

# THE AUSTRALIAN EMISSIONS REDUCTION SURVEY – 2014 REPORT OF KEY FINDINGS

NOVEMBER 2014



**CARBON MARKET**  
INSTITUTE

## FOREWORD

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Dear Reader

The Australian Emissions Reduction Survey is a collaborative initiative between the Carbon Market Institute (CMI) and the Centre for Climate Economics and Policy at the Australian National University Crawford School of Public Policy.

In total, 245 experts and senior executives from major greenhouse gas emitting industries, investors and professional service providers responded, making this survey the most comprehensive Australian business survey on emissions reduction taken this year. The survey ran from 2 to 22 September 2014.

This report summarises findings on the key issues of setting our national emissions reduction targets, domestic climate policy, investment in abatement, carbon pricing and the economic and commercial implications of international climate policy developments. There has been a number of key developments on domestic policy within recent weeks, such as the amendments and subsequent passage in the Senate of the *Carbon Farming Initiative Amendment Bill 2014*. It is important to note that this survey was conducted prior to the passage of this legislation.

There is significant momentum in Australia's key trading partners to address climate change in the lead up to the 2015 Paris Conference of the Parties (COP) meeting where countries are aiming to strike a new international agreement on climate change policy, with national pledges to be tabled by the end of the first quarter in 2015.

We believe it is critical to capture business views at this time. We hope this survey can inform government and the wider community of views among Australian industry on the economic and commercial implications in setting Australia's emissions targets, and that it can help facilitate a national debate on the suite of policies Australia will require to meet emissions targets and the position it should take to the Paris 2015 climate conference.

We are pleased to present these findings and welcome an ongoing dialogue with you.



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**This report should be cited as:** Castellás, P., Jotzo, F., Richards, T. and Callahan, G. (2014), *Australian Emissions Reductions Survey 2014*, Report of key findings, Carbon Market Institute and ANU Crawford School, November.

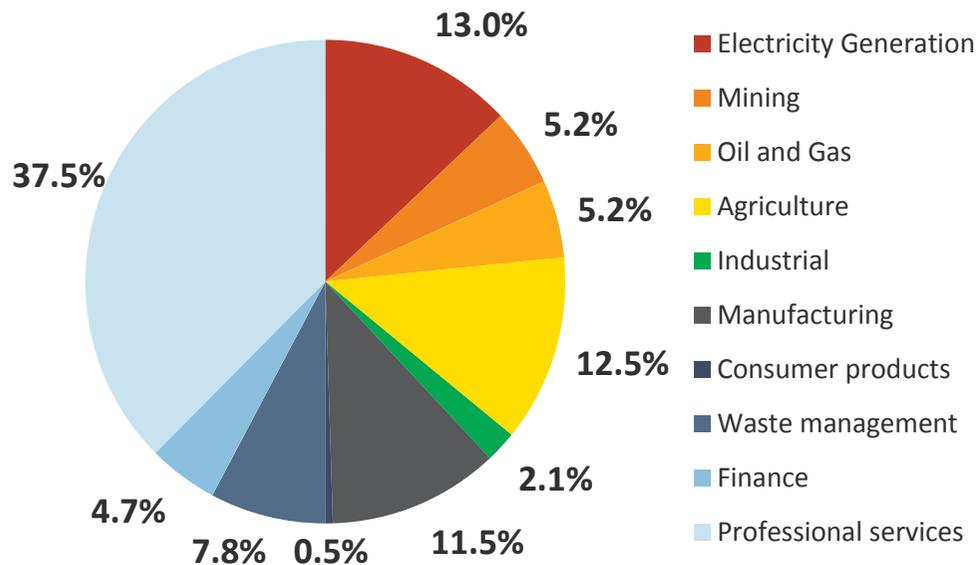
## OVERVIEW

On 2 September 2014, the Carbon Market Institute (CMI) sent an electronic survey to an Australian database of selected senior executives who work for or with companies or organisations that have a high emissions profile, investors, carbon market experts and professional service providers. The survey was designed primarily with qualitative responses with the option to provide written comments provided.

A total of 245 individuals completed the survey, representing a 21.3 per cent response rate. These respondents represented a broad cross-section of energy intensive industry, primary industries, local government, carbon offset project developers, and financial and professional services.

The following figure provides a breakdown of the sectors represented by the survey respondents.

**FIGURE 1: SECTORS REPRESENTED BY SURVEY RESPONDENTS**



Among the 245 respondents, 72 respondents represented companies that have one or more entities that were liable under the Carbon Pricing Mechanism, along with 96 National Greenhouse Energy Reporting scheme (NGER) reporters.

A broad range of positions were represented among survey respondents, with job titles including:

- Chairman
- CEO
- Managing director
- Director/Executive director
- Financial manager
- General manager
- Partner
- Environmental officer/manager
- Senior sustainability, carbon or energy manager
- Corporate affairs manager.

The findings from the survey and consultations are represented in this report with no attribution to individuals or companies.

The key findings from this report focus on questions relating to Australia's emissions reduction targets, policy instruments, the Emissions Reduction Fund, investment and the impact on Australian business of international climate policy.

## THEMES AND KEY FINDINGS

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### 1. A stronger emissions reduction target

Increasing Australia's 2020 emissions reduction beyond the current five per cent below year 2000 levels was strongly supported by survey respondents.

Seventy-six per cent of respondents support a stronger 2020 emissions reduction target. Fifty per cent of respondents unequivocally support a stronger emissions target, and a further 26 per cent support a stronger target if it is in line with the targets of major countries and trading partners. In particular, survey respondents highlighted the importance of China, the United States and the European Union, with around 80 per cent of respondents saying that Australia should look to the targets and actions of each of these nations or blocs.

### 2. Policy instruments

To address the challenge of meeting Australia's 2020 emissions reduction target, respondents supported employing a combination of policy instruments including a renewable energy target (RET), domestic offsets program (such as the Carbon Farming Initiative), energy efficiency and vehicle emissions standards, a cap-and-trade ETS and feed-in tariffs for residential solar.

If, at some point, Australia established a fund to purchase international units, the considerable majority of respondents agreed it should be used to cover any shortfall in domestic abatement to ensure our 2020 target is met.

### 3. Emissions Reduction Fund

Regarding the Emission Reduction Fund (ERF), only one fifth of respondents believed the policy will provide opportunities to fund their emissions abatement projects. The majority of respondents stated that the ERF should be implemented either with additional funding or not at all.

Under the Safeguard Mechanism component of the ERF, the majority of respondents preferred that the coverage should extend to entities liable under the Carbon Pricing Mechanism, or further, to all NGER reporting entities but should provide flexibility in the treatment of new investments and significant expansions. A significant majority agreed that there should be penalties for those entities that exceed the baselines and that the penalties should be in the form of a requirement to purchase domestic or international units. The highest proportion of respondents agreed that the baselines set under the Safeguard Mechanism should be adjusted to reflect current and future emissions targets. It should be noted that the survey was conducted before the release of the 8 October 2014 amended version of the ERF legislation.

### 4. Investment

Respondents overwhelmingly agreed that investment decisions in areas of the Australian economy relevant to future greenhouse gas emissions trajectories are likely to be affected by a price on carbon. To this end, of the 111 respondents who work for greenhouse gas emitting companies, 63 per cent said that their companies are factoring a carbon price into future investment decisions.

### 5. Alignment with other countries' targets and actions

Aligning Australia's broader climate policy with the policies of other countries was seen by the majority of respondents as necessary to avoid the risk of potential economic disadvantage in a lower-carbon world.

On a range of questions, between 70 and 80 per cent of respondents said that Australia's economy is affected by other countries' climate policy decisions and that there could be negative consequences if we do not align our policy settings with international trends.

In particular there were concerns of potential negative impacts on trade and investment decisions, and the risk of Australia being economically disadvantaged as other countries move to decarbonise their economies. Many respondents identified that economic growth for Australia will increasingly depend on how well we do in a lower-carbon global economy.

