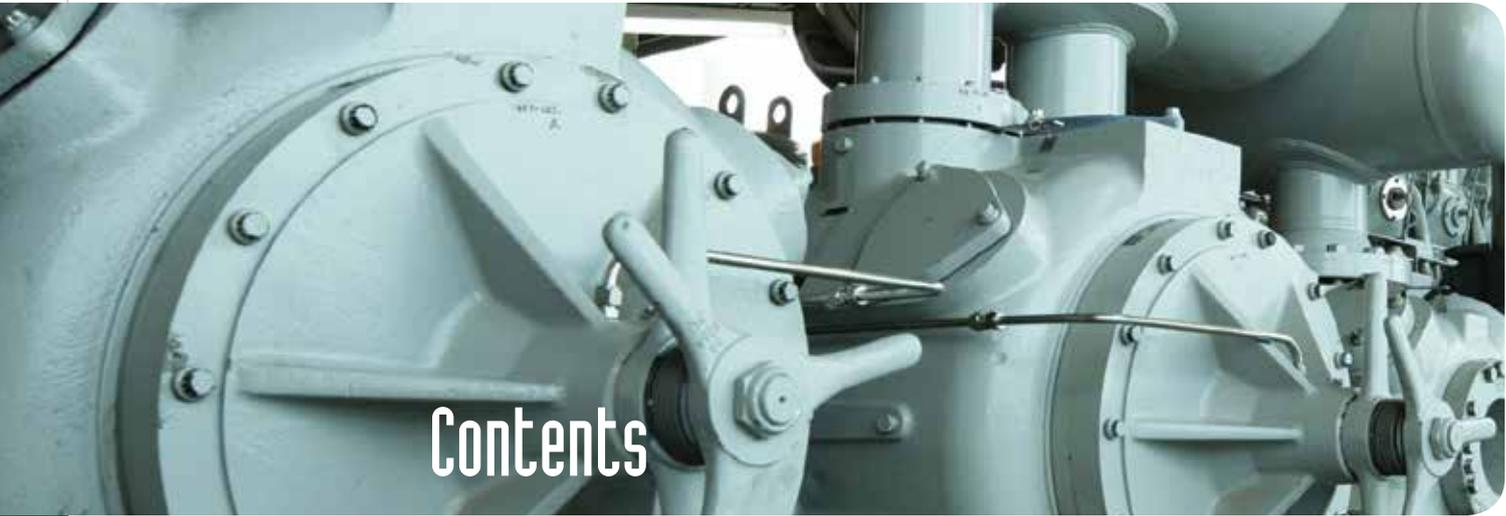




# Australian Industry **Greenhouse** Network

annual report 2011-2012



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# Chair's report

**In its annual report for 2010–2011 AIGN highlighted the policy vacuum created by the shelving of the then Carbon Pollution Reduction Scheme. Outgoing AIGN Chairman Miles Prosser forecast that 2011–2012 would be 'the culmination of many years of discussion and debate'. How right that prediction was.**

For AIGN and its members 2011–2012 has been a year of constant engagement at the policy and regulatory level as the details of the proposed Clean Energy Future policy were agreed, announced and changed. Much work has gone into dealing with implementation issues in the run up to the new regime's commencement on 1 July 2012.

July 2011 saw the Multi-Party Climate Change Committee release its *Clean Energy Agreement*. The centerpiece of the agreement was the introduction of a broad based carbon price from 1 July 2012 plus an associated package of household and business assistance measures and the establishment of administrative and policy arrangements.

In the lead up to the November passage of the Clean Energy Act and accompanying legislation, AIGN and its members provided detailed input on the proposed arrangements which resulted in a number of major changes.

Given the short implementation period AIGN has played a vital role as a forum for members to share questions and experiences. It has once again proved the value of the networking forum AIGN provides across multiple industry sectors including major energy users and consumers.

AIGN has represented members' positions on a variety of issues to policy makers and the regulator. Despite, at times, understandable frustration over delays in receiving answers and clarifications AIGN has maintained a constructive and consultative approach in its dealing with government. This has served to enhance its credibility as the representative body for a broad section of Australian industry on climate change matters.

While industry is still in the implementation stage of the carbon pricing mechanism we should not forget that the first major reviews of aspects of Clean Energy Future start later this year including the review of the Renewable Energy Target. There will also be the opportunity to provide input into the COAG Taskforce consultation on energy market

reform and efforts to rationalise carbon reduction and energy efficiency schemes. At the same time it seems that government will continue to modify the carbon pricing mechanism.

The next federal election is scheduled for 2013–2014 and the Liberal and National Opposition's 'Direct Action' plan represents an alternative policy approach to the existing carbon pricing mechanism. In the robust political environment that will influence the policy debate it will be important for AIGN and members to thoughtfully consider key aspects of this policy and how it compares to AIGN's proven principled approach to policy.

AIGN continued to have an input into the Australian Government's approach to international negotiations. It remains important that government hears from AIGN and its members on this subject given the pressure from other sectors. A critical issue for Australia at the forthcoming UNFCCC meeting in Doha will be negotiations on adopting a universal legal agreement on climate change by 2015.

For the AIGN secretariat it has been a challenging year. Again the secretariat has excelled in serving the requirements of members — as one member commented the 'services provided by AIGN in information and input would, if provided by a consultant, cost many times more and not bring the same insights or perspective.'

I pay a particular tribute to Michael Hitchens who after five years as CEO is returning to consultancy — I am sure we will continue to interact with Michael in this work. Michael has brought to the CEO position an unparalleled degree of economic rigor which has stood AIGN in good stead in its representations to government. A testimonial to the regard in which Michael is held was the extremely well attended farewell function where we were joined by many senior government officials.

## Chair's report

The association has been well served by Senior Policy Advisor, Emma Watts over many years of unfailing service. Emma has been a stalwart of the organisation and has grown in her capacity over the eight years she has been with AIGN. Her focus on members' needs and interests is in no small way part of the organisation's success. Emma will be moving on from AIGN in the new financial year and we wish her well in her professional pursuits. AIGN has also been strongly supported by Lynda McIntosh as Administration Officer and Louise Monge as Research Assistant. I would personally thank each of them on behalf of all AIGN members.

After a rigorous recruitment process to replace Michael Hitchens as CEO the board decided to select someone with an association background. Alex Gosman has experience across a number of industry sectors and issues at the association and multi-national corporate level. By November Alex is to make his final report back to the board on a vision for AIGN into the future. It is intended that he seek members' views on the relevance of the network's focus and operations as it moves into the new environment of the carbon pricing mechanism and to build on those aspects of the AIGN that members already value highly.

AIGN has consistently demonstrated flexibility in responding to the changing external environment and in meeting members' requirements. While we are now operating under legislation that places a price on greenhouse gas emissions there is still uncertainty over the implications for climate change policy that may arise from next year's federal election. I am confident that in this atmosphere AIGN will continue to provide thoughtful and effective advice to the membership and the broader community.

It has been my pleasure to have been an inaugural director of the AIGN and to have served in recent years as Vice-Chairman and last year as Chairman. My thanks to all those who made the task that much easier. May the organisation continue to provide the same high standards of policy development, analysis and assistance in the future that we have all come to expect.

**Martin Jones**

Chair



# Year in review

**The July 2011 announcement of the Multi-Party Climate Change Committee (MPCCC) *Clean Energy Agreement* and the release of the Australian Government's response *Securing a clean energy future: The Australian Government's climate change plan* ensured that 2011–2012 commenced at full speed.**

The MPCCC Agreement set key architecture of the *Clean Energy Future Plan* — specifically, the introduction of a broad based carbon price in Australia, commencing from 1 July 2012 with a fixed price period and transitioning to a fully flexible cap-and-trade carbon pricing mechanism on 1 July 2015, with the fixed price to start at \$23 per tonne of CO<sub>2</sub>-e.

