Chapter 6

Technical design issues with the Emissions Reduction Fund

6.1 This chapter examines a number of technical design issues related to the design of the Emissions Reduction Fund (ERF), as identified by submissions and witnesses. These critical issues, which will impact on the ERF's ability to reduce Australia's greenhouse gas emissions, include:

- additionality;
- difficulties in setting baselines;
- compliance mechanisms and penalties;
- overall limits on emissions;
- the need for longer timeframes, including contract duration and funding and planning beyond 2020;
- future scalability of the ERF; and
- access to international permits.

6.2 Mr Erwin Jackson from The Climate Institute summarised the design problem as follows:

> The challenge you have is balancing the burden of proof, if you like. If you make it too strict then you will not get people investing, because it becomes too strict and too much of a burden. If it is too loose, then you basically get a whole bunch of money being given away for no benefit.[1]

Additionality

6.3 A key design issue was the difficulty involved in ensuring that emissions reductions are 'additional' to reductions that would have happened without intervention.[2] Submitters were concerned that funding could be provided under the ERF auction process to projects that would have gone ahead anyway, such as

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1 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 14.

2 See, for example, Sustainable Energy Association, *Submission 90*, p. 8; Mr Piers Verstegen, Director, CCWA, *Committee Hansard*, 31 January 2014, p. 58; CCWA, *Submission 29*, p. 1; Sustainable Energy Now, *Submission 34*, p. 2; Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 5; Sunshine Coast Environment Council, *Submission 78*, p. 4; Conservation Council of South Australia, *Submission 44*, pp 6–7; Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8 and *Submission 81*, p. 6; WWF-Australia, *Submission 67*, p. 12; Mr John Hawkins, *Submission 7*, p. 3; Energetics, *Submission 59*, p. 4; Dr Paul Burke, *Submission 80*, p. 1; Mr Tas Thamo, *Committee Hansard*, 31 January 2014, p. 10

investments in energy efficiency equipment when a company may have already planned to purchase this equipment.[3]

6.4 As Sustainable Energy Now warned:

> If criteria for additionality are not determined fairly, there is a real danger that taxpayers will be simply subsidising industries and projects that do not need subsidizing. Conversely there is also the risk that additionality criteria acceptable to taxpayers would make the scheme too unattractive to attract bidders.[4]

6.5 The Grattan Institute pointed to another possible example of the need for caution in relation to additionality in the case of:

> …electricity generators where falling demand is already leading to the mothballing and possible permanent closure of capacity. The 2010 published Direct Action Plan allowed for the ERF to support the reduction of emissions from old or inefficient power stations. It would be inappropriate if such funding was to flow to power stations that would have closed anyway.[5]

6.6 Professor Frank Jotzo described the problem of additionality as:

> …a problem fundamentally of asymmetric information. No government and no government agency will be able to truly get to the bottom of cost structures as they exist in industry, and so if the potential financial gains are large enough to business it will be easy to pull the wool over the eyes of any regulatory.[6]

6.7 Professor Ross Garnaut suggested that additionality 'actually requires clairvoyance to know whether or not, on financial grounds, an investor would have made an investment'.[7]

6.8 Some suggested that the question of additionality could be satisfactorily resolved with appropriate administrative resources. However, Mr Paul Pollard was concerned that there would need to be 'huge administrative resources to investigate every spending proposal and even to get into the minds of the firm to know that they were not going to do this anyway'.[8] Similarly, Mr Tony Wood from the Grattan Institute observed that it is not yet clear 'how much extra administrative work will be imposed as a result of having to be comfortable that activities which are credited under the program are additional'.[9]

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3 See, for example, WWF-Australia, *Submission 67*, p. 12.

4 Sustainable Energy Now, *Submission 34*, p. 2.

5 Grattan Institute, *Submission 22*, p. 4.

6 Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 33.

7 Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 4.

8 Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 12.

9 Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 1.

