

22 August 2011

Department of Climate Change and Energy Efficiency
GPO Box 854
CANBERRA ACT 2601

The Australian Sustainable Business Group (ASBG) welcomes the opportunity to comment on the Clean Energy Legislation Package (CELP).

ASBG supports the government's approach in establishing price on carbon and other greenhouse gases to reduce Australia's emissions of greenhouse gases. Overall the thrust of the CELP is supported, however a number of concerns also arise. To improve the CELP's approach ASBG recommends the Government:

- Re-consider the initial set price and fixed trajectory prices.
- Provide a better transition program from the set price to the floating price and undertake further investigation into this transition.
- Re-evaluate the grant programs to ensure these better reflect and support the lowest cost emissions reduction programs during the long transitional period towards the long term emissions reduction targets.
- Support for the National energy Savings Initiative.

1. Initial Pricing of Carbon and Greenhouse Gases

Use of a set price of \$23.00 per tonne CO_{2-e} has merit in terms of certainty, but ASBG is concerned this price is set too high for a number of reasons including:

- It is around 20% higher than current international carbon prices
- Setting a soft start for a carbon pricing scheme enables greater market acceptance and less controversy.

International prices for CO_{2-e} permits or allowances have been volatile and have followed the carbon trading economies downward. Graph 1 shows the European Unit Allowance (EUAs) over the last year reached a maximum of €17.00 (A\$23.30) and a minimum of €10.51 (A\$14.40) with an annual average of about €14 (A\$19.20). The EUA's reduction in price is due to a number of factors, but a shrinking manufacturing sector and electricity emissions are major components of its declining price. It appears the fixed price was set based on EUA levels towards its maximum values over the last year.



Graph 1- EUA Prices September 2010-August 2011¹

The danger of commencing at too high a carbon price is it will:

- Impact on businesses harder than at reduced price further supporting arguments to remove the pricing package all together
- Establishes a future revenue uncertainty when transitioning to a floating price
- Provides further uncertainty for, or postpones investments, in low carbon technologies due to a predictable drop in carbon unit pricing once the floating market commences.

R1 ASBG recommends the government:

- **Lower the starting price for the CELP to a price below international carbon market prices to ensure a soft start e.g. \$10 to 15 CO_{2-e} /t**
- **Base the next two years prices on average carbon prices set by international carbon markets.**

It is considered a better policy move to have a slowly increasing price than one of peaking and then a fall. A lower or one which reflect international prices at the time of its floating will minimise the transitional costs and prevent budget deficit issues or funding cuts to the CELP program.

2. Transition to a Floating Carbon Price

In three years time the fixed price of CO_{2-e} will change from a set at \$25.40 per tonne CO_{2-e} to a floating price. ASBG is concerned of the lack of modelling and assessment of the impact of this transition on the revenue stream for the CELP. Under the Clean Energy Bill, after the market commences carbon liable entities will be required to purchase at least 50% of their carbon emission units from the Australian Government. As a consequence there are two dangers with this transition directly affecting the revenue to the carbon funds:

- There is a considerable risk that there will be a significant fall in the carbon price in transition to the floating price, to reflect the international carbon market prices
- Up to 50% of carbon permits can then also be purchased from overseas – though this depends on competition from the domestic price

At \$25.40/t CO_{2-e} price the carbon pricing scheme will collect about \$11 billion dollars. While the expenditure of the carbon price revenue has been full allocated to the assistance packages to householders, low income earners, industry and to grant and assistance programs, its income stream is subjected to market risks. Additionally, income to the scheme can be exported to other

¹ Source Bloomberg <http://www.bloomberg.com/apps/quote?ticker=EUETSS1:IND>

international schemes which achieve a lower cost of carbon abatement. ASBG is concerned there is needs to be assessments of the risks to the ability of the CELP scheme to fund its self when the floating price takes effect. If these risks are to be addressed then changes to the legislation is required to support the required revenue, which will not be popular, or funding is found elsewhere, or the CELP grants and assistance packages will be reduced.

The question which has not been answered is when the revenue for the carbon scheme drops, which programs will be first cut or will the government supports these expenditures by borrowings or via cuts to other government programs? This issue requires further debate, and links into the design of the CELP once a floating price commences.

R2 ASBG recommends that the government:

- **Undertake a flexibility cost analysis of the transition to the floating market to evaluate the range of impacts the transition to the floating market will have if it adheres to the current price trajectories.**
- **Publically debate the directions of CELP funding will take if a moderate or large fall in revenue occurs, so that necessary changes can be implemented before the floating of the carbon price occurs.**
- **Continue to support business grant and assistance packages in the event of a significant lowering of the carbon package revenues.**

3. Grant and Assistance Programs

The Multi-Party Climate Change Committee’s (MPCCC) Clean Energy Agreement grants and assistance program is considered too heavily weighted to renewable energy. Use of a market mechanism to place a price on carbon was chosen because it uses market forces to implement the most cost efficiency means to reduce greenhouse emissions at the current market price. Use of a market mechanism is fully supported by ASBG and should be the main mechanism in which the transition from high emission technologies to lower carbon technologies is guided by. On this point the floating of the carbon price is fully supported by the ASBG.

The 2010 [Productivity Commission report](#) identified the high economic of moving away from market forces driven by a carbon price, which can be best demonstrated with the report’s table 6.1.