It also established the Climate Change Authority, identified measures for industry and household compensation, including the Energy Security Fund, Food and Foundries Investment Program and the Jobs and Competitiveness Program. It included measures to support clean technology development, incorporating the Clean Energy Finance Corporation (CEFC). It agreed to expedite the development of a national energy savings initiative (NESI) and the continuation and expansion of the Energy Efficiency Opportunities (EEO) program.

This agreement set the pace of the AIGN work program for the rest of the year. The consultation processes in the lead up to the passage of the Clean Energy Bills in November 2011 were necessarily conducted in a tight timeframe. These were followed by the development of the regulations to

underpin the Bills, and commencement of discussions on additional measures included in the MPCCC agreements on a NESI and EEO expansion.

The establishment of the Clean Energy Regulator (CER) in April 2012 was another key milestone that moved the focus of many members from policy discussion to the practical implementation of the scheme and unravelling the complexity of operating within it.

International negotiations were progressed through the UNFCCC meetings in Durban. The negotiations advanced the implementation of the convention and the Kyoto Protocol, the Bali Action Plan, and the Cancun Agreements.

In addition to the primary focus on the development and implementation of the *Clean Energy Future Plan*, there have been a number of other domestic issues and events requiring AIGN's attention. These have included the ongoing refinement of the National Greenhouse and Energy Reporting Act (NGER), and progressing a streamlining agenda and advocating a consistent position on the need to phase out those programs that do not complement the carbon pricing mechanism at both a state and federal level.

## AIGN network meetings

AIGN's main activity continues to be the program of regular network meetings. These meetings contribute to the exchange of ideas within the network, and are important in developing thoughtful responses to key issues.

The network meetings give members the opportunity to hear from a range of speakers, including those from government, the private sector, non-government organisations and academia.

The announcement of the Australian Government's *Clean Energy Future Plan* on 10 July 2011 has guided the agenda of AIGN meetings over the last 12 months. The legislative and regulatory framework required to enable the scheme, and the process of implementing the scheme has been the primary focus of AIGN and its members.

In addition to this AIGN also focussed on the international negotiations and their impact on domestic policy, energy policy with respect to a draft energy white paper and proposals for a National Energy Savings Initiative

AIGN invites Australian Government officials to address the meetings on a regular basis. This is critical to AIGN's effective contribution to policy discussions and has been particularly important as elements of the *Clean Energy Future Plan* were progressed, and the Clean Energy Regulator began its work. AIGN is grateful to those officials who have been generous and considered in their participation in network meetings.

Throughout the year members were also briefed by their colleagues on issues of specific interest and on the findings from commissioned reports. This is in the nature of AIGN's approach to building understanding and sharing views within the network and the secretariat appreciates the collegial approach all members take in participating in the regular meetings.

In July AIGN heard from officials from the Department of Climate Change and Energy Efficiency (DCCEE) on the proposals contained within the *Clean Energy Future Plan*, which led to a detailed discussion on the AIGN work program to manage its response to government proposals.

The August meeting featured detailed discussion with officials from DCCEE with respect to the *Clean Energy Future Plan* and the draft legislative package. In addition members discussed the critique of the Treasury modelling work undertaken by the Centre for International Economics on behalf of AIGN.



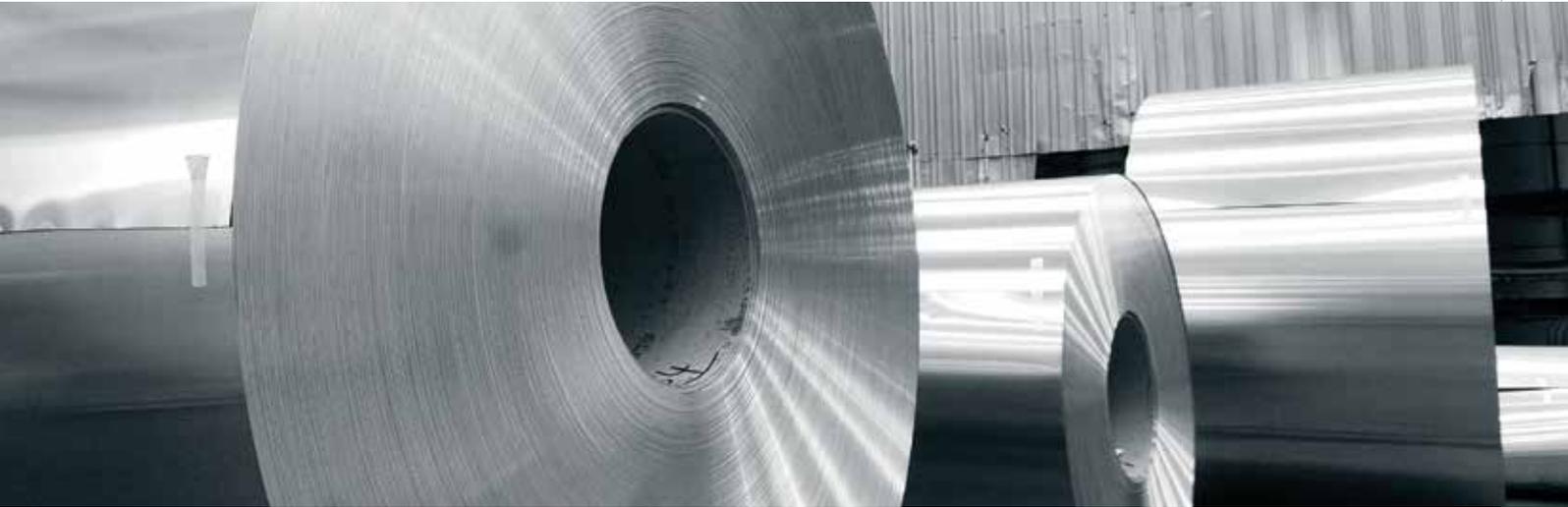
In September AIGN received a briefing from Access Economics on the consultancy work commissioned by the network on modelling of the Clean Energy Future Emission Trading Scheme. In addition, members were briefed by DCCEE officials on the National Carbon Offset Standard, and also participated in a detailed discussion of AIGN's response to aspects of the *Clean Energy Future Plan*.

The October meeting focussed on program details emerging from the *Clean Energy Future Plan*. This included presentations from the Department of Innovation, Industry, Science and Research (DIISR) on the Clean Technology Programs, the Department of Resources, Energy and Tourism (DRET) on the EEO expansion, the CEFC Secretariat and the DCCEE on legislative and regulatory implementation of *Clean Energy Future Plan*.

The final AIGN meeting for 2011 maintained its traditional focus on the forthcoming UNFCCC international negotiations, including an internal briefing on the Durban meeting and a presentation from the DCCEE on international markets in the context of the international negotiations

The new year brought a renewed focus on the implementation on the *Clean Energy Future Plan* legislation. In February members were briefed by the DCCEE on the discussion paper considering the auctioning of carbon units in Australia's carbon pricing mechanism and on the NESI. The group also heard from representatives from the Clean Energy

## AIGN network meetings



Regulator (CER) on the early stages of establishing the CER. The meeting also considered AIGN responses to the EEO expansion proposal, the review of the Clean Development Mechanism (CDM), and the NESI modelling and discussion paper.

In March AIGN discussed the early findings of an AIGN commissioned report from Bloomberg New Energy Finance on factors influencing future emissions prices in Australia to 2030. The DCCEE also attended to provide an update on the implementation of the carbon price, the National Inventory Reports and the International Negotiations including work on international markets.