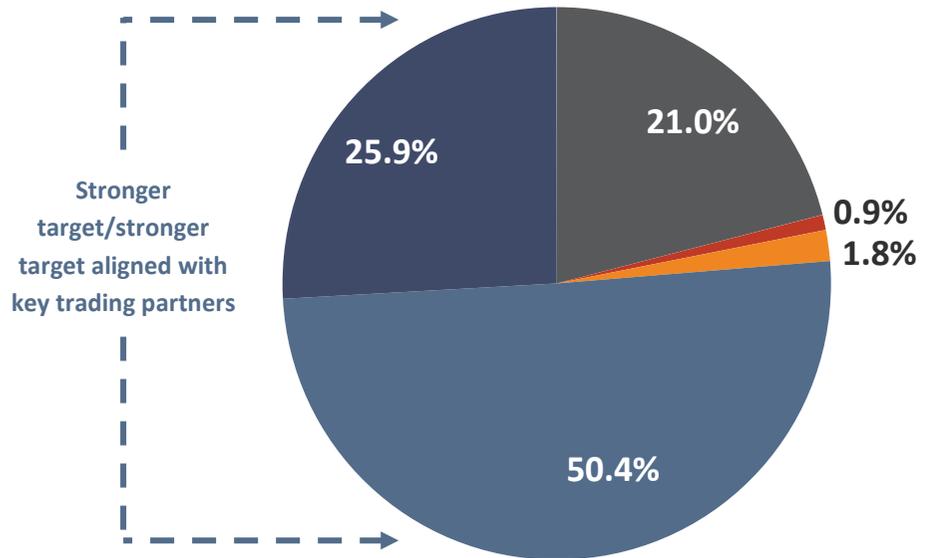
### 6. Role of business and independent groups in setting climate policy

The overwhelming majority of respondents indicated that involving the private sector is crucial in developing Australia's emissions reduction targets and funding emissions abatement.

A large majority of respondents said that in developing emissions reduction policies, input from independent organisations such as the Climate Change Authority is necessary, as well as from the private sector and the research community.

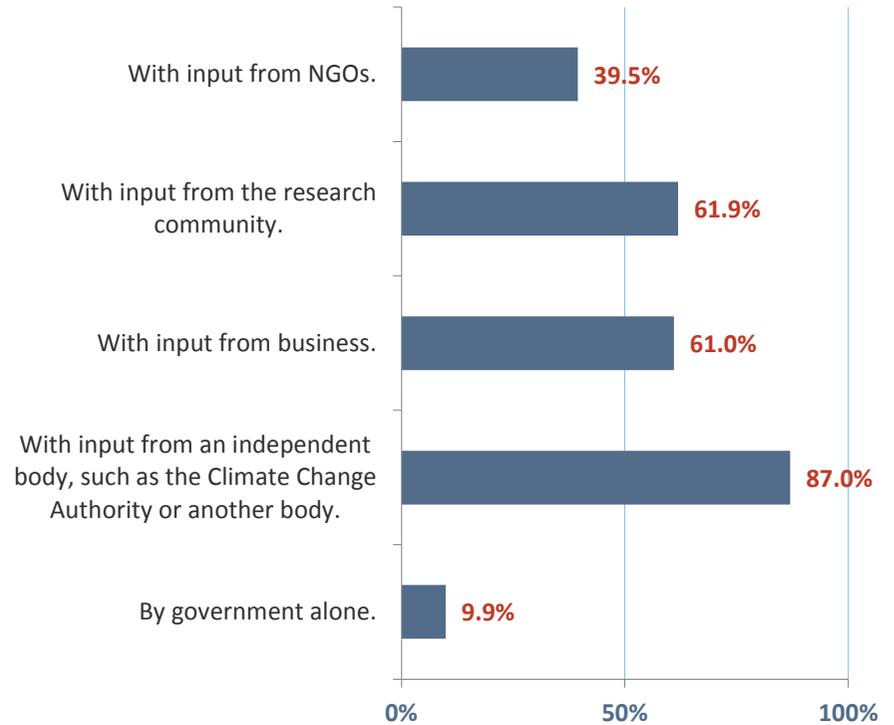
## SURVEY FINDINGS: AUSTRALIA'S EMISSIONS REDUCTION TARGET

Regarding Australia's 2020 emissions reduction target, in your view, given international developments, Australia should:



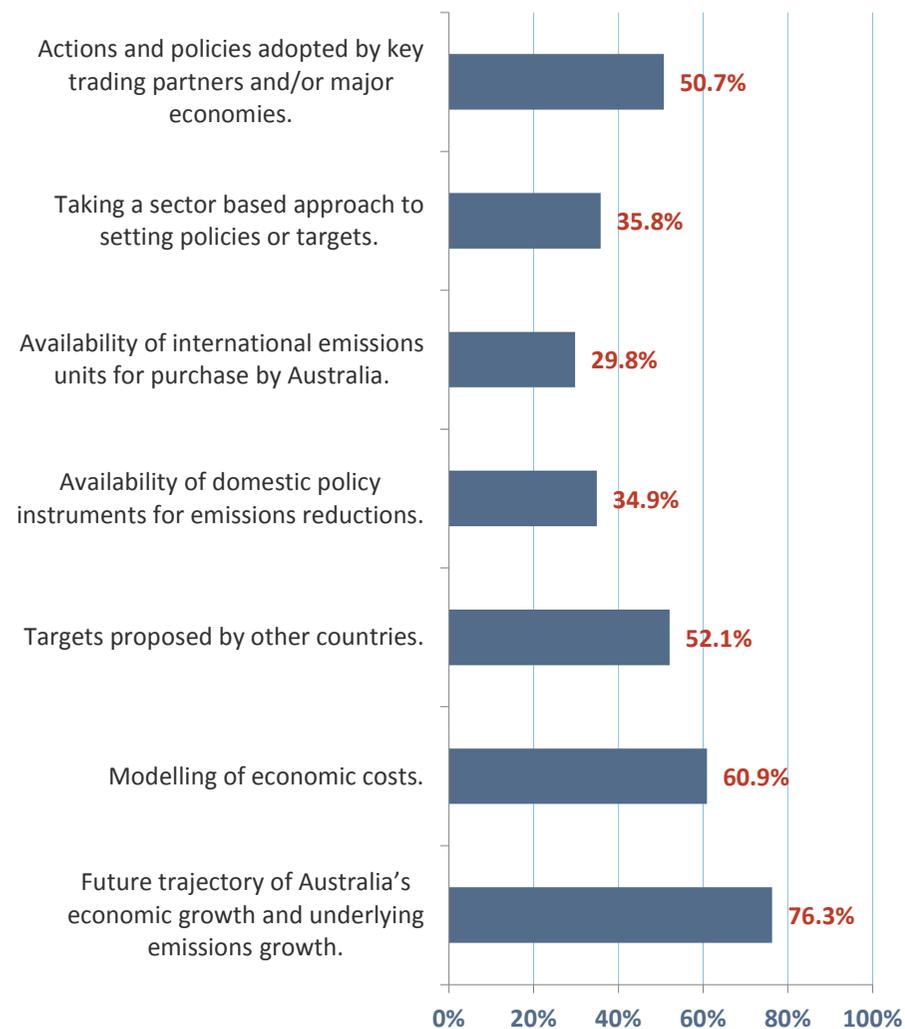
- Maintain our existing target of a minimum 5% emissions reduction by 2020 on 2000 levels.
- Have a weaker target than 5%.
- Have no target.
- Have a stronger target.
- Have a stronger target, but only if it aligns with targets of key trading partners and/or major countries.

How should Australia's emissions target (or "nationally determined contribution") for the post-2020 period be decided?

