

**AIGN Comments on
the Climate Change Authority's
Targets, Pathways and Progress
Issues Paper (April 2024)**

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1 INTRODUCTION

AIGN welcomes the opportunity to contribute to the Climate Change Authority's (CCA) *Targets, Pathways and Progress* Issues Paper (April 2024).

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, offering information and analysis in the consideration of national and international climate change policy development, as well as 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.

[AIGN's policy principles](#) form the basis of our input into climate change policy development.

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 reduction and other climate 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 set and maintain conditions that support growth in a thriving economy transitioning towards a sustainable pathway, in line with Australia's net-zero by 2050 target.

Such decisions will influence the pace and direction of climate policy, economic activity, and investment in Australian industry in the coming decades.

Therefore, climate policy needs to be designed thoughtfully, drawing on diverse expertise in both the public and private sectors.

Institutional stability (particularly in the form of predictability of policies and regulations) is essential to attracting the kind of investment growth needed to increase renewable energy generation and other technologies to support clean growth and meet Paris Agreement goals.

The CCA's 2024 work plan will form 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

Australia is an export-based economy and has historically been a destination for industry and manufacturing, largely because of our comparative advantages in natural resources, affordable energy, and stable political environment.

In recent years, Australia's has lost the advantage of cheaper energy and has faced additional headwinds to attract investment due to high labour and capital costs.

In the context of the growing importance of reducing emissions, Australia has an opportunity to take advantage of global demand in a world that will increasingly require low-carbon 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 and critical infrastructures.

Importantly, Australia is competing globally for capital, and must position itself positively to be able to attract investment. Our abundance of natural resources must be complemented by a stable and supportive policy environment to attract the scale of investment that will be required to meet our Paris Agreement commitments.

3.3 Investment and trade competitiveness

Policy uncertainty adds sovereign risk to investment decisions 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 future policy scenarios (which is, of course, a 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 in a jurisdiction. Over time, this could result in ageing assets and diminished innovation, culminating in a stagnating economic landscape.

4 GUIDING PRINCIPLES

The issues paper reflects the extensive scope of the CCA's work program in 2024, as well as the interconnections between elements of both the CCA's, and the Government's, climate policy analysis and development projects.

Some issues covered in this paper are sector-specific and require detailed expertise in particular disciplines (including in the review of sectoral transition pathways). AIGN refers the CCA also to the submissions and feedback of our association and corporate members for detailed responses.

To promote coherence in Australia's climate policy suite, AIGN members advocate for a set of guiding principles under which policy should be developed.

It is worth noting that bipartisan policy coherence in the form of an agreed regulatory framework would increase confidence in Australia as a promising investment destination, reinforcing the achievability of Australia's net-zero by 2050 target.

4.1 Alignment with Paris Agreement

AIGN supports Australia's Paris Agreement-aligned net-zero by 2050 target, and the *Climate Change Act 2022*, which requires policy development to have regard to Australia's commitments under the Paris Agreement and related matters (e.g. Australia's emission reduction targets of 43% below 2005 levels by 2030 and net-zero by 2050, as well as future NDCs), to ensure consistent progress towards limiting global warming and support decarbonisation ambition.

AIGN supports the CCA's assessment that Australia's targets should be achievable, as well as ambitious, and that every sector should contribute to meeting the target (Issues Paper, p19). This is in line with AIGN's position that climate mitigation policies should be applied across the economy to ensure all sectors contribute to Australia's efforts to reach net-zero by 2050, equitably sharing the responsibility to reduce emissions.

4.2 International competitiveness

The level of ambition needed to meet Paris Agreement goals will require deep and rapid action across the world.

The nature of Nationally Determined Contributions will result in uneven climate action and varying levels of climate-related costs in different jurisdictions. This is expected to be the case for some years before global emissions converge to around net-zero.

The inherent uncertainty in this space, and the uneven nature of climate action across the world, justifies the Government's attention to maintaining the international competitiveness of entities operating in Australia.