The May meeting included presentations from Dr Quentin Grafton of the Bureau of Resources and Energy Economics (BREE) on their Energy Projections and Research Program, Origin Energy on aspects of the Renewable Energy Target (RET). Members also discussed the work of Bloomberg New Energy Finance on Australian Emissions Price Sensitivities to 2030, and the continuing work being undertaken on behalf of members in preparation for the carbon price mechanism.

The final meeting for the reporting period incorporated a Climate Change 101 workshop held to support new members of AIGN. For the remainder of the meeting members were briefed on the final report by Bloomberg New Energy Finance regarding the factors influencing future emissions prices in Australia to 2030. This was also the final meeting for outgoing CEO Michael Hitchens and the first attended by Alex Gosman.

## Seminars and workshops

### AIGN Member Workshop on the CEFS Legislation

Following the release of the *Clean Energy Future Plan* legislation AIGN conducted a workshop to clarify members' understanding of the issues, identify unresolved issues and identify what policy and administrative changes to the legislation members wished to have considered.

Subjects covered by the workshop included the Jobs and Competitiveness Program, provisions related to electricity generation, the role of the Productivity Commission and Climate Change Authority, liability and compliance and the administrative application of the plan.

### AIGN Climate Change 101 workshop

In June 2012, AIGN conducted a Climate Change 101 workshop to refresh long-term members on key points of climate change policy, and to introduce new members to the background and concepts behind the development of the various policy options in a domestic and international context.

The workshop covered international negotiations, policy design, the AIGN policy principles and the development of AIGN policy positions in the domestic context and AIGN's Federal Parliamentary analysis.

## International meetings and policy

The United Nations Framework Convention on Climate Change (UNFCCC) provides the foundation for international cooperation on climate change. The UNFCCC's Kyoto Protocol allocates emissions 'assigned amounts' for developed countries over the period from 2008 to 2012.

Under the Cancun Agreements, 89 countries have made pledges to limit their greenhouse gas emissions. These countries, which include the United States, China, India, the European Union, Brazil and Australia, represent over 80 per cent of global emissions. The pledged targets are in line with stabilising concentrations of greenhouse gases between 550 ppm CO<sub>2</sub>-e and 450 ppm CO<sub>2</sub>-e by 2100.

A key element embedded in Australia's negotiating position is the concept of 'comparable effort'. The concept requires that Australia would be prepared to adopt a national allocation budget over the period 2013 to 2020 that is comparable in its economic impact to the economic impact that is shouldered by other advanced countries.

Australia's commitment under the Cancun Agreements is to reduce net emissions by 5 per cent below 2000 levels by 2020 irrespective of global action on climate change, with conditional net emissions reduction of up to 15 per cent or 25 per cent depending on the extent of global action. The *Clean Energy Future Plan* has been based around this emissions reduction commitment.

ALIGN contributes to the international policy discussion on climate change through a number of forums.

### United Nations Climate Change Conference (COP 17 and CMP7)

The 2011 UNFCCC Durban Conference comprised:

- The 17th Conference of the Parties (COP)
- The 7th Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP)
- The 35th session of the Subsidiary Body for Implementation (SBI)
- The 35th session of the Subsidiary Body for Scientific and Technological Advice (SBSTA)
- The Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP)
- The Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).

In the second largest meeting of its kind, the negotiations advanced the implementation of the convention and the Kyoto Protocol, the Bali Action Plan, and the Cancun Agreements. The outcomes included the establishment of the Green Climate Fund; a decision by Parties to adopt a universal legal agreement on climate change by 2015 and for a second period of the Kyoto Protocol to run from 2013–2017.

The Australian delegation made a strong statement saying that it requires four things in a mandate to negotiate a new agreement within the UNFCCC:

- 1 All major emitters must be covered by the agreement.
- 2 There should be only one 'binding' architecture (remember that Australia's proposition is that this one architecture could encompass many annexes that accommodate different commitments).
- 3 It must have strong transparency provisions (monitoring, reporting and verification) so that everyone can have confidence that everyone else is meeting their commitments.
- 4 There must be market mechanisms.

As is the usual practice, ALIGN CEO Michael Hitchens attended the conference in Durban. In addition to participating in the daily stakeholder briefings conducted on behalf of the Australian delegation ALIGN also contributed to the business and industry statements made to the conference.

## International meetings and policy

### CDM Policy Dialogue

The CDM Policy Dialogue was launched at the UN Climate Change Conference in Durban in 2011 and aims to consider the lessons learned in implementing the Kyoto Protocol's Clean Development Mechanism (CDM) and make recommendations on how to position the mechanism in the future. The High-Level Panel on the CDM Policy Dialogue was established to undertake this work. The policy dialogue will be conducted from January to September 2012.

The report is expected to provide recommendations for the future design and operations of the CDM, as well as inform negotiations on related issues, including potential new market-based mechanisms.

The ongoing development of the CDM is important to Australian industry. From 2015 it is likely that Australian business will be significant participants in the international carbon market, with the Australian Government anticipating that, by 2020, 100 million tonnes of units could be purchased on the international market for use in Australia.

An initial call for public input in October 2011 was for the purpose of encouraging the suggestion of issues to be addressed in the dialogue, including the identification of external forces, challenges, opportunities, and broad directions.

In collaboration with the Business Council of Australia AIGN made two contributions to the dialogue. The AIGN–BCA response identified key issues for the consideration of the panel, including the efficiency of the CDM processes, transparency of decision-making and resolution of policy issues, standardisation and creating a larger supply pool.

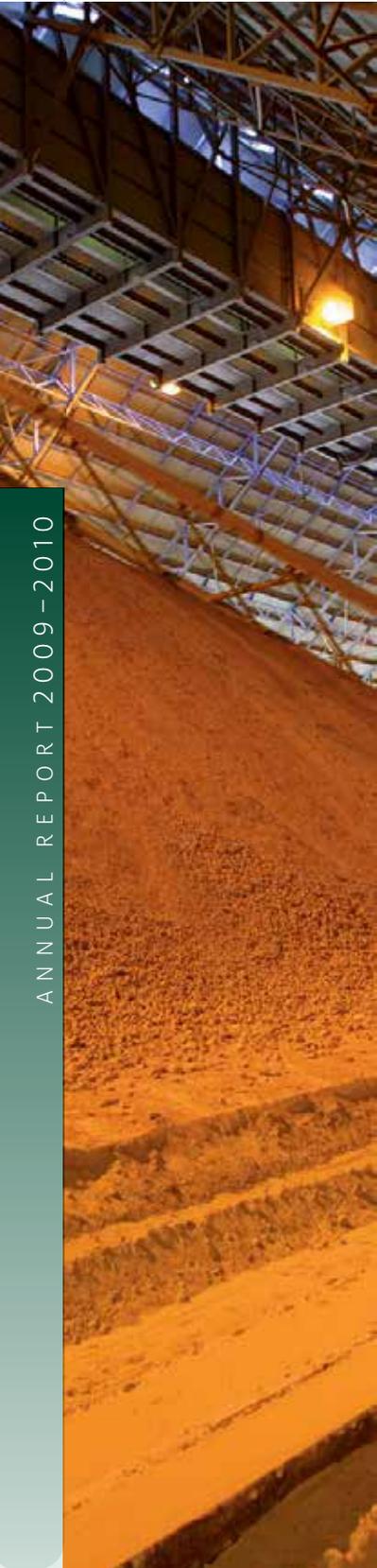
It also suggested that a key consideration of the CDM Policy Dialogue should be the future of the CDM itself and how it is positioned in the international market, noting that it was the view of AIGN and BCA that the institution should establish itself as the single agency delivering international abatement units under all current and future mechanisms agreed within the UNFCCC. It must establish its own position as an internationally recognised institution with independence, standing and integrity similar to that of the World Bank.

