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Clean Energy Council

reeep renewable energy & energy efficiency partnership

31 January 2011

Ali Noore
Director of International Finance
Markets and Trade
Department of Climate Change and Energy Efficiency
GPO Box 854
Canberra ACT 2601 Australia

Dear Ms Noore,

Re: Report of the Secretary-General's High-Level Advisory Group on Climate Change Financing

The Clean Energy Council (CEC) is the peak body representing Australia's clean energy and energy efficiency industries. Its priorities are to:

- create the optimal conditions in Australia to stimulate investment in the development and deployment of world's best clean energy technologies;
- develop effective legislation and regulation to reduce energy demand and improve its efficient use; and
- work to reduce costs and remove all other barriers to accessing clean energy.

The CEC advocates the development of policies on behalf of its members at federal and state government levels and promotes understanding of the industry and its potential through channels such as industry events, forums, conferences, newsletters and publications. The clean energy industry includes generation of electricity using wind, hydro, solar, biomass, geothermal and ocean energy as well as the emerging technologies and service providers in the energy efficiency sector, which includes solar hot water and cogeneration.

The CEC hosts the Southeast Asia and Pacific Regional Secretariat of the Renewable Energy and Energy Efficiency Partnership (REEEP). REEEP is a global public-private partnership which is facilitating the development of appropriate market conditions for the accelerated uptake of renewable energy and energy efficient technologies, as a means of reducing carbon emissions, increasing energy security, and improving access to sustainable energy for the poor worldwide. REEEP's work is focused on the establishment of policy and regulatory frameworks and financing mechanisms.

Support for a carbon price

The CEC and REEEP support the introduction of an efficient and effective carbon price in Australia that creates long term certainty for energy investment in Australia and maximizes outcomes for clean energy development and deployment. It is crucial that any consideration of a carbon price (in its various forms) assesses the implications for the development and deployment of clean energy, clean technologies and energy efficiency in Australia.

The CEC and REEEP also believe that in addition to a price on carbon, a range of complementary measures will be needed to achieve carbon abatement quickly, safely, and at least cost with minimal disruption to the economy and quality of life of everyday Australians. In order to achieve

Australia's emission reduction goals, the CEC and REEEP believe it will be necessary to continue with, or introduce additional complementary policy mechanisms including:

- long-term and robust commitment to clean energy initiatives, including the expanded Renewable Energy Target and Solar Flagships Scheme;
- nationally consistent gross feed-in tariffs for solar PV and other small, medium and large scale renewable energy generator
- a national approach to energy efficiency support mechanisms;
- significant additional Research and Development (R&D) funding of key areas including:
    - renewable energy technologies;
    - energy efficiency innovations; and
    - other low emission energy options (including clean coal and gas technologies).
- further regulations and policies to overcome non-price based barriers to embedded generation and energy efficiency.

These measures will complement a price on carbon and ultimately delivery abatement at a lower overall economic cost in the longer term.

Benefits of a carbon price on clean energy

A price on carbon is required to restore investment certainty in Australian industry, as the current uncertainty surrounding carbon pricing hinders investment decision-making in clean energy.

A price on carbon is the critical success factor in attracting investment in clean energy. Over the next 20 years, the private sector will invest more than $600 billion globally in clean energy technologies, manufacturing and system upgrades. Australia can lead in attracting this investment.[i] In 2009, China totalled $34.6 billion in clean energy investment while in Australia it totalled just $1 billion.[ii] China's direct government investment—the equivalent of a carbon price in terms of providing a market signal to the private sector – has positioned it at the forefront in attracting new capital and making new investments in this area.

Investors are ready to spend capital on clean energy in Australia if the right price signal is put in place. Without the right price signals, investors and business will not be afforded the degree of market predictability they require to price the cost of carbon in or include the value of carbon in their investment decisions. As such, investors and business will continue to defer low-carbon investment decisions until a clear and long term carbon pricing framework is in place.

Benefits of a carbon price for rural Australia

A price on carbon would maximise the benefits of clean energy investment and jobs in rural and regional Australia. Research suggests that if all planned and committed clean energy projects go ahead, around 26,000 new jobs will be created. This includes almost 2,500 new permanent positions, over 15,000 construction jobs and more than 8,600 indirect jobs in supporting sectors.[iii] Over $31 billion will be invested in these new clean energy projects, injecting around $10 billion into local economies in regional Australia.[iv]

Moreover, if Australia were to reduce its domestic carbon emissions by 25 per cent below 1990 levels by 2020 and 50 per cent by 2030, modelling suggests that all regions except one (NSW Far West) would experience employment growth from 2009 to 2030.[v] This decrease in the NSW Far West coincides with a current employment decline in the region for the wool and mining

industries.

A price on carbon is an essential component needed to drive down emissions and impel this employment growth. When paired with all planned and committed clean energy projects, a price on carbon could create the market certainty needed to deliver thousands of clean energy jobs in excess of the figures quoted above.

