

**AIGN Comments on  
Climate Change Authority's  
*Setting, tracking, and achieving Australia's  
emissions reduction targets*  
Issue Paper (May 2023)**

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## 1 INTRODUCTION

AIGN welcomes the opportunity to contribute to the Climate Change Authority's (CCA) *Setting, tracking, and achieving Australia's emission reduction targets* Issues Paper (May 2023).

## 2 ABOUT AIGN

The [Australian Industry Greenhouse Network](#) (AIGN) is a network of industry associations and individual businesses.

AIGN provides a forum for discussion on key climate change issues, providing information and analysis in the consideration of national and international climate change policy and the role industry can play in the transition to net zero emissions by 2050.

AIGN supports an evidence and principles-based approach to climate policy development; one that prioritises environmental and social integrity, and economic efficiency; that focuses on developing enduring policies; that delivers broad coverage to ensure the responsibility of reducing emissions is equitably shared; and that creates an environment in which Australia's trade competitiveness is supported.

AIGN has a broad membership base with a range of expertise in various sectors of the economy. In conjunction with this submission, the CCA should consider the submissions made by individual AIGN members.

## 3 CONTEXT

It is important to AIGN members, and the industries they represent, that effective and enduring policies are in place to support investment and orderly transition to a net zero economy. This is the best way to support Australia to meet its emissions targets in line with the Paris Agreement.

AIGN supports the Government's overall objective of a national climate change policy that reduces domestic greenhouse gas emissions at least cost and supports effective international efforts. With the right policy signals, this can be achieved while maintaining a robust economy.

### 3.1 Investment stability

In AIGN's view, Australia must prioritise the setting and maintaining of conditions that support growth in a thriving economy transitioning towards a sustainable pathway, in line with Australia's net-zero by 2050 goal.

Such a position will influence the direction of climate policy, economic activity, and investment patterns in the coming decades; therefore, it needs to be designed thoughtfully, drawing on diverse expertise in both the public and private sectors. Institutional stability is essential to attracting the kind of investment growth needed to increase renewable energy generation to support clean growth and meet the goals of the Paris Agreement.

The CCA's 2023/24 work plan is considerable and will form an important part of the network of decision-making that will contribute to Australia's ability to establish and sustain an affirmative investment environment.

### 3.2 Economic overview

Historically, Australia has been a destination for industry and manufacturing, largely because of our competitive advantages in natural resources and affordable energy.

Within the context of the growing importance of reducing emissions, Australia has an opportunity to meet demand in a world that will continue to require natural resources and manufactured goods.

Australia has the potential to be an attractive investment destination, meeting our emissions reduction goals while nurturing a thriving economy and ensuring the security and reliability of our energy supply.

### 3.3 Investment settings

Policy uncertainty is a key risk factor for investment and can act as a significant disincentive.

Long-term policy stability is highly desirable to potential investors, requiring bipartisanship across a range of issues, including climate and energy policy. Without this, a commercial business investment must look viable under several potential policy scenarios (which is, of course, a more challenging criterion to meet).

If incremental adjustments to the policy suite accrue over time and compliance complexity builds, it can erode the integrity of a strategic, long-term approach to cultivating a vibrant economy. In the face of increasing uncertainty, investors become less likely to make significant capital investments. Over time, this could result in ageing assets and diminished innovation, culminating in a stagnating economic landscape.

## 4 FEEDBACK ON ISSUES PAPER

The issues paper covers vast ground in a number of contexts. While many issues do overlap with several, or all, of the CCA's four major projects, it can be challenging to cover all necessary nuances in one submission.

AIGN is confident the CCA will apply the same high standard of stakeholder engagement that it brings to all its projects and looks forward to opportunities to explore specific issues in detailed consultation processes for each project.

### 4.1 Strategic framework

AIGN's members support an ordered approach to informing the overall strategic direction of the CCA's advice. This promotes the development and maintenance of the stable institutional frameworks necessary to encourage investment.

The strategic framework makes particular reference to fuel switching and electrification, which have both

been identified as key enablers to the large-scale abatement needed in Australia.

A technology-neutral approach to abatement should be adopted to allow market forces to drive the most efficient abatement pathway.

While electrification will be deployed in many contexts, other technologies may be needed in particular sectors or locations and should be made equally accessible.