Following this input the high-level panel on the CDM policy dialogue developed more detailed questionnaires for specific groups of stakeholders. A second, more detailed submission was made in response to this questionnaire. It was submitted in June 2012.

These submissions, and contributions made by other stakeholders are available at the CDM Policy Dialogue website [www.cdmpolicydialogue.org](http://www.cdmpolicydialogue.org).



## International meetings and policy



### UN Review of National Communications

As a party to the UN Framework Convention on Climate Change (UNFCCC), Australia is required to submit national communications on a regular basis, reporting on steps being taken to implement the Convention. Australia's 5th National Communication (NC5) was submitted in March 2010 [www.climatechange.gov.au/publications/international/nc5.aspx](http://www.climatechange.gov.au/publications/international/nc5.aspx).

National communications are subject to independent review by an international expert review team. A UN expert review team undertook the review of Australia's NC5 in February and requested a session with business organisations, which Michael Hitchens and Emma Watts participated in on behalf of AIGN.

The purpose of these sessions was to seek feedback on business' views of the problem of climate change:

- What are businesses' actions to address the problem?
- How familiar are businesses with NC5 and its findings?
- How do businesses' actions interact with, or relate to, Australian Government policy and actions on climate change?
- Climate Change International Division Industry Stakeholder Consultations.

Periodically — typically before UNFCCC international meetings — the International Division of DCCEE conducts briefings with stakeholders on progress of international negotiations and seeks views on Australia's negotiating position. AIGN has participated in these briefings for a number of years, and in turn had DCCEE representatives attend AIGN meetings. They continue to be a useful and productive part of industry's dialogue with Australia's negotiating team.

### Public activity

#### Conferences, speeches and presentations

Public and corporate interest in climate change policy issues generates many forums. AIGN staff and members attended many of these over the course of the year including presentations from AIGN CEO, Michael Hitchens, to ANU students, the Centre for Strategic Economic Studies at the University of Victoria and to various policy conferences.

#### In the media

Requests for media comment continue to increase. AIGN, represented by the CEO, Michael Hitchens, participated in several media interviews and provided background material to journalists on an occasional basis. AIGN also provided commentary and opinion pieces for publications.

It is not AIGN's habit to issue press releases on matters being debated, however it does release statements to coincide with the release of consultant reports which are released to the public.

In interacting with the media the CEO is guided by the AIGN Board endorsed media policy, which is available to members on the AIGN website [www.aign.net.au](http://www.aign.net.au).

## Key issues, consultation and submissions

The announcement of the *Clean Energy Future Plan* in July 2011 dominated AIGN's work program over the reporting period.

AIGN responded to formal consultation processes and appeared in front of parliamentary inquiries, and the secretariat also initiated correspondence on key issues to ministers and officials. Specific focus was on the *Clean Energy Future Plan*, NGERs, Energy Policy, the work of the Productivity Commission, COAG Reforms and the Streamlining Agenda and state government consultation processes.

All AIGN submissions are available on the AIGN website [www.aign.net.au](http://www.aign.net.au).

### *Clean Energy Future Plan*

The Clean Energy Legislative Package, passed by the Senate on 8 November 2011, is the result of years of negotiation and discussion regarding the timing and method of introducing a legislated carbon price in Australia.

From the early discussions of the National Emissions Trading Taskforce, the Prime Ministerial Taskgroup on Emissions Trading, to the Carbon Pollution Reduction Scheme and the Clean Energy Future package AIGN has engaged constructively to respond to Australian Government proposals. With the commencement of the fixed price period on 1 July 2012 AIGN continues to represent the views of members as this major economic reform is implemented.

AIGN contributed numerous submissions to the formal consultations guiding the implementation of the *Clean Energy Future Plan* over the course of 2011–2012. This included submissions on:

- Clean Energy Amendment Regulation 2012 and National Greenhouse and Energy Reporting Amendment Regulation 2012.
- Auctioning carbon units in Australia's carbon pricing mechanism.
- Price floor for Australia's carbon pricing mechanism.
- Clean Energy Regulations 2011.
- National Carbon Offset Standard.
- Positive and negative lists for the Carbon Farming Initiative.
- Clean Energy Legislative Package.
- *Australian National Registry of Emissions Units Act 2011*.

Where formal opportunities for stakeholder consultation did not exist, AIGN ensured that the views of the network were shared with officials involved in developing these initiatives.

AIGN also participated in consultations on the Carbon Farming Initiative, the Technical Working Group workshops on point of liability, refinery oils and natural fuels. AIGN is also included in the DCCEEs Peak Stakeholder Liaison Group.

## Key issues, consultations and submissions

### Greenhouse and energy reporting

AIGN has maintained strong support for the implementation of a nationally consistent, mandatory greenhouse gas and energy reporting system. AIGN member companies are universally captured by the *National Greenhouse and Energy Reporting Act 2007* and actively participate in this program — working with government officials on contentious issues, refining previously held positions and working to develop common understandings.

In the early days of implementation of National Greenhouse and Energy Reporting system (NGERS) there have been technical, operational and policy hurdles that have needed to be overcome. Through the AIGN NGERS Implementation Working Group, AIGN has worked to refine issues that emerged from the first reporting period before initial reports were due, and to share experiences and lessons learned from this process. This work will be ongoing.

It has been the experience of AIGN members that officials have welcomed constructive feedback on their initial experiences, however they have not had the resources available to respond fully to industry concerns. The provision of funds in the 2011–2012 Federal budget towards NGERS will enable the appropriate upgrade of the technical platform that supports NGERS and AIGN looks forward to working on this with officials.

In a crowded legislative space, it had been difficult to make important, but uncontroversial, legislative changes to the NGERS legislation that would improve the operation of the scheme. With the passage of the Clean Energy Bills it was possible to amend the NGER Act in relation to the content of the material that must be published by the CER on its website under section 24 of the NGER Act. In particular, it removed the requirement to publish a registered corporation's gross and net energy consumption, and replaced it with a requirement to publish the corporation's net energy consumption only. This simple change to the legislation concludes years of discussion on the issue of publishing energy consumption and sensibly amends the scheme to more accurately reflect corporations' energy consumption leading to more meaningful data being made available to the public. AIGN appreciates the work of members and Australian Government officials who have progressed this issue over a number of years.

### Energy policy

Energy efficiency and security is an important driver for the companies represented in AIGN's membership, many of which are energy intensive or are producers of energy commodities and services. Many of them also use energy products as feedstock.

There are many drivers that have influenced the strength of the Australian economy in the last two decades. Undoubtedly, one of the most important has been the decision by successive governments to pursue competition policy reform, including in energy markets.

Australia's energy endowment and energy industries should continue to provide competitive advantage to the economy. For the foreseeable future the Australian economy will continue to rely on energy based on fossil fuels, whether for domestic use or export, for a significant part of its economic health. The Australian Government has been conducting a number of different processes with respect to energy policy and AIGN has provided considered responses to these initiatives.

#### ● Draft Energy White Paper

The Australian Government agreed to the development of a White Paper on energy issues in September 2008. DRET developed six issues papers on key focus areas, and conducted stakeholder sessions in which AIGN and its members participated.

