

Cautious optimism on emissions reduction

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There was a mood of cautious optimism at the Carbon Market Institute's Australian emissions reduction summit in Melbourne on May 5 and 6 after years of political bitterness and uncertainty. Momentum from international developments is unstoppable and business is getting on with moving to a clean energy economy.

Road to Paris a multi-lane highway

Christiana Figueres, executive secretary of the United Nations Framework Convention on Climate Change told the summit on 6 May that the road to the UN climate change conference in Paris in December is "a broad highway with different lanes." Every country can travel in different lanes for their respective speeds, starting point and level of engagement.

But she said "the direction of travel" is clear - a planet with net zero emissions that is providing good living standards for nine billion people in 2050, with restored ecological balance.

Figueres warned of the dangers of the world exceeding 2°C of warming compared with pre-industrial times and said the "science is clear that there is no space for new coal or unmitigated coal".

She told the summit that Saudi Arabia is "on board with the challenge of economic diversification that's required. They understand that they won't be able to use all of their oil. If Saudi Arabia can do it everyone else can", she said.

She urged Australia to play a leading role in international negotiations. "I'm counting on Australian leadership. It's very important to hear Australia's voice in the 'umbrella' countries..." Australia will be judged by the international community. There is an expectation that Australia has to answer how it's doing its fair share and how it's working with others" she said.

On what instruments each country should use to reduce their emissions, Figueres said:

The key is to maintain an open mind. It's not about confronting each other....

Long term stability is needed at the national level to guide national conversations. The broader the participation, the better, to allow a maximum of predictability and stability.

Environment Minister Greg Hunt told the summit that the Australian government would "make a significant and very constructive contribution to the post 2020 targets."

Plan to meet current targets

Minister Hunt told the summit the first auction of the Emissions Reduction Fund (ERF) held last month had a "stunning outcome" and put Australia on track to meet its international obligations to reduce greenhouse gas emissions. Independent Senator Xenophon agreed that the first auction demonstrated the ERF has value. He said "unambiguously the auction was a success".

But other speakers questioned whether the \$2.55b budget for the Fund would be sufficient given the average price of \$14 per tonne. Grant Anderson of Allens said 25 per cent of the ERF budget has

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been spent on 12 per cent of what's needed to meet Australia's (minimum) 2020 target of reducing emissions by 5 percent since 1990. He said "that makes it relatively expensive to purchase emission reductions in Australia." "There's no long term strategy."

A [report](#) by carbon analyst RepuTex on 5 May said "we project that the ...ERF budget will to be fully exhausted by 2016, leading to considerable investment uncertainty and risk of market collapse."

There were indications that the next auction will attract bids for projects that can be delivered at lower cost than the projects at the first auction, which were predominantly land based actions. Minister Hunt told the summit that electricity generators are "extremely interested in the potential for significantly reducing emissions through the ERF". And Alan Milne, Head of Fuel and Environment at the Qantas Group told the summit that Qantas plans to bid in future ERF auctions for fuel efficiency gains, for example. The projects would not otherwise proceed because they wouldn't be able to make a business case.

Chloe Munro, Chair of the Clean Energy Regulator said the next auction isn't yet scheduled but it won't be far away: "We're waiting to see sufficient pent up supply before running the next auction."

Safeguard mechanism 'weak'

The Minister told the summit the government's proposed safeguard mechanism will ensure that emissions reductions achieved through the ERF are not offset by increases in emissions elsewhere in the economy. The mechanism "will encourage about 140 firms that are the largest emitters not to increase their emissions above historical levels" he said. Those firms account for 53 per cent of Australia's emissions.

The mechanism will be introduced as a regulation under the *National Greenhouse and Energy Reporting Act 2007*, as amended by the *Carbon Farming Initiative Amendment Act* late last year. The Minister told the summit the government is working on baselines with individual firms and sectors based on proposals set out in the government's [consultation paper](#) released in March.

But Kobad Bhavnagari of Bloomberg told the summit the design of the mechanism provides "no framework for declining baselines over time, so there's no long term certainty for investors or a pathway for meeting future targets." And the provision for individual baselines means the government is exposed to special pleading by individual firms.

He said "Australia's challenge is coal fired power facilities that are middle aged but long lived. There's no current policy to encourage change."

Grant Anderson of Allens said a baseline and credit scheme would establish baselines for emitters, and put a cap on emissions. It could require emitters to purchase credits if they can't reduce their emissions by other means, providing finance for the Emissions Reduction Fund, replacing public funding.

Independent Senator Xenophon, a proponent of a baseline and credit scheme, described the government's proposal as like reiki massage – 'hands off'. He said the safeguard mechanism proposal is "weak and ineffective".

He said he was "furious" when he saw the consultation paper. He felt the government had "not acted in good faith" in terms of undertakings given in the negotiations over the *Carbon Farming Initiative Amendment Bill* last year. He warned that the Senate would disallow any regulation that "doesn't meet the legislative objective of delivering on Australia's international obligations." The regulations are due to be put to the Parliament in October.

Big changes in investment and finance

Matthew Bell of EY told the summit that a 2014 EY study showed how companies are increasingly embedding sustainability considerations into core business. A major factor is a trend to divestment in coal. He said "more than half of the companies surveyed have considered environmental, social and governance risks and there's been a fundamental change in transparency and reporting."

Emma Hird, executive director, emissions and environment at Westpac Institutional Bank told the summit Westpac is trying to integrate carbon risk into its decision-making and has published their lending across utilities for the past seven years. That means factors such as "electricity prices, likelihood of a carbon price, and whole of economy views."

She said Westpac is "pretty honest about the fact it is a work in progress transitioning to a 2°C economy." "We don't have all the pieces of information." On whether they have a date when it will be viable to stop exporting coal and gas she said "We have some signals around future trends which we respond to and we integrate those into our decision-making process."

Westpac, along with other big banks, set targets for lending to the renewable energy sector. They had a target of lending \$6bn to clean energy projects by 2017. "We found last year we hit \$8bn, three years early" she said. That means "more than 59% of our lending goes to hydro and renewables".

Oliver Yates, CEO of Clean Energy Finance Corporation told the summit green finance banks are a "very effective tool to transition to a clean economy." "They are working collaboratively around the world and learning from each other". The CEFC provide financing solutions for renewable energy, energy efficiency and low emissions technologies. They encourage behaviour change such as encouraging people to build energy-efficient buildings. "The quality of construction in Australia is still extremely poor", he said.

Yates said co-financing is not seeking to replace traditional banks. "Our role is as a catalyst – to underwrite others," he said. The green financing model is a "concrete example of how governments can support the transition to a cleaner economy and do it in a way that doesn't hurt the taxpayers' pocket". According to the CEFC [website](#) in 2013-14 it had contracted investments of over \$900 million in projects over \$3 billion in total value. Its investments are expected to earn an average return of approximately 7 per cent.

More information about the conference, including details for next year's event, is available [here](#).