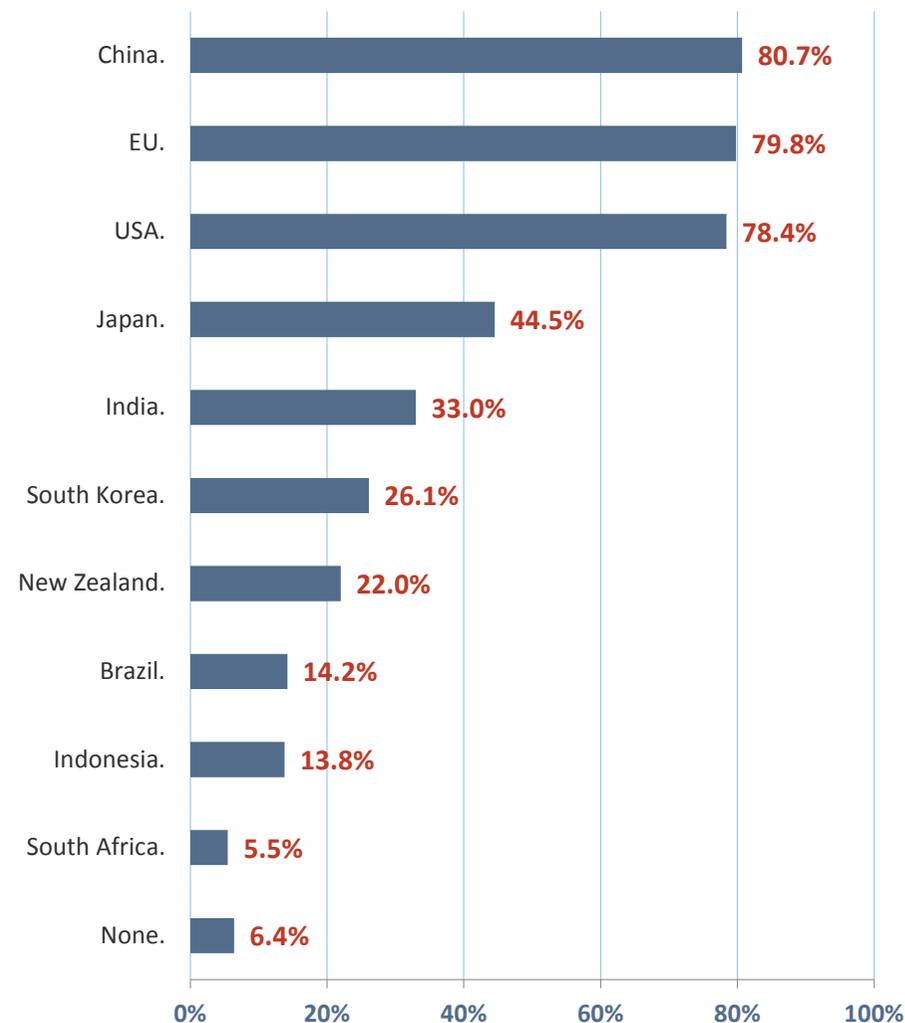


## SURVEY FINDINGS: AUSTRALIA'S EMISSIONS REDUCTION TARGET

What factors should determine Australia's emissions reduction target for the post-2020 period?



If Australia's post-2020 target is calibrated with reference to targets and actions by other countries, which countries should Australia look to as a priority?



## KEY FINDINGS: AUSTRALIA'S EMISSIONS REDUCTION TARGET

**Setting a more ambitious 2020 emissions reduction target, determined with involvement from an independent body, such as the Climate Change Authority, business and the research community was strongly favoured. In setting this target, Australia should consider economic growth trends and the actions of key trading partners.**

Seventy-six per cent of respondents support a stronger 2020 emissions reduction target than the existing five per cent target. Of these, 50 per cent said unequivocally that the target should be stronger, while 26 per cent said it should be stronger if it aligns with targets by major countries and trading partners. Only three per cent support a weaker target or no target at all for 2020.

*“An emissions reduction target can be employed as an engine for alternative economic development strategies.” (survey respondent comment)*

*“We need to lead by example and strengthen our target to beyond its current figure.” (survey respondent comment)*

The survey results indicate overwhelming support to involve an independent body such as the Climate Change Authority in setting Australia's target, and strong support for input from the business and the research community in setting Australia's post-2020 emissions reduction targets was overwhelmingly supported. Eighty-seven per cent said that input from an independent body should be sought, and over 60 per cent said input from the research and business community respectively is needed.

*“It is important to have a fully informed approach to emissions reduction targets – all key factors in decision making and all major opportunities for cost-effective emissions reductions should be considered.” (survey respondent comment)*

In setting Australia's post-2020 emissions reduction targets, consideration of a number of factors is seen as important. Australia's future economic growth and underlying emissions and the modelling of economic costs were seen as the most important factors in setting these targets, with 76 per cent and 61 per cent respectively naming these factors. Several respondents raised the need to consider the economic costs of climate change in the modelling of economic costs. Over half of the respondents also named targets and actions by other countries as important factors.

Fewer respondents saw the availability of domestic policy instruments, international units or sector-based policies or targets as important factors.

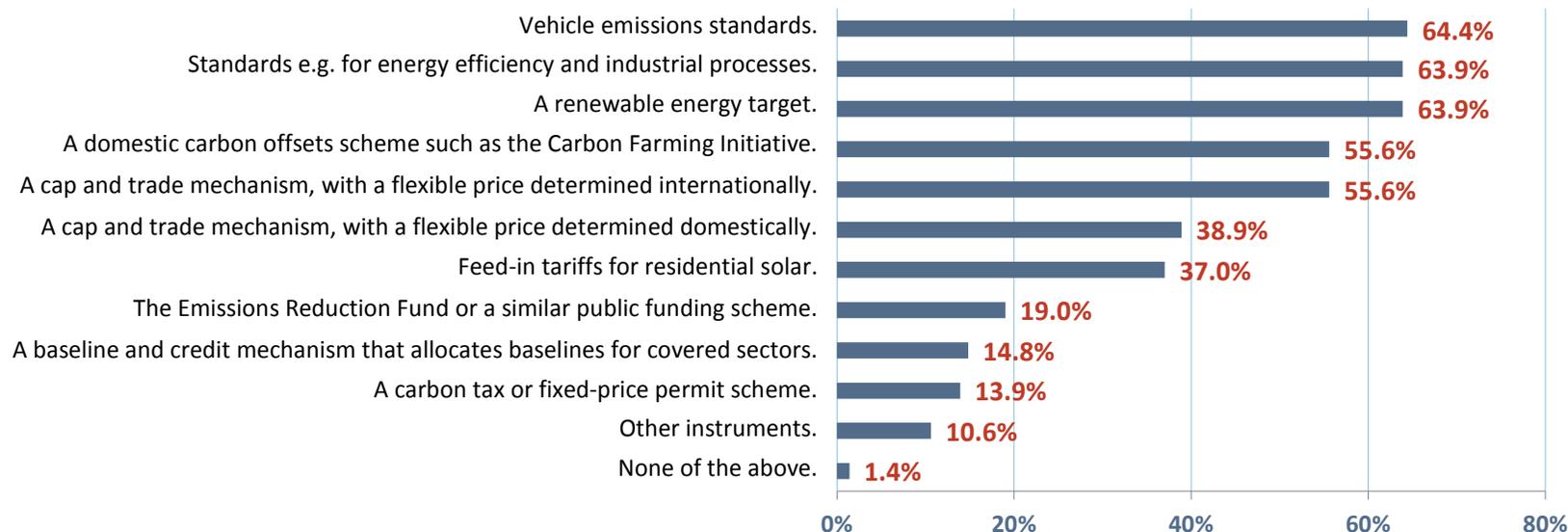
*“An evidence based approach should be used to determine a strategy that makes meaningful reductions and helps structure Australia's economy to be strong, diverse and resilient over the time line of a transition to a decarbonised economy and beyond.” (survey respondent comment)*

Viewing these factors in line with the actions of other countries is seen as a key consideration. In particular, survey respondents highlighted the importance of China, the United States and the European Union, with around 80 per cent of respondents saying that Australia should look to the targets and actions of each of these nations or blocs.