6.9 As the ACTU concluded:

> …it will be near impossible for the Direct Action Plan to avoid funding non-additional abatement. This means government will be paying business for projects and abatement that would have occurred even in the absence of government policy.[10]

6.10 In response to questioning on this issue, the Department advised that 'genuine and additional abatement is a key part of the Government's policy as outlined in the green paper' and:

> That is a challenge we already face under the Carbon Farming Initiative. It is also a challenge that other schemes have faced and dealt with. The Clean Development Mechanism, for example, also has to deal with the issue of how to establish abatement and how to determine that the abatement that is being claimed is genuine and additional…there are a number of different approaches one can use in different sectors with different methods, with a strong focus on keeping them as simple as possible. But the policy principle around paying for abatement, not paying for emissions reductions that would have occurred anyway, is a clear policy principle of this scheme, and so all the design around developing methods is to give the greatest confidence possible that anything that is being credited and subsequently contracted for is additional.[11]

Difficulties in setting baselines

6.11 The ERF will also require various emissions 'baselines' to be set, both in relation to the purchasing and crediting of emissions reductions and also the proposed safeguard mechanism.[12] As the Department explained, for crediting emissions reductions, baselines will form part of the crediting methodology:

> One has to understand…what the underlying change in emissions, say, per unit of output, might have been before an action was taken and then credit over and above that action.[13]

6.12 Baselines will also need to be set for the safeguard mechanism – that is a mechanism to provide businesses with an incentive not to exceed historical emissions baselines.[14] In response to questioning as to how those historical baselines might be determined, the Department indicated that NGERS reporting information could provide a useful basis in this context, but that the:

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10 ACTU, *Submission 30*, p. 5.

11 Dr Steven Kennedy Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, pp 8–9.

12 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 10; see also Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, pp 5–6.

13 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 5.

14 See Green Paper, p. 35.

> …other aspects of the safeguard baselines, such as how they would evolve over time, who they would cover, what any compliance arrangements would be that were associated with them, what form they would take—all those dimensions the government is currently consulting on and it has not announced its decisions on those dimensions of the scheme.[15]

6.13 However, the inherent difficulty and complexity involved in establishing emissions baselines was highlighted by many submitters and witnesses.[16] As the Grattan Institute observed that 'setting of baselines and establishing additionality are not straight forward—they present a high regulatory burden and a large potential for regulatory capture'.[17]

6.14 Mr David Rossiter, former Renewable Energy Regulatory, who had the task of setting baselines for the original Renewable Energy Target, submitted that setting baselines is:

> …a very difficult and highly specialised task that should not be under estimated. It is highly site and geographical location specific, extremely resource intensive and often exposes a lack of firm data from which baselines can be set.[18]

6.15 Mr Rossiter told the committee that:

> …baseline setting and verification are complex and resource intensive, so there will be considerable time delays in the implementation. The credibility of the whole plan will be rapidly eroded if baselines are not set in a transparent, fair, robust and repeatable manner. These delays will further reduce the period of time available to recover abatement costs and also reduce the abatement quantities the plan can achieve.[19]

6.16 Mr Rossiter, suggested that it is possible that up to 600 baselines may need to be set, depending on geographical locations and different types of actions.[20] He was concerned that if there is not sufficient funds, it would be very difficult and that:

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15 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 6.

16 See, for example, Australian Dairy Industry Council, *Submission 11*, p. 3;; Mr Tennant Reed, Principal National Advisor, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, pp 52, 57–58; ACF, *Submission 14*, p. 9; Grattan Institute, *Submission 22*, pp 4–5; Facility Management Association of Australia, *Submission 36*, p. 4; Origin, *Submission 45*, pp 8–9; Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 37 and *Submission 80*, p. 1; 350 Australia, *Submission 33*, p. 8; Sustainable Energy Now, *Submission 34*, pp 2–3; Climate Action Newcastle, *Submission 48*, p. 2; Energetics, *Submission 59*, p. 4; Energy Supply Association of Australia, *Submission 61*, pp 2–4; Carbon Market Institute, *Submission 64*, pp 22–23; CEFC, *Submission 75*, p. 21; Mr Paul Pollard, *Submission 81*, p. 8; Sustainable Energy Association, *Submission 90*, p. 9.

17 Grattan Institute, *Submission 22*, p. 4.

18 Mr David Rossiter, *Submission 70*, p. 2.

19 Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 8.

20 Mr David Rossiter, *Submission 70*, p. 2 and *Committee Hansard*, 28 February 2014, p. 12.

> I would be quite worried about the level of staffing and the capability of the staff...This is a technical operation…[21]

6.17 Other emphasised the importance of establishing robust baselines:

> …if there are no effective baselines and penalties for exceeding that baseline in enterprises which are not being paid to reduce emissions, once can expect those other sources of emissions to rise strongly, and so the fund would have to buy a lot more and there is actually a limit to that…[22]

6.18 The setting of baselines, and the consequences for organisations that go above or below their baselines under the safeguard mechanism, was described by the Grattan Institute as complex, but 'fundamentally important' to how effective and efficient the ERF will be.[23] The Grattan Institute highlighted the challenge of determining the 'detail around historical activity' and 'what business as usual activity means'.[24] Mr Wood gave the example of LNG plants in Queensland – 'there is no history in the world of developing LNG off the back of a large coal seam gas facility, so how would you set baselines for those facilities?'.[25]