4.3 Evidence-based policy development

AIGN recognises the need to strike a careful balance to satisfy multiple priorities and to ensure that the underlying data on which domestic climate policies and our international climate commitments are based is credible, verifiable, and clearly reported.

4.4 Whole-of-economy approach

Meeting the goals of the Paris Agreement, as well as Australia's emissions reduction targets, will require unprecedented ambition and effort. AIGN strongly supports a policy approach that promotes decarbonisation ambition across the whole economy to support ambition, economic efficiency, and achievability.

All sectors need to be able to contribute to Australia's mitigation efforts. Those not covered by the Safeguard Mechanism need the right policy incentives/regulations to facilitate their contributions.

4.5 Interrelatedness and oversight

The numerous active government processes to set future emissions reduction targets, identify sectoral decarbonisation pathways, establish a sustainable finance strategy, reform existing policies, and implement a number of new initiatives targeted at incentivising various transition activities, etc, must be treated as interrelated as they each inevitably impact each other.

The amount of policy development and implementation being concurrently undertaken requires coordination and optimisation.

Consultation and policy development processes need to be sequenced and carefully managed for alignment and harmonisation to achieve objectives.

A strong, well-managed and consolidated plan to ensure oversight of, and coherence to the many streams of work is recommended.

4.6 Economic efficiency

A sectoral approach to decarbonisation requires the Government to carefully manage the policy suite to ensure Australia's cost of abatement is as low as possible.

Emissions reduction efforts to date have prioritised low-cost abatement options; going forward, the cost of abatement will naturally rise. It is therefore important that the cost of abatement not be inflated by policy design choices to remain at comparatively competitive levels (including appropriate carbon scarcity that may be reflected in interim emissions reduction targets). Fungibility between sectoral policies, for example, is strongly supported.

Likewise, interdependencies between sectors need to be acknowledged. The Issues Paper refers to the need for different sectors to work together and specifically identifies the importance of the electricity sector (p19).

Many AIGN members are large energy users and will rely on the delivery of a decarbonised electricity sector – including both transmission and firming – to facilitate their decarbonisation pathway.

4.7 Technology neutrality

The world has agreed to reach net-zero emissions by mid-century under the Paris Agreement.

Analysis has consistently shown that this is a colossal undertaking, and that every available pathway to reduce, mitigate, and offset emissions must be utilised to give the world a chance of reaching this ambitious goal.

Credible options that are affordable, accessible, environmentally and socially sustainable, and scientifically verifiable, should be pursued.

AIGN supports a policy approach that does not pick winners or prohibit any sector, commodity or technology from action that contributes to the pathway to net-zero – provided it appropriately addresses net environmental and social impacts and benefits.

4.8 International linkage

To support economic efficiency and the genuine reduction of atmospheric levels of greenhouse gases, AIGN supports Australia linking with the international carbon market to promote the achievement of Paris Agreement goals.

Under the Paris Agreement, international markets are being developed to be robust and credible.

Access to a stable supply of credible offsets is a crucial transitional measure to facilitate abatement in hard-to-abate sectors.

The Paris Agreement will offer several options for this, including bilateral and multilateral agreements, as well the Article 6 international carbon market. Within a sensible and efficient policy framework, these options can effectively support abatement in Australia.

4.8.1 Considering Australia's regional partners

The global nature of the climate challenge is reflected in the Paris Agreement; all countries' efforts to reduce emissions and adapt to a changing climate are interconnected.

Consequently, Australia's potential impact on action in other countries should be included in the CCA's analysis.

Emissions arising in Australia from production associated with exporting industries are reflected in our greenhouse gas inventory in a way that is not distinguished from the emissions arising from domestic consumption. Nevertheless, these emissions require careful and separate consideration to ensure Australia's target does not drive unintended consequences in export markets and respects their chosen decarbonisation approaches.

Countries in the Asia Pacific region, for example, all have their own national circumstances and priorities in choosing decarbonisation and energy security pathways.