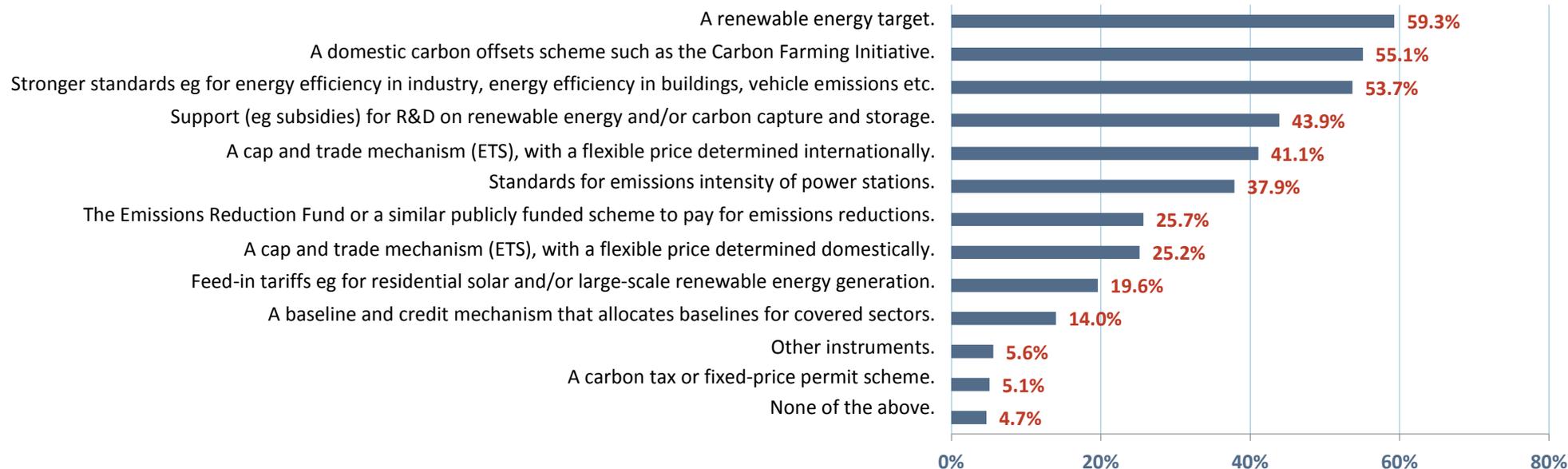
The timeframe for policy setting was discussed in comments by survey respondents. Some remarked that making policy and target decisions effective over a longer time period, beyond the electoral cycle, is a key issue for Australian climate policy.

## SURVEY FINDINGS: POLICY INSTRUMENTS

### What policy instruments or mix of instruments should Australia have for reducing greenhouse gas emissions?

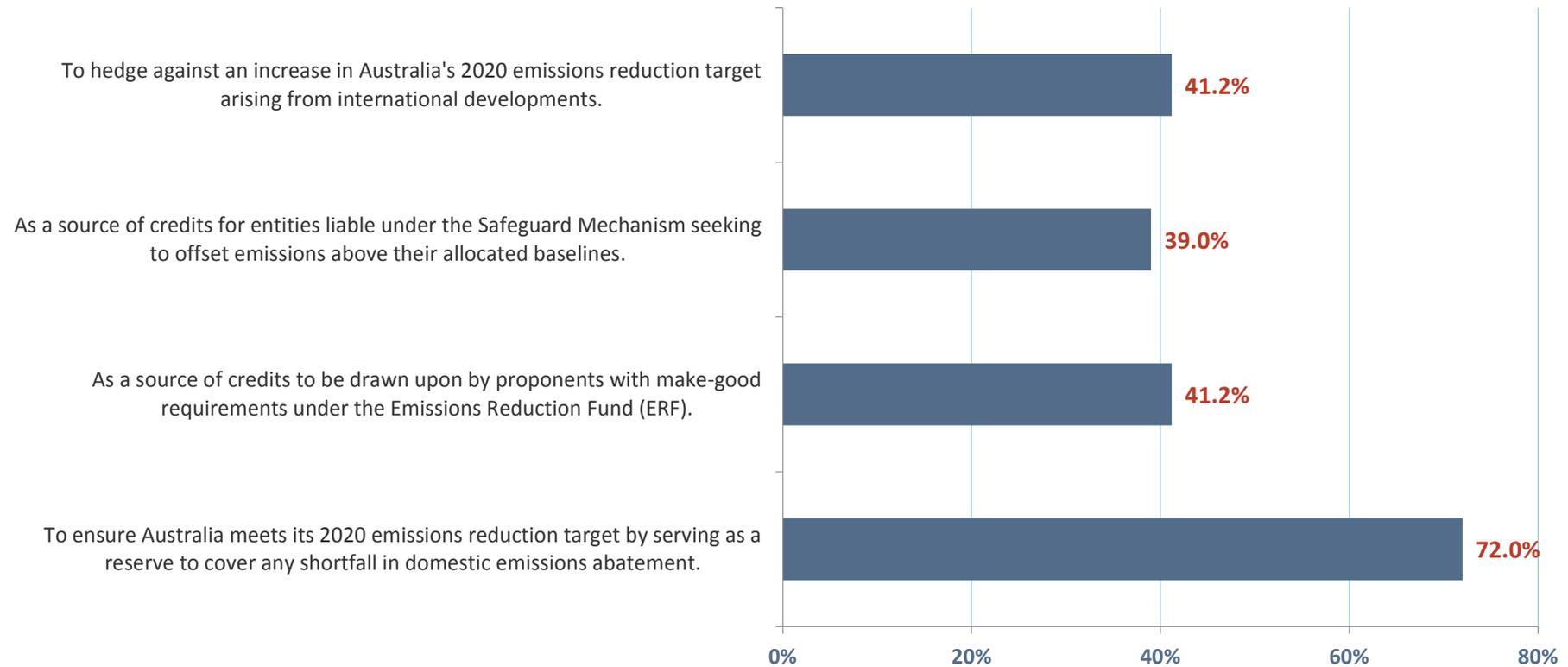


### Looking ahead to 2020, which of the following policy instruments do you expect will be in place in Australia nationally by 2020?



## SURVEY FINDINGS: POLICY INSTRUMENTS

If Australia establishes a fund to purchase eligible international carbon units, the procurement mechanism could be used:



## KEY FINDINGS: POLICY INSTRUMENTS

**To meet our emissions reduction targets, a combination of policy instruments are needed, many of which are expected to be in place by 2020.**

Respondents supported employing a combination of policy instruments to achieve Australia's emissions reduction targets. These included a renewable energy target (RET), domestic offsets program (such as the Carbon Farming Initiative), energy efficiency and vehicle emissions standards, a cap-and-trade ETS and feed-in tariffs for residential solar. A number of respondents also commented on the importance of support for research and development in clean technologies and renewable energy. Few respondents supported a baseline and credit mechanism, carbon tax or the ERF and those who did supported these in conjunction with other instruments.

***“Only by a combination of domestic and international mechanisms, standards and schemes will Australia meet its ongoing obligation to reduce carbon emissions permanently and move towards a carbon constrained economy.” (survey respondent comment)***

Respondents clearly expect Australia to have a range of policy instruments in place nationally by 2020 including a RET, domestic offsets scheme, stronger standards for energy efficiency and emissions from vehicles and power generation and subsidies for clean technology. A cap-and-trade ETS is expected by 41 per cent of respondents to be in place, whereas 25 per cent expect the ERF to be in place.

It was clear that respondents linked the implementation of policy instruments with political standpoints and the government of the day. Comments were expressed that the range of policy measures which could

be implemented will depend on who is in government in the lead up to 2020.

***“The current political environment is too uncertain to predict future directions. This uncertainty is a major deterrent to businesses investing in long-term carbon and renewable-energy related projects.” (survey respondent comment)***

If Australia establishes a fund to purchase international units, the considerable majority (72 per cent) of respondents agreed it should be used to cover any shortfall in domestic abatement to ensure our 2020 target is met.