6.19 As noted in the previous chapter, for the safeguard mechanism, the Government has put forward two options for setting these historical baselines, based on either *emissions intensity* (the ratio of emissions per output) or on *absolute emissions* levels (the absolute level of emissions from a facility during a historical period).[26]

6.20 Some, such as the ADIC, expressed a preference for baselines based on emissions intensity.[27] However, others, such as Mr Erwin Jackson from The Climate Institute noted that baselines based on emissions intensity would be difficult and complex, and expressed a preference for setting absolute baselines 'for the major emitting industries outside the electricity sector'. He noted that, in the electricity sector, setting absolute baselines would disadvantage gas versus coal.[28]

6.21 WWF-Australia noted that applying an absolute emissions baseline, as opposed to an emissions intensity baseline, will result in significantly more abatement from the safeguard mechanism.[29]

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21 Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 12.

22 Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 2.

23 Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 1.

24 Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 4.

25 Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 4.

26 Green Paper, p. 37.

27 Australian Dairy Industry Council, *Submission 11*, p. 3; see also Mr Noel Campbell, Chair, Australian Dairy Industry Council, *Committee Hansard*, 5 February 2014, p. 49.

28 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 10.

29 WWF-Australia, *Submission 67*, p. 10.

6.22 Mr Rossiter further observed:

> The atmosphere is not concerned about emissions intensity and neither are Australia's international target commitments framed in such terms—total emissions are the only issue at stake here.[30]

The 'safeguard mechanism': Compliance and penalty issues

6.23 Another key design issue was the proposed 'safeguard mechanism'. Some described the safeguard mechanism as a 'key component' which could 'act to prevent business from increasing their emissions to an extent that may cause problems for other sectors of the economy'.[31] Mr Jackson from The Climate Institute highlighted the importance of a robust safeguard mechanism:

> …to safeguard against emissions increases in sectors which work against your national target…if you are spending money to improve the efficiency of buildings, you want to make sure that does not mean you are getting emissions increases from the cement industry or the steel industry. You need some sort of safeguarding mechanism to ensure you are not wasting your money...[32]

6.24 However, there was considerable concern as to whether there will be any penalties or compliance mechanisms under the ERF system.[33] For example, 350 Australia were concerned that the Green Paper:

> …states that business will only be 'encouraged' to reduce emissions, that 'flexible' compliance arrangements will be available, and that there is no funding sought or available for a 'safeguard' mechanism.[34]

6.25 The committee notes there have been media reports indicating that the Environment Minister has stated that there will be strong enough penalties to stop companies from going 'rogue' with their carbon emissions, but that any penalties will allow for 'fluctuations in emissions as part of the business cycle'.[35]

6.26 The Energy Supply Association of Australia (ESAA) was under the impression that 'Government has stated on numerous occasions that it does not intend

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30 Mr David Rossiter, *Submission 70*, p. 3.

31 Energetics, *Submission 59*, p. 2.

32 Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 15.

33 ACF, *Submission 14*, p. 10; Mr Peter Boyer, *Submission 6*, p. 2; Dr Justin Wood, *Submission 28*, p. 1; GetUp Action for Australia, *Submission 47*, p. 4; Sunshine Coast Environment Council, *Submission 78*, p. 4; Ms Jaime Yallup Farrant, 350 Australia, *Committee Hansard*, 31 January 2014, p. 36; Reverend Evan Pederick, Deputy Chair, Anglican EcoCare Commission, *Committee Hansard*, 31 January 2014, p. 61; Mr John Hawkins, *Submission 7*, pp 12–13; Mr James Wight, *Submission 65*, p. 9.

34 350 Australia, *Submission 33*, p. 7.