Table 6.1 **International comparison table — electricity generation policies**

<i>Country</i>	<i>Total subsidy equivalent</i>	<i>Total subsidy equivalent as a percentage of GDP</i>	<i>Total abatement</i>	<i>Abatement as a percentage of counterfactual electricity sector emissions^a</i>	<i>Implicit abatement subsidy</i>
	A\$m (2010)	%	Mt CO ₂	%	A\$/t CO ₂
Australia	473–694	0.04–0.05	7.0–10.7	3.5–5.2	44–99
China	1 835–2 309	0.03–0.04	40.7–52.1	1.2–1.5	35–57
Germany	10 019–11 769	0.28–0.33	67.1–73.1	18.3–19.6	137–175
Japan	669–940	0.01–0.02	3.3–4.3	0.8–1.1	156–287
New Zealand	8–10
South Korea	313–379	0.03–0.03	0.9–1.4	0.5–0.7	225–401
United Kingdom	2 042–2 433	0.08–0.10	12.3–27.4	7.5–15.4	75–198
United States	2 886–3 339	0.02–0.02	66.5–66.7	2.8–2.9	43–50

^a 2010 for China, 2009 for United Kingdom and Germany, 2008 for Japan and Korea. ... Not applicable.

Source: Appendixes D-K

The report states²:

Despite their participation in the European Union ETS, estimated implicit abatement subsidies in Germany and the United Kingdom are relatively high. This is because of the generous subsidies that the two countries provide to renewables.

Australia is, at the time of this report placed in the lower level of such subsidies, with New Zealand being the lowest, by in effect having no subsidies at all. Australia's subsidies are achieved largely by the use of the Renewable Energy Target scheme and other State based pieces of legislation.

Unfortunately the grants and assistance program currently put forward by the MPCCC is considered too heavily weighted to renewable energy with not enough for other programs which can achieve carbon abatement at lower marginal costs. The Clean Energy Finance Corporation (CEFC) appears to have 100% of its funding directed towards renewable energy projects. This is in addition to the current RET scheme and other state based schemes, which solely supporting renewable energy. The Australian Renewable Energy Agency will have allocation of '*\$3.2 billion existing Government support for R&D, demonstration and commercialisation of renewable energy technologies.*'

Overall ASBG calculates that the total funding and assistance for renewable energy is \$13.2b plus the Renewable Energy Target Scheme adding an additional \$20b in investments. Other grant and assistance packages with broader funding criteria only total \$1.2b, include:

- Clean Technology Program worth \$800 m, but not for carbon liable companies, apart from the Emission Intensive Trade Exposed companies,
- Food and foundry fund with \$200 m — both a one for three dollars grant package with a minimum \$25,000 starting price.
- Clean Technology Innovation Fund with \$200m — for R&D work with a one for one dollar grant program.

ASBG is concerned renewable energy grant and assistance packages will not deliver the most economically carbon abatement trajectory. This is especially true of the 2020 target, where a 5% reduction is the most likely to be required.

While support of renewable energy has merit there are many other forms of energy generation and efficiency which also require support and investigation. Some of these include:

- Improving the thermal efficiency of gas fired generation, co and tri-generation systems — thermal efficiencies of over 70% are already being achieved, and with prospects of higher efficiencies being realised.
- Investigation into transitional base-load electricity generation
- Minimisation of impacts and maximising the efficiency on existing electricity systems from the introduction of weather based generation systems and transition to a lower carbon intensive system
- Energy storage systems, which are required to better balance loads of the highly variable types delivered by solar and wind and other weather dependent generation systems.

To achieve a better economic return for reductions in carbon abatement a more open selection criteria should be provided. ASBG considers the bulk of grants and assistance packages should be aiming at achieving support for the lowest cost CO_{2-e} abatement systems and not limiting it the category of renewable energy.

R3 ASBG recommends the Clean Energy Finance Corporation changes its funding policy to include all forms of CO_{2-e} abatement programs, based on the cost of CO_{2-e} tonne abated.

² Productivity Commission Report [Emission Reduction Policies and Carbon Prices in Key Economies](#) – p141

ASBG is also concerned that the Clean Energy Finance Corporation will not invest in Carbon Capture and Storage (CCS). ASBG considers that CCS should be continued to be supported to assist current manufacturing process which by their chemistry have no alternative by to generate a CO₂ waste stream. Such processes include:

- Reduction of most ores to make refined metals e.eg:
 - Smelting iron ore to make steel
 - Manufacture of alumina and aluminium
- Manufacture of Portland cement
- Manufacture of Magnesium oxide

While electricity generation has many low carbon emission technologies available, there are few if any practical alternatives from the above processes, but to generate CO₂.

ASBG acknowledges that the current CCS funded scheme will continue, which is welcomed. Nevertheless, Australia should continue in its support for international and national efforts on developing CCS technologies.

R4 ASBG recommends that Carbon Capture and Storage research continues in Australia to provide a low carbon solution for carbon emission intensive technologies with no alternative emission controls.

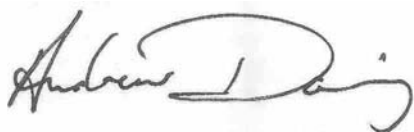
4. Summary

ASBG supports an economically responsible pricing mechanism for the pricing of carbon in Australia's transition to a lower emissions intensive country undertaken in an international context. A soft start to carbon pricing will better ensure its acceptance and improve its uptake and adoption by the business, government and the community. Further research on transition to a lower emitting nation is required, that may result in changes to the CELP funding packages. The Government must clearly identify what actions it will take given moderate and large deficiencies in revenue under the CELP scheme.

Broadening the grant and assistance programs to pursue low cost carbon abatement technologies will minimise further the economic stress this large policy change will affect Australia's economy.

Should you require further explanation of this submission please contact me.

Yours Sincerely



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