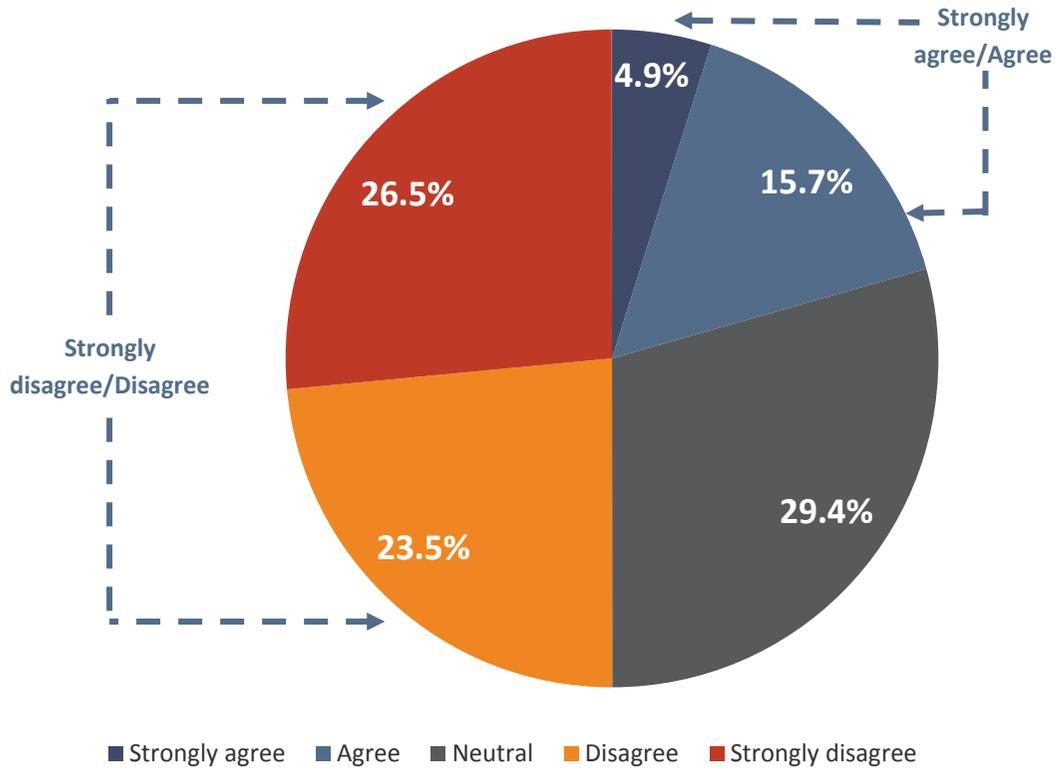
While receiving considerably less support, the potential to use the fund as a source of credits for make-good requirements under the ERF, for liable entities under the Safeguard Mechanism or to hedge against an increase in Australia's 2020 emissions reduction target were recognised equally by respondents.

Respondents raised concern over the risk of undermining the domestic offset market through purchasing international units. A balance of international and domestic units is important to preserve domestic carbon markets.

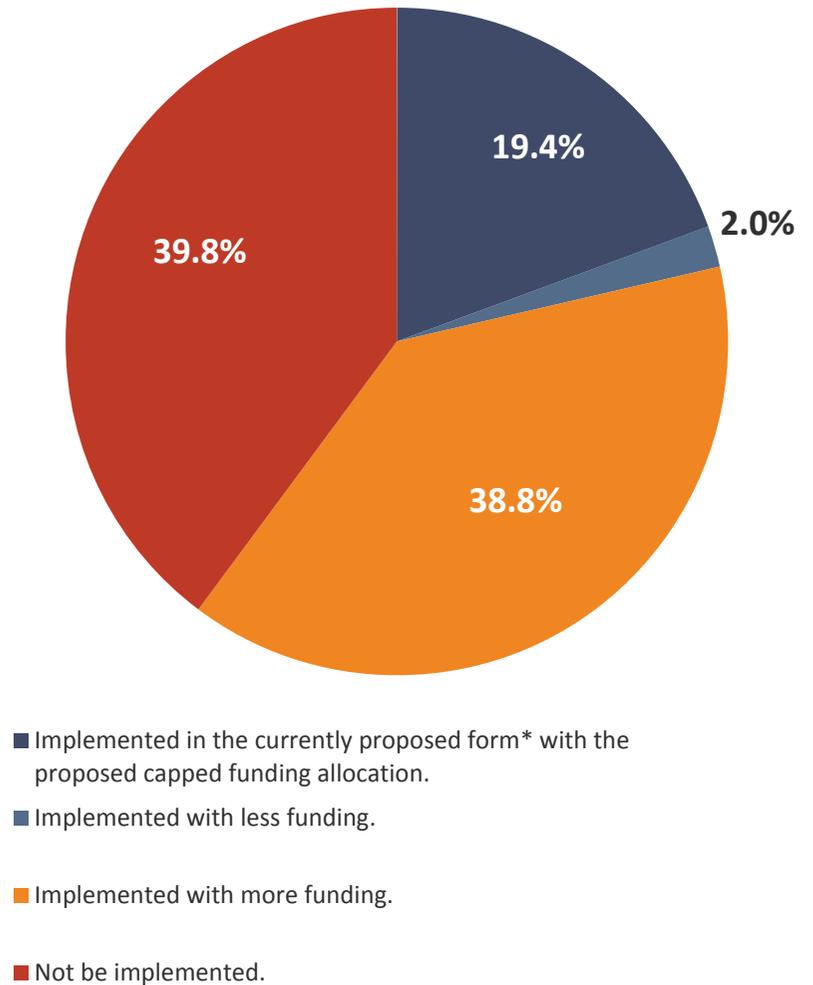
***“Domestic emissions abatement should be supported in the first instance, including being used for make-good under ERF and Safeguard Mechanism. International units should only be used when all other domestic opportunities have been exploited.” (survey respondent comment)***

## SURVEY FINDINGS: EMISSIONS REDUCTION FUND

The Emissions Reduction Fund in its presently proposed form\* is likely to create opportunities to fund abatement projects for your company.



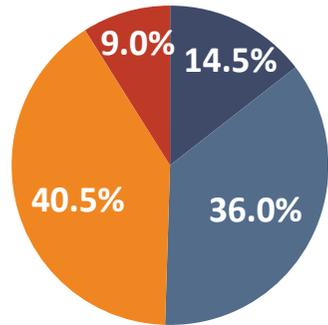
The Emissions Reduction Fund should be:



\* This survey was conducted prior to changes being made to the *Carbon Farming Initiative Amendment Bill 2014* which have subsequently been passed by the Senate.

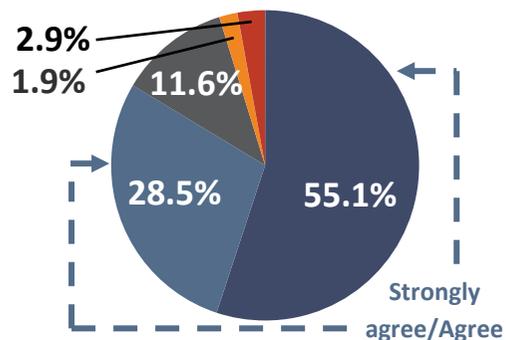
## SURVEY FINDINGS: EMISSIONS REDUCTION FUND

Under the ERF, a Safeguard Mechanism is proposed to apply baselines to limit emissions increases of entities covered. The Safeguard Mechanism should:



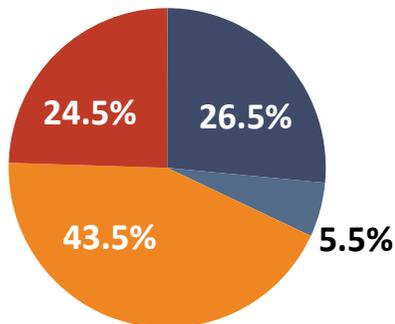
- Cover only the largest emitters, e.g. over 100,000 tonnes CO2 equivalent per annum.
- Extend coverage to the same entities previously covered under the Carbon Pricing Mechanism.
- Extend coverage to all NGER reporting companies.
- Have some other extent of coverage.

