

25 September 2012

Ms Julie Owens MP
The Chair
House of Representatives Economic Standing Committee
Parliament House
Canberra



AUSTRALIAN
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NETWORK

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Dear Ms Owens

HOUSE STANDING COMMITTEE ON ECONOMICS – CLEAN ENERGY AMENDMENT BILLS 2012

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to comment on the Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012 (the Bill) and the related bills.

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies. Its members account for over 90% of Australia's mining, manufacturing and energy transformation emissions.

Attached is a copy of AIGN's response of 6 September to the Department of Climate Change and Energy Efficiency providing comment on the drafts of the Clean Energy Legislation Amendment Bill 2012. Given the timing for this Inquiry we have not been in a position to update this document.

AIGN's members have a range of views on greenhouse and energy policy. This letter and the attachment represents the views of AIGN members in general, though it may differ in some particulars from the positions of some individual member associations and companies. Some members have prepared submissions of their own, and this AIGN submission should be read in conjunction with those submissions.

AIGN supports a national climate change policy that delivers abatement at least cost and facilitates investment decisions consistent with an effective international price on carbon. The pricing mechanism design must provide businesses with the confidence needed to undertake long-term investments in low emissions technology and infrastructure.

In our submission of 6 September we welcomed a number of the proposed amendments, particularly the removal of the floor price. However the ability to comment in detail on the original significant policy changes was limited by the lack of previous consultation and limited explanatory notes plus limited time for appropriate and comprehensive analysis of the issues

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AIGN's primary concerns with the draft Amendments related to a number of key issues:

- uncertainties around potential processes for putting limits on the importation of international permits which had the potential to cause increased industry uncertainty;
- changes to the natural gas liability arrangements were considered unworkable as “while seemingly focussed on a narrow set of arrangements that may apply in a specific set of yet to be determined circumstances, raise a series of potential commercial distortions, complications and administrative burdens that extend to the entire natural gas liability provisions currently contained in the Clean Energy Act 2011;
- the lack of parameters around the flexibility to make further changes to the scheme. While a large amount of flexibility may be appropriate in some circumstances, liable entities and other market participants require a more structured framework around regulatory powers to facilitate investment decision-making; and
- Difficulties in commenting on the legislative package when considered analysis of the implications can only be undertaken when the regulations are made available.

AIGN is conscious that the legislation entered into Parliament last week (and subject for consideration by this Committee) a number of issues raised by AIGN have been addressed as well as the repeal of the Clean Energy (international unit Surrender Charge) Act 2011 as supported.

The Network welcomes the limitations upon the Minister to impose further sub-limits on Kyoto units to 2020 (as against with as little as a year's notice). This increases the confidence in the arrangements and reduces the risk for those participants that will be looking to purchase international permits to meet compliance

In regard to the Amendments relating to natural gas we note that the Government has provided a number of options for consultation to obtain input on the detailed arrangements that will be set out in subsequent regulations.

Notwithstanding these improvements in the scope for consultation and feedback the AIGN remains particularly concerned with the complexity of the proposed amendments to the legislation impacting on natural gas supply and liability. The ongoing limited opportunity for affected businesses to review these proposed changes means that it has not been possible to fully analyse the amendments nor consider implications for existing and future commercial arrangements, administrative costs and reporting obligations.

Given that we expect the first compliance year of the carbon pricing mechanism will uncover and highlight many issues with the current legislation, we strongly recommend that these sections of the amendments be removed now and industry



consultations be formally initiated to determine the best course of action. If indeed there are material gaps to coverage in the natural gas supply chain, these will be clearer after 1 July 2013. If there is a gas market participant that is not effectively covered under the exiting legislation, then we suggest a more targeted approach to resolving this issue rather than that proposed in the current amendments.

The current amendments, and the yet to be released regulations, create considerable uncertainty and disquiet for all gas market participants. The gas supply chain is complex and varies on a geographic basis and with the deepening spot market, new issues are now being identified. This market warrants a comprehensive review of existing legislation in order to fully appreciate any gaps and resolve a way forward. AIGN does not support the approach taken in the Bill and we recommend further industry consultation on these matters.

AIGN would also re-iterate that while the European Union Emissions Trading Scheme (EU ETS) is currently the largest ETS in the world, many of Australia's trade competitors are outside of the EU. Concerns with respect to international competitiveness have not reduced as a result of the decision to legislate and operationalise a unilateral link with the EU ETS. In the transition period to a broader international trading system with potentially all major economies, competitiveness must be preserved.

Australian industry has concerns as to how will Australian competitiveness be 'preserved' if the EU continues to use policy drivers to change their scheme. The EU will do that in their interest which will not necessarily be in ours. It will simply drive up our costs and should be addressed in both the bilateral agreement and the regulation.

The AIGN looks forward to the opportunity to expand upon these matters at the Committee's hearing on Thursday.

Yours sincerely

Alex Gosman

Chief Executive Officer