

**AIGN Comments to Energy Security Board on the
*National Energy Guarantee Draft Design
Consultation Paper (March 2018)***

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1 BACKGROUND

AIGN welcomes the opportunity to provide a submission to the Energy Security Board on the *National Energy Guarantee Draft Design Consultation Paper*.

AIGN is a network of industry associations and individual businesses which contribute to the climate change policy discussion and see value in joint industry action on climate change to promote sustainable industry development.

In reading this submission, the Department should note AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy. This submission accords with the views of our members in general. However, at times, there are differences in the positions of individual members on specific issues. It is therefore important that the Department considers AIGN's feedback alongside responses made to the consultation paper by our members.

2 INTRODUCTION

AIGN members include a substantial proportion of Australia's trade-exposed activities including: aluminium, cement, petroleum, forest products, and steel - in addition to members from the generation sector.

In a global market, where our international competitors are not subject to a carbon price, the effective exemption from the costs of the National Energy Guarantee (the Guarantee) is critical to the ongoing viability of these sectors in Australia.

AIGN's position on climate change policy is underpinned by our principles.

¹ Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities

2.1 AIGN Policy Principles

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability¹, to reduce greenhouse gas emissions and adapt to impacts of climate change globally.

Australia should engage the international community to pursue global action to reduce emissions leading to identified and beneficial outcomes which:

- allows for differentiated national approaches;
- promotes international cooperation;
- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances and aspirations of all societies; and
- is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach which:

- is consistent with the principles of sustainable development;
- is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long-term perspective;
- maintains the competitiveness of Australian export and import competing industries;
- distributes the cost burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively co-ordinated across all jurisdictions throughout Australia.

could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.

Australia's future greenhouse policy measures should:

- be consistent with the strategic national approach;
- be trade and investment neutral, in a way that does not expose Australian industry to costs its competitors do not face;
- not discriminate against new entrants to Australian industry nor disadvantage 'early movers' in Australian industry who have previously implemented greenhouse gas abatement measures;
- take account of the differing sectoral circumstances;
- be based as far as is practicable on market measures;
- address all greenhouse gases;
- address all emission sources and sinks; and
- balance, in a cost-effective way, abatement and adaptation strategies – both of which should be based on sound science and risk management.

2.2 Economic overview

For many years, Australia has been a destination for manufacturing industry, largely because of our competitive advantages in natural resources and affordable energy.

However, in a world that is increasingly addressing the impact of greenhouse gas emissions and moving toward pricing these emissions (or, already implementing climate change policies as we are in Australia), it is timely to revisit our vision for the Australian economy; our comparative advantages have changed, and the potential for economic growth needs to be unlocked with a clearly defined and deployed plan.

With the growing importance of reducing emissions, Australia has an opportunity to meet demand in a world that will continue to require natural resources and manufactured goods.

Our natural resources advantage remains to us. If harnessed with a strong and coherent vision and good policy settings, Australia has the potential to be an attractive investment destination, meeting our emissions reduction goals while nurturing a thriving economy and ensuring the security and reliability of our energy supply.

AIGN notes the Guarantee's envisioned role in the latter goal and encourages the Board to consider the Guarantee in a wider national and international context during this development and refinement phase.

3 FEEDBACK ON SELECTED DESIGN ELEMENTS OF THE GUARANTEE

The feedback provided in this submission is framed by AIGN's agreed principles for designing policies to reduce emissions. Please note that various AIGN members will have priorities that extend beyond the below, as outlined in their own submissions and engagement with the Board and Government.

3.1 Proposed EITE exemption: impact on investment and trade competitiveness

AIGN supports a reasoned, evidence and principles-based approach to policy development; one that prioritises institutional stability and economic efficiency; that focuses on developing enduring, flexible and sensible policies; that delivers broad coverage to ensure the responsibility of reducing emissions is equitably shared; and that creates an environment in which Australia's trade competitiveness is supported.

While AIGN is heartened by the ratification of the Paris Agreement and the positive atmosphere around worldwide efforts to reduce emissions, remaining realistic about how and when countries will act is essential.

Due to the bottom-up nature of the Paris Agreement, countries will be moving at different paces and introducing a wide variety of policies to meet their targets. The emergence of a global carbon price (or proxy for the same) will be the work of some years.

AIGN commissioned a research paper, by CIE Economics and CM Group, to better understand the direct carbon cost impost applied to our trade competitors (e.g. steel, LNG, petroleum, cement, aluminium, nickel).

A copy of this report is available on AIGN's website (www.aign.net.au) and has been provided to the Department of the Environment and Energy. AIGN would welcome the opportunity to discuss this report further with the Board as the Guarantee is being developed.

Taking measures to safeguard our trade competitiveness will be essential to ensure Australia's approach is successful in reducing emissions, rather than simply pushing them offshore. Policy measures can be designed in a way that creates marginal incentives for action without placing an onerous and inequitable overall cost burden on industry.

The policy model for trade exposed exemption applied under the Renewable Energy Target (RET) would achieve this by providing these entities with a mechanism to ameliorate the direct impact of price increases associated with the emissions element of the Guarantee. It is noted that companies are still likely to be subject to the indirect cost impact.