### 4.2 Progress framework

The Progress Framework shaping the CCA's Annual Progress Report to the Minister should provide useful, comprehensive insights and stocktaking to inform Australia's economic transformation pathway.

#### 4.2.1 Streamlining policies

A particular point of interest for AIGN's members will be progress in implementing policies. A regular review of all policies across all jurisdictions that apply to Australian businesses will be extremely informative.

In addition to the indicated policy gap analysis, AIGN recommends a complementary focus on streamlining opportunities. A review of duplicative climate policies has not been carried out since the [Wilkins Review](#) in 2008 (after which climate policies tended to proliferate rather than be streamlined).

AIGN corporate members' experiences suggest the multiple overlapping policies applicable to their operations from all levels of government, as they relate to climate, add complications and costs to their operations, and may do little or nothing to progress actual abatement and climate ambition. On the contrary – the slow pace of project approvals will effectively disrupt the nation's ability to transition to a net-zero economy at the pace necessary to meet Australia's (and the Paris Agreement's) climate goals.

#### 4.2.2 International ambition and policies

AIGN agrees on the importance of considering the action taken in other nations as part of its Annual Progress Report. This information will be important not only in considering how Australia may develop a

leadership role in this space – it must also shine a much-needed light on the international context within which Australian businesses are operating.

As the Australian Government has repeatedly affirmed, its goal is to transition to a net-zero economy while encouraging economic growth, supporting investment in Australia, and establishing the nation as an international climate leader.

Successfully meeting this brief necessitates appropriate support of existing Australian operations to transition in a world of unequal climate ambition. The pathway the world will take to reaching collective climate goals cannot be accurately anticipated, nor can it be known how this may impact on particular sectors, sub-sectors, or entities operating in Australia.

A comprehensive understanding of the costs facing Australian operations is needed to provide the appropriate supports to ensure Australian industries have the opportunity to thrive in this evolving environment.

AIGN notes that Australia's efforts to develop low emissions goods (e.g., hydrogen), which ultimately enable Australia and other countries to decarbonise faster, will need to be timely to be effective. This may require adjustments to how project approvals are currently conducted (see also section 4.2.1).

Australia supports consideration of the merit of a Carbon Border Adjustment Mechanism (CBAM) to be undertaken after the conclusion of the Government's planned CBAM review. It will be important to consider both how it may support Australian operations, and where a CBAM may not successfully solve for trade competitiveness concerns.

AIGN and its members are keen to actively contribute to the review of an Australian CBAM.

### 4.3 Sectoral pathways

AIGN recognises that analysis of sectoral pathways to transition can be a useful tool to facilitate climate ambition, including by highlighting the challenges and opportunities present in different sectors.

It is crucial to note the distinction between sectoral pathways and sectoral targets – the latter may present challenges with respect to achieving ambitious emissions reductions in the most efficient way.

It is sensible to draw on work already done on sectoral approaches by others, including the [Australian industry energy transitions initiative](#) coordinated by ClimateWorks. This should be supplemented with extensive direct engagement with industry (including AIGN members). AIGN's members' on-the-ground experience and insight should have a key role in shaping the CCA's consideration of sectoral decarbonisation pathways.

AIGN supports an economy-wide approach to reducing emissions and therefore supports pairing sectoral pathways with a policy framework that promotes efficiency and fungibility to encourage innovation and flexibility.

## 4.4 Economic analysis

AIGN supports the CCA's approach to supplementing its economic modelling with complementary analysis, other data sources, consultation, and qualitative research.

AIGN's members look forward to participating in opportunities to engage with the CCA in its modelling and analysis work. A key element of interest in modelling exercises is always scenarios and assumptions. For example, international best practice is a complex concept and AIGN members will have a keen interest in how it is applied to their sectors in the CCA's economic analysis.

## 4.5 Beyond Australia's borders

Section 3.3 of the Issues Paper is of interest for several reasons. It is instructive to understand how the CCA views the Australian Government's responsibilities from a global emissions perspective, e.g., as it relates to the export of fuels.

Ultimately, the CCA concluded that while options were available to partner with other countries and explore decarbonisation opportunities, "...customers of fossil fuel imports will decide when they phase them out" (p 23).

### 4.5.1 Scope 3 emissions

When considering Scope 3 emissions, it should be noted that these are another facility's Scope 1 emissions i.e., emissions associated with its upstream and downstream supply chain. With a full suite of scope 1 emissions reports, one could argue that scope 3 reporting is not necessarily about a gap in reporting but rather is an important form of analysis.