35 Joanna Heath, 'Direct Action will have penalties for 'rogue' emitters, Hunt warns', *Australian Financial Review*, 5 February 2014, p. 3.

for the penalties mechanism to apply to business as usual activity'.[36] ESAA argued that 'penalties should not apply where businesses are clearly operating as usual'.[37]

6.27 The Australian Industry Group similarly noted that:

> The government's expressed intention is not to penalise businesses for business-as-usual activity…our view that if you were to require, through a standard of some sort, a business to stick with gas when coal is cheaper that is imposing a real cost on that business and that is not what we understand the government's policy intention to be.[38]

6.28 However, others pointed out that, for the safeguard mechanism to work effectively, there would need to be consequences for breaching the baselines.[39] WWF-Australia were concerned that the Green Paper 'suggests that there will be no penalty mechanism' and that:

> It is unclear what then will be the motivation for companies to reduce their emissions if there is no penalty for not reducing emissions and what, therefore, will prevent Australia's emissions from continuing to increase.[40]

6.29 Sustainable Energy Now argued that, if there are no penalties, this would be a 'fundamental flaw' in the system:

> The lack of penalties would mean no guaranteed limit to emissions and would not provide any incentive for industry to reduce carbon intensity in future.[41]

6.30 WWF-Australia argued that a penalty price would need to be set at a sufficiently high level 'to incentivise abatement activity'.[42] However, WWF-Australia pointed out that a high penalty price would be irrelevant if no company exceeds their individual baseline, and therefore the safeguard mechanism would also need adequate and appropriate baselines.[43]

6.31 Some submitters observed that, with a robust safeguard mechanism, the ERF has the potential to be a 'baseline and credit' style system.[44] ESAA pointed out that:

> If there is to be any consideration of a baseline scheme with penalties, it must also include credits for businesses that are able to reduce their

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36 Energy Supply Association of Australia, *Submission 61*, p. 5.

37 Energy Supply Association of Australia, *Submission 61*, p. 5.

38 Mr Tennant Reed, Principal National Advisor, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 55.

39 Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 5; see also Sustainable Energy Association, *Submission 90*, p. 9.

40 WWF-Australia, *Submission 67*, pp 10 and 12.

41 Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 27.

42 WWF-Australia, *Submission 67*, p. 10.

43 WWF-Australia, *Submission 67*, p. 13.

44 Energetics, *Submission 59*, p. 3; Clean Energy Council, *Submission 16*, p. 3

> emissions. A scheme that has penalties for exceeding baselines but no incentives for remaining below is unbalanced and could increase costs for businesses. Any costs imposed through penalties would ultimately be passed on to end consumers through higher prices.[45]

6.32 Mr Nathan Fabian from IGCC also told the committee that the baselines would need to be reduce over time and would need to require companies in major emitting sectors to participate in the scheme.[46]

6.33 Some witnesses warned that, in the absence of penalties, a carbon price or sufficient safeguard mechanism, there is also a possibility that fuel-switching might occur. That is, some companies may convert to the use of coal for electricity generation, as a result of rising gas prices.[47]

6.34 Once again, it was observed that the safeguard mechanism could potentially result in a huge administrative effort:

> ….the implication is that the government will need to calculate a 'business as usual' projection of emissions for every business (not just those currently producing reports under NGERS, or those submitting tenders) against which their actual emissions can be assessed. This sounds like a vast and subjective bureaucratic enterprise…[48]

6.35 Professor Ross Garnaut agreed:

> A baseline and credit scheme of the kind contemplated requires baselines to be establish for old and new firms, with incentives for over-achievement and penalties for underachievement. The setting and enforcement of baselines is an immense bureaucratic task.[49]

6.36 In relation to all these concerns, the Department advised that this is why 'the government is consulting very carefully over that dimension of the scheme'. The Department noted that 'quite a bit of relevant information is already collected in the area through the National Greenhouse and Energy Reporting Scheme that could form part of those considerations'. The Department further noted that:

> The extent of any possible compliance burden there would also depend on who was covered under such an arrangement, which is also a decision that the government is consulting carefully on.[50]

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45 Energy Supply Association of Australia, *Submission 61*, p. 5.

46 Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11; see also Energetics, *Submission 59*, p. 3.

47 Ms Kellie Caught, National Manager, Climate Change, WWF-Australia, *Committee Hansard*, 5 February 2104, p. 61.

48 Mr John Hawkins, *Submission 14*, p. 14.

49 Professor Ross Garnaut, *Submission 105*, p. 3.

50 Dr Steven Kennedy, Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 8.

No overall limit on emissions

6.37 Another concern was that there would be no overall limit or legislated 'cap' on greenhouse gas emissions under the Direct Action Plan or the ERF.[51] For example, Mr Jamie Hanson from ACF told the committee that:

> A good climate policy will place a limit on the amount of pollution Australia creates each year and will reduce that limit over time, incentivising Australia's biggest polluters—our dirty coal power stations or chemical processors, for instance—to belch out less environmentally-damaging pollution each year.[52]

6.38 Similarly, Mr Gates remarked that:

> You have to have a cap; otherwise, how do you know you are going to meet your target? We know what the emission reduction trajectories have to be, so unless we set a cap we are bound to fail. It is like taking your hands off the steering wheel and just hoping you there; there is no feedback into the system.[53]

