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SUBMISSION ON THE SOUTH AUSTRALIAN CLIMATE CHANGE STRATEGY

The Australian Industry Group welcomes the opportunity to make a short submission on an updated Climate Change Strategy for South Australia. Ai Group is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries.

The businesses which Ai Group represents employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

Both climate change and climate policy impact our members, in South Australia and nationwide. Clear, durable and efficient policy is needed to underpin future investment in the energy sector and energy-intensive industries. Trade competitiveness issues are a major focus, given the potential for uneven international climate policies to lead to an unnecessary loss of competitiveness. The various discussion papers released by the SA Government raise many issues. We provide the following feedback on those of greatest relevance to industry.

Overview
The guiding policy principles elaborated in the Overview consultation paper are sensible, and broadly consistent with Ai Group's own approach and the principles agreed by us and the other members of the Australian Climate Roundtable (see www.australianclimateroundtable.org). It will be particularly important for the Government to keep in mind the need for cost-effectiveness, consistency and competitiveness when considering policy responses.

Lead
It is appropriate for South Australia to play a role in national policy advocacy, and to work with the other States to seek greater coordination of their policies. Leadership is needed from all quarters to get the best national outcomes. However, conflict and incoherence – particularly with Federal policy – remains a risk to be guarded against.

The paper considers the performance of the Climate Change and Greenhouse Emissions Reduction Act 2007. The Act remains broadly appropriate, but two aspects require specific comment.

The first is *targets*. Subnational emissions reduction targets need great care. In some circumstances they can be wholly unproductive. For instance under a binding and comprehensive national cap, driving additional abatement in SA beyond what national policy would achieve, would simply make more greenhouse gas emissions allowances available to other States. A hard subnational cap would be unlikely to make a cost-effective contribution to national emissions reductions, given that SA is tightly connected to the national economy and that achieving least cost abatement generally requires openness to the widest possible range of genuine abatement opportunities.

However, targets can also function as a useful guide to formulating policy on matters largely or entirely within the State's own remit. Land use management, planning and transport infrastructure and management are areas where the reach of Commonwealth policy is limited, and where significant low-cost abatement may be achieved through careful State action over time.

We are therefore open to continued use of State targets, as long as these are approached from the wider perspective of helping achieve a national target, and used to guide decisions on areas of policy that are primarily State prerogatives. In this context, a potential decision to upgrade the current greenhouse gas emissions reduction target of at least 60% of 1990 levels by end of 2050, to a number more comparable to the global reductions needed to achieve 2 degrees, would probably be a more useful discipline for future planning. However it should be noted that there is considerable uncertainty over the medium-term pace of international emissions reductions. A 2050 ambition is a marker or guidepost at best.

Shorter term targets for 2020 or 2030 can also potentially serve a useful guidance role, but there may be a greater risk that they cause confusion and turn into a hard subnational cap. This would risk major disruptions to existing energy intensive industries and minimal cost-effective transition and growth opportunities from replacement low carbon industries to fill in the gaps that may be left by loss of traditional industries.

The second issue of note with the existing Act is scope for *voluntary commitments* by businesses to reduce their emissions. Voluntary commitments can be valuable, particularly where government encourages them with recognition and supports practical implementation.

Ai Group is helping the 2xEP ‘Doubling Energy Productivity’ initiative develop a proposed voluntary commitment program for businesses looking to increase their economic output per unit of energy used. Such improvements have both economic and climate benefits. Enhanced access to existing efficiency and productivity support programs can help induce commitments and deliver them.

Thus the voluntary commitments element of the Act remains relevant. However the Government should be open to pursuing these in a range of contexts, including the energy productivity agenda.

The other objectives of the Act remain broadly sensible, and we have no comments at this stage on improvements to their pursuit.

Reduce
South Australia is currently already in the midst of a major transition in its energy generation mix with the scheduled closure of baseload coal-fired power stations at Port Augusta, and the potential for new technologies such as solar thermal power and wind power to replace some of the lost baseload capacity. Also the Australian Energy Market Operator (AEMO) projects in its South Australian Electricity Report, August 2014, that the level of surplus capacity in the region will widen from between 500 and 600 megawatts in 2014-15 to between 350 and 1000MW by 2023-24.

With this backdrop, Ai Group supports the Government’s current (but already expanded) renewable energy consumption and generation target of 50% by 2025 by attracting capital investment under the national Renewable Energy Target (RET). This target appears very likely to be achieved simply through the operation of the RET, and Government steps to facilitate and welcome investment should lower the national costs of this policy while helping SA win a significant share of the construction and operational activity.

