



25 October 2019

Carbon Abatement Expert Panel

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JOINT RESPONSE ON OPPORTUNITIES FOR FURTHER CARBON ABATEMENT

Dear Mr King

Our organisations welcome the request to provide input on opportunities for the Federal Government to take action to drive further carbon abatement. We note that additional consultation will be essential to develop well-informed, effective new policy and programs. However, in addition to our individual views and submissions, we have agreed on some broad principles that should inform the Government's approach in this area.

The Paris Agreement commits Australia and other signatories to keeping temperature increases well below 2°C; pursuing efforts to keep temperature increases below 1.5°C; and, ultimately, delivering global net zero emissions to achieve this. Meeting Australia's long term ambitions will involve low-, zero- and negative-emissions transformation in every sector of a thriving Australian economy, supported by innovation in technology, practices and markets.

Australia's medium term commitments are staging posts along the way to these goals. To meet our medium and long-term goals Australia needs policy mechanisms that can efficiently access immediate, cost effective abatement opportunities in each sector, while also cultivating future opportunities for abatement through innovation.

We note that policies that create durable private demand for abatement across the economy would reduce the need to commit taxpayer funds. We support development of such policies, ensuring that they are consistent with key principles of good design, economic efficiency, trade competitiveness and social equity.

In the absence of such policies the Government will need to commit more resources – both now and over time – to finance abatement. New resources beyond the existing Climate Solutions Package (CSP) allocation are needed because:

- The existing funding per ton of abatement currently sought through the Climate Solutions Fund (CSF) is unlikely to be sufficient to pull through technologies that are new to market or new to Australian sectors. This will initially involve higher abatement costs, even as it builds experience and scale that will lower costs over time.
- The amount of abatement sought through the CSF may have to increase if other elements of the CSP do not deliver as intended; or if Australia opts to increase its nationally determined contributions.
- The CSP does not include funding to support the Long Term Strategy currently under development, or to sustain the clean economy innovation activities, including through the Clean Energy Finance Corporation and the Australian Renewable Energy Agency, that are needed for ongoing and successful transition.

Unlocking and supporting abatement from the land sector, as the existing Emissions Reduction Fund (ERF) has done, is very important and activity in this sector will need to grow to deliver Australia's long term climate goals. The Expert Panel's consultation paper is right that comparable success is needed across the rest of the Australian economy. However, relying on the ERF to drive abatement in other sectors is unlikely to deliver that success. There are a range of reasons for this, including the cost and complexity of engaging with the ERF; the shallow and largely monopsonistic market for credits; and the lack of clear long term ambition. Beyond the ERF, Australia does not have an associated stream of public funding or private demand sufficient to underpin investment in major emissions reduction opportunities in industry, energy, transport, the built environment and more.

Allocating abatement activity across the economy is complex and would best be driven by dynamic markets. In the absence of these, we note that policies focussed on the abatement options that are currently cheapest and most accessible across the economy – as elements of land and waste have recently been – will not be enough to deliver a least-cost long term transition for Australia's economy. At minimum, policy should aim to maintain existing levels of activity in areas where momentum has been built, such as land and waste, while supporting equivalent abatement and sequestration across every other major economic sector, such as buildings, industry and transport.

Achieving this will require a broadening of the policy suite for emissions abatement, with targeted programs tailored to the opportunities and barriers in specific sectors. In particular, we note that the ERF reverse auction mechanism is poorly suited to some sectors, including industry and buildings.

The approaches foreshadowed in the consultation paper – Safeguard crediting, technology-focused co-funding, energy efficiency and extension services, knowledge innovation and capability, and streamlining ERF processes – all have complexities and are worthy of further consideration.

We look forward to further discussions and opportunities for detailed input and feedback on all these issues and the emerging proposals of the Expert Panel and the Government.

Questions on this letter should be directed via Ai Group’s adviser Tennant Reed (tennant.reed@aigroup.com.au, 03 9867 0145) for coordination among our organisations.

Yours sincerely,

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