6.39 The ACTU submitted that:

> By not capping emissions or providing a signal beyond 2020 (the year in which the Emissions Reduction Fund Program will conclude), the Direct Action Plan fails to provide the required long term incentive and certainty to the market for industry to invest in deep emission-reduction investments with longer payback periods. Without a clear signal driving abatement, it also risks delaying climate action to post-2020, which will be more costly and disruptive to the economy.[54]

6.40 In this context, a key issue raised as to how new business and projects with significant greenhouse gas emissions will be dealt with under the Direct Action Plan and the ERF.[55] For example, 350 Australia warned that the system 'could give new

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51 See, for example, Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 9; 350 Australia, *Submission 33*, p. 7; Anglican EcoCare Commission, *Submission 40*, p. 1; Friends of the Earth Australia, *Submission 66*, pp 4–5; Mr Dugald Murray, Senior Economist, ACF, *Committee Hansard*, 5 February 2014, p. 35; Ms Kellie Caught, National Manager, Climate Change, WWF-Australia, *Committee Hansard*, 5 February 2014, p. 59; ACF, *Submission 14*, p. 5; Dr Justin Wood, *Submission 28*, p. 1; Australian Youth Climate Coalition, *Submission 32*, p. 3; Climate Action Newcastle, *Submission 48*, p. 3; Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 30; Mr Piers Verstegen, Director, CCWA, 31 January 2014, p. 56; Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 36; Professor Ross Garnaut, *Committee Hansard*, 7 March 2014, p. 4; Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11 and *Submission 94*, p. 2; WWF-Australia, *Submission 67*, p. 3.

52 Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32.

53 Mr Stephen Gates, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 30.

54 Australian Council of Trade Unions, *submission 30*, pp 5–6.

55 See, for example, Mr John Hawkins, *Submission 7*, p. 3; 350 Australia, *Submission 33*, pp 7–8; CCWA, *Submission 29*, p. 1.

polluters the rights to pollute up to current industry rates rather than incentivising cleaner and alternative technologies and lower rates of pollution…'.[56] The Grattan Institute noted that:

> A preferred solution has not been published by the Government, although it has sought input from stakeholders. The absence of a solution will represent a threat to both the effectiveness and efficiency of the Direct Action Plan.[57]

6.41 Several submitters and witnesses also warned of the need to guard against domestic 'carbon leakage', that is, ensuring that emissions reductions paid for under the ERF does not result in emissions increases by other business or activities.[58] As Dr Paul Burke submitted, 'without a cap on total emissions, there is no guarantee that emissions reductions in a specific project will not be offset by additional emissions elsewhere'.[59]

6.42 However, The Climate Institute advised that the safeguard mechanism could, in theory, potentially work as an effective cap on emissions:

> Absolute emission baselines could be applied to facilities in major emitting sectors, possibly excluding electricity. These absolute baselines could be added up to an effective cap on emissions in these sectors. Absolute emissions baselines at a facility level may be not appropriate for the electricity sectors as it may discourage switching from coal to gas-fired generation.[60]

6.43 As Professor Garnaut observed:

> … it is not clear from the Green Paper whether and the extent to which abatement through the Emissions Reduction Fund would place restraints on growth in emissions in enterprises that were not receiving payments for reductions in emissions.[61]

6.44 Professor Garnaut described this as a 'large and obvious flaw' in the ERF and a source of pressure on its budget:

> this flaw may lead a Government seeking to meet its emissions targets to set baselines for each enterprise and penalties for emissions in excess of the baseline. Without a national cap of a kind that is present under established Carbon Pricing policies, the baselines and penalties would need to be set

56 350 Australia, *Submission 33*, pp 7–8.

57 Grattan Institute, *Submission 22*, p. 4.

58 Professor David Pannell, *Committee Hansard*, 31 January 2014, p. 11; Mr John Hawkins, *Submission 7*, p. 2.

59 Dr Paul Burke, *Submission 80*, p. 1.

60 The Climate Institute, *Answers to questions taken on notice from public hearing*, Melbourne, 5 February 2014, p. 1; see also Mr Erwin Jackson, Deputy CEO, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 11; see also Energetics, *Submission 59*, p. 6.

61 Professor Ross Garnaut, *Submission 105*, p. 5.

> business facility by business facility. This would be a huge bureaucratic exercise.[62]

Timeframes

6.45 A number of issues relating to timeframes were raised in relation to the Direct Action Plan and the ERF, including:

- the commencement of the system;
- duration of contracts under the ERF; and
- the need for a longer term approach.