After being shelved in 2009 work on the White Paper resumed in the wake of the Prime Minister's Task Group of Energy Efficiency. The draft paper, *Draft Energy White Paper 2011—Strengthening the Foundation for Australia's Energy Future* was released on 13 December 2011 by the Minister for Resources, Energy and Tourism and provided an overview of Australia's future energy needs to 2030 and outlined a policy framework to underpin the development of Australia's energy sector. AIGN provided its own response to the Draft Energy White Paper. It is expected that the Energy White Paper will be released in late 2012.

#### ● National Energy Savings Initiative (NESI)

As part of the Multi-Party Committee on Climate Change *Clean Energy Agreement* and the *Clean Energy Future Plan* the Australian Government committed

## Key issues, consultations and submissions

to do further work to investigate the merits of a NESI. As part of this work an NESI Working Group to lead the further work was established. The working group released an issues paper for public comment in December 2011. This issues paper was developed with the assistance of the National Energy Savings Initiative Advisory Group. In addition to the issues paper the working group also released energy market modelling of national energy savings. This report outlines the methodology, assumptions and data that have been applied in preliminary modelling work on the potential economic and energy market impacts of a National Energy Savings Initiative. Stakeholder public consultations on the issues paper occurred and a modelling workshop was also held.

AIGN provided detailed responses to both the issues paper and the modelling and participated in the public consultation sessions. In its response to the issues paper AIGN concluded that the issue of energy efficiency and what governments should do about it, if anything, is one of the most fertile grounds for research. Yet over the last 40 years, as the International Energy Agency has observed, very few evidence-based examples of good public policy relating to industry energy use have emerged.

AIGN believes that there is an opportunity in Australia to undertake evidence-based analysis on the plethora of state and federal energy efficiency programs, including analysis of the current state retailer obligation schemes, before there is any further consideration of a NESI. This is work that should be undertaken by the Productivity Commission under a COAG agreement.

### ● Energy efficiency opportunities

The 2004 Energy White Paper *Securing Australia's Energy Future* proposed to introduce a measure that would require companies using more than 0.5 petajoules of energy a year to undertake a mandatory energy efficiency opportunity assessment every five years. This was given effect with the Australian Government's Energy Efficiency Opportunities (EEO) Act from 1 July 2006

While there had been some cautiousness on the part of industry with respect to energy efficiency

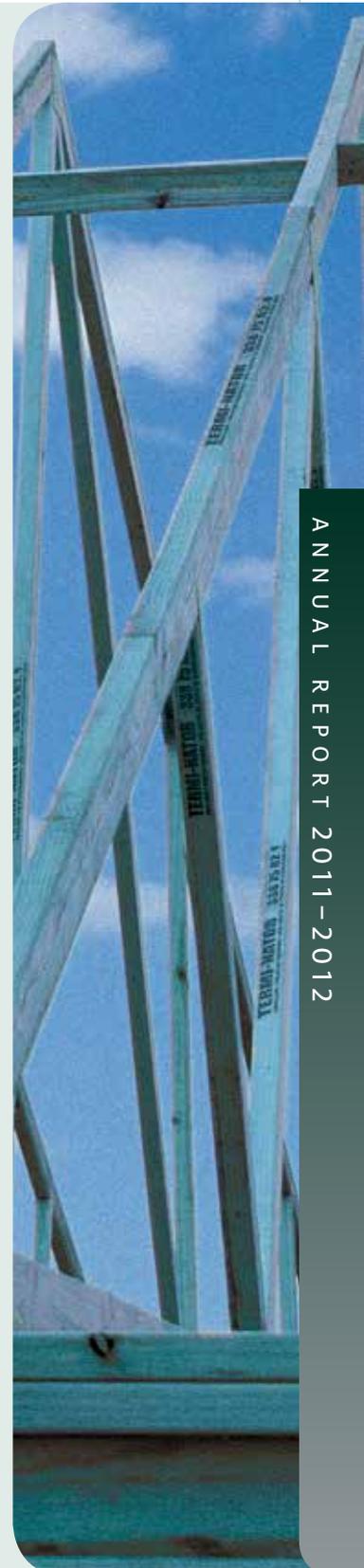
programs, EEO is among the package of measures and policies the government adopted in response to the White Paper to which, as a package, industry lent its support. Most, if not all, AIGN member companies will fall under the provisions of the EEO program. AIGN and its members were involved in the development of this program from the outset, and AIGN's involvement has continued in discussions on the compliance and verification processes.

The *Clean Energy Future Plan* proposed that EEO assessments be expanded to include the design and commissioning phase for major new development projects and expansions, which was set to come into effect on 1 July 2012. Consultation on the initiative was undertaken in the first half of 2012, first with face to face stakeholder interviews conducted by Worley Parsons on a draft options paper before its release for public consultation, followed by the release of a discussion paper and stakeholder forums.

It was AIGN's strong view that consideration of the EEO expansion should be abandoned. Further, any amendment to the EEO should be postponed until the results from the introduction of a carbon price are clearer, and COAG's consideration of the NESI has concluded. AIGN believes that in the context of the introduction of a domestic carbon price, the justification for the continuation of EEO itself must be reviewed.

As a result of industry consultation the Minister for Resources Energy and Tourism determined that instead of implementing a mandatory scheme from 1 July 2012 the Australian Government would trial the participation of energy networks and major greenfield sites as part of EEO to assess the potential energy savings available to these sectors.

In addition to the trial the government has engaged ACIL Tasman to conduct a statutory review of the first five year cycle of the EEO program. AIGN and its members companies have begun to engage in this review and will follow through on consultations as it progresses.



## Key issues, consultations and submissions

### ● Renewable energy target

In 2001 the Australian Government introduced a mandatory Renewable Energy Target of 9500 GWh of new generation by 2010, with the scheme running until at least 2020. The MRET represented a legislated requirement on electricity retailers to source specific proportions of total electricity sales from renewable energy sources.

In August 2009, the Australian Government implemented the Renewable Energy Target (RET) scheme, to deliver on the Government's commitment to ensure that 20 per cent of Australia's electricity supply will come from renewable sources by 2020. The government set a fixed target of 45TWh on the basis of its estimates of what 20 per cent of electricity demand would be by 2020.

In June 2010, the Commonwealth Parliament passed legislation to separate the RET into two parts, which commenced on 1 January 2011 — the Largescale Renewable Energy Target (LRET) (41,000GWh by 2020) and the uncapped Small-scale Renewable Energy Scheme (SRES). The scheme lasts until 2030 although it is to be subject to reviews by the Climate Change Authority (CCA) every two years — with the first due to be completed by 31 December 2012. The CCA is required to conduct public consultation for all its reviews, including the RET Review, and AIGN will work with members to develop a comprehensive response to the CCA's work.

### ● Productivity Commission

In September 2011 the Australian Government requested that the Productivity Commission undertake an inquiry into regulatory and policy barriers to effective climate change adaptation to report within 12 months. In undertaking the review, the commission was to identify any specific barriers that may act to inhibit effective adaptation to unavoidable climate change.

AIGN's submission dealt with the issues of adaptation as they impact on business as opposed to that of the impacts on households. The submission made comment on selected topics in the issues paper including effective adaptation, barriers to adaptation, regulatory response, government provision of public goods and level of government responsibility.

### ● COAG reforms and the streamlining agenda

The COAG endorsement in November 2008 of the COAG *Principles for Jurisdictions to Review and Streamline their Existing Climate Change Mitigation Measures* was an overdue initiative welcomed by industry. The intent that the COAG Complementarity Principles would underpin a review of a jurisdiction's existing climate change mitigation measures was an important one, which had AIGN's full support.