AIGN notes the CCA's conclusion in the Issues Paper that the decision-making capacity over scope 3 emissions resides outside Australia.

However, it is important that businesses provide sufficient information to the market to enable informed decision making regarding climate-related financial risks and scope 3 emissions will be an important element of this.

A conversation examining how Australia can take a balanced approach to consider actions that can be taken to report and reduce scope 3 emissions may begin to elucidate how they can be reasonably addressed.

Opportunities to support the abatement of scope 3 emissions exist, and they require cooperative producer and customer alignment. Any approaches adopted by the Australian Government to address scope 3 emissions must be tailored around this detail, being particularly cognisant of jurisdictional challenges.

### 4.5.2 Carbon leakage

AIGN supports the CCA's assessment that measures to reduce emissions in some sectors could leave trade-exposed businesses disadvantaged relative to their international competitors, which risks production shifting offshore (p 22).

Measures to avoid carbon leakage should be explored, including a possible CBAM and working with customers. In the absence of these options (or if they are not sufficiently effective), the Government should provide transitional support to at-risk entities. The CCA's Annual Progress Report process provides a good opportunity to explore the need for, and effectiveness of, such transitional support.

## 4.6 Targets

The Issues Paper asks for feedback on what types of targets are problematic and why.

As a general rule, the manner in which targets are implemented is at least as important as the way targets are expressed. Any target that is implemented without consideration for international action and trade competitiveness, for example, can become problematic.

In this context, target ranges and conditional targets can be constructive contributions to encouraging global ambition. Emissions budgets are also a good way to scrutinise relative effort.

Without understanding how a target will be implemented, it is only possible to provide a limited assessment of its usefulness.

The target-setting process must also be mindful of what targets are designed to achieve (e.g., reaching Paris Agreement goals) and the strategic support they provide (e.g., encouraging ambition, assisting future planning).

The Australian Government's emissions reduction targets set the pace of transition, which is ultimately an investment signal for the market.

What is of critical interest to AIGN members is *'where the rubber hits the road'* i.e., what are the structural changes to support the achievement of targets, such as access to a firm, net zero, and internationally competitive energy system; and how the policy framework will support and incentivise the transition for Australian industry and their employees through targeted jobs and skills alignment.

As the global effort to decarbonise will strengthen competition to attract investment, the latter will require careful thought in terms of how economic incentives in other jurisdictions may influence how Australia shapes incentives and the stability of the policy environment to support a thriving net-zero economy.

## 4.7 NGERs review

### 4.7.1 Global reporting framework

The Australian Government should be commended on its reporting framework, which was designed to be consistent with the United Nations' Transparency Framework.

The intent of the UN framework is to be comprehensive in its coverage of global greenhouse gas emissions. This is achieved through the measurement, reporting, and verification of national emissions.

### 4.7.2 Australian reporting

Australia's National Greenhouse and Energy Reporting (NGER) framework has enjoyed bipartisan support since it was introduced in 2007 and has broad support from industry as a fit-for-purpose and sensible reporting framework that addresses the six greenhouse gases covered by the UNFCCC (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>).

AIGN members represent a substantial portion of NGERs liable entities and have a strong track record of compliance.

Greenhouse gas emissions reporting is by necessity detailed and complex. Since the enactment of the legislation in 2007, AIGN members have invested considerable resources, including internal capacity and support services (e.g., consulting, external auditing), and building expertise to manage the implementation of compliance requirements (e.g., emissions databases, appointment, and training of personnel).

As such, AIGN members are well placed to provide feedback on the impact of NGERs reporting requirements on the day-to-day operation of liable entities, as well as a considered view as to any envisaged changes and additions to mandatory reporting.

Prior to NGERs, AIGN members were active contributors to the Greenhouse Challenge and Greenhouse Challenge Plus voluntary reporting programs.

AIGN places a high value on credible reporting as a crucial foundation of effective emissions policy, and an indispensable source of knowledge to inform our engagement in climate change mitigation at domestic and global levels.

There is an ongoing consideration of the merits of top-down versus bottom-up measurement methods. Whilst both methods have merit it is not a matter of either or.

