

List of Stakeholders – Expert Panel Examining Opportunities for Further Abatement

Airlines for Australia and New Zealand
Australasian Railway Association
Australian Aluminium Council
Australian Automobile Association
Australian Energy Council
Australian Industry Greenhouse Network
Australian Industry Group
Australian Institute of Energy
Australian Institute of Petroleum
Australian Logistics Council
Australian National Road Transport Association
Australian Petroleum Production and Exploration Association
Australian Sustainable Built Environment Council
Australian Trucking Association
Bioenergy Australia
Business Council of Australia
CO2 Value
CO2CRC
Carbon Market Institute
Cement Industry Federation
Chemistry Australia
Clean Energy Council
Clean Energy Finance Corporation
CSIRO
Energy Consumers Australia
Energy Efficiency Council
Energy Savings Industry Association
Energy Users Association of Australia
Federal Chamber of Automotive Industry
Investor Group on Climate Change
Manufacturing Australia
Maritime Industry Australia Limited
Meat and Livestock Australia
Minerals Council of Australia
National Farmers Federation
NRM Regions Australia
Property Council of Australia
Shipping Australia Limited
Truck Industry Council

s22

From: Carbon Abatement Expert Panel
Sent: Tuesday, 15 October 2019 9:40 PM
Subject: Expert Panel examining opportunities for further carbon abatement - Discussion Paper [SEC=OFFICIAL]
Attachments: Expert Panel - Discussion Paper.docx

Dear stakeholder

The Minister for Energy and Emissions Reduction, the Hon Angus Taylor MP, has asked me to chair an expert panel to undertake targeted consultation with industry and other stakeholders about the potential to incentivise low cost carbon abatement, with a focus on Australia's industrial, manufacturing, agricultural and transport sectors and increased energy efficiency.

To assist in undertaking this work, we have prepared the attached discussion paper outlining the background to these matters and potential options that may help unlock abatement in these areas. The options in the discussion paper have been developed as a basis for eliciting feedback, and should not be read as pre-empting any future decisions the government may take.

I am seeking your written response, on behalf of your members, to the questions presented in the discussion paper by close of business next Thursday, 24 October 2019. This will enable the panel to report to the Minister in the timeframes available. Given these timeframes, we acknowledge it may not be possible to fully consult across your membership before providing your response. However, the panel may arrange follow-up discussions to assist in finalising its report and is very open to receiving feedback in a form that best suits you, including cross-referencing previous submissions or other documents if appropriate.

Your written response can be provided to carbonexpertpanel@environment.gov.au.

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s22

Sincerely

Grant King

EXPERT PANEL EXAMINING OPPORTUNITIES FOR FURTHER ABATEMENT

DISCUSSION PAPER, OCTOBER 2019

Overview of the Emissions Reduction Fund

The Emissions Reduction Fund (ERF) is the centrepiece of the Government's emissions reduction policies. The ERF has contributed to Australia being on track to exceed its Kyoto Protocol commitments, covering the period 2008-2020, by a projected 367 million tonnes. To date, the ERF has contracted over 190 million tonnes of abatement, of which more than 44 million tonnes has already been delivered.

Activities supported through the ERF are providing financial, environmental, economic, social and cultural benefits for farmers, businesses, landholders, Indigenous Australians and others. Projects are registered in all states and territories.

The ERF is underpinned by robust legislative and governance frameworks which ensure the integrity of Australian Carbon Credit Units (ACCUs) credited under the ERF's methodologies. The framework includes the six legislated offset integrity standards which the independent Emissions Reduction Assurance Committee must confirm have been met to allow a methodology to be made. These high levels of integrity are particularly important to give confidence to the market relating to the creation, trading and surrender of ACCUs.

