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Independent Expert Panel on Interim Targets
Department of Environment, Land, Water and Planning
Victoria

Email: climate.change@delwp.vic.gov.au

Interim Emissions Reduction Target for Victoria (2021-2030) – Issues Paper

The Australian Industry Group (Ai Group) welcomes the opportunity to provide a short submission to the Independent Expert Panel (the Panel) appointed by the Minister for Energy, Environment and Climate Change (the Minister) to provide advice on interim emission reduction targets for Victoria to 2030.

Ai Group is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are genuinely representative of Australian industry. Together with partner organisations Ai Group represents the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Like Victoria and the other states and territories, Ai Group recognises that achieving the goals of the Paris Agreement will ultimately require most countries, including Australia, to achieve net zero emissions. Our submission is made in the context of the [climate policy principles](#) which Ai Group and other organisations have endorsed, which state that policy should:

- support Australia playing its fair part in international efforts to limit global warming to less than 2°C while maintaining and increasing our prosperity;
- operate at least cost to the domestic economy while maximising benefits and remain efficient as circumstances change and Australia's emissions reduction goals evolve;
- prevent the unnecessary loss of competitiveness by Australia's trade exposed industries and net increases in global emissions that might otherwise occur due to the uneven international application of climate policies;
- recognise that a reduction in emissions from the energy sector should provide a credible basis for planning and investment by the energy sector and energy consumers, while maintaining energy security and avoiding sovereign risk;
- smooth any economic shocks that negatively affect businesses without negating the incentives created by the policy;
- keep compliance costs and regulatory burdens to a minimum; and
- deliver regular independent review with full public consultation on emissions policies and targets.

We have framed these principles at the national level, but they apply to State efforts as well. We support the Department's ongoing consultation on and periodic review of Victoria's emission reduction targets. We acknowledge the importance of addressing target issues sooner rather than later and providing stakeholders with the opportunity to comment on key issues. Ultimately, however, while targets are important, the impact and cost of any emissions commitment depends primarily on the design of policies to meet the commitment. We recognise that the current consultative process is focussed on targets and not implementing policies. It is essential that when implementing policies are considered they are consistent with the principles referenced above, and are developed through a solid process involving adequate time and consultation with Victorian and national stakeholders, including not only affected industry but also the Commonwealth and the other states and territories. Ai Group and our members would greatly prefer an integrated national discussion of targets and policies, rather than a fragmented, duplicative or patchwork approach. The Victorian model of consultation, target and policy development cycles could be a good basis for a national conversation towards wider consistency and coordination.

Ai Group believes that while contributing to successful national and international efforts to keep global temperature increases to well below 2 degrees, Victoria should also aim to maintain and increase its prosperity. A strong and globally competitive manufacturing sector has been a vital part of the Victorian economy. While the sector is changing it is also growing, and there is every prospect that transformation and innovation will see manufacturing remain a vibrant part of a diverse and resilient Victoria. Climate targets and policies need to recognise the need for industrial activity and develop a feasible vision for success. Consistent with our principles, implementing policies can make that success more likely by providing a measure of certainty and predictability; providing commercially reasonable timeframes and outcomes for industry to work with; avoiding trade distortions; minimising red tape; and avoiding regulatory duplication with Commonwealth policies.

Climate change is a global problem and Victoria is tightly connected to the rest of Australia and the wider world. In pursuing any State-based targets, Victoria should take account of impacts and emissions beyond its borders. There are two respects in which this is critical:

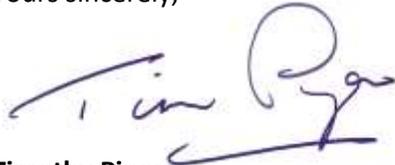
- *Use of external offsets and emissions units.* A tonne of carbon dioxide has the same impact on global temperatures no matter where it is emitted. However, the marginal cost of abatement can vary widely across different regions and economies based on factors like their geography, industry mix and demographics. To minimise the cost of achieving ambitious abatement goals it is important to separate the questions of who pays for reductions and where the reductions take place. Victoria should thus be open to the use of emissions units relating to emissions reduction activities and carbon allowances elsewhere in Australia or overseas, subject to confidence in their quality. Offsets should be accounted for in Victoria's targets and should be incorporated where practical in implementing policies.
- *Accounting for spillovers.* Because of the interconnectedness of the Victorian, Australian and global economies it is possible for apparent decreases or increases in Victoria's emissions to reflect, or result in, increases or decreases beyond Victoria's borders. For example, the closure of the Hazelwood power plant produces a substantial reduction in Victoria's headline emissions, but will have led to higher output from NSW black coal generators, which are only somewhat cleaner. Similarly, the closure of a trade-disadvantaged emissions intensive manufacturer in Victoria may lead to partly or more-than-fully offsetting emissions in other countries where

production increases for traded goods that remain in global demand. Victoria's accounting for its own targets should strive to take these impacts into effect to avoid double counting and carbon leakage.

In framing its targets, it is sensible for Victoria to take a regular look at the state of sectoral abatement opportunities: for instance, thanks to steeply falling costs for renewable energy technologies the electricity sector has more obvious, practical and affordable zero-emissions pathways today than were widely perceived a decade ago – though the challenges of running an electricity system with very high levels of variable renewable energy remain significant. It is currently less obvious how deep reductions of direct emissions from industry will best be made practical and affordable. Updating the sectoral picture and evolving overall ambition accordingly makes sense. However, Victoria should not adopt binding sectoral targets, which would be too inflexible and too likely to stoke conflict with other national policies.

Should you wish to discuss this submission further, please contact our adviser Tennant Reed on (03) 9867 0145 or by email at tennant.reed@aigroup.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tim Piper', with a long horizontal flourish extending to the right.

Timothy Piper
Head – Victoria