In the years since that agreement action arising from these reviews was haphazard and at times, non-existent. In that context AIGN strongly endorsed the COAG agreement of 13 April 2012 to establish a cross-jurisdictional taskforce to develop the policy and timetable to support a new regulatory and competition reform agenda aimed at lowering costs for business and improving national competition and productivity. This included reforms to rationalise carbon reduction and energy efficiency policies and programs that are not complementary to a carbon price; or are ineffective, inefficient or impose duplicative reporting requirements on business.

Following this decision the taskforce secretariat released a discussion paper for consideration by interested parties and commenced a series of forums for invited stakeholders.

AIGN has previously made detailed submissions to Australian governments on the greenhouse and energy policy and regulatory environment, including participating in consultation processes concerned with *Reducing the Burden*, the Wilkins Strategic Review of the Australian Government's Climate Change Programs, and streamlining greenhouse and energy reporting.

AIGN will be restating its long standing views on complementarity and the streamlining agenda as the taskforce's work progresses into the second half of 2012.

## Key issues, consultations and submissions

### ● State government initiatives

While AIGN predominantly focuses on Australian Government initiatives, from time-to-time it also comments on state government processes as they relate to climate change and energy policy. Over 2011–2012 AIGN commented on two consultation processes initiated by state jurisdictions, the first discussing a greenhouse gas intensity target for South Australia, and the second a review of the *Victorian Climate Change Act 2010* in the context of a national carbon price.

AIGN consistently argues that as mitigation of climate change requires a global solution, climate change policy and its implementation should be determined at a national level. AIGN considers that climate change measures are the responsibility of the Australian Government. In the presence of a coordinated national response to climate change, the development and implementation of disparate programs across state boundaries is an unnecessary, and inefficient impost on the economy, with little environmental benefit.

It is AIGN's view that state and territory governments should focus on activities unique to their jurisdictions such as adaptation. All levels of government should focus on reducing emissions from their operations and the operations of their statutory bodies.

## AIGN commissioned consultants' reports

AIGN commissions consultants to undertake research on behalf of members on an as needed basis. This work is to advise the thinking of AIGN and its members as it considers its responses to climate change and energy policy measures. Some of this work is made publicly available to inform the public debate on issues.

### ● The Clean Energy Future — Deloitte Access Economics: November 2011

AIGN and the Business Council of Australia (BCA) commissioned Deloitte Access Economic to undertake three pieces of work in the context of the *Clean Energy Future Plan* and in the lead-up to the International negotiations in Durban:

- *The Clean Energy Future: The economic costs of default caps*
- *The Clean Energy Future: Cancun commitments and comparable effort*
- *The Clean Energy Future: The cost of abatement and international carbon markets.*

The analysis showed that Australia's pledge of -5 per cent of year 2000 level greenhouse gas emissions by 2020 is a far stronger commitment to reducing global emissions than the pledges of most other advanced countries.

The Deloitte analysis shows that, as measured by the impact on national income, by 2020 Australians will be paying around twice as much as the Europeans and perhaps as much as eight times that of North Americans.

The report demonstrates that, because of every country's national circumstances and the complexity in the way some countries have defined their pledges, a simple comparison of the percentage level of the pledges is a very poor indicator of comparable effort.

### ● Notes on 'Strong Growth, Low Pollution' Modelling and related issues: Centre for International Economics (CIE): September 2011

The Centre for International Economics *Notes on 'Strong Growth Low Pollution': Modelling and related issues*, which highlights the limited scope of the Treasury modelling, and in particular the lack of analysis of alternative international scenarios.

The CIE was asked by AIGN to critique the Treasury modelling of the *Clean Energy Future Plan*, with particular reference to changes that had been made since the modelling of the CPRS.

Table 1.1 from the report summarises some of the key review themes that emerge. These are essentially around:

- Risks relating to the significant purchase of international abatement
- Some specific issues related to the domestic modelling of the carbon price.

**Table 1.1 Summary of review issues**

Issues related to 'international' aspects of the modelling

The overall framing of the policy simulations is limited (only two scenarios, both with coordinated international action, are considered). Simulations assume Australia joins existing global action.

Apparent higher marginal cost of abatement for Australia (than in previous analysis)...

... leads to very high proportion Australian abatement being met through the purchase in international abatement. This in turn leads to a number of questions that could be resolved through additional scenario and sensitivity analysis.

In particular, there are a number of implicit assumptions underlying the results for international trade in abatement which could be made more explicit and tested.

This includes sensitivity analysis of various risks related to international trade in abatement including delayed emergence of an international market, different timing of commitments by countries and the challenges involved in combined capped and uncapped trading schemes.

Issues related to 'domestic' aspects of the modelling

Exclusion of agriculture and other sectors (in early years) in the simulations...

...appears to lead to a higher cost of abatement in Australia than in the 2008 analysis ...

... but apparently to lower average costs per Mt than in the scenarios considered in the 2008 Treasury analysis.

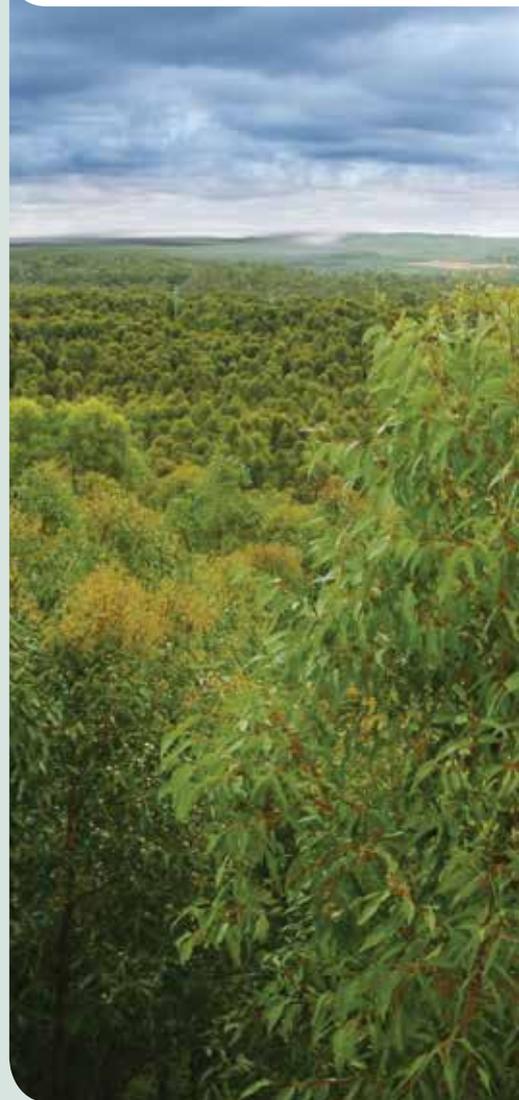
There are a large number of economic mechanisms operating the models used by Treasury. The key mechanisms in the economy wide (CGE) model are changes in real wages and the real exchange rate. This is in sharp contrast to the very limited economic mechanisms in the input-output pricing model used to estimate price effects of the carbon price.

Industry level results within the CGE model follow understandable patterns given the real wage and exchange rate mechanisms. Overall effects are smaller in the current analysis compared with 2008. This may be due to the choice of a different baseline. These results also flow directly from the international assumptions and are likely to vary as those assumptions vary.

The Australian abatement trajectory does not appear to be met in early years of the simulations, raising questions about Australia's cumulative abatement with the introduction of a flexible carbon price.

# AI&N Climate Change Policy Principles

The most appropriate response to climate change is a globally consistent approach, which would include a common price signal for greenhouse gas emissions. Such an approach, however, is not likely to emerge within the long-term investment horizon of industry.



