



Vital that the Australian energy policy includes renewables and market mechanisms

Environment Business Australia submission to the CoAG Energy Market Review Panel and response to the Parer Review Report Towards a Truly National and Efficient Energy Market
December 2002

Environment Business Australia welcomes the opportunity to add comment to the substantive and far-reaching Energy Market Review and congratulates the panel on the work done to date. Notwithstanding the strong points that EBA considers will be of benefit to the national energy picture, we have reservations on some issues contained in the report, and wish to have our views considered in the context of building a strong energy industry within a national energy policy.

The focus of our interest is on how the Panel's report best addresses the issues of:

- A national sustainable energy policy
- Improving certainty for business about the transition to a less carbon intensive economy
- Developing a competitive renewable energy industry
- A national emissions trading regime

Primarily, EBA is concerned that there is no national energy policy for Australia that fits into a broader and long term national sustainability policy. Our particular concern is that because of a lack of national energy objectives it is difficult to benchmark renewable energy and energy efficiency, and therefore to create goals and timelines that would drive the competitiveness of Australian industry in this area into export markets. We note that the Renewable Energy Action Agenda and the Environment Industry Action Agenda emphasise the importance of export markets for the sustainability industry's growth to meet targets agreed to by industry and government. Currently some 2 billion people are without access to electricity in developing countries and EBA wishes Australian firms to have access to a fair share of the market for technologies, systems, operational management and infrastructure that will be demanded in a world in transition to a lower carbon intensity.

Our specific comments are as follows:

Recommendation 8.1: *Replace existing programs with a cross-sectoral greenhouse gas emissions trading system*

A cross-sectoral GHG ETS may well be the most cost-effective mechanism for reducing greenhouse gases in the short term. However, the purpose of the MRET, GGAP and the Queensland 13% Gas Scheme is to support the development of renewable energy and gas fired generation with the hope that over time this will lead to economic growth with a lower

ENVIRONMENT BUSINESS AUSTRALIA

ABN 48 052 135 609 • EMIAA Trading as Environment Business Australia
National Press Club, 8/16 National Circuit, Barton ACT 2600
Telephone 61 2 6270 1333 • Facsimile 61 2 6270 1300 • Email eba@environmentbusiness.com.au
Web address www.environmentbusiness.com.au

carbon intensity while developing an internationally competitive industry in the new growth sectors of the energy sector. In the short term the greenhouse gas abatement attribute of these programs is incidental. Therefore they should not, as suggested in Chapter 8, be “replaced” by a cross-sectoral greenhouse gas emissions trading system (ETS).

EBA is however, fully supportive of a national emissions trading system and puts forward the recommendation that this be viewed as an 'umbrella' scheme under which hang a number of highly focused and targeted market based instruments (MBIs), the Mandated Renewable Energy Targets (MRET) would be one such MBI, the importance of which is stated in its original terms of reference which deems it an industry development tool and not an emissions reduction tool. In fact EBA most strongly recommends that the MRET be increased from 2% to 10%. The reasons for this are outlined in our original submission and are broadly based on the need to develop what is now seen as a 'fringe' industry to 'core' industry status in line with developments in competing countries, and in line with the needs of developing countries to alleviate poverty and modernise their economies.

There is a danger in rejecting existing programs and schemes for a cost effective Utopia which may not exist. It can't be assumed that pursuing greenhouse gas mitigation at least-cost will necessarily lead to the most efficient allocation of resources. Certainly in other countries there are existing voluntary and mandatory ETS that are cross-sectoral, but these function in parallel with tightly targeted industry and regionally specific programs which have industry development as a core focus. These serve a dual function, like our own MRET and GGAP, as vectors for delivering non-greenhouse policy outcomes such as increasing rural and regional employment.

Placing a price on carbon across the economy will send a clear signal to business on the need to address greenhouse. EBA supports this because we believe this will improve business certainty in three critical areas: facilitating investment in new technologies that enable low carbon economic growth; improving understanding of by how much and more importantly when business should reduce GHG emissions; and improved quantification of risks associated with investing in greenhouse intensive activities.

However EBA believes some uncertainty will continue to exist while Australia remains outside the market of parties to the Kyoto Protocol. Climate change is a global issue and providing short term regulatory certainty in our own region while continuing to isolate industry from the price signals of the global carbon market would address only a small fraction of the risk associated with investment in greenhouse intensive processes.

We do support in principal a move towards broader national schemes rather than state based schemes as the compliance costs for firms that operate across state borders can be significant.

In summary we believe that there are many points of merit in this section and EBA would welcome the opportunity to work closely with the Review Panel to develop maximum benefit, least cost scenarios.

Recommendation 8.2: *Exclude traded goods sector from an emissions trading scheme*

It is difficult to see how an ambit exclusion of the traded goods sector from any mandatory national ETS will minimise the impact on this sector of operating in a carbon constrained

environment. Given the significant contribution of this sector to our overall emissions inventory, their exclusion is likely to distort price signals for the cost of greenhouse gas mitigation. In turn this would lead to inefficient resource allocation in many sectors, not just the traded goods sector. In particular, the isolation of this sector from an ETS may ultimately simply defer and exacerbate the costs that they would otherwise incur when and if our “competitors overseas” accept a mandatory cap on greenhouse gas emissions. EBA advises that no commercial sector should be quarantined from ETS as CO₂ is developing a real value in world markets and the liability and/or assets associated with companies' carbon intensity will need to be dealt with by all companies in relation to world markets in a trading sense and also in relation to investor and insurer demands.

If there are very specific reasons why the Parer Review Committee has recommended the quarantining of the tradable goods sector, EBA requests that the benefits sought by exclusion be made clear and transparent.

EBA also advises that it is in the broader industry's interests to become actively involved in ETS and "learn by doing" and that an ETS should be commenced at the earliest opportunity and should not wait for the formal emergence of an international emissions trading system.

Recommendation 8.3: *Introduce interval meters*

We strongly support the mandatory rollout of interval meters to all customers. However, consideration needs to be given to the design of these meters so that price and consumption data is not simply available to customers but that it is actively *communicated*. This could be via a change in the placement of the meter and through installing “smart” meters that allow customers to set the unit to alert them when certain price or consumption conditions are met.

As a general comment EBA is strongly supportive of the creation of a national energy regulator, but we consider that it is inappropriate that this regulator sit inside and under the authority of the ACCC. Whilst the objectives of the ACCC are laudable in support of consumer interests, there have been occasions in the past where the mid to long-term national energy interests have been dealt with poorly in favour of short term price perceived benefits. We cite in particular the issues relating to:

- Methyl tertiary butyl ether (MTBE) and independent fuel importers
- ACCC's lack of acknowledgement or support for the need for fuel research and adequate distribution networks that are provided by the major oil companies
- ACCC's consistent lack of recognition of the importance of internalising externalities.

EBA strongly recommends that decisions relating to energy must take into account:

- Long term outcomes over short term cost savings
- The internalising of external costs and the linkages between energy and other national policy areas such as health, environmental sustainability, and industry competitiveness
- Ability to amortise capital expenditure and expenses
- The need to encourage ongoing R&D into energy efficiency

We thank you for the opportunity to provide comment and recommendations from the environment and sustainability industry and will be happy to discuss any of the points raised with you.

Yours sincerely

Fiona Wain
Chief Executive Officer
Environment Business Australia