



AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY

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Dear Chair,

The Australian Chamber of Commerce and Industry (ACCI) welcomes the opportunity to make a submission to the Senate Economics Legislation Committee Inquiry into the *Australian Renewable Energy Agency (Repeal) Bill 2014*.

The Australian Renewable Energy Agency (ARENA) has been given a budget of \$3 billion to artificially support investment in uncommercial renewable energy projects and engage in a range of other activities in support of renewable energy technology.

Investment in renewable energy is already supported by both the Clean Energy Finance Corporation (CEFC) and the Renewable Energy Target (RET), and prospectively will benefit from abatement opportunities available under the Emissions Reduction Fund. ACCI believes that there is no economic justification for layering additional subsidies for the renewable energy sector on top of those already provided for in terms of financing of projects under the CEFC, and by artificially creating a market for renewable energy through the operation of the RET.

Funding for ARENA simply provides one distorting subsidy on top of a range of others and further complicates the disjointed and incoherent policy approach to carbon emissions. ACCI believes that Australia's carbon abatement policies need to be rationalised and consolidated into a coherent, integrated policy framework that is designed to achieve lowest cost abatement. The Emissions Reduction Fund provides a realistic prospect of achieving such an approach and provided it operates effectively should be the principal mechanism for limiting carbon emissions across the economy.

Taxpayers already bear the cost of supporting the uncommercial investments of the CEFC, and the RET imposes a significant cost burden on energy users through the increase in electricity prices it generates. Funding for ARENA imposes a further burden on Australian taxpayers for an unclear economic benefit. The project funding distributed by ARENA involves a direct transfer of wealth from taxpayers to the renewable sector, which has no clear policy rationale.

Transfers of wealth from taxpayers to the renewable energy sector do not appear to be welfare enhancing and where the subsidy is inappropriately formulated, as appears to be the case in this instance, actually gives rise to significant inefficiencies and associated dead-weight losses.



Unlike the CEFC, the ARENA is a general government agency, whereas the CEFC is at least a public non-financial corporation (PNFC). According to the Australian Bureau of Statistics, the main function of a PNFC is to:

“... provide goods and services which are predominantly market, non-regulatory and non-financial in nature, and financed through sales to consumers of these goods and services.”

In contrast, a general government agency primarily exists to:

“... provide non-market goods and services (e.g. roads, hospitals, libraries) primarily financed by taxes, to regulate and influence economic activity, to maintain law and order, and to redistribute income by means of transfer payments.”¹

While the CEFC has been given a specific investment mandate and is required to demonstrate some sort of return on investment (whether that is a ‘commercial’ rate of return is debatable), ARENA faces no such test. ARENA to a large extent provides support to projects that have limited prospects of providing any form of return on capital, let alone at a commercial rate.

ARENA has no clear economic justification for the investments it pursues and there is limited disclosure on returns to projects funded in their 2012-13 Annual Report. There are no clear benchmarks for success outlined in ARENA’s annual report and it is not clear to ACCI that the agency is delivering an adequate return on taxpayer’s funds.

The Annual Report states that returns are to be measured: *“...in the form of progress towards commercially viable solutions that do not require any subsidy”²*. It is unclear what precisely constitutes success against this benchmark and that lack of accountability compromises the activities of the agency.

There are other vehicles available through the university sector and private sector research institutions to fund basic research and development and commercialisation of technologies. There are also a plethora of industry assistance and research programmes that already exist but are available more widely than to just the renewable energy sector. There is no specific market failure that is unique to the renewable energy sector that justifies its own special financing mechanism.

ACCI supports the repeal the Australian Renewable Energy Agency Act 2011.

Yours Sincerely,

Director, Economics and Industry Policy

¹ Australian Bureau of Statistics, *Government Finance Statistics, Australia, 2012-13* Cat. No. 5512.0, May 2014.

² ARENA, ARENA Annual Report 2012-13, September 2013.