AIGN's climate change policy principles establish a sound framework for Australian policy development. In summary, in the international context, these principles envisage a global agreement that imposes on the Australian community costs that are comparable to the costs expected to be borne in countries with similar wealth.

In the domestic context, the principles envisage Australian policy measures that:

- 1 Are national — there is no place for state-based mitigation policies
- 2 Are developed and implemented transparently to engender community support
- 3 Are stable, predictable and avoid complexity to help minimise investment uncertainty
- 4 Establish a long-term price signal across the whole economy
- 5 Do not expose Australian export and import competing industry to costs not faced by these industries in other countries
- 6 Compensate those, including low income earners and non-trade industry, that carry a disproportionate share of the cost burden
- 7 Effectively address market failures not addressed by an emissions price signal
- 8 Promote public and private investment in first-of-a-kind low-emission technologies
- 9 Do not discriminate against early movers and new entrants
- 10 Encourage the community to invest in adaptation strategies.

Adopting policies that meet these principles should deliver least-cost, environmentally effective and equitable outcomes for Australia.

## AIGN Climate Change Policy Principles

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability<sup>1</sup>, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.

Australia should engage the international community in pursuing identified and beneficial environmental outcomes through greenhouse gas emissions reduction action which:

- Allows for differentiated national approaches
- Promotes international cooperation
- Minimises the costs and distributes the burden equitably across the international community
- Is comprehensive in its coverage of countries, greenhouse gases, sources and sinks
- Recognises the economic and social circumstances and aspirations of all societies
- Is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach to responding to climate change which:

- Is consistent with the principles of sustainable development
- Is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility
- Takes a long-term perspective
- Maintains the competitiveness of Australian export and import competing industries
- Distributes the cost burden equitably across the community
- Adopts a consultative approach to the development of new policies
- Is consistent and effectively coordinated across all jurisdictions throughout Australia.

Australia's future greenhouse policy measures should:

- Be consistent with the strategic national approach
- Be trade and investment neutral, in a way that does not expose Australian industry to costs its competitors do not face
- Not discriminate against new entrants to Australian industry nor disadvantage 'early movers' in Australian industry who have previously implemented greenhouse gas abatement measures
- Take account of the differing sectoral circumstances
- Be based as far as is practicable on market measures
- Address all greenhouse gases
- Address all emission sources and sinks
- Balance, in a cost-effective way, abatement and adaptation strategies — both of which should be based on sound science and risk management.

<sup>1</sup> Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.

# Governance



## Objects

The objects of the company are to promote the development of Australia's manufacturing, agricultural and industrial resources by:

- Consulting with governments and other opinion leaders on the adoption of a principled, comprehensive, national and international greenhouse policy framework within which effective, equitable, efficient and appropriate domestic greenhouse policies and measures are developed and implemented consistent with sustainable development.
- Providing information, advice and a forum for developing analysis and participation in the process of public policymaking on the climate change issue.
- Contributing to the international climate change debate including through the provision of advice to the Australian delegation to the UNFCCC meetings.

## Directors

AIGN's constitution provides for between nine and 12 directors, two-thirds of whom are elected by association members and one-third by corporate members. The board currently operates with a membership of nine.

Directors representing association members must hold general manager or equivalent positions within their organisation while directors representing corporate members must be employees or officers of their company.

At the annual general meeting in October 2011, four of the six association directors' positions were declared vacant: two as a result of casual vacancies created during the year by the resignation of Ms Belinda Robinson and Mr Richard Stanton and two directors, Mr Miles Prosser and Dr Malcolm Roberts, had completed their two-year term in office.

Nominations for the four vacancies were received from Mr Miles Prosser who was eligible to seek re-election, Mr Brendan Pearson, Dr John Tilley and Mr Damian Dwyer. As the number of nominations equalled the vacancies, all four were duly elected to the board.

Corporate directors Mr John Torkington and Mr Dave Plunkett completed their two-year terms in office. Both nominated for re-election and as no other nominations were received they were re-elected to these vacancies.

Board membership has remained stable during the reporting year with only one director resigning — Mr Brendan Pearson resigned in November 2011 following his resignation from the Minerals Council of Australia. The board decided not to fill the resulting vacancy but to hold it over until the next annual general meeting in October 2012.

The members and AIGN secretariat staff greatly appreciate the time and efforts devoted to the work of the board by directors and value their advice and input to the efficient and sound management of the network.

## Governance

### AIGN Board membership 1 July 2011 to 30 June 2012

AIGN's Board of Directors, elected in general meeting, is responsible for the company's business planning and operational management. They do this within a policy framework and strategic agenda determined by the general meetings of the company.

Business transacted and decisions made by the board during 2011–2012 have been communicated to members through its network meetings and email communications.

Name	Period
<b>Dwyer, Damian</b> BEc, Grad Dip Pub Ec Pol Director, Energy Markets & Climate Change Australian Petroleum Production & Exploration Association	Elected: October 2011
<b>Gniel, Peter</b> BA Director, Government Relations & Director, Trade & Economic Policy Plastics & Chemicals Industries Association	Elected: October 2010
<b>Jones, Martin</b> BE (Chem) General Manager Government Relations CSR Limited	Appointed: June 2008 Re-elected: October 2008 Re-elected: October 2010
<b>Pearson, Brendan</b> MPhil International Relations Director Corporate Affairs and Deputy to the Chief Executive Minerals Council of Australia	Elected: October 2011 Resigned: November 2011
<b>Plunkett, David</b> LLB General Counsel Qenos Pty Ltd	Elected: October 2009 Re-elected: October 2011
<b>Prosser, Miles</b> BSc (Forestry) (Hons) Executive Director Australian Aluminium Council	Appointed: June 2009 Re-elected: October 2009 October 2011
<b>Thomson, Margaret</b> BAgEcon, MEcon Chief Executive Officer Cement Industry Federation	Elected: October 2010
<b>Tilley, John</b> Ph D Executive Director Australian Institute of Petroleum	Elected: October 2011
<b>Torkington, John</b> BAppSci Senior Advisor, Climate Change Policy Chevron Australia Ltd	Appointed: May 2007 Re-elected: October 2007 Re-elected: October 2009 October 2011

# Administration

## Staff arrangements

2011–2012 saw some changes to the staff at the AIGN secretariat.

In late 2011 the CEO, Michael Hitchens, advised the board that he did not intend renewing his contract when it expired on 30 June 2012. After unsuccessfully canvassing members for candidates for consideration for the role, the board established a sub-committee to undertake the task of selecting a new chief executive for the network.

National advertising of the position elicited a large field of applicants and after initial screening and interviews the sub-committee recommended Mr Alex Gosman for the role. The board confirmed their recommendation and Mr Gosman commenced work at AIGN on 1 June 2012.

In view of the critical timing of the new CEO's appointment that coincided with the introduction of the carbon tax, it was fortunate that outgoing CEO Mr Hitchens was available to have a four-week hand-over period with Mr Gosman.

The board and members expressed their thanks and appreciation to Mr Hitchens for the outstanding contribution he has made to AIGN and its members over the past four and a half years. His analysis of the complex issues associated with the climate change debate has provided immeasurable value to members and his advice and direction on specific issues has always been highly regarded.

Louise Monge who had filled the role of Research Assistant on a casual basis left AIGN in early 2012 to take up full time employment. At the time of preparation of this report her position has not been filled.

Secretariat staff at 1 July 2012 are:

- Alex Gosman, Chief Executive Officer — permanent part time employee approximately 25 hours per week
- Emma Watts, Senior Policy Advisor — full time employee
- Lynda McIntosh, Administration Officer — approximately 10 hours per week, engaged on a consultancy basis.



## Operations

The 2011–2012 year has been uneventful in regards to the management and administration of the network.