There should be a penalty for companies that exceed their allocated baseline.



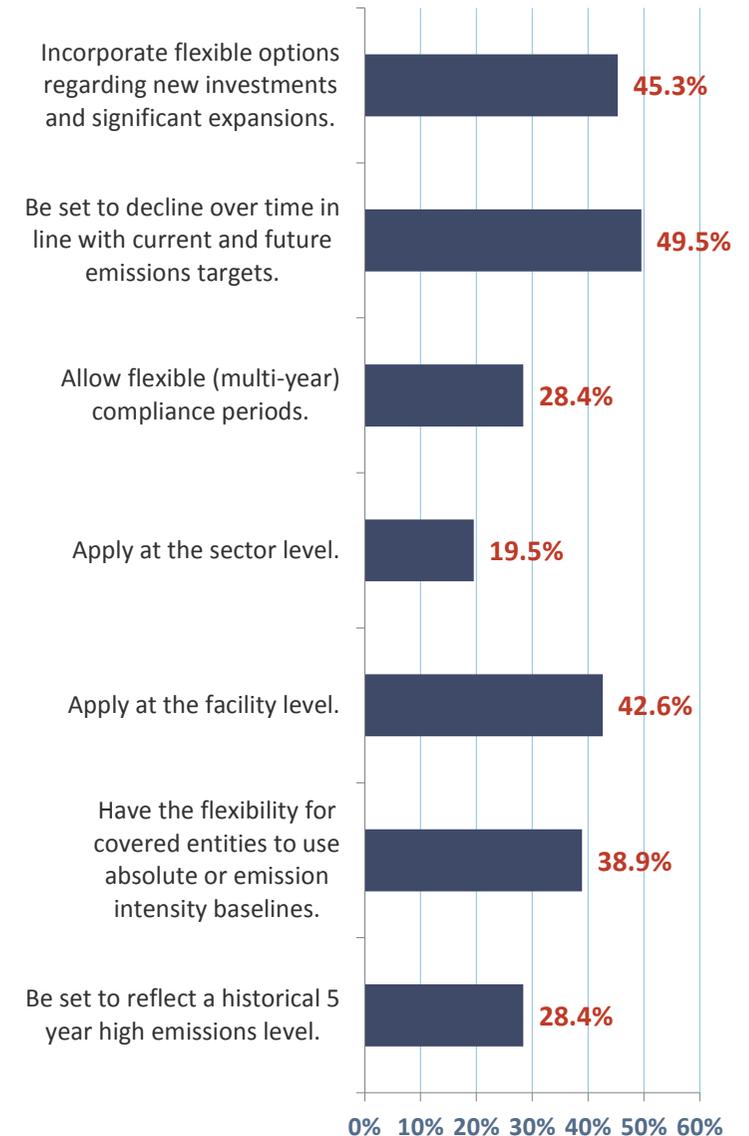
- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

If there is a penalty for exceeding allocated baselines under the ERF Safeguard Mechanism, the penalty should be in the form of the requirement to:



- Purchase abatement through domestic units.
- Purchase abatement through international units.
- Purchase abatement through a combination of domestic and international units.
- Pay a financial penalty to top up the ERF.

The baselines set under the ERF Safeguard Mechanism should:



## KEY FINDINGS: EMISSIONS REDUCTION FUND

This survey was conducted prior to changes being made to the *Carbon Farming Initiative Amendment Bill 2014* and before the 31 October passage in the Senate. The results indicated few respondents believed the ERF would provide opportunities to fund their emissions abatement projects, with many supporting either the implementation of the fund with additional funding or not at all.

Twenty-one per cent of respondents considered the Emissions Reduction Fund (in the form current at the time of the survey) would be likely to create opportunities to fund abatement projects for their company. Concern was raised regarding the risk of participating in the ERF with an uncertain policy environment.

*“Additional ERF funding may improve the project economics as long as the policy risks and costs of participation are low.” (survey respondent comment)*

The considerable majority of respondents (80 per cent) were of the view that the ERF should not be implemented in its current form, with 39 per cent believing it should be implemented with more funding and 40 per cent believing it should not be implemented. There was commentary from respondents favouring an ETS over the ERF, largely as an ETS is considered less complex to administer, more effective at reducing emissions and places the cost of abatement on emitters. Several considered the ERF a stop-gap measure on the path to an eventual ETS.

*“The proposed ERF will be administratively complex, costly to implement and deliver little benefit in the way of abatement.” (survey respondent comment)*

**A Safeguard Mechanism with design features involving broad coverage and punitive baselines that could be set to decline over time was strongly supported by survey respondents.**

Extending the coverage of the Safeguard Mechanism to all NGER reporting companies or those liable under the Carbon Pricing Mechanism was strongly supported by survey respondents. Only 14 per cent supported the coverage of only the largest emitters as was proposed in the ERF White paper.

*“Broad coverage ensures the emissions reduction effort is not concentrated on part of the economy. By spreading the coverage, the emissions reduction target will be reached at a lower cost to the economy.” (survey respondent comment)*

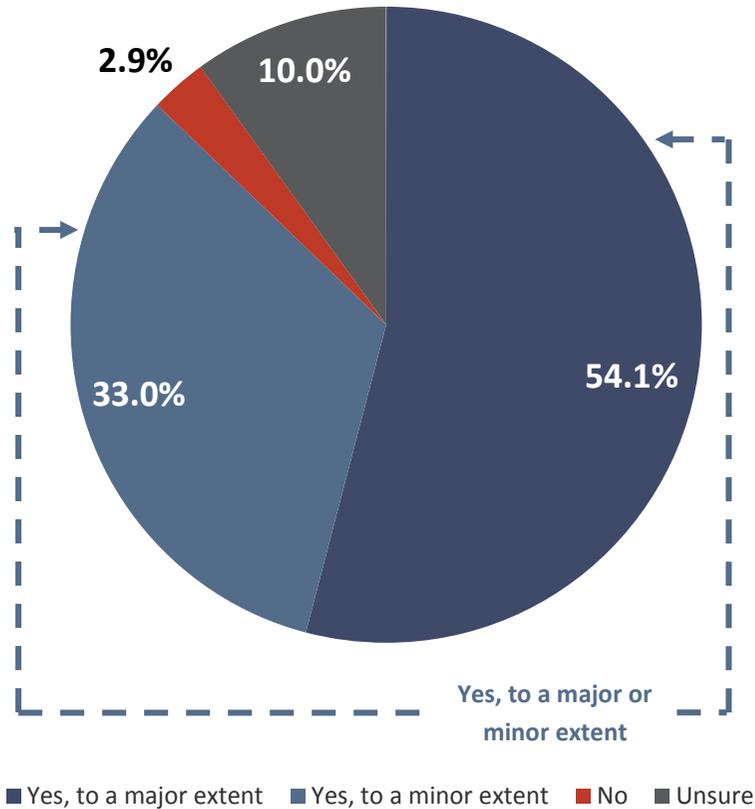
Regarding the setting of baselines under the Safeguard Mechanism, the majority of respondents favoured the setting of baselines at the facility level using a choice of absolute or emissions intensities with flexible provisions for new investments or expansions. Incorporating industry best practice in setting baselines was regarded as important to benchmark Australia internationally. Respondents also strongly supported baselines declining over time to correlate to current and future emissions targets.

The vast majority (84 per cent) of respondents agreed penalties should apply to companies exceeding their baselines under the Safeguard Mechanism. To comply with these punitive arrangements, respondents supported penalties in the form of the requirement to purchase abatement through a combination of domestic and international units. Strong support was also given for the purchase of domestic units only (27 per cent) and the option to pay a financial penalty to top up the ERF (24 per cent).

