



12 July 2008

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NSW Energy Efficiency Trading Scheme
Department of Water and Energy
GPO Box 3889
SOUTH NSW 2001

RE: COMMENTS ON THE NSW ENERGY EFFICIENCY TRADING SCHEME

The Australian Environment Business Network (AEBN) welcomes the opportunity to comment on the overview of the NSW Energy Efficiency Trading Scheme (NEET). AEBN agrees with the general thrust of the NEET scheme but takes issues over its implementation and associated inherent regulatory inefficiencies.

AEBN has in the past supported the Greenhouse Gas Abatement Scheme (GGAS) and considers many elements of it offer better scope for reducing carbon emissions over the more blunt cap-and-trade scheme to be introduced at the national level. Continuation of the GGAS demand management section has some short term merits; such as the smooth transition of the NSW Greenhouse Abatement Credits (NGACs) into the proposed NSW Energy Efficiency Credits (NEECs). Access to the provision of credits provides a more straight forward system than under a cap-and-trade scheme.

While a demand side energy efficiency scheme yields many benefits AEBN could only support such a scheme if undertaken:

- 1) At the Federal level by the Federal Government
- 2) In a Nationally identical manner
- 3) In conjunction and consistent with the proposed Australian Emissions Trading Scheme (AETS)

AUSTRALIA'S INTERNATIONAL ROLE

The Garnaut Review has made it clear that Australia's role in international greenhouse abatement is to show a commitment and actions in common with other developed nations and with similar reduction targets. It is not for Australia to take a lead, nor be a laggard, in reducing its greenhouse emissions. However, Australia is in a good position to develop a lead in the area of regulatory efficiency in the management and abatement of greenhouse emissions. This role is perhaps more important than many realise.

If global cooperation on the reduction of greenhouse emissions fails then reduction actions undertaken by smaller countries such as Australia will be futile. Demonstration that action on greenhouse emissions by developing countries is not only for their best interests, but can be achieved less painfully than

currently considered is paramount. To do this Australia should develop world best regulatory practice to establish the most efficient means to achieve a low carbon equivalent economy. Such actions can then provide effective regulatory models for others, especially developing countries to imitate. With Australia gaining the appropriate international recognition.

ISSUES WITH NEET

Multi Jurisdictional

At the NEET Forum held on 4 July 2008 the government advisers explained that are encouraging other states to adopt a similar scheme to NEET. It was stated that both Victoria and South Australia are seriously developing similar albeit separate systems. Over time the NSW Government representatives considered that each state could run its own scheme.

AEBN considers that multiple jurisdictions operating similar but different schemes to be an inefficient regulatory structure. State borders will present a confusing mix of differing NEET style tariffs on electricity and other energy sources as each State jurisdiction feels fit to apply.

Such an outcome will not be an efficient regulatory structure. This sends the wrong message to developing countries that greenhouse abatement is subject to considerable internal interference in a multilayered government controlled country. Australia should lead and cut through local political issues and develop an efficient greenhouse regulatory structure free from interference at local and state levels.

Exemption Of TEEIIs

NEET is to be designed protect Trade Exposed Emissions Intensive Industries (TEEIIs) from the costs associated with its application. However, no specific definition has been made at the State or Federal level at what TEEIIs is or what its cut off level should be. The division between being defined as a TEEII site or not could make the difference of viability or shut down for many organisations. Consequently, TEEIIs is an issue which many in industry believe is their only hope of surviving unless their international trading competitors are also subjected to such costs.

AEBN and industry takes protection of TEEIIs very seriously. It will be a complex process to not only determine who are TEEIIs and who are not, but also by how much are they a TEEIIs. While many industry sectors are obviously TEEIIs, such as aluminum smelting, basic iron manufacturing and cement clinker, many are not as obvious.

Some industry sectors are surviving on only a few percent price advantage over imports. An increase in electricity prices of 50% could push them out of business.

Take printing companies for example. On average a printer has 15% of its total costs as electricity. If electricity prices increases by 50% then its costs component increase to about 22% of total costs. However, if overseas printers (with not carbon cost) are, for example, 5% more expensive a 50% increase in electricity prices will have substantial impacts on Australian printers. So should printers be considered TEEIIs?

Where the government draws the line (or lines) on TEEIs will impact materially on the employment in NSW. Careful research needs to be undertaken on the predicted impact of increased energy prices due to the combination of AETS and the other schemes such as NEET. Undertaking appropriate economic modeling is essential so that the NSW government will obtain data on the costs associated with implementing NEETs. Such data can then form the basis for establishing the threshold values for TEEIs and the levels of compensation or other assistance required to off-set the cost impacts of NEET.