5 FEEDBACK ON ISSUES PAPER

Many of the questions in the issues paper (p7) will have different answers for different industry sectors. We refer the CCA to AIGN members' submissions for detailed responses on these matters.

However, as the CCA has established in its consultation approach, several cross-cutting issues are of vital importance across the CCA's work program and the Government's policy development suite. These issues have broad relevance across AIGN's membership.

5.1 Finance

AIGN recognises that Australia's regulatory architecture should facilitate sustainable financing that supports net-zero emissions, and that both public and private finance will be needed to support climate ambition.

The Government is developing a sustainable finance strategy, including a Climate-Related Financial Disclosure framework and a sustainable finance taxonomy.

Policy interventions to alter the finance regulatory framework should be substantiated by a clearly defined market failure and designed to specifically address gaps.

In its Sustainable Finance Strategy consultation paper (released in November 2023), the Treasury described Australia's financial system as strong, stable and with significant relevant capabilities.

The Treasury also observed a lack of investment in economic transformation activity; however, it was not communicated whether this is the result of failures in the financial system, or the need for stronger incentives to facilitate the required investment.

The ability to attract finance to Australia can be a key barrier to investment, particularly because other countries have implemented attractive incentives which have tended to draw private investment away from Australia.

Ensuring Australia can offer competitive incentives will be crucial in facilitating investment in domestic decarbonisation projects.

Other barriers to investment to achieve net-zero by 2050 include:

- a slow, fragmented approvals process where the timeline for approvals often exceeds the timeline for investment appetite (particularly environmental approvals but, increasingly, also social licence)
- lack of coordination between State/Territory and Federal Government policies and goals
- the scale of transformation activity and investment required, particularly in sectors where abatement technology is still under development

- difficulty accessing abatement technologies in specific locations (particularly where there is a dependency on other infrastructure or energy sources)
- the high level of risk to private sector investment
- risks around securing social licence to invest and build projects in specific communities
- misalignment and confusion around relevant government funding pools and eligibility for funding
- lack of clarity around the public investment in shared infrastructure (e.g. electricity network, industry hubs).

Some of these barriers can be addressed with policy responses that do not require substantial changes to Australia's financial regulatory architecture.

Considered policy changes should promote competitive development and commercialisation of transformative decarbonisation solutions, recognising that all available options will be needed if we are to reach global temperature goals as per the Paris Agreement.

Successful incentive-oriented programs ultimately enable technologies and products to compete without government support and should be designed with regular evaluations of the necessity for continued incentives.

The Government has a key role to play in stepping in to reduce the risk to private organisations seeking to invest in transformation projects, including by supporting commercialisation of nascent technologies.

This can take many forms, such as co-investing in partnerships, seed funding, shared infrastructure, industry-wide incentives to promote the building of nascent markets for

new products, and the underwriting of large capital investments.

Some members have expressed that grant funding and/or production credits would be preferred to assist in de-risking private investment in their contexts.

Shared infrastructure is recognised as a key enabler of private investment, and industrial hubs are being considered to support decarbonisation. AIGN members have a strong interest in continuing to explore this option.

The Government is uniquely placed to bring together industry, financial and community participants to design efficient common-use infrastructure to incentivise the implementation of transformation projects.

Ensuring alignment between energy, industry and other related policy will further expedite and de-risk private investment.

Some AIGN members have undertaken significant work investigating examples of successful industrial hubs in other jurisdictions.

It was observed that a key attribute to secure sustainable finance is securing social licence in the early stages of project development.

The Government should work to foster community acceptance of all abatement options and projects; at the same time, an overhaul of the project approvals pathway will help to avoid consultation fatigue among communities and provide education around what ambitious decarbonisation looks like in practice.

5.2 Policy alignment

The Government is moving rapidly on climate change policy development and reform to meet its 2030 and 2050 targets. This has resulted the rapid and simultaneous development of many policies.

To promote the best outcome for this large volume of work, the Government should clearly define an objective across its climate policy suite, such as transitioning Australia to net-zero at least cost and greatest economic benefit.

