Business Council of Australia

Submission to the

Senate Economics Legislation Committee Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a Related Bill

July 2009

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EXECUTIVE SUMMARY

The BCA's vision is for Australia to be the best place in the world in which to live, learn, work and do business and for it to become and remain a top-five economy among OECD countries by 2012. The overriding objective is to enhance prosperity in Australia.

The BCA makes this submission giving consideration to Australia's long-term economic prosperity, as it is the strength of Australia's economy and viability of Australia's businesses that will ensure we are able to respond to economic, social and environmental challenges, including climate change.

The BCA has considered the proposed implementation of the expanded Renewable Energy Target (RET) in a number of earlier submissions to government.

In these submissions the BCA has highlighted that the proposed expanded RET fails to meet the tests the government has prescribed for the introduction of policies that are complementary to the Carbon Pollution Reduction Scheme (CPRS). In particular, the proposed expansion of the Renewable Energy Target is occurring without the evidence of market failure, and evidence is not available that this target will support least-cost emissions reduction.

The Treasury modelling released in October 2008, titled *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, points out that the cost of emissions reductions through the introduction of the RET will be up to three times higher than the cost of permits under the CPRS for the period 2010 to 2020. Such an analysis points to the fundamental conflict between the stated aim of the CPRS to facilitate least-cost emissions reduction, and the introduction of an expanded RET, which leads to additional costs to achieve emissions reduction.

The expanded RET does not meet the criteria for a policy that is complementary to the CPRS and it will lead to additional costs to achieve emissions reduction. Work by the Productivity Commission, Professor Ross Garnaut and the Wilkins review reaches similar views.

The BCA has argued in previous submissions that a more appropriate approach to the development and deployment of renewable energy technology would be for the government to reconsider the policy objective it wishes to achieve and what are the most appropriate and cost-effective policy tools to bring forward both renewable and low-emissions technologies without undermining the CPRS. Such policies could include targeted research, development and deployment initiatives to address specific challenges in technology development.

In the absence of a broader review of the renewable energy technology policy, the draft legislation to implement the expanded RET should be implemented in a manner that ensures all electricity-intensive trade-exposed, industries are fully exempted from the impact of the expanded RET.

Should the RET proceed, the approach should be equivalent to that which has been taken in both the Victorian and New South Wales state schemes, that is, the amount of electricity consumed by electricity-intensive, trade-exposed industry should be netted out from total electricity consumption and excluded from the assessment of parties liable to meet the annual RET targets. Such an approach will assist in managing the impact and not lead to an increased burden on other businesses, other than that related to the price impact.

INTRODUCTION

The Business Council of Australia (BCA) represents the chief executives of over 100 of Australia's leading companies. The BCA develops and advocates, on behalf of its members, public policy reform that positions Australia as a strong and vibrant economy and society. The businesses that BCA members represent are among Australia's largest employers and represent a substantial share of Australia's domestic and export activity. Therefore, they have a significant interest in the scope and direction of economic reform.

The BCA's vision is for Australia to be the best place in the world in which to live, learn, work and do business and for it to become and remain a top-five economy among OECD countries by 2012. The overriding objective is to enhance prosperity in Australia.

Such an objective is not at odds with effective environmental management, but does require reforms aimed at 'internalising' environmental costs and risks, most notably with regard to greenhouse gas emissions and the risks associated with climate change.

The response should be based on a suite of policies that are complementary and facilitate least-cost abatement. It also requires the introduction of such a policy in a manner that does not disadvantage Australia's competitiveness or put employment at risk, but rather, in a manner that ensures a smooth long-term transition to a low-emissions economy.

This submission reiterates the concerns raised by the BCA previously with regard to the introduction of an expanded Renewable Energy Target (RET) and more significantly addresses the need to ensure the competitiveness of the emissions-intensive, trade-exposed industries should not be affected by the introduction of the RET.

COMMENTARY ON THE RENEWABLE ENERGY (ELECTRICITY) AMENDMENT BILL 2009 AND RELATED BILLS

POLICY INTENT

The key challenge, from the perspective of the BCA, when considering the expanded RET legislation is whether it will ensure Australia can achieve its emissions reduction in the most cost-effective way and that the introduction of this policy does not lead to adverse impacts on Australia's internationally competitive, electricity-intensive industries.