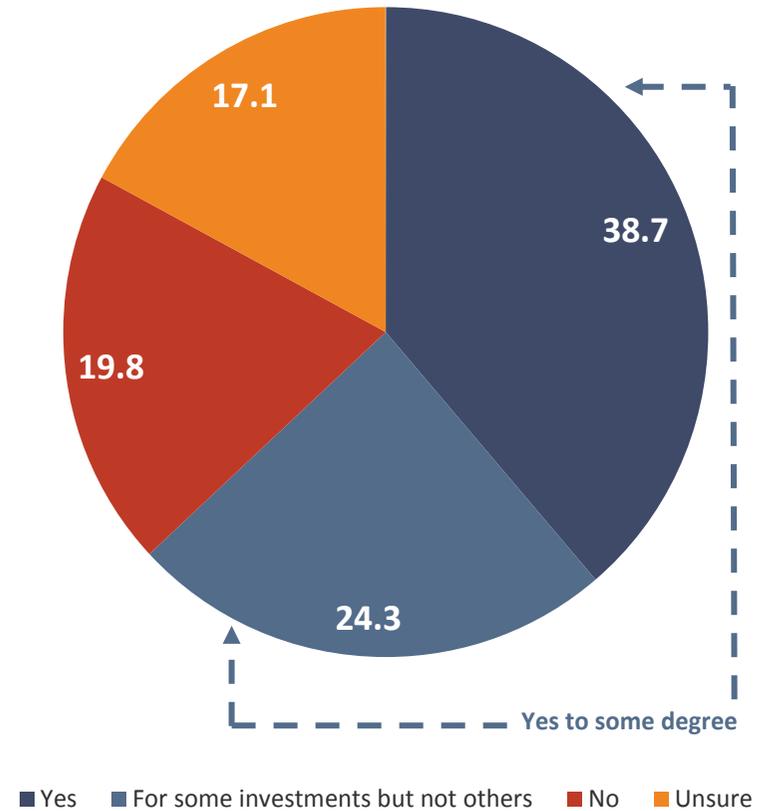
*“A penalty is absolutely necessary if the scheme is to have any credibility or rigour.” (survey respondent comment)*

## SURVEY FINDINGS: INVESTMENT

Would investment decisions in areas of the economy that are relevant to Australia's future greenhouse gas emissions trajectory be affected by a price on carbon (through an ETS or carbon tax)?



If you work for a company with greenhouse gas producing activities, is your company factoring in a carbon price in decisions about major investments?



## KEY FINDINGS: INVESTMENT

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**Investment decisions in areas of the Australian economy relevant to future greenhouse gas emissions trajectories are likely to be affected by a price on carbon.**

According to 87 per cent of respondents, investment decisions in areas of the economy relevant to future emissions trajectories are likely to be affected by a price on carbon. The majority considered this to be the case to a major extent (54 per cent), while a considerable number (33 per cent) agreed investment decisions would be affected to a minor extent.

Respondents also pointed out that investment decisions in these areas of the economy are affected by additional factors such as emissions reduction actions and policies. The price of carbon and forward price curve were also considered factors affecting investment decisions.

*“Political uncertainty regarding long-term climate change policy is the key driver in deferring investment.” (survey respondent comment)*

**Sixty-three per cent of companies surveyed who conduct greenhouse gas producing activity are factoring a carbon price in decisions about major investments.**

In total, 111 respondents stated that they work for companies that conduct greenhouse gas producing activities. Of these, the majority (63 per cent) are factoring a carbon price major investment decisions.

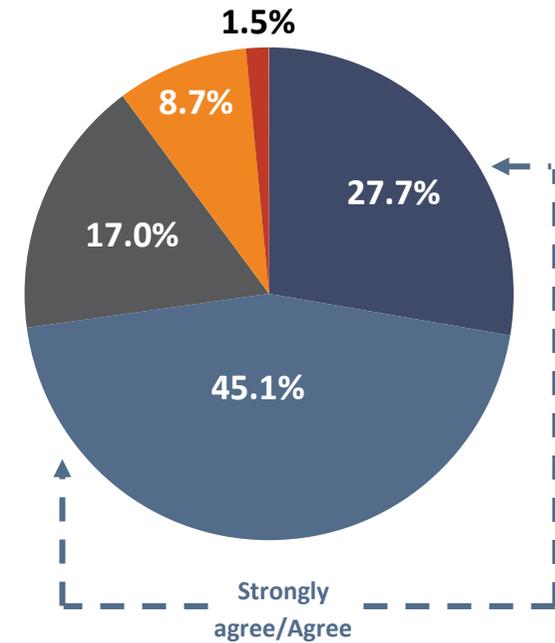
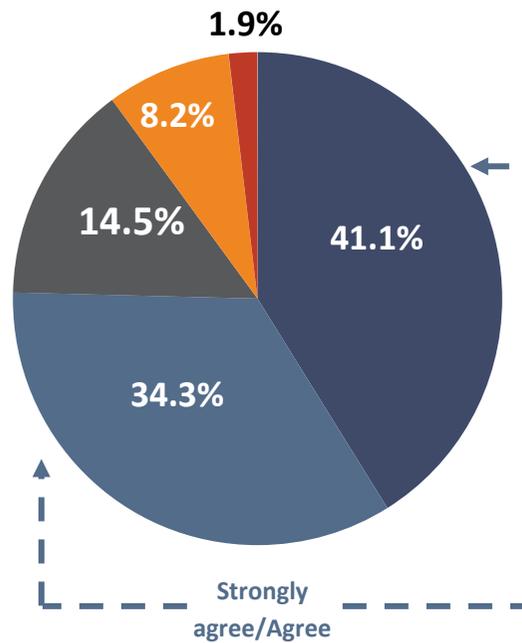
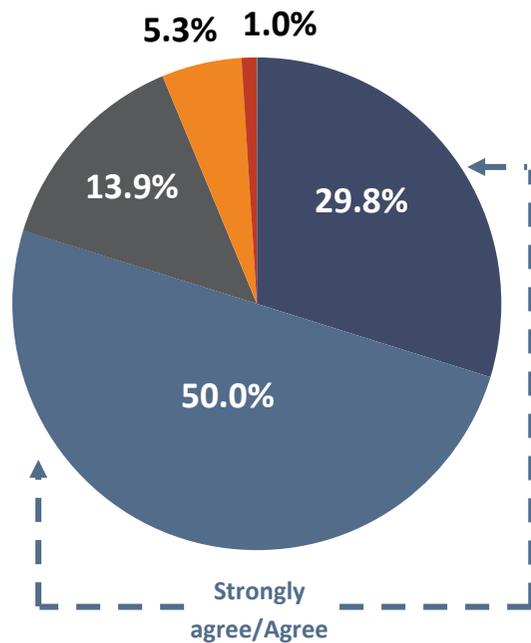
*“An internal price on carbon is used for all decision making.” (survey respondent comment)*

## SURVEY FINDINGS: ECONOMIC AND COMMERCIAL ASPECTS OF CLIMATE POLICY

Climate policy developments in other countries have an economic impact on Australian business trade, investment and export markets.

Australia will be economically disadvantaged if we do not effectively price carbon in line with key trading partners.