Commencement of the ERF and its safeguard mechanism

6.46 It was also suggested that it will be difficult for the ERF to attain emissions reductions targets, simply because it will be difficult to get the scheme up and running in time. As Dr Burke pointed out:

> 2020 is actually very soon. This scheme is going to take time to get going, even once it is started. Companies would need to submit bids for it and projects would need to be analysed, approved and then, of course, implemented. Everything takes time, and our experience…is that these programs take a lot of time for emissions reductions to perhaps start to happen….[63]

6.47 Several submissions and witnesses were concerned that the Government has deferred its decision on how emissions baselines will be determined for the safeguard mechanism until mid-2015, noting that 'this is a critically important element of Direct Action that remains uncertain...'.[64] In contrast, the Australian Industry Group told the committee:

> …the purpose of the baseline system is not entirely clear and at this stage our suggestion would be either to articulate a clearer purpose for the safeguard mechanism or not to proceed with that element of the policy. We certainly appreciate that the government has undertaken that that element will not commence until at least 1 July 2015, to allow additional time for consultation with industry.[65]

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62 Professor Ross Garnaut, *Submission 105*, p. 5.

63 Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 36; see also, for example, Mr David Rossiter, *Committee Hansard*, 28 February 2014, p. 9.

64 Sustainable Energy Association, *Submission 90*, p. 8; see also Mr Erwin Jackson, Deputy CEO, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 10.

65 Mr Tenant Reed, Principal National Adviser, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 52; see also Australian Industry Group, *Submission 92*, p. 6.

6.48 Others expressed surprise at the proposed review of the Direct Action Plan in 2015, given that 'implementation would only be getting underway at that time'.[66] The Climate Institute suggested that:

> The Government needs to be flexible on this timeline as it is currently misaligned with international processes and commitments.[67]

Duration of contracts

6.49 Many submitters and witnesses highlighted the need for long-term commitments, were concerned that the proposed maximum five-year contract duration proposed in the ERF Green Paper would be too short.[68] In particular, it was suggested that it would be difficult to find finance for such short-term projects. For example, the CEFC submitted that:

> …the proposed five year forward contracts will be insufficient and may need to be for longer than five year's duration to be effective in attracting the necessary finance for abatement projects.[69]

6.50 Similarly, Professor Frank Jotzo warned that:

> Project proponents will have no realistic expectations that further payments would be made beyond the initial five-year period. Therefore, only investments with payback periods of less than five years at a given payment per tonne of claimed emissions reductions will be commercially viable. This will exclude many abatement options that involve long-lived equipment, as is usually the case in energy and industrial investments.[70]

6.51 Representatives from the NFF also pointed out that a five-year timeframe 'probably does not correlate with the time it takes to actually put projects on the ground' and that 'longer term approaches are required for agriculture'.[71] They pointed to the time taken to approve methodologies for the CFI by way of example.[72] In the same vein, WWF-Australia submitted that:

> …to unlock more substantial levels of abatement from the land sector, potential investors and project developers will need a long-term investment

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66 Environmental Farmers Network, *Submission 9*, p. 2.

67 The Climate Institute, *Submission 2*, p. 8.

68 See, for example, ACF, *Submission 14*, p. 4; Clean Energy Council, *Submission 16*¸ p. 4; ESAA, *Submission* 61, p. 4; Sustainable Energy Association, *Submission 90*, p. 10; Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 4; Mr Tony Wood, Program Director—Energy, Grattan Institute *Committee Hansard*, 5 February 2014, p. 5; Facility Management Association of Australia, *Submission 36*, p. 4; Mr David Rossiter, *Submission 70*, p. 3; Dr Paul Burke, *Submission 80*, p. 1; CEFC, *Submission 75*, p. 16; Australian Industry Group, *Submission 92*, p. 4.

69 Clean Energy Finance Corporation, *Submission 75*, p. 4 and see also p. 23.

70 Professor Frank Jotzo, *Submission 86*, p. 3.

71 Ms Deborah Kerr, Australian Pork Ltd, *Committee Hansard*, 28 February 2014, p. 3; see also Environmental Farmers Network, *Submission 9*, p. 1.