However, we would stress caution against any further increase to or acceleration of SA’s aspirational renewable energy generation target at this time. The future of the National Electricity Market, oversupply, new investment and climate policy are complex issues that require national discussion. SA should participate in this fully, and should also bring energy market stakeholders together to discuss the specific and early transitional issues that SA is experiencing.

In the context of a national approach to renewables and energy supply beyond 2020, SA could again act facilitatively to secure a greater share of investment. In the meantime, it will be hard for enhanced targets to have a practical impact unless accompanied by policy instruments with potentially significant costs for energy users. Many South Australian businesses who are attempting to re-negotiate their electricity prices contracts post July 2015 are already seeing significant discrepancies in their prices compared to other states, and there is little ability to tolerate further increases.

Energy efficiency and productivity are important avenues both to increase SA businesses' viability and competitiveness, and to reduce emissions. As well as the voluntary commitment concepts referred to above, harmonising SA's energy efficiency 'white certificate' scheme with New South Wales' Energy Savings Scheme would be a sensible step to reduce the scheme's costs and increase its accessibility for industry. Similar settings around the exemption of trade exposed industries from scheme costs will be particularly important to ensure the scheme does not create unintended burdens.

We support the Government's other suggested initiatives such as increased uptake of low emission vehicles, improved public transportation, promotion of cycling and walking, improved agricultural practices with the aim of reducing greenhouse gas emissions, and continued leadership in resource recovery and waste to energy measures.

Adapt
We support SA Government's suggested actions for improved engagement with industry, especially those in regional areas, to promote its involvement in developing adaptation actions which will vary region to region and sector to sector. Improving planning and providing more useful information on adaptation matters are sensible steps.

Innovate
Ai Group welcomes the Government's focus on promoting clean tech innovation in the State to build on its position as a leading destination for growth sector investment within Australia.

We agree that SA is well positioned to capitalise on existing opportunities within the clean tech spectrum and the target of attracting $10 billion of investment in low carbon energy by 2025 is ambitious but achievable. However, several important points should be kept in mind.

- A high proportion of investment towards the goal may not be innovative in itself, but involve the construction of already-commercial technologies. This market will contribute to the global expansion of the renewable energy sector and support cost reduction and innovation, but the boost to innovation will to that extent be global rather than localised to SA.
- There are national climate change innovation and adaptation policies and institutions, including ARENA and the Clean Energy Finance Corporation. SA should work with these and ensure that any additional initiatives are coordinated with them.
- There are a broader range of barriers to innovation in Australia beyond those specific to clean energy, including access to capital and low levels of collaboration between industry and researchers. Addressing these, including through increasing incentives for collaboration by SA's universities, will pay dividends across many fields.
- Support for clean energy innovation is important to help secure affordable energy supply for the future. It should not inadvertently compromise the viability of energy users. Impacts on prices and volatility in the energy market should be anticipated and closely watched.

Carbon neutral Adelaide
The ambitious target of transforming the City of Adelaide into the world's first carbon neutral city would serves as a demonstration of commitment of the SA Government towards decarbonising its economy.

However besides being a showcase, such a project may not efficiently contribute towards State or National targets for greenhouse gas reduction. It is clear how local industries and businesses may

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benefit from this initiative, given no new major infrastructure changes are proposed towards achieving and maintaining the carbon neutrality goal.

High quality international emissions offsets or allowances may provide a cost effective route for Adelaide to achieve carbon neutrality, supplementing cost-effective local initiatives.

Low carbon investment plan
The discussion paper outlines a range of positive case study approaches to encouraging low carbon investment. Ai Group is open to all of the initiatives foreshadowed in the paper, including good planning processes, the provision of useful information to investors, sponsorship of emerging technologies including energy storage, and project facilitation. The only initiative that raises some questions is the proposed Reverse Auction for a large scale solar project. The paper suggests that this can be achieved without impact on state electricity users, presumably as it would be paid directly by government for its own electricity consumption. If this is the case there is unlikely to be any objection. However, in some jurisdictions the costs of a reverse auction process to induce new electricity supply have ultimately rested with consumers at large. The Government should clarify that this is not their proposal.

Further questions about these issues should be addressed to our adviser Vikram Kenjle on (08) 8394 0038 or at vikram.kenjle@aigroup.com.au.

Yours sincerely,

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