AIGN renewed its lease on its office on 1 December 2011 for two years with an option for two years extension.

In August 2011 our tenant Wheaton Consulting, vacated the offices they sub-leased in AIGN's office suite. Efforts were made to find another tenant but in the large rental market that existed in Canberra at the time this proved difficult. Tenants were finally found late in the reporting year and they occupied the space from 1 July 2012. They have a one-year lease with an option to extend for one year.

During the year AIGN upgraded its IT equipment and installed a new server which provides substantially more data space.

At the request of the Chair, Mr Martin Jones, a Board Book has been developed that will be issued to all Board members following the annual general meeting in October 2012. The book provides details of AIGN's history, as well as information about its structure, governance, financial management and other issues that will provide useful background material to incoming Board members. The book also provides a list of Board resolutions since the network was established as an incorporated entity in 2004.

# Membership



Membership of AIGN has remained stable during the reporting year with no increase or loss of members. At the commencement of the year membership stood at:

- Association members — 12
- Corporate members — 26

Three members have resigned as from 1 July 2012: Hydro Aluminium Kurri Kurri Ltd, Cement Australia and Thiess Ltd. Resignations have been due mainly to changes in company structure.

Membership fees in 2011–2012 were

- Association membership: \$20,060 (plus GST)
- Corporate membership: \$10,030 (plus GST)

In view of the loss of three members and the deficit in the 2011–2012 financial outcome, the board agreed to increase membership fees for 2012–2013 by \$1000 for association members and \$500 for corporate members.

## AIGN members at 1 July 2012

### Association members

- Australian Aluminium Council
- Australian Coal Association
- Australian Food and Grocery Council
- Australian Forest Products Association
- Australian Industry Group
- Australian Institute of Petroleum
- Australian Petroleum Production & Exploration Association
- Cement Industry Federation
- Federal Chamber of Automotive Industries
- Minerals Council of Australia
- National Generators' Forum
- Plastics & Chemicals Industries Association

### Corporate members

- Adelaide Brighton Ltd
- Alcoa World Alumina – Australia
- BlueScope Steel
- BP Australia Ltd
- Caltex Australia
- Chevron Australia Pty Ltd
- ConocoPhillips Australia
- CSR Ltd
- ExxonMobil Australia
- Incitec Pivot Ltd
- Inpex Browse Ltd
- International Power Australia
- Leighton Holdings Ltd
- Origin Energy Ltd
- Qenos Pty Ltd
- Rio Tinto Australia Ltd
- Santos Ltd
- Shell Australia Ltd
- Stanwell Corporation Ltd
- Tomago Aluminium Company Pty Ltd
- Wesfarmers Ltd
- Woodside Petroleum Ltd
- Xstrata Coal

# Member services



## Website

AIGN maintains its website at [www.aign.net.au](http://www.aign.net.au)

This comprises a public area that provides general information on AIGN including activities, members and publicly available presentations. It also includes a members' only section providing members with access to meeting documents, members' presentations, archived news briefs, submissions and other documents of interest.

Over the course of 2011–2012 the AIGN website has been overhauled in order to modernise the layout and content and make it more useful for members, the Secretariat and members of the public.

## Regular news service

AIGN maintained its regular news service for the first half of 2011–2012. This news brief highlighted key news reports and issues of interest to industry regarding climate change and greenhouse gas management. The brief also contained reports of new publications, upcoming events and government consultations.

With the departure of the research assistant in early 2012 this service was suspended in order to review its usefulness and to consider if the same information could be conveyed in a more efficient way.

## AIGN briefing papers and commissioned reports

Given the complexity of the policy environment, AIGN prepares and commissions regular briefing papers and key issues documents for the benefit of members. These canvass a range of policy issues, but concisely explain specific design elements of proposed policy measures as they emerge. These documents are made available to members as required and are archived in the members only section of the AIGN website.

## Parliamentary analysis

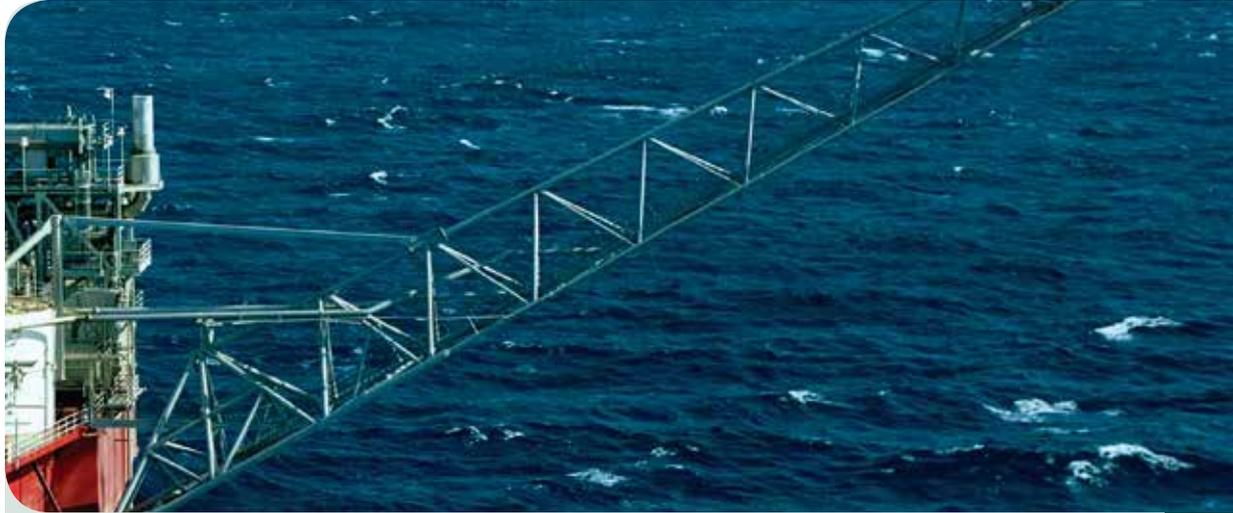
AIGN concerns itself with the politics of the day only as far as competing parties present views on policy and as it impacts on the policy agenda. In that context AIGN provides an annual parliamentary analysis that considers the political environment and the influence this has on public policy development with respect to climate change and energy policy.

## AIGN Working Groups

AIGN supports an NGERS Implementation Group that considers practical issues regarding the implementation of NGERS, including the OSCAR system. The group has established a constructive process of engagement with the department, including bi-annual meetings.

It is proposed that a similar group will be established to advance work with the Clean Energy Regulator in a productive and positive way.

# Financials



## Financial outcome 2011–2012

**The financial statements that accompany this report confirm AIGN's continued sound financial position at 30 June 2012.**

The organisation finished the year with a deficit of \$51,630 after depreciation. This compares favourably with a projected deficit of approx. \$71,141. The board considered this deficit acceptable when approving the budget because it was adequately covered by retained earnings of \$350,846 at the commencement of the 2011–2012 financial year. This figure includes a contingency fund of \$150,000 which is held to provide for the unlikely event of AIGN being wound up.

This year's deficit is due mainly to the loss of rental income when AIGN's previous tenant vacated the office in August 2011 and the office remained vacant for the rest of the financial year. Also, expenses involved in recruiting a new CEO and substantial costs incurred in consultancy fees for specific reports AIGN commissioned during the year from Deloitte Access Economics, the Centre for International Economics and Bloomberg Finance added to the deficit.

The board agreed at its meeting in June 2012 that membership fees should be increased for the coming financial year by a flat rate of \$1000 for association members and \$500 for corporate members.

[www.aign.com.au](http://www.aign.com.au)