The objective should favour a strategic, national approach to climate policy that promotes equity and efficiency – which is particularly important in a sectoral approach that deploys multiple, smaller policies.

Intentional cross-agency coordination is necessary to ensure the Government's numerous policy development and reform processes are harmonised and shaped by the overall objective.

AIGN recommends a single, central responsible agency be tasked with drawing together the many streams of work to ensure consistency, orderly sequencing and sufficient capacity to develop good policy.

This includes the sectoral plans and Net-Zero by 2050 Plan, Treasury's work on the many elements of the Sustainable Finance Strategy, the Carbon Leakage Review, implementation of Safeguard Mechanism Reforms, and more.

Coordination across State/Territory Governments and the Federal Government is likewise strongly desirable.

For example, entities looking for support for decarbonisation projects from government have difficulty understanding what sources of funding they may be eligible for. State/Territory and Federal Government information on funding options is not coordinated, which results in confusion about which sources of funding are available, and to whom.

Better coordination and alignment on government objectives with funding would also assist.

Environmental and project approvals reform will likewise require close coordination between State/Territory and Federal Governments to support the scale of economic transformation needed to achieve net-zero by 2050.

Currently, the timeline of approvals can be the rate-limiting step for some projects which are essential for Australia's transition and ambition.

5.2.1 International policy alignment

Policy alignment is not only a domestic concern. Where policy misalignment exists with Australia's trading partners, the potential for carbon leakage can cause economic consequences.

The CCA has previously concluded that measures to reduce emissions in some sectors could leave trade-exposed businesses disadvantaged relative to their international competitors, which risks production shifting offshore.

This requires the Government to explore measures to avoid carbon leakage. The Carbon Leakage Review currently being undertaken by the Department of Climate Change, Energy, the Environment and Water is currently evaluating these concerns.

Measures to avoid carbon leakage will need to be implemented. In the absence of such measures (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 an appropriate opportunity to explore the need for, and effectiveness of, such transitional support.

5.3 Project approvals

Achieving net-zero by 2050 is an immense task. Furthermore, even higher ambition beyond 2050 will be required to keep the Paris Agreement aspiration to limit global warming to 1.5°C within reach.

In this context, rapid and deep decarbonisation will require an unprecedented number of projects to be developed, approved, constructed, and commissioned.

A crucial consideration for AIGN members revolves around the approvals processes for developing new projects which could contribute to Australia's decarbonisation pathway.

In short, Australia's approvals policy framework is no longer fit for purpose. Extensive work is required to meet Australia's need to achieve energy and industrial transformation in a relatively short timeframe.

This will require a substantial reform of the approval framework, founded on a comprehensive and inclusive consultative approach.

Some AIGN members have reported concerns that communities and stakeholders are experiencing consultation fatigue from the demands being placed on them (e.g. cultural heritage surveys, and planning approvals). This consultation often falls to a small group within these communities. While this engagement is legitimately needed, it must be revised to ease the burden on affected communities and stakeholders.

AIGN supports the development of a single, integrated approval process. This process should involve all relevant parties (e.g., government, industry, First Nations, local communities, councils, health, and safety services, etc) and should review how risk is defined and addressed in project approvals, to meet project and climate

ambition timeframes while upholding environmental and social values.

5.4 Removals and offsets

AIGN recognises that even with best efforts to decarbonise and transform the economy in line with the Paris Agreement, there will continue to be a level of emissions that will need to be offset to achieve net-zero by 2050.

Removals and offset are a necessary and legitimate part of the decarbonisation pathways of several industry sectors. This is particularly the case for industries that have significant non-energy-related emissions, which require other solutions than greater penetration of renewable energy to address.

Some AIGN members operate in sectors where access to technology that will enable significant direct decarbonisation is not available. For those that operate with obligations under the Safeguard Mechanism, their ability to meet these obligations is founded on both direct emissions reductions and the ability to offset the emissions they have no capacity to abate.