In 2016, the Australian National Audit Office undertook a performance audit of the ERF and determined the program has sound crediting and purchasing arrangements¹. The most recent review of the ERF by the Climate Change Authority found it 'is performing well, creating incentives for new domestic emissions reductions at low cost that will contribute to Australia's targets under the Paris Agreement.'²

Where the ERF has been successful

The ERF has been very successful in generating offsets under the vegetation and waste methods. To date, most ACCU supply has been from vegetation management projects, waste sector projects and savanna fire management projects³. Together, these projects account for 97 per cent of ACCUs issued.

High uptake from these project areas can generally be attributed to three main attributes:

- The activity is relatively low cost to undertake and/or there is complementary policy or financial support (for example Indigenous Protected Area and Indigenous Ranger funding supports many savanna projects),
- Relatively large amounts of abatement are within the operational control of participants, and

¹ Australian National Audit Office 2016, *Abatement Crediting and Purchasing under the Emissions Reduction Fund (Report No. 14 of 2016-17)*, Australian National Audit Office, Canberra, viewed 26 September 2019, <<https://www.anao.gov.au/work/performance-audit/emissions-reduction-fund-abatement-crediting-and-purchasing>>.

² Climate Change Authority 2017, *Review of the Emissions Reduction Fund*, Climate Change Authority, Canberra, viewed 26 September 2019, <<http://climatechangeauthority.gov.au/review-emissions-reduction-fund>>.

³ For example, promoting regeneration of native forests, capturing methane from waste facilities, and traditional early season burning of savanna areas to reduce the risk of late dry season wild fires.

- The activities do not require substantial change to business operations.

The vegetation and savanna projects have delivered benefits for farmers and Indigenous Australians, including through diversification of income sources. Waste projects have delivered benefits for local councils, including in regional areas.

Contexts where participation in the ERF has been low

To date the ERF has not delivered significant volumes of abatement in the energy efficiency, industrial, agriculture and transport sectors.

Of the 36 existing methods under the ERF, around 88 per cent of currently contracted abatement is being delivered under five methods, while there are six methods that have no registered projects.

Despite the existence of 12 methods across the energy efficiency, industrial, and transport sectors, current contracted abatement across these methods is only around four per cent of the total contracted abatement. There is also more abatement potential in the agriculture sector (excluding vegetation) than has been brought forward in the ERF. The proportion of ACCU supply from agricultural methods⁴ to date is less than 1 per cent.

Stakeholders have indicated there are a number of barriers to participation in the energy efficiency, industrial, and transport sectors. These barriers include:

- High upfront capital costs,
- A lack of operational control over the scale of abatement required (particularly for energy efficiency projects),
- Incentives provided by ACCUs compared to transaction costs and compared to the value of energy savings for common energy types, and
- Uncertainty about likely abatement and credits from particular activities due to operation of calculations within the method and uncertainty for proponents on outcomes from auctions.

Seeking out low-cost abatement across the economy

The intent of this consultation is to assess options to enhance \$2 billion Climate Solutions Fund so that it is best placed to contribute to achieving Australia's emissions reduction commitments.

There remain significant opportunities to realise low cost abatement across the economy. For example, CSIRO's *Low Emissions Technology Roadmap* found there 'are largely mature technologies within the buildings, industry and transport sectors that could enable significant improvements in energy productivity.'⁵ It further found that 'fugitive emissions from coal mining, and oil and gas production could be reduced by 40 per cent to BAU in 2030'⁶ through incentivised deployment of innovative technologies.

The Government is working with stakeholders across industry and the agriculture sector on ways to increase participation in the ERF, including through streamlining existing method development processes and giving stakeholders greater visibility and input into method development. However, for the energy efficiency, industrial, agriculture and transport sectors it is proposed that

⁴ For example, installing equipment to capture and destroy methane from piggeries or implementing measures to reduce the emissions intensity of beef cattle production.

⁵ CSIRO 2017, *Low Emissions Technology Roadmap*, CSIRO, Canberra, viewed 26 September 2019 <<https://www.csiro.au/en/Do-business/Futures/Reports/Low-Emissions-Technology-Roadmap>>.