To streamline the implementation of EITE provisions it is recommended that the methodology be harmonised across RET,

National Energy Guarantee, and Safeguard Mechanism policies. Noting that RET adopts an 'activity definition' model whereas a 'production variable' model is proposed under the SGM. These could be aligned to provide administration simplicity and consistency of approach.

Within this 'streamlining' of the trade exposed exemptions, a provision should be made to allow for the addition of new or undefined EITE activities to be included.

AIGN refers the Energy Security Board to its members' submissions for more detail.

For example, APPEA's submission notes that inadvertently, through the repeal of the clean energy act, the appropriate definition for LNG production [Clean Energy Amendment Regulation 2012 (No. 6)] - *which recognised the production of LNG is an integrated process that commences with the extraction of natural gas from the relevant reservoir and ends with its loading onto a LNG carrier* - was removed and not carried-over to the RET regulations. This single, consistent, definition for LNG should be applied across the policy framework (RET, the Guarantee, Safeguard Mechanism).

3.2 Self generators

If the proposed use of the existing EITE arrangements under the RET is adopted, AIGN advocates that a similar approach with regard to self-generators would be prudent.

Self-generation, which is exempt from the RET, would support the objective of the reliability element of the Guarantee, and should continue to be encouraged.

3.3 Setting the target

A sectoral approach to meeting Australia’s emissions reduction target, as represented by the intended policy landscape, requires a division of this target between sectors; therefore, the market is unable to be harnessed to find the lowest cost abatement options available to meet our international commitments. In this environment, keeping abatement costs low requires consideration of a variety of factors.

AIGN notes the Government’s preference for a proportional approach that would require energy retailers to achieve a 26 to 28 per cent reduction below 2005 levels by 2030, observing that “[e]missions reduction goals for the electricity sector must be balanced against other factors, such as providing affordable and reliable electricity supply.”²

For a trade-exposed industry in the Australian economy, this is not the only factor under consideration when investment decisions are made. Leaving aside political and policy stability, the relevant cost considerations extend well beyond electricity supply, as the Board no doubt appreciates.

Therefore, if the proposed proportional approach results in high abatement costs through other policies impacting AIGN members, the relative costs of electricity will do very little to ameliorate such an impact, or to deter decisions to funnel investment away from Australia (with predictable consequences for our economic viability and prosperity).

AIGN suggests that it is important to consider the wider context (other than only the costs of electricity) in setting the emissions reduction target for the Guarantee.

Best available economic advice should be drawn on to ensure the overall costs of abatement remain as low as possible across our climate change policy suite. Issues to be considered include:

- The incidence of abatement opportunities across the economy
- How Australia can meet its Paris commitments in the most cost-effective way
- The whole suite of climate change policies and how they contribute to the target
- The costs and impacts in other countries of meeting their targets (similar countries to ours e.g. OECD, but also major competitors)
- How state-based targets and schemes are impacting on the national target and policy suite
- How investment will be affected.

3.4 Benefits of centralised, streamlined national policy

AIGN supports the development of policy that responds to the challenges of reducing emissions while protecting energy security and reliability.

Our policy principles set out our support for a simple yet efficient policy framework, which by definition preferences a national approach to a patchwork of differing state-based programs.

AIGN continues to support the findings of the 2008 Strategic Review of Australian Government Climate Change Programs (the most recent piece

² National Energy Guarantee Draft Design Consultation Paper, p 26.

of work for the Government on this issue),³ which advocated an agreement between Commonwealth and State/Territory Governments to clearly delineate responsibility for all areas of the climate change policy portfolio, and found an excessive number of programs in existence (a finding that remains relevant today as their number has only been augmented in the intervening decade).

A sensible approach would be for State/Territory Governments to take responsibility for climate change adaptation policy and strategy, while the Commonwealth Government develops and implements a national mitigation policy.

Crucially, a streamlined policy environment is also more likely to attract the investment needed to keep our industrial sectors competitive and viable.

3.5 Potential role of international units in the Guarantee

AIGN has long supported the use of international units (or offsets) in achieving lowest cost emissions reductions.

In a future that involves policies limiting emissions growth and/or pricing emissions, access to fungible units for liable entities will be essential.

A competitive, credible, and liquid market is necessary to ensure the success, efficiency and effectiveness of any emissions reduction policy. This should include credible local, as well as international, markets.

Confidence in the credibility of offset units can be provided by a strong yet sensible framework establishing their legitimacy.

Subject to this framework, the principle of lowest cost abatement should not be interfered with by placing arbitrary limits on the ability of offset units to meet targets and compliance obligations. Where an offset has been created, and the number of offsets used to meet an obligation, are not relevant considerations once the credibility of an offset has been established.

With the right structure, offset units will be valuable in minimising the costs of climate change policy on the economy as a whole, and on price takers in particular, while maintaining the integrity of the Guarantee, and the climate change policy suite more broadly.

4 CONCLUSION

Thank you for the opportunity to provide input into the development of the National Energy Guarantee. AIGN looks forward to future opportunities to engage and provide input as the Guarantee is developed and implemented, and encourages the Board to contact Susie Smith (CEO, AIGN), with any further questions regarding this submission (ceo@aign.net.au).

³ Strategic Review of Australian Government Climate Change Programs (www.finance.gov.au/publications/strategic-reviews/).