



SUBMISSION

Submission on the Asian
Infrastructure Investment Bank's
Energy Strategy: Issues Note

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The Business Council of Australia 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

This is the Business Council's submission on the Asian Infrastructure Investment Bank's (AIIB) Energy Strategy – Issues Note (Issues Note).

An integrated energy and climate change policy for Australia

Unconstrained climate change would have serious economic, environmental and social consequences. The 21st Conference of the Parties meeting in Paris in December 2015 reached a historic agreement (Paris Agreement) to limit global temperature rises to 'well below two degrees Celsius'. To achieve this will require deep global emissions reductions with most countries, including Australia, eventually reducing net greenhouse gas emissions to zero. On 10 November 2016 the Australian Government ratified the Paris Agreement.

Business Council members include companies that operate throughout the energy supply chain and companies that are the largest users of energy in Australia, along with others that have significant emissions footprints in their own right. We support this ratification, as it provides confidence for the business community about Australia's commitment to reducing greenhouse gas emissions.

To meet Australia's 2030 target we will need a suite of durable post-2020 climate change policies that are integrated with broader energy policy and are capable of delivering Australia's emissions reduction targets, at lowest possible cost, while growing Australia's future economy. Any suite of policies must have three clear objectives:

- sustainable growth of the Australian economy
- reduction in the emissions intensity of the economy to enable Australia to meet future emissions targets
- unlock lower emission sources of comparative advantage.

AIIB's Energy Strategy

Proposed guiding principles

The proposed guiding principles set out in the Issues Note are supported.

In a carbon constrained world, all energy systems are faced with the energy trilemma of how to deliver reliable, affordable and sustainable energy.

Ensuring energy security and equality is critical, particularly in a growing region where many have insufficient access to energy to support their quality of life. There must be a strong focus on *energy efficiency* if the *emissions intensity* of the economy is to be reduced and energy is to be delivered at lowest possible cost. *Regional cooperation* that includes a strong role for the *private sector* is also necessary to achieve these goals.

Proposed implementation

Power transmission and distribution

Connectivity plays a central role in reducing the total cost of energy systems. However, in emerging economies where there may be lower levels of investment in transmission and distribution infrastructure, the benefits of decentralised generation options should be considered alongside new investments in grid assets to ensure cost-effective solutions that are sustainable in the long-term.

Renewable energy investments

Renewable energy investments will increasingly be the centrepiece of modern energy systems. Australian businesses have significant capability in renewable energy projects and could support the work of the AIIB in developing renewable energy capacity in Asia to develop innovative and transformative projects.

Fossil fuel power generation investments

A global carbon budget is a finite amount of greenhouse emissions that can be emitted (net of any sinks) before it becomes unlikely we can avoid more than two degrees of global warming. The Nationally Determined Contributions (targets) of each country will determine a carbon budget for that country.

Australia has an absolute target of reducing emissions by 26–28% of 2005 level emissions by 2030. Emissions in most Asian countries will continue to grow until at least 2030.

However, under the Paris Agreement, developing countries in Asia will be required to slow down the growth rate of emissions in their economies. The AIIB has highlighted that the Asian region will also continue to need access to affordable, sustainable and reliable energy systems to maintain regional economic growth. For example, the AIIB paper notes that at present half a billion people in Asia are without access to electricity. Therefore, in developing an energy strategy for Asia, the ongoing need for access to affordable and reliable energy will continue to remain part of the policy environment.

While Australia's carbon budget may translate into a decreased role for thermal coal domestically, Australian thermal coal and natural gas can play an increased role in the carbon budgets of other countries and this should be encouraged – particularly where Australian energy exports can contribute to lower emission outcomes in those countries.

Access to competitively priced natural gas will be an important source of lower emission, affordable energy for many Asian nations. Highly efficient, combined-cycle gas turbines produce one-third of the emissions of brown coal-fired electricity generators and half the emissions of existing black coal-fired generators. Gas-fired power stations could also have a vital role to play in providing lower emission electricity at times when wind and solar resources are unavailable and their development should be supported by the AIIB.

In relation to coal, Australia also has a role to play in Asia's efforts to curb emissions growth. Australian coal has a high calorific value compared with some other sources. Therefore, switching from other coal sources to Australian coal, particularly in more

efficient, ultra-supercritical power stations, has the potential to reduce business-as-usual emissions in the least-developed countries, while supporting energy security and this should be supported by the AIIB.

Thank you for the opportunity to provide the above comments. The Business Council looks forward to working with the AIIB as the consultation process for the AIIB's Energy Strategy continues.

BUSINESS COUNCIL OF AUSTRALIA

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