72 Ms Jacqueline Knowles, NFF, *Committee Hansard*, 28 February 2014, p. 3.

> signal. Indeed, most land-use projects require an income stream of at least 10 years to become economically viable. [73]

6.52 Others pointed out that certain emissions reduction activities will deliver abatement over a much longer time frame than five years.[74] For example, the ESAA were concerned that:

> …emissions reduction activities from power stations are unlikely to be cost-competitive with other forms of abatement, as they will deliver abatement over a much longer time frame than that for which they will be rewarded by the fund…we consider it unlikely that there will be significant participation from our sector in the emissions reduction fund. This is not a flaw in the design of the fund per se, but it is important to recognise that if the government's policy framework is solely focussed on short-term goals it will be less likely to deliver long-term changes.[75]

6.53 In contrast, the Australian Industry Group expressed support for five year limits on contracts:

> …to succeed the ERF needs to attract strong participation, and that could be assisted by minimising the risks to bidders including around the adoption, if there is a five-year limit on the terms for which abatement will be contracted, allowing projects to recover their full costs within that period without competitive disadvantage inside the auction process.[76]

6.54 Others warned that the short timeframes would increase the cost of abatement. For example, Mr Pollard told the committee that the short timeframes of the ERF would be a 'major obstacle' to finding low-cost opportunities:

> …emissions mainly come from very large long-term investments like a power station and so a low-cost abatement comes about looking at over 30 or 40 years or 15 or 20 years. Clearly you need a long-term payment scheme or a long-term pricing scheme to reduce that low-cost abatement.[77]

6.55 Mr Rossiter agreed that:

> …the five-year maximum term for recovery of abatement costs will increase the apparent costs by factors of two to four or more, because industry normally looks for returns over periods of 10, 15, 20 years or more. This time restriction and consequent increased apparent abatement cost will reduce the number of actions bid into the program and

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73 WWF-Australia, *Submission 67*, p. 18 and Attachment 3.

74 Facility Management Association of Australia, *Submission 36*, p. 4; Mr Kieran Donoghue, General Manager, Policy, Energy Supply Association of Australia, *Committee Hansard*, 5 February 2014, p. 40; CSIRO, *Submission 102*, p. 4.

75 Mr Kieran Donoghue, General Manager, Policy, Energy Supply Association of Australia, *Committee Hansard*, 5 February 2014, p. 40.

76 Mr Tennant Reed, Principal National Advisor, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 52.

77 Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8.

> implemented. This will severely reduce abatement quantities that the plan can achieve.[78]

6.56 In response to questioning on this issue, the Department advised that it had received a number of submissions in response to the Green Paper which were concerned that the five-year contract length. The Department stated that 'the government will take its decision [on contract length] in the light of those submissions'.[79]

No long-term plan

6.57 Another concern was that the ERF and the Direct Action Plan appear to be a short-term measure. In particular, there is no funding committed for the Direct Action Plan and ERF beyond its fourth year and that there is no indication of any continued program, budget or target beyond 2020.[80] As the ACF observed:

> Climate change will not end in 2020 and business decisions being taken now and up to 2020 will have costly impacts for decades for come.[81]

6.58 Mr Hanson from ACF described the Direct Action Plan as 'a short-term fix':

> Investors have indicated that they require at least a 20-year time frame if they are to make good long-term investment decisions and drive the development in Australia of enduring industries for the future. The Direct Action Plan does not provide that; it creates the opposite.[82]

6.59 Similarly, WWF-Australia were concerned that the ERF does not provide a long-term signal to give 'business the certainty and confidence to plan for transition, make long-term investments and drive structural change in the economy'.[83]

6.60 Many submitters and witnesses also expressed concern that the Direct Action plan is only funded for a three-year period initially:

> This creates a significant concern that it will create a boom-bust cycle of regulatory and political uncertainty, one that has been historically problematic for both renewable energy and energy efficiency markets and businesses. Short-term policy, such as Direct Action as it is currently

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78 Mr David Rossiter, *Committee Hansard*, 28 February 2014, pp 9, 10 and *Submission 70*, p. 3.

79 Dr Steven Kennedy Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 10 and also p. 9.

80 350 Australia, *Submission 33*, p. 8; see also Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32; Mr Peter Boyer, *Submission 6*, p. 2; Ms Tania Maxted, *Submission 43*, p. 6; Mr John Hawkins, *Submission 7*, p. 2; Mr David Rossiter, *Submission 70*, p. 3; Carbon Market Institute, *Submission 64*, p. 10; Professor David Karoly, *Submission 72*, p. 2; Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8.

81 ACF, *Submission 14*, p. 2.

82 Mr Jamie Hanson, Climate Change Campaigner, ACF, *Committee Hansard*, 5 February 2014, p. 32; see also ACF, *Submission 14*, p. 9.