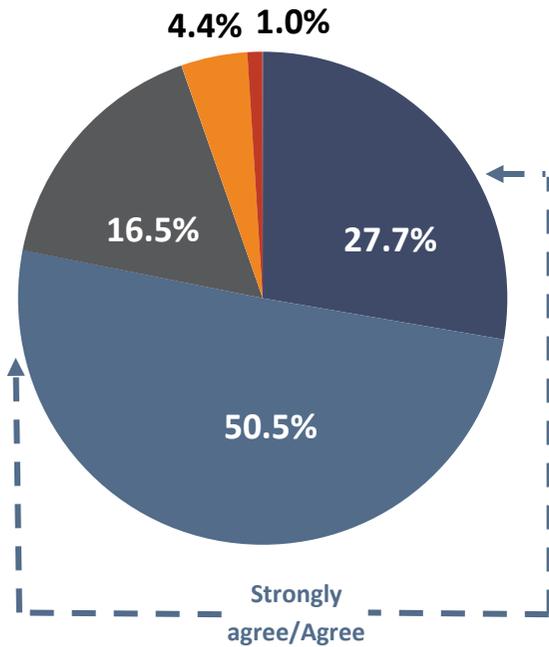
There are risks of adverse implications for trade and investment for Australian companies if our emissions reduction targets are not harmonised with key trading partners.



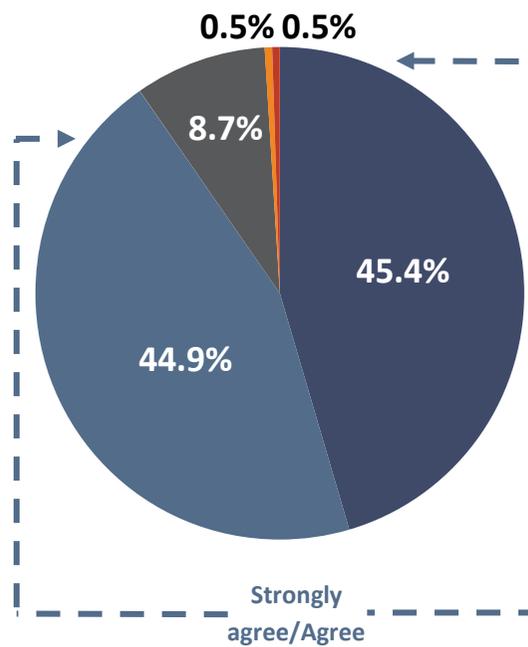
Strongly agree
  Agree
  Neutral
  Disagree
  Strongly disagree

## SURVEY FINDINGS: ECONOMIC AND COMMERCIAL ASPECTS OF CLIMATE POLICY

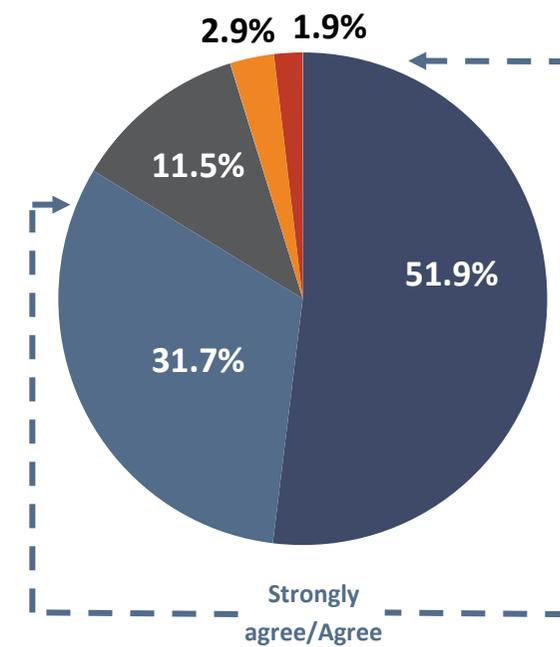
Some Australian business sectors will be disadvantaged if Australia's emissions reduction targets are not in line with key trading partners.



The private sector has a key role to play in funding emissions reduction initiatives.



Economic growth for Australia will increasingly depend on how well we adapt to a lower-carbon world.



■ Strongly agree
 ■ Agree
 ■ Neutral
 ■ Disagree
 ■ Strongly disagree

## KEY FINDINGS: ECONOMIC AND COMMERCIAL ASPECTS OF CLIMATE POLICY

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**Climate policy developments in other countries will have an economic impact on Australian business trade, investment and export markets.**

The overwhelming majority (80 per cent) of respondents consider climate policy developments in other countries to have an economic impact on Australian business trade, investment and export markets. Just six per cent said there is no impact.

*“Other countries’ climate policies are considered in scoping some of our international investments.” (survey respondent comment)*

**Failing to effectively price carbon in line with key trading partners will economically disadvantage Australia.**

According to 74 per cent of respondents, Australia will be economically disadvantaged if we do not price carbon in line with our key trading partners.

*“We need to implement effective and genuine abatement policies, in line with trading partners and geopolitical allies.” (survey respondent comment)*

**Harmonising Australia’s emissions reduction targets with key trading partners is essential to avoid adverse trade and investment risk.**

A similar share of respondents (73 per cent) said that if Australia does not harmonise its emissions reduction targets with key trading partners, there will be risks of adverse implications for trade and investment. The majority (78 per cent) of respondents also agreed a range of business sectors will be disadvantaged without harmonisation with key trading partners.

*“Higher targets will provide first-mover advantage and position us favourably.” (survey respondent comment)*

**The private sector has a key role to play in funding emissions reductions.**

The overwhelming majority (90 per cent) of respondents agreed the private sector has a key role to play in funding emissions reduction initiatives.

*“Within a fair economic market and well-designed emissions policy framework, the lowest cost abatement will be identified and delivered.” (survey respondent comment)*

**Australia’s economic prospects will depend on how well we do in a lower carbon global economy.**

Eighty-three per cent of respondents agreed that Australia’s economic growth will increasingly depend on how well we adapt to a lower carbon world.

*“If Australia remains a nation dependent on mining and the export of energy intensive mineral reserves and fossil fuel, our competitiveness will continue to decline, particularly as the rest of the world strives for low carbon innovation and structural reform.” (survey respondent comment)*

## ABOUT THE CARBON MARKET INSTITUTE

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The Carbon Market Institute is an independent membership-based not-for-profit organisation. Our aim is to assist Australian businesses in meeting the challenges and opportunities associated with market-based approaches to emissions reduction and the transition to a low carbon economy.

As the peak body for carbon market participants, CMI has established an important role in the evolution of the carbon market in Australia. The Institute facilitates the networks, knowledge exchange and commercial interaction amongst key government policy makers and regulators, industry, financiers and investors, professional services companies and technology solution providers.

CMI membership represents a broad range of professionals, organisations and industry. Our members include leading professional service providers, NGERs reporting entities, secondary market participants, offset providers, academia and international organisations. Individuals within the CMI membership base are some of the most respected Australian carbon market innovators and leaders.

CMI's Working Groups have played a key role in connecting government, bureaucrats and regulators with industry to facilitate the constructive input of member views into policy implementation. Drawing on the expertise of the CMI membership, the Working Groups have provided a vital forum for the exchange of information between market participants, policy makers and government agencies.

Each year the Carbon Market Institute runs a major annual Summit for leaders from business, policy, finance and technology to connect on a platform of knowledge exchange and commercial interaction. The 2<sup>nd</sup> Australian Emissions Reduction Summit will be held in Melbourne at the MCG on 5-6 May 2015. Visit [www.carbonmarketinstitute.org](http://www.carbonmarketinstitute.org) for more details.

## ABOUT ANU CRAWFORD SCHOOL CENTRE FOR CLIMATE ECONOMICS AND POLICY

The Australian National University (ANU) is a research intensive university with an emphasis on policy engagement. Crawford School serves and influences Australia, Asia and the Pacific through advanced policy research, graduate and executive education, and policy impact. Crawford School combines research, education and policy impact from disciplinary excellence in the core research areas of economics, governance, environment and development.

The Centre for Climate Economics and Policy at ANU Crawford School is a network of researchers and experts working on climate change and energy economics and policy. Research areas include instruments of climate change policy, energy policy and economics, and climate and energy policies in other countries especially China. Research is published in the Centre's working paper series.

Visit [ccep.crawford.anu.edu.au](http://ccep.crawford.anu.edu.au) for details, and write to [ccep@anu.edu.au](mailto:ccep@anu.edu.au) if you would like to be included on our mailing list.

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