



SUBMISSION

Developing a New Climate Change Strategy for South Australia

OCTOBER 2015

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

www.bca.com.au

Contents

About this submission	2
Key recommendations	2
Context for this submission	2
Key issues	4

The Business Council of Australia (BCA) is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

About this submission

The South Australian Government is currently reviewing its Climate Change Strategy. As part of this process, the government is considering whether changes should be made to the *Climate Change and Greenhouse Emissions Reduction Act 2007*.

The Business Council of Australia's submission to this review provides comments on matters that should be taken into consideration in updating the strategy and legislation.

Key recommendations

It is encouraging to see in the guiding policy principles the government's focus on cost-effective, best practice measures and the need for coherent, consistent national policies.

The government rightly observes that it has an important role to play in ensuring nationally consistent climate change policy that is adequate to achieve Australia's emission reduction targets. The COAG Energy Council is the appropriate vehicle for this advocacy.

State-based approaches and/or targets for reducing emissions will only increase the cost of abatement for the Australian community as a whole and increase the costs and risks facing national businesses operating in South Australia.

In this respect, the review should adopt a best practice approach to reviewing regulations and programs, including the use of comprehensive cost-benefit analysis and the collection of data and other evidence to provide the justification for any change.

Where there is state-based climate change legislation, the government should ensure it is consistent with national legislation, minimises variations between jurisdictions and is only enacted to address clear gaps or unique state circumstances.

Any measures, including possible state-based emissions reduction targets or renewable energy initiatives, should not proceed until the interaction with national emissions reduction targets is fully assessed and costed.

Context for this submission

The submission has been prepared in the context of the Business Council's energy and climate change vision and policy principles.¹

Vision for Australia's energy future

To provide a stable and predictable environment for investment and business activity, national energy and climate change policy should deliver on the vision of:

- maximising Australia's comparative advantage in energy through efficient markets

¹ Business Council of Australia, *Australia's Energy Advantages*, BCA, Melbourne, November 2014.

- driving growth in our energy resource development and exports
- delivering reliable, efficient and competitively priced energy to households and businesses
- realising these growth opportunities while meeting best practice environmental standards and managing Australia's greenhouse gas emissions in line with global efforts and at least cost.

Policy principles

As our energy system is governed across all levels of government, Australia's energy and climate change policy framework needs to be guided by these principles:

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 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 reduction measures should be commensurate with global action, broadly based across the economy, and achieve emissions reductions at least cost.

Australia should renew its focus on research and development of technological advancements to support the lowering of emissions from all energy sources, and on adaptation, to manage the long-term impacts of climate change.

Key issues

Robust regulatory processes

Better outcomes will be delivered for the community if robust regulatory processes are followed in the review of legislation.² Such an approach includes the use of cost–benefit analysis, collection of data and other evidence to explain the causal link and justification for legislative change, and the consideration of pathways other than legislation to achieve the outcome being sought.

Such processes ensure any legislative change is:

- justified by the presence of a continuing market failure
- transparent and thorough
- based on evidence
- mindful of non-regulatory alternatives.

National policy and legislation as a preferred approach

There are learnings to be had from the approach taken to domestic climate change policies over the last 15 years, which can only be described as a period of policy flux with the introduction of state and federal legislation that was and, in some cases, continues to be uncoordinated and poorly costed, with programs often having perverse outcomes and requiring continual adjustment.

At the height of this policy flux the Wilkins Review (2008) found that there were over 200 federal and state government programs aimed at addressing climate change.³ There was some effort to rationalise the programs through COAG in the years after the Wilkins Review.

However, we are again seeing programs growing with little effort to assess the costs and benefits of the programs and policies.

The adverse impact of the current policy flux should be taken into consideration in the current review of the South Australian Climate Change Strategy.

Reducing greenhouse gas emissions and responding to the risks of climate change require actions on a number of fronts, including mitigation, adaptation and innovation.

Taking action on these fronts in a manner that is efficient and at least cost requires a national approach. National approaches provide a stronger basis from which to make international linkages and reduce the risks and difficulties for businesses operating across state borders.

Using state-based regulation to address the risks of climate change sets up a situation which may well reduce overall levels of efficiency, compel actions that are not least cost,

² Australian Government (2014), *Guide to Regulation*.

³ Department of Finance, *Strategic Review of Australian Government Climate Change Programs* (Wilkins Review), July 2008.

impose high compliance costs and require significant administrative resources in business and government.

State-based climate change legislation and programs should not be progressed in the absence of clear evidence that the benefits associated with the implementation of the policy outweigh the costs of implementation for participants and the broader community.

State-based targets in legislation

The Premier's Climate Change Committee has recommended the government negotiate agreement for deep cuts in greenhouse gas emissions by 2050 and interim greenhouse and renewable energy targets for 2025.

The consultation papers note that South Australia is already generating almost 40 per cent of its electricity from renewable energy and contemplates lifting the current legislated target of 33 per cent renewable energy to 50 per cent by 2025.

Such an approach is questionable. The economic and environmental benefits of this state-based approach must be clearly identified before policies of this nature are pursued.

The significant penetration of renewable energy into South Australia has resulted in the closure or mothballing of thermal generation. While this will improve the emissions intensity of the South Australian economy, the forward wholesale price of electricity in South Australia is now double that in Victoria.

Ensuring the transition to a lower emissions electricity sector is a truly national process is critical to supporting the South Australian economy and employment in the state. The South Australian Government should look to drive national, integrated energy and climate change policy through the COAG Energy Council.

Consideration of technology developments and best practice

Since 2007, when the first strategy was developed, significant progress has been made in developing and implementing innovative technologies to reduce greenhouse gas emissions. Indeed, there is an increasing body of Australian and international research that provides an evidence base demonstrating the positive link between technology and greenhouse gas emissions reduction.

The timing of the transition of the electricity sector in particular will be important and the availability of lower cost, lower emission technologies will be necessary to manage the cost impact on customers.

In this light, the government's support for research, development and demonstration of new technologies is particularly welcome and the focus on innovation will be critical to South Australia's future growth.

Sector agreements

The government has indicated its intention to review the use of Sector Agreements under the Act and whether they are effective in facilitating partnerships with organisations. To ensure least-cost abatement across the Australian economy, the use of these agreements

must remain voluntary to ensure that South Australia doesn't lock in higher cost abatement within South Australia, unnecessarily damaging the local economy.

Further consultation with business on any proposed changes to the purpose, objectives and programs in the Climate Change and Greenhouse Emissions Reduction Act 2007

Given the impact the *Climate Change and Greenhouse Emissions Reduction Act 2007* has on the operations of businesses located in South Australia, and the possible interplay between state and federal climate change legislation and the effect on business, it is important that the government consult extensively on any proposed changes.

BUSINESS COUNCIL OF AUSTRALIA
42/120 Collins Street Melbourne 3000 T 03 8664 2664 F 03 8664 2666 www.bca.com.au

© Copyright October 2015 Business Council of Australia ABN 75 008 483 216
All rights reserved. No part of this publication may be reproduced or used in any way without acknowledgement to the Business Council of Australia.

The Business Council of Australia has taken reasonable care in publishing the information contained in this publication but does not guarantee that the information is complete, accurate or current. In particular, the BCA is not responsible for the accuracy of information that has been provided by other parties. The information in this publication is not intended to be used as the basis for making any investment decision and must not be relied upon as investment advice. To the maximum extent permitted by law, the BCA disclaims all liability (including liability in negligence) to any person arising out of use or reliance on the information contained in this publication including for loss or damage which you or anyone else might suffer as a result of that use or reliance.