⁶ Ibid.

consideration also be given to further ways to incentivise abatement that might complement the ERF. A renewed focus on unlocking abatement from these sectors reflects:

- low cost abatement opportunities available in these sectors,
- the low uptake to date under the ERF, and
- the projected contribution of these sectors to Australia's emissions over the next decade.

Possible options to work in partnership and leverage efforts from states, local government and private sector

Proposed principles for designing new options

State and local governments and the private sector are increasingly seeking to take action to reduce greenhouse gas emissions. For example:

- Woolworths has recently updated its 2030 emissions reduction target to 60 per cent below 2015 levels⁷ and US tech company Stripe has committed to spend at least \$1 million a year to pay for sequestration of carbon dioxide.⁸
- The Queensland Government has allocated up to \$500 million for a Land Restoration Fund, of which some funding is expected to go towards changed agricultural practices. The New South Wales and Victorian governments are also funding abatement activities⁹.
- Most local governments have corporate emissions reduction strategies or policies and councils across Australia are working with their communities to curb emissions sources¹⁰.
- Increasingly organisations, local councils and businesses are choosing to be certified as carbon neutral using the Australian Government's National Carbon Offset Standard, with more than 100 current certifications.

There is the opportunity for the Australian Government to work in partnership and co-ordinate effort with other governments and the private sector to incentivise further action and achieve even higher levels of abatement.

In considering other ways to incentivise abatement, particularly from the agriculture, energy efficiency, industrial, and transport sectors, consideration should be given to:

- ways to leverage this additional demand for abatement from the private sector or other levels of government, and related funding sources, for example through co-funding arrangements,
- how best to utilise existing financing resources, including the Climate Solutions Fund, Clean Energy Finance Corporation and the Australian Renewable Energy Agency, to best structure payments and delivery of abatement, and design innovative financing models to ensure taxpayer funding achieves sufficient quantities of low-cost abatement while overcoming high upfront capital costs, CAPEX hurdles, or other financial barriers, and

⁷ Woolworths Group 2019, *Better for Everyone Sustainability Report 2019*, viewed 26 September 2019, <https://www.woolworthsgroup.com.au/icms_docs/195583_2019-sustainability-report.pdf>

⁸ Stripe 2019, *Decrement carbon: Stripe's negative emissions commitment*, viewed 26 September 2019 <<https://stripe.com/au/blog/negative-emissions-commitment>>

⁹ Climate Change Authority 2019, *Australia's Climate Change Policies at the Australian and State and Territory Government Levels: A Stocktake*, Climate Change Authority, Canberra, viewed 26 September 2019 <<http://climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/Australian%20climate%20change%20policies%20-%20stocktake.pdf>>

¹⁰ Ibid.

- ensuring the activity generates abatement from an emissions source that is either already captured in Australia's National Greenhouse Gas Inventory or is such that is capable of being captured by the Inventory in the future.

In general, it is proposed that new opportunities should be designed in a way to accelerate the technology deployment curve, and to create incentives to go beyond regulatory standards. Ideally, new opportunities would create a competitive dynamic for the take up of more efficient technology, leading to a longer term transition of these sectors.

Possible options for new abatement

Based on the above, for the purposes of discussion, five broad concepts to expand sources of abatement and sources of demand are outlined below. Consideration would need to be given on how any new options are brought together to avoid overlap of incentives.

1. Crediting below Safeguard Mechanism baselines

As a result of amendments to the Safeguard Mechanism Rule earlier this year, Safeguard facilities will transition to baselines based on emissions intensity that update annually to reflect actual production. This could provide the opportunity to utilise the Safeguard Mechanism to incentivise emissions reduction by crediting abatement actions that go beyond business as usual. Government or the private sector could then purchase those credits at a set price.

