AUSTRALIAN INDUSTRY
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Committee Secretary
Joint Select Committee on Australia's Clean Energy Future Legislation
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary

The Australian Industry Group is pleased to have another opportunity to make submissions on the Clean Energy Bill and related legislation.

The introduction of a carbon price coincides with a period of intense global uncertainty and uneven economic performance across the world. Domestically these pressures are exacerbated by the lopsided nature of the local economy with large sectors on the wrong side of the minerals boom, including manufacturing, experiencing very stressful conditions. The manufacturing industry, which has seen a 10 percent reduction in its workforce over the past three years with half of the loss occurring in the last twelve months, stands to be particularly acutely affected by carbon pricing. For these reasons the timing of the carbon pricing initiative makes us very wary of its impacts. The same factors are behind the proposed changes we list below, including the lower starting price, to soften the impact of new measures.

There have been many inquiries into and consultations upon the various iterations of carbon pricing policy, stretching back to 2007 and beyond. Throughout that time, Ai Group has consistently argued that the emissions reduction targets articulated by the major parties should be met as efficiently as possible. Five principles have underlain our approach, and have implications for the current legislation.

The competitiveness of Australia's trade exposed industries cannot be eroded. The legislation provides a framework for transitional allocation of emissions permits to many of the most affected industries. Much of the important detail is contained in regulations, but the legislation requires review by the Productivity Commission, which can recommend changes to assistance. It is extremely important that the Jobs and Competitiveness Program be maintained for any given industry until the PC is satisfied that 70% of that industry's overseas competitors face a comparable carbon constraint.

Australia should be able to meet its international emissions reduction commitments at least cost. Cost effectiveness is central to minimising the impact of emissions policy on economic growth and living standards. Full access to credible international abatement opportunities is widely agreed to be vital if Australia is to achieve least cost abatement. The Clean Energy Bill includes both quantitative and qualitative restrictions on this access.

The quantitative restriction is inappropriate, albeit temporary. The qualitative restrictions must be applied reasonably and with adequate protections for purchasers.

Climate policy must respect existing investments to avoid acute short-medium term disruptions while supporting efficient long-term investment in the energy and other sectors. Assistance to electricity generators under the Clean Energy Bill is extremely important for maintaining stability and investment in the generation sector and must not be weakened. Any current or future amendments to the legislation that may be proposed should take into account the implications for current and future investment; frequent major policy changes, as seen with the Renewable Energy Target, do little to foster investment certainty.

A central feature of policy should be supporting research and development of new approaches to emissions reduction and refinement of existing approaches. Beyond the proposed carbon price itself, much of the Clean Energy Future plan's support for R&D is to be found in policy rather than legislation.

Compliance costs and regulatory burdens should be kept to a minimum. The legislation seeks to reduce process costs via measures such as thresholds that minimise liable party numbers, and by using existing tax and levy mechanisms for liquid fuels and synthetic gases. However, it misses opportunities to prune back related compliance costs elsewhere.

Ai Group has made three major criticisms of the Clean Energy Future plan.

1. The fixed carbon prices within the policy are unnecessarily high and disruptive, and are out of step with current international carbon prices. This could be addressed through lower fixed prices, which would ease the transition and, combined with the early and automatic switch to an internationally linked emissions trading scheme, would not distort investment and abatement decisions. Alternately, a transitional arrangement could be applied like that in the current phase of the New Zealand Emissions Trading Scheme, where liable parties must submit one unit for every two tonnes of emissions.

2. The grants package for manufacturers, while welcome, does not address the up-front cost impact that businesses will face before energy efficiency and emissions reduction projects can bear fruit. These transitional impacts are severe in some cases, particularly where industries fall just short of the thresholds for the Jobs and Competitiveness Program (JCP), and companies will be left to bear them until efficiency assistance kicks in. Some companies will not have significant opportunities to further increase their efficiency. This could be addressed for some industries through expansion of the JCP. In the absence of such expansion it becomes even more important that manufacturing grants are made highly accessible, flexible and timely.

3. There is no clearly articulated drive to prune the tangle of numerous existing mitigation policies, programs and measures at the Commonwealth, State and local levels. Many of these policies are inefficient in themselves, and become doubly redundant if carbon pricing is in place. The continuation of such measures threatens to double up costs and burdens for many businesses. Addressing this requires major effort from both the Commonwealth and the States. However, the legislation could contribute to a solution by supporting the more effective and coherent review of these policies. The Bills require the proposed Climate Change Authority to review the Clean Energy legislation, the Renewable Energy Target, the Carbon Farming Initiative and the National Greenhouse and Energy Reporting system. The Authority's remit should be extended to explicitly allow (though not require) consideration of and recommendations upon all Australian policies directed at emissions reduction.

The Clean Energy legislation, as introduced, includes a number of worthwhile technical improvements over the original drafts. The Government and the Parliament should be flexible and open to further amendments to meet the critical needs identified by industry. This legislation is of great importance to the Australian economy and to a range of major investments. It is important to get it right.

Yours sincerely,

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