



THE HON GREG HUNT MP

Minister for the Environment

Opportunities for business under the Emissions Reduction Fund

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CANBERRA

Introduction

Good morning and thank you for that kind introduction. It's a pleasure to be here today.

As Prime Minister Tony Abbott has said many times, this Government's message to the world is: Australia is open for business. As one of the most open economies in the world, Australia needs to have a constant focus on productivity in all its forms.

Whether it's tackling costly red tape, putting the budget on a stable footing or shining a light on unlawful industrial relations practices, the Government's productivity agenda interacts with all policies at all levels. This is certainly the case with environmental policy.

Enhanced productivity and economic growth are sometimes treated as the antithesis of good environmental outcomes. We believe, rather, that they are inter-dependent: a strong economy is reliant on clean air, land and water resources and the best way to protect those resources is through a strong economy.

Some might regard energy productivity and innovation as separate from the task of reducing greenhouse gas emissions. The Government disagrees.

Because of Australia's natural resource endowments, our energy production and our economy are relatively carbon intensive.

This means that innovations in energy productivity and reducing carbon emissions are inextricably linked.

Enhanced energy productivity—using less energy to achieve the same economic output—is a key feature of the Government's policy agenda. It will deliver economic and environmental benefits and encourage innovation in the ways we produce energy.

And a major mechanism through which we will encourage greater energy productivity is the Emissions Reduction Fund, which is the centrepiece of the Government's Direct Action Plan.

Direct action on greenhouse gas emissions

In its first Budget, the Coalition Government delivered on its pledge to provide \$2.55 billion to establish the Emissions Reduction Fund.

This is a significant investment, and shows the Government's resolve to meet our emissions reduction target of five per cent below 2000 levels by 2020 in a way that is sustainable and helps the business sector lower its energy costs and improve its productivity.

We have already taken the next step in bringing the Emissions Reduction Fund to life, with the introduction of the Carbon Farming Initiative Amendment Bill 2014 to Parliament last month.

The Emissions Reduction Fund has been developed in close consultation with business and the community through submissions made at each step of the legislative process.

It will be far more effective at reducing Australia's emissions than the carbon tax because it directly targets emissions-reducing activities.

It will provide a powerful and direct incentive for businesses across the Australian economy to work with the Government to reduce emissions.

Emissions Reduction Fund in action

Businesses, community organisations, local councils and other members of the community can undertake emissions reduction activities and have the opportunity to bid into an auction to sell the resulting emissions reductions to the Government.

The Government, through the Clean Energy Regulator, will buy the lowest-cost emissions reductions across the economy.

The Regulator will be able to commit up to \$2.55 billion in contracts to purchase emissions reductions as soon as the Emissions Reduction Fund begins operations.

As part of our ongoing extensive consultation with business and key industry sectors, the Government is conducting a market assessment of projects proposed to be bid into the Fund to ensure the right contractual arrangements are in place.

And just last week the Regulator released an exposure draft carbon abatement contract for the Fund, for public consultation.

Consultation with industry

We have consulted extensively across all key industry sectors, including energy efficiency, in developing the Emissions Reduction Fund. The Government has already established technical

working groups to identify viable, low-cost abatement opportunities, including in building energy efficiency and industrial energy efficiency. This will ensure that emissions reduction methods are in place at the start of the Fund for a range of promising emissions reduction opportunities.

A focus has been on energy efficiency activities, particularly in the areas of building and industrial efficiency. Where possible, methods will be broad rather than prescriptive and build on methods that have already been developed for comparable domestic or international programs.

Many state governments—particularly NSW, Victoria, South Australia and the ACT—have contributed through their energy savings schemes to developing a vibrant, broad-based energy efficiency industry in Australia.

The Government will continue to engage closely with these states as we implement the Emissions Reduction Fund. The Government is eager to ensure that the Emissions Reduction Fund can complement those schemes and build on their strengths.

Building on existing energy efficiency schemes

Emissions reduction methods set out the rules for estimating emissions reductions from different activities and will be developed in conjunction with business.

The Government will leverage the experience of state and territory-based energy efficiency schemes by building on their methods as a model for the development of nationally applicable energy efficiency methods under the Emissions Reduction Fund.

Emissions reduction opportunities for business

The White Paper captures a wide range of productivity-enhancing activities which will be eligible under the Emissions Reduction Fund. They include:

- upgrading commercial buildings
- improving energy efficiency of industrial facilities and housing
- capturing and reusing landfill gas
- reducing waste coal mine gas

- reforesting and revegetating marginal lands
- improving Australia's agricultural soils
- upgrading vehicles and improving transport logistics, and
- managing fires in savannah grasslands.

