. This appears at odds with the government's red and green tape reform agenda and statements that Australia is open for business.

In a practical sense when determining baselines for new entrants there will be a range of factors beyond the production process that may need to be considered including available power sources, CO2 intensity of particular resources and available technologies.

The identification of best practice is a highly contested process both locally and internationally with difficulties in identifying appropriate comparators. Processes to identify best practice are complex and time consuming as well as open to litigation.

The need for a new facility baseline must also be considered in the context that proponents of new projects (and major expansions) already have a strong incentive to maximise energy efficiency and hence reduce greenhouse gas emissions by virtue of increasing energy costs.

Industry averages may not be a useful predictor of business-as-usual especially where you have varied production techniques, small numbers of firms, significant firm size variation or production infrastructure with substantial age variation.

For significant expansions and new entrants, rather than relying on some theoretical concept of best practice or comparator site that does not share the same characteristics, consideration should be given to determining a new facility baseline post five years of actual operation allowing for the facility to be both established and operating under normal conditions prior to the determination of a baseline.

Role of the 2015 review of the ERF

The government's 2010 Direct Action policy document references a review of the Direct Action policy in 2015.

The terms of reference and criteria for the assessment of Direct Action in 2015 should be made clear as the policy is being implemented. With a scheduled review so early in the life of a new policy, it will be important for business to understand the scope of the review and scale of policy change that may come into play as a result of the review so that there is an understanding of possible regulatory risk.

Consideration should also be given to the costs and benefits of deferring the review.

Need to minimise and remove ineffective emissions reduction and energy efficiency policies

The government's green paper on the design of the ERF makes clear that the intention is that the ERF be the government's primary policy instrument to reduce greenhouse gas emissions.

Given this government position, it is of concern the green paper also indicates that the government plans to '... introduce a mix of policies to promote the adoption of better technologies and practices that will allow Australia to enjoy the benefits of economic growth without an accompanying rise in greenhouse gas emissions.'

Such complementary policies should not be pursued in the absence of evidence that the ERF is failing to achieve its stated objectives.

In parallel to the development of the ERF, the government should in fact seek to reduce energy and greenhouse gas emissions related red tape, which is imposing significant costs on business and reducing the productivity of the Australian economy.

The BCA questions the need for the Energy Efficiency Opportunities (EEO) program to continue in its current form. Energy is a significant input cost to the businesses that are required to report under the EEO. These businesses already have the means and incentives to manage their energy efficiency and will adopt measures that business deem viable. The EEO program is an added regulatory burden and the benefits from continuing to apply this burden on participants are not apparent.

The Productivity Commission previously identified around 230 greenhouse gas emissions and energy efficiency policies and regulations at the Australian, state and territory government level in 2011, with many imposing material costs on the community for little or no apparent benefit. While there has been an effort to scale back these programs, the time is right to progress the removal or rationalisation of remaining measures. The BCA encourages the Australian Government to commit to work with its state and territory counterparts to remove this costly red tape.

Further streamlining of NGERs

The NGERs legislation has now been in place for several years. There have been efforts to streamline and improve the operation of the legislation in recent years. This process of streamlining and simplification should continue.

There should be a renewed focus on ensuring NGERs is designed to capture data on material emissions.

By way of example, currently power stations must record and account for all petrol receipts for their vehicles as a measure of emissions. In the context of a power station vehicle emissions are not material to the total level of emissions but the administrative costs of collecting the data are not insignificant.

Similarly, the requirement for industry to estimate and report the uncertainty associated with the emissions reported could be removed and instead become a requirement for the government if needed under international reporting requirements.

It will also be important to ensure that companies who are not bidding into the ERF do not face any additional reporting burden as a result of the creation of the ERF.

Access to international permits

Australia has relatively high costs of abatement within the domestic economy relative to other countries given the structure of the economy and our energy resources.

The BCA firmly believes that Australia can meet its abatement goals and not compromise the competitiveness of the economy. To do so requires recognition of the scientific fact that one tonne of greenhouse gas abatement in Australia has the same impact on global climate change as one tonne from any other country.

The BCA supports the government's consideration of the use of international credits as part of its development of the ERF and the safeguard mechanism, given quality, reported on and verifiable international emission units currently present the lowest-cost way of meeting the government's 5% by 2020 target, and would have minimal impact on business and household costs.

To ensure Australia achieves a 5% reduction in greenhouse gas emissions at lowest-cost access to international abatement opportunities given quality, reported on and verifiable remains essential. This is particularly the case in the current climate where the costs of international permits are at a low level.

The government should make sure it has the capacity to purchase international permits as a buffer and in case domestic abatement opportunities are not sufficient to meet the target, or are at a cost much higher than the international permit price.

Consideration should be given to the need for a strategic reserve within the design of the ERF to give government this capacity.

By example to appreciate the benefit of accessing international permits. The government has allocated \$1.55 billion to the ERF for the period 2014–15 to 2016–17 with an indicative future annual budget of \$1 billion each year through to 2020 meaning an allocation of \$4.5 billion to achieve a 5% reduction in greenhouse gas emissions in 2020 through domestic abatement. Were this target to be achieved fully through international abatement the cost would be in the vicinity of \$350 million assuming the purchase of UN-certified emissions reductions (which are certified, verified and measurable) which are trading at approximately A\$0.70 cents per tonne of greenhouse gas emissions reduction.

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