NGER should continue to be objective based rather than prescriptive i.e., measurement of emissions in a practical and cost-effective method to an appropriate level of materiality. Controls to verify the reasonableness of these methods are already embedded in the NGER Determination guidance and should continue to be rigorously applied and updated as appropriate.

### 4.7.3 Alignment with GHG Protocol

The GHG Protocol Corporate Accounting Standards allow for the removal of double counting of scope 2 emissions when they are reported as scope 1 emissions elsewhere within an inventory.

Examples include gross and net energy consumption within a facility, and when a facility within a controlling corporation reports scope 1 emissions from generating electricity that is consumed at a second facility within the same controlling corporation.

When facilities are aggregated in a corporate level report, this leads to double counting, which should be addressed. A net scope 2 emission value for corporate aggregate reporting could be considered before market-based reporting is incorporated into NGERs.

## 4.8 Carbon credit integrity

The principle of environmental integrity is fundamental to carbon offset mechanisms.

Achieving this will require a continuous review and improvement approach – what was additional ten years ago, may not be considered additional now.

The integrity of Australian Carbon Credit Units (ACCUs) should be driven by an intent to calculate

carbon sequestration accurately, in line with broader compliance obligations.

Transparency will support the evolution of an efficient carbon market, one that allows for price formation, price discovery, and a valid price signal to drive investment in lowest-cost abatement opportunities across the economy.

#### 4.8.1 Buffers

In considering buffers, the CCA should consider the residual and unmitigated risks (following full adoption of the other Chubb review recommendations), to justify a buffer to cover a current risk or if geared towards a new risk consideration.

Currently, a 5% risk reversal buffer is applied to all sequestration projects and a further 20% was applied for Human Induced Regeneration 25-yr permanence period projects.

A buffer will not directly address the principle of improving accuracy. However, if it is determined that an integrity buffer is necessary this should be considered at a methodology level rather than scheme wide, dependent on risks identified.

This approach would help avoid unintended consequences of a scheme wide integrity buffer, which could unfairly burden high integrity methods while not achieving sufficient correction for methods that are considered of low integrity.

The objective should: be to mitigate unmitigated risks; apply to new projects, be designed to maintain the integrity of the scheme and the fungibility of credible units.

#### 4.8.2 Fungibility and liquidity

The reformed Safeguard Mechanism will impact demand for ACCUs and possibly other units. AIGN acknowledges the recent and ongoing work of the Clean Energy Regulator to support the continued development of a high integrity and transparent carbon market.

This will become increasingly important to ensure access to liquid and high-quality credits for Safeguard entities.

Efforts to ensure carbon market integrity must address the issue from both supply and demand sides. Placing emphasis only on demand-side corrections has the potential to untenably place the responsibility of substantiating integrity on users of ACCUs for compliance purposes.

The fungibility of abatement is supported by access to carbon credits and can also be achieved through flexible compliance options. This could include ways to officially recognise and incentivise lower carbon activities attributable to an operation but perhaps outside the scope of a project.

Acknowledging a larger suite of opportunities would recognise that all efforts in this space are beneficial to achieving Australia's emissions targets.

#### 4.8.3 International units

AIGN's policy principles support the use of high-integrity international units as part of the global effort to reduce emissions and transform the economy in the most efficient way possible, making use of comparative advantages to reduce emissions, store carbon, and create sustainable industries.

AIGN follows the international climate negotiations and has watched with interest the development of implementation frameworks for Article 6 of the Paris Agreement - to facilitate the global trading of abatement.

In AIGN's view, the role of international carbon markets in Australia can be managed effectively by supplementing the Article 6 framework with high integrity standards to ensure only genuine abatement can be traded.

Further restrictions on the role of international carbon markets need to be carefully considered and justified with a clear description of the market failure being addressed.

International trading should be supported provided the credits are of comparable environmental and social integrity to Australian credits and provided there are appropriate limits on the quantity of international credits.



## 5 CONCLUSION

Thank you for the opportunity to provide input to the CCA's Issues Paper. AIGN welcomes future opportunities to engage in this process and with the CCA's work program.

AIGN recognises the CCA's important role in the Australian Government's approach to climate change management and its obligations under the Paris Agreement.

AIGN's position on climate change and energy policy is underpinned by our principles, which have been the basis of AIGN's contributions to the climate change policy discussion for many years (available on our website: [www.aign.net.au](http://www.aign.net.au)).