Uncosted Scheme

The proposed NEET scheme is also unpriced and uncosted because it is untargeted. The discussion paper providing no information on targets, prices and costs. As the AETS has yet to be designed the accumulative costs of both schemes operating in NSW is also impossible to calculate especially prior to 1 January 2009, the stated date of commencement. The best indication of the level of costs is in the Premiers Energy Efficiency Policy paper which states:

The package includes:... tough new targets under the Government's re-vamped, world-leading Greenhouse Gas Abatement Scheme.

This provides poor planning for NSW industries on the expected flow on cost impacts associated with NEET. AEBN is very concerned that no economic modeling appears to have been undertaken on a scheme which admits some industry sectors will require protection from international competition. Implementing NEET without economic modeling and cost-benefit analysis is considered unprofessional for any organisation and perhaps even reckless.

Government Urgency

Initially at the NEET Forum on 4 July 2008 the NSW public was told that it had to respond within 7 days, this being 11 July 2008. However, due to the late release of the discussion paper on 10 July 2008 the deadline was extended to 16 July 2008.

A short consultation is considered at least 4 weeks with 8 weeks being average. One week is extremely compressed and as a consequence any meaningful detailed analysis will be absent. AEBN is concerned this regulatory reform is being rushed through and little consideration will be provided to any dissenting or proposals to alter the course the government is on. This is another sign of reckless government policy.

THE ROLE OF STATE GOVERNMENTS AND GREENHOUSE ISSUES

NEET raises a fundamental issue about the division of responsibilities between State and Federal governments on greenhouse issues. States have the clear constitutional right to deal with pollution issues within their area of responsibility. The Commonwealth Government has the responsibility to deal with international issues. Where there is conflict the commonwealth laws are to prevail. There are many instances where Commonwealth and State environmental laws cross over, even duplicate, along the boundaries of international issues, such as, triggering the *Environmental Protection and Biodiversity Act* and state planning requirements for say Ramsar wetlands. Such conflict is somewhat corrected over time by instruments such as bilateral agreements to avoid duplication of planning assessment process. It appears that greenhouse legislation is heading in the same direction of duplication and inefficient

rectification. This is not ideal and will undermine the efficiency of Australia's regulatory framework on greenhouse abatement. Australian governments are tending to rush in new greenhouse abatement laws and mechanisms with considerable haste. The old adage that haste makes waste will play out over time with considerable back tracking and reforming by many governments. However, Australia's economic performance will suffer from the speed at which it is being implemented. The result are likely to be inefficient, overlapping and duplicative laws which will inflate the bureaucracy, increase red tape for little environmental reward and considerable unnecessary economic hardship.

AEBN considers that greenhouse gas management schemes in forms of levies, taxes, reporting requirements, efficiency controls, greenhouse gas trading schemes should only be run at the Federal level. This will result in nationally identical laws regulated in a nationally identical manner providing an efficient regulatory structure for the management of greenhouse gases and sinks.

The global nature of greenhouse gas impacts and climate change requires an international approach. State governments are not the primary means by which Australia deals with international issues such as climate change. State governments constitutional responsibilities to manage local air pollution issues further undermine its abilities to deal with global pollution issues. It is a common outcome, that in order to reduce the local emissions of oxides of nitrogen or reduce dioxin concentrations (and many other local pollutants) air control equipment requires use of additional energy requirements such as fuel burning. In many cases the objective to reduce a local air pollutant conflicts with the increased generation of greenhouse gases. Local air emissions will, in virtually all cases, dominate in importance with greenhouse emissions taking a back seat at the State level.

Such conflicts have not been addressed, despite AEBN's call for many years that the NSW adopt a holistic policy to air pollution where some balance can be provided between local and global air pollution issues. Below is a recommendation from AEBN's submission on *NSW's Greenhouse Gases Strategy Discussion Paper June 2004*.

R4 AEBN recommends that the NSW Government develop a whole-of-government policy to deal with conflicting environmental outcomes on air emissions. The policy should provide clarity for the DEC, other government agencies, industry and the public on how to balance greenhouse emissions—a global issue—with local air pollutants such as particulate matter, oxides of nitrogen and many others.

In stating the above, AEBN also considers that State governments have an important role to play in greenhouse abatement and management activities. For example, State governments can:

- Provide the distribution of grants for various greenhouse abatement, sequestration and sinks projects
- Improve public transport and infrastructure at the planning level with the aim of being more energy efficient
- Improving building codes and other standards and activities that the State government has control over with the aim of being more energy efficient
- Manage climate change adaptation

SUMMARY

Overall there is a good argument for the introduction of energy efficiency systems. And considering that the aim of the NSW, and possibly other State Governments, is to have similar schemes operating across Australia these should be one scheme. Being one system, it should only be National, with one scheme run only by the Federal Government.

Should you require to discuss these issues with AEBN please contact me on the below number or via email.

Yours sincerely

A handwritten signature in black ink, appearing to read "Andrew Doig". The signature is fluid and cursive, with a large loop at the end.

ANDREW DOIG
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