A carbon price is the most cost efficient means of lowering abatement levels

Australia has already implemented a broad range of policies which contribute toward emissions abatement. While these policies are generally effective in achieving their objectives, the emissions trading scheme and taxes already in place in countries such as Japan, South Korea, and the UK indicate that a direct price on carbon is the most cost efficient means of lowering abatement levels.

A broad-based carbon price ensures all emitters face the same cost for any additional unit of carbon emitted. This encourages uptake of the lowest-cost opportunities to reduce emissions.

Were Australia to reduce its emissions by 25 per cent by 2020 without a price on carbon, modelling indicates that Australia would see a reduction in benefits of $126 billion by 2030, compared to an emissions reduction scenario with a carbon pricing structure.[vi] An effective carbon pricing scheme should invest a significant proportion of revenue from the carbon pricing structure into clean energy, clean technologies and energy efficiency. Wise re- investment of carbon price revenue will further help Australia make the shift to a low carbon economy at lowest cost to business and consumers.

A carbon price is needed to keep Australia internationally competitive

Australia needs to make the transition to a low carbon economy to remain internationally competitive. A direct price on carbon is required for Australia to ensure that its international competitiveness is not lost to other countries gaining early mover advantages in the transition to a low carbon economy and clean energy investment.

Australia's major trading partners have higher direct and indirect carbon pricing in their electricity sectors in order to drive cleaner energy investments. Investment in clean energy in the UK reached around US$11 billion in 2009 and captured around 17 per cent of the market in the countries studied. The UK's low pollution economy now compares to its healthcare and construction sectors. Over 900,000 people are now employed in the UK in low pollution businesses and jobs in these sectors have been growing strongly despite the UK's economic downturn.[vii]

By deferring a price on carbon, Australia faces long-term costs, as global investment is redirected to countries that act early. The CEC and REEEP are very concerned that Australia is already falling behind its major trading partners in implementing a price on carbon and attracting clean energy investment.

A carbon price is needed to lessen rising electricity prices

Delaying the introduction of a price on carbon has major implications for electricity prices. In the absence of market certainty provided by a price on carbon, household electricity prices are predicted to increase by between $3.97/MWh and $8.60/MWh. Based upon a final 2008 financial year residential tariff of around $140/MWh, this involves increases of around 3% to 6% in the price of electricity for an average household.[viii]

This is greater than the electricity price increase forecast by the Australian Treasury upon the introduction of the previously proposed Carbon Pollution Reduction Scheme (CPRS).

Transitional measures for a carbon price

It is appropriate to put in place transitional measures that have the effect of ameliorating some of the impacts of a price on carbon while the strongly affected industry sectors transition toward lower carbon intensity activities, without compromising the intent of the scheme. The CEC and REEEP support the introduction of such targeted transitional measures provided that they are carefully considered and designed to avoid undesirable outcomes.

These transitional measures need to be designed to encourage people and businesses to improve their emission and efficiency performance over the long term.

Carbon price rate

A carbon price will need to act as a driver for industry to modify its behaviour. As such, the cost increase associated with a price on carbon will need to be significant enough to compel industry to lower their abatement levels, yet moderate enough to protect industry competitiveness. It is not enough to just put a price on carbon and hope the appropriate reductions occur. The credibility of the pricing structure will be at risk if people choose to pay the carbon price rather than reduce emissions.

The CEC and REEEP would be happy to discuss these issues further with you as your review progresses. If you have any further questions please contact Eva Oberender via telephone on 03 99294112 or by email: eva@cleanenergycouncil.org.au; or Kane Thornton via telephone on 03 99294105 or by email: kane@cleanenergycouncil.org.au

Yours sincerely

Eva Oberender

REEEP Director

[original signed]

Yours sincerely

Kane Thornton

Director of Strategy

[original signed]

[i] House Climate and Energy Legislation. *Rev. of H.R. 2454, The American Clean Energy and Security Act of 2009 (ACES).* American Council for an Energy-Efficient Economy. Web. 28 October 2010. Available at: http://aceee.org/energy/national/houseenergyandclimate.htm

[ii] Ibid

[iii] The Climate Institute. *Clean Energy Jobs and Investment in Regional Australia*. June 2009. Web. 28 October 2010. Available at: http://www.climateinstitute.org.au/images/J1742Report.pdf

[iv] Ibid

[v] Australian Conservation Foundation. *Creating Jobs – Cutting Pollution, the Roadmap for a Cleaner, Stronger Economy*. Web. 28 October 2010. Available at: http://www.acfonline.org.au/uploads/res/ACF_Jobs_report_190510.pdf [vi] Ibid

[vii] The Climate Institute. *The implicit price of carbon in the electricity sector of six major economies*. October 2010. Web. 28 October 2010. Available at: http://www.climateinstitute.org.au/images/reports/vivid_tci_implicitcarbonpricingreport.pdf

[viii] Tim Nelson, Simon Kelley, Fiona Orton and Paul Simshauser. *Delayed carbon policy certainty and electricity prices in Australia.* March 2010. Web. 28 October 2010. Available at: http://www.climateinstitute.org.au/images/electricityprices_july2010.pdf