Businesses, community organisations, local councils and other members of the community can undertake activities like these and sell the resulting emissions reductions to the Government.

Emissions reductions will be verified and credited according to approved methods. These methods will ensure that emissions reductions are genuine—that is, they are both real and additional.

The purchasing part of the process takes the form of a reverse auction, with the Fund simply and efficiently buying the lowest-cost emissions reductions across the economy.

The auctions will be conducted by the Clean Energy Regulator, starting later this year.

The Clean Energy Regulator will set a benchmark price for each auction, above which bids will not be considered, to prevent prices reaching unacceptable levels if project supply is limited at a particular auction.

The Clean Energy Regulator will provide the weighted average price information after each auction to help businesses to identify projects they want to bid into the Emissions Reduction Fund. For the first auction only, discretion will be given to the Clean Energy Regulator to publish a benchmark price ahead of the auction. After that the benchmark price will not be published, to maximise value for money.

The Government will enter into contracts with successful bidders, which will guarantee payment for the future delivery of emissions reductions. Businesses could use contracts to finalise project finance as necessary before projects are implemented.

The Government recognises that some emissions reduction activities such as revegetation and household and commercial energy efficiency may often be smaller scale actions.

By joining up such small-scale projects—referred to in the White Paper as aggregation—these projects can be cost-effective and competitive.

The Emissions Reduction Fund will support such business models. There will be ongoing consultation with businesses on how best to do this as the Emissions Reduction Fund is implemented.

So what might an emissions reduction project look like in the real world?

Consider this: electric motors exist in homes, hospitals, office blocks, plants and factories. In the industrial sector, they are integral to virtually every process. Motors control everything from pumps to compressors, drives to fans. Over half of Australia's electricity passes through an electric motor.¹

The International Energy Agency believes that it's possible to cost-effectively improve the energy efficiency of motor systems by roughly 20 to 30 per cent using technology that already exists. Such an outcome would reduce total global electricity demand by about 10 per cent.²

In other words, there are massive opportunities to reduce energy use and emissions from targeting the upgrade of just one type of industrial system.

This is exactly the sort of emissions reductions that we want the Fund to unlock.

So how does this relate to the built environment?

Energy efficiency

I'm sure you are well aware that the sustainable home market in Australia is growing as energy-efficient and environmentally-friendly houses become more important to consumers.

I note that our hosts, the Green Building Council of Australia, made a submission to the Government's Energy White Paper earlier this year. Energy efficiency standards for buildings have been included in the National Construction Code (formerly the Building Code of Australia) since 2003 for residential buildings and 2006 for commercial buildings.

The National Construction Code sets minimum standards for the performance of the thermal shell of the building as a whole, and as such allows for flexibility in meeting the minimum standard. The property industry can engage in projects that will work within the standard to design and build new, more energy efficient residential and commercial buildings.

¹ E3 Committee (2013) *Electric motors product profile*

² IEA (2011) *Energy-Efficiency Policy Opportunities for Electric Motor-Driven Systems*

The Emissions Reduction Fund will provide incentives for energy efficiency improvements in residential and commercial buildings.

The Government has listened directly to stakeholder suggestions to look to existing state-based energy efficiency schemes to design energy efficiency methods under the Emissions Reduction Fund.

Accordingly, we are drawing from the New South Wales Energy Savings Scheme to support projects that improve the NABERS star rating of commercial buildings.

Projects that improve the energy efficiency of large groups of small-to-medium energy users such as households or small businesses will also be covered under a method based on the NSW scheme.

These methods are being designed to accommodate a wide range of activities to improve energy efficiency. For example, they could cover the installation of more energy efficient appliances in businesses or homes, or encouraging changes in the energy use behaviour of building occupants. Commercial buildings could upgrade their lighting systems or equipment such as boilers.

The Government will continue to consult businesses to determine priorities for further method development. As new methods are developed, more activities can be credited.

Conclusion

To conclude, let me reaffirm the Australian Government's view that the protection of the environment and pursuit of economic growth are not mutually exclusive objectives. They are two essential elements of a stronger Australia.

Through the Emissions Reduction Fund, the Government will create opportunities for businesses and industry to both reduce their emissions and increase energy efficiency.

Thank you.