The implementation of the Australian emissions trading scheme should be the primary vehicle to achieve emissions reduction.

Additional policies and programs should only be introduced to address a specific market failure not addressed through the emissions trading scheme.

The release of the 'Principles for the Jurisdictions to Review and Streamline their Existing Climate Change Mitigation Measures' by the Council of Australian Governments in November 2008 makes clear the tests any complementary policy should pass before it is implemented, that is, it is targeted at a market failure that is not expected to be adequately addressed by the Carbon Pollution Reduction Scheme or targeted to manage the impacts of the Carbon Pollution Reduction Scheme on particular sectors of the economy.

An assessment of the RET in light of these principles would suggest the RET policy should not be proceeded with.

The BCA submissions have also highlighted that an expanded RET will lead to higher-cost emissions abatement.

This matter has been further addressed in the Treasury modelling released in October 2008, titled *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, which points out that the cost of emissions reductions through the introduction of the RET will be up to three times higher than the cost of permits under the CPRS for the period 2010 to 2020.

Such an analysis points to the fundamental conflict between the stated aim of the CPRS to facilitate least-cost emissions reduction and the introduction of an expanded Renewable Energy Target which leads to additional costs to achieve emissions reduction.

This means Australian businesses will now face an additional cost over that arising from the CPRS at a time of a poor economic outlook both in terms of the depth of the economic decline and its likely duration.

Rising capital costs and pressure on cash flows are now significant issues across business and will impact on the capacity of business to manage the impacts of both the RET and the CPRS.

Whilst the RET may stimulate the expansion of established renewable energy sources such as wind, it remains unclear whether this will be done in the most economically efficient manner. What is also of particular concern is whether the expanded RET will bias the options for renewable energy expansion in a narrow manner.

IMPACT ON ELECTRICITY-INTENSIVE, TRADE- EXPOSED INDUSTRIES

The introduction of the RET will bring with it additional costs for those industries using electricity as a means of production. Where industries cannot pass this cost on, there is a change in the competitiveness of these industries relative to exports and imports.

It is essential that the introduction of the expanded RET includes measures to offset this competitiveness impact from its commencement.

At a minimum, should the RET proceed, the approach will need to be equivalent to that which has been taken in both the Victorian and New South Wales state schemes, that is, the amount of electricity consumed by electricity-intensive, trade-exposed industry should be netted out from total electricity consumption and excluded from the assessment of parties liable to meet the annual RET targets. Such an approach will assist in managing the impact and not lead to an increased burden on other businesses, other than that related to the price impact.

SPECIFIC ELEMENTS OF THE BILLS

- As discussed above – the exemption from the expanded RET for EITE activities should be a full exemption.

- The intention to link any exemption from this Bill for EITE activities to the commencement of the Carbon Pollution Reduction Scheme (3 Subjection 5(1)) should not be pursued. Instead EITE activities should receive the exemption as soon as the RET commences, regardless of the outcome for the CPRS legislation.

- The legislation should it proceed should at be drafted in line with the government's own policy commitment of a 20 per cent target in 2020. This requires either the removal of section 40 or a recalibration of the targets included in this section.[1]

- Notwithstanding the BCA's broader views on the RET, should this Bill be proceeded with, the RET should include all eligible energy sources including the use of industrial waste and waste coalmine gases as an eligible energy source. Such an arrangement will at least provide an incentive to utilise industrial waste gases to generate electricity. Such an approach is consistent with current arrangements under the mandatory Renewable Energy Target where gases treated as eligible sources include landfill, sewage, wood waste, agricultural waste and food processing.

- The legislation should make clear the conclusion date of the RET and specify the terms of the five-yearly review. Ambiguity as to the terms of the review and duration of the RET will have negative impacts on investment decisions.

- The shortfall charge under the RET should not be indexed. A cap on price in this way is justifiable as follows:

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[1] Treasury modelling forecasts electricity demand in 2020 to be 260,000GWh, making the 20 per cent target 37,000GWh rather than 45,000GWh as in section 40.

- As the ETS cost grows (after a soft start) the price required by renewable projects should decline.

- No indexation would be consistent with a gradual phase-out of the scheme, that is, the shortfall would reduce in real terms over time.

- Any extension of the charge will provide windfall profits to existing REC suppliers.

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