Governments can support markets to achieve net emissions reductions by improving the availability of high-quality credits required by Safeguard Mechanism entities and others.

This includes ensuring the Australian Carbon Credit Unit (ACCU) scheme gives purchasers and investors reasonable assurance of the credibility and availability of credits, and confidence in their use towards decarbonisation efforts.

The proponent-led method development approach for new ACCU methods can accelerate timelines and boost liquidity whilst maintaining high quality and transparency around method development, project approval and ACCU issuance and retirement.

The challenges of availability and integration of abatement technology for some industrial activities is expected to be a relevant issue, at minimum, through the mid-2030s, guaranteeing an ongoing reliance on offsets in the medium term.

Therefore, it is imperative that offsets are perceived as a credible abatement option. Australia's regulatory framework supporting Australian offsets, has been recently reviewed and found to be working as intended; amendments to improve the strength of the framework have been implemented.

The Government has a crucial role in promoting the integrity of its own scheme. A misperception that offsets are not credible, and an 'easy way out' has arisen, which the Government needs to correct to support social licence around the use of offsets as a transitional measure on the pathway to decarbonisation.

5.5 Supply chains and the circular economy

Globally, many countries are looking at how the circular economy can be supported, and several industries are coordinating across jurisdictions to work on initiatives to trace materials for reuse and recycling.

The Government should conduct further investigations to examine potential barriers and solutions to support sustainable initiatives. For example, promoting the circular economy will require building domestic capacity to reuse and recycle a range of materials efficiently.

The value and potential deployment of value chain carbon accounting to allow consumers to directly compare the carbon intensity of products could also be worth investigating.

Coordination between Federal and State/Territory Governments on reuse and

recycling policies and product life-cycle accounting, for example, would be useful in ensuring goals are aligned across jurisdictions within Australia.

This could help address access and logistics issues (e.g. minimising supply chain constraints by revising point of entry provisions for ports, consistency in definitions across boundaries, waste market reform to enable the transport of low value, high volume products).

5.6 Setting targets

The issues paper thoroughly explains the CCA's framework for recommending a target that is ambitious, achievable, and advantageous.

AIGN appreciates the clarity with which the CCA's reasoning is set out.

AIGN has not historically provided recommendations on what levels targets should be, but rather supports a principle led response and alignment with Paris goals.

AIGN strongly supports the development of targets that are achievable as well as ambitious.

Furthermore, the manner in which targets are implemented is crucial to their impact at the facility level and on the competitiveness of Australian industry.

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

Understanding how a target will be implemented, enables stakeholder to provide a more useful assessment of its impacts.

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).

AIGN members are interested in the Australian Government's emissions reduction targets - What is of most interest is 'where the rubber hits the road' – the structural changes to support achievement of targets, such as access to a firm, green, and internationally competitive energy system, Government support to assist targeted sectors to transition, etc.

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.

AIGN notes the Issues Paper indicates a 2035 target range of between 65% and 75% based on 2005 emissions levels. The target or target range should align with what the modelling suggests is an optimal pathway to net-zero by 2050.

In the Safeguard Mechanism, the directly proportional application of the 65-75% target range would equate to an annual decline rate of between 8% and 14%, compared to the current 4.9% decline rate. AIGN encourages the CCA and the Government to engage with affected stakeholders on how this may impact new entrants, especially coupled with envisaged best practice baselines.

Further work is required on the net zero technology readiness pathway and the practical timing considerations for retrofitting safeguard facilities.

In terms of implementation of policies that support Australia's chosen decarbonisation targets and pathways, the Government must ensure community support through improved provision of information.

The benefits, costs and trade-offs for Australia's climate policies supporting net-zero by 2050 should be transparently communicated to the public, be based on verifiable data, and be accompanied by rigorous analysis.

6 CONCLUSION

Thank you for the opportunity to provide input to the CCA's Issues Paper. AIGN welcomes future opportunities to engage with the CCA.

AIGN recognises the CCA's important role for 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.