This option could be implemented through leveraging existing legislative frameworks. Consideration could be given to whether credits are delivered annually, or as a one off, although any option would need to be carefully designed to allow credits to be valued and ensure value for taxpayers' investment. In this context, important principles would include promoting ambition, avoiding crediting abatement that would have happened anyway, and taking account of operational factors that can affect emissions (e.g. where facilities close or reduce output due to maintenance issues).

2. Technology-focussed co-funded opportunities

A mechanism that credits Safeguard facilities that outperform an emissions intensity threshold or hurdle would help capture abatement opportunities in many facilities and provide a longer-term signal for industries to invest in low emissions technologies. However, in the short- to medium-term, some cost-effective abatement opportunities in large energy and industrial facilities may not be captured without some incentive to assist in overcoming CAPEX hurdles or other financial barriers. Further, this mechanism would not incentivise action by firms not covered by the Safeguard Mechanism.

To unlock these opportunities, the Government could provide incentives (e.g. grants or credits) for projects in facilities that reduce emissions. The mechanism would need to be designed to ensure the integrity of emissions reductions achieved (for example, by requiring projects to have been identified in a recently completed energy audit), but could allow the flexibility to overcome barriers that may currently limit participation in the Emissions Reductions Fund.

3. Energy efficiency and extension services

For some sectors, such as commercial and residential buildings, the heavy vehicle sector, industrial energy efficiency and agriculture, there are likely to be smaller operators who do not have the time or resources to seek out expert knowledge on ways to increase their energy productivity and reduce emissions. Resource constraints, split incentives and the competition for capital within businesses and households can also result in cost-effective abatement opportunities being unrealised. Options to address these issues include:

- providing access to energy efficiency experts to help businesses reduce their energy consumption while improving or maintaining productivity and profitability;
- supporting extension officers to work with businesses to identify and deliver abatement (e.g. through demonstration sites and pilots, and supporting the establishment of ERF projects);
- providing incentives to energy retailers to reduce energy consumption in commercial buildings through improved building management; and
- in collaboration with the states and territories, providing assistance to improve the energy performance of houses in low-income areas.

These options would need to align with existing arrangements such as the Business Energy Advice Program or extension officers associated with rural research and development corporations, or build on previous programs such as the Energy Efficiency Opportunities Program.

4. Knowledge, innovation and capability

Many abatement opportunities, particularly across the industry and agriculture sectors, deliver valuable co-benefits and have the potential to be cost-effective. Support for knowledge and capability, including science, research, innovation and tools and systems to measure abatement, may assist in de-risking these abatement opportunities and demonstrating their technical and commercial viability.

The Government has a range of mechanisms for funding research and development, including Cooperative Research Centres (CRCs), Rural Research and Development Corporations (RDCs) and National Environmental Science Programme (NESP). There may be an opportunity to partner with industry, research corporations and other governments to identify and prioritise the research and development necessary to build new abatement pathways.

5. Streamlining existing ERF processes

The prospect of financial support under the ERF can incentivise investment in new abatement technologies. However, investors will often require a degree of certainty about the development of suitable ERF methods before supporting R+D, particularly where the market for the technology is dependent on the capacity to access carbon credits. Certainty may be enhanced by streamlining existing method development processes and granting researchers, industry, members of the Emissions Reduction Assurance Committee, and the Clean Energy Regulator greater visibility and input during the method development process.

The Government is working with industry and project developers to improve and streamline existing ERF processes, including providing greater transparency on method development and seeking to decrease the time taken to develop methods. The Clean Energy Regulator is also undertaking work to support greater participation in the ERF through extension and outreach, market development and market innovation activities. While the focus of this consultation is on abatement opportunities outside the ERF, views on ways to streamline or improve ERF method development processes are welcome.

Consultation questions

Would the above concepts and ideas be effective in leveraging additional investment in new technologies and delivering additional abatement from the energy efficiency, industrial, transport and agricultural sectors?

Are there other incentive-based or voluntary mechanisms that would be more effective in accessing low cost abatement?

s22

From: Carbon Abatement Expert Panel
Sent: Wednesday, 16 October 2019 12:45 PM
Subject: Expert Panel examining opportunities for further carbon abatement - Discussion Paper [SEC=OFFICIAL]
Attachments: Expert Panel - Discussion Paper.docx

Dear stakeholder

The Minister for Energy and Emissions Reduction, the Hon Angus Taylor MP, has asked me to chair an expert panel to undertake targeted consultation with industry and other stakeholders about the potential to incentivise low cost carbon abatement, with a focus on Australia's industrial, manufacturing, agricultural and transport sectors and increased energy efficiency.

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s22

Sincerely

Grant King

s22

From: Chris Johnston
Sent: Tuesday, 5 November 2019 2:53 PM
To: 'afreeman@cleanenergycouncil.org.au'
Cc: s22
Subject: FW: Expert Panel examining opportunities for further carbon abatement - Discussion Paper [SEC=OFFICIAL]
Attachments: Expert Panel - Discussion Paper.docx

Anna

As discussed please find attached the discussion paper that was sent on 15 October and appears to have not got through to you. Could you please confirm you received it and we would still welcome the CEC's views on opportunities for further carbon abatement.

Regards
Chris

Chris Johnston
Assistant Secretary
Climate Change Policy Branch
Department of the Environment and Energy
s22

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Sincerely

Grant King



THE HON ANGUS TAYLOR MP
MINISTER FOR ENERGY AND EMISSIONS REDUCTION

MS19-900190

Mr Grant King
GPO Box 1472
MELBOURNE VIC 3001

Dear Mr King

Grant

The Australian Government's Emissions Reduction Fund (the Fund) is successfully helping Australia meet and beat its 2020 emissions reduction target. The Fund has already contracted over 190 million tonnes of abatement, of which more than 44 million tonnes has been delivered. The Fund continues to be the centrepiece of the Government's emissions reduction policies.

Despite this success, there remain some sectors where participation in the Fund has been low. I believe there may be more opportunities to mobilise additional low cost abatement, so that Australia can deliver greater emissions reductions across the economy. To inform my consideration of this potential and given your deep expertise in this area, I seek your agreement to participate in a panel to consult industry and other stakeholders about the potential to incentivise low cost carbon abatement with a focus on the industrial, manufacturing and transport sectors and energy efficiency and agricultural activities.

I am particularly interested in understanding the most effective mechanisms and opportunities to use Australian Government investment to leverage co-investment from the private sector and other levels of government. I am also interested in opportunities to streamline existing reporting, audit, compliance and method development processes.

The Department of the Environment and Energy will provide secretariat support and has prepared a discussion paper (enclosed) to support this consultation. Following consultation I ask the panel to report back to me on opportunities to mobilise additional abatement by 1 November 2019.

Thank you for considering this request. I look forward to working with you on this important matter.

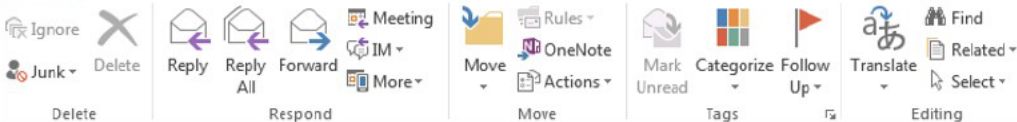
Yours sincerely

A handwritten signature in black ink that reads 'Angus Taylor'.

ANGUS TAYLOR

Enc.

FILE MESSAGE

FOI 191105
Document 7

Wed 16/10/2019 12:45 PM

Carbon Abatement Expert Panel

Expert Panel examining opportunities for further carbon abatement - Discussion Paper [SEC=OFFICIAL]

To

Bcc: 'AFreeman@cleanenergycouncil.org.au'; s22
s22

You forwarded this message on 31/10/2019 12:00 PM.

Message Expert Panel - Discussion Paper.docx (54 KB)

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