83 WWF-Australia, *Submission 67*, p. 3; see also, for example, Energy Supply Association of Australia, *Submission 61*, p. 1; Mr Paul Pollard, *Committee Hansard*, 28 February 2014, p. 8.

> framed, is opportunistic rather than visionary and is not likely to contribute to the development of technology, knowledge and skills within Australia to support the long-term reduction of Australia's carbon emissions.[84]

6.61 As Ms Rose from the Sustainable Energy Association observed:

> Energy infrastructure and the people who invest in energy infrastructure are looking decades out. The lack of understanding of what the policy may look like decades from now is a serious inhibitor to investment, without a doubt.[85]

6.62 Similarly, the Energy Supply Association of Australia submitted that:

> Long-term signals for investment would assist all sectors of the economy to provide abatement. The energy industry in particular is made up of capital-intensive, long-lived assets. The ERF should provide certainty that tenders for abatement can be made that extend beyond the current 2020 target date. This is crucial when some methodologies may take several years to design and implement, and may also have a long payback period. The ERF should take a long-term, strategic approach to ensure that all industries can participate and find ways to provide low-cost, measurable and verifiable abatement.[86]

6.63 As Mr Bernie Fraser, Chair of the Climate Change Authority told the committee:

> There is a long haul element to this challenge of climate change, and that requires budgetary and other commitments from governments over long periods of time—periods of time that run to decades not just the period of the forward estimates.[87]

Future scalability and increasing targets

6.64 As outlined elsewhere in this report, many submissions and the Climate Change Authority recommended that Australia increase its emissions reductions targets. However, many witnesses and submitters were concerned as to whether the Direct Action Plan could be 'scaled up' as Australia needs to make stronger emissions reductions in the future.[88] For example, the IGCC submitted that 'a policy framework

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84 Sustainable Energy Association, *Submission 90*, p. 10.

85 Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 7.

86 Energy Supply Association of Australia, *Submission 61*, p. 2.

87 Mr Bernie Fraser, Chair, CCA, *Committee Hansard*, 7 March 2014, p. 27.

88 See, for example, Mr Erwin Jackson, Deputy Chief Executive Officer, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 9; Mr Dugald Murray, Senior Economist, ACF, *Committee Hansard*, 5 February 2014, p. 36; Friends of the Earth Australia, *Submission 66*, p. 3; Dr George Crisp, Doctors for the Environment Australia, *Committee Hansard*, 31 January 2014, p. 23; The Australia Institute, *Submission 38*, pp 4–5; Environment Victoria, *Submission 25*, p. 2; GetUp Action for Australia, *Submission 47*, p. 4; Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11; Dr Paul Burke, *Submission 80*, p. 1.

that can respond to deeper targets, at relatively low cost is a fundamental requirement of any long-term policy framework'.[89]

6.65 Professor Frank Jotzo:

> If you fast forward and you were to try to imagine a system where you wanted to halve Australia's emissions by way of a subsidy scheme, you would need enormous amounts of fiscal revenue to support that, even if you could address all of the other problems that have been identified…[90]

6.66 Ms Rose from the Sustainable Energy Association expressed similar concerns that the ERF is designed for 5% for 2020 'and not beyond'. She acknowledged that:

> There are aspects of it that certainly could be expanded beyond 2020 if that is the choice, but one of our serious concerns is that we do not have any of that visibility or transparency.[91]

6.67 In this context, the Grattan Institute submitted that:

> The Direct Action Plan as published is focused only the five per cent, 2020 target, although there is no fundamental reason why it could not be expanded to meet conditional 2020 targets or longer term targets to which the Government may commit…[92]

6.68 On the issue of scalability, the Department advised that:

> The nature in which the scheme can emerge to meet any future target is also a matter for government, but crediting mechanisms, purchasing mechanisms and the safeguards mechanisms are all parts of the scheme that can change over time if required.[93]

6.69 However, others pointed out that, if the budget is limited and will not be increased, the targets under the ERF could not be scaled up due to budgetary constraints.[94] For example, WWF-Australia submitted that none of the ERF modelling scenarios were able to achieve a 25% target by 2020, *with domestic abatement alone* at any reasonable price.[95]

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89 IGCC, *Submission 94*, p. 3; see also, for example, Ms Anna Skarbek, Executive Director, ClimateWorks Australia, *Committee Hansard*, 5 February 2014, p. 28.

90 Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 37.

91 Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 7.

92 Grattan Institute, *Submission 22*, p. 2.

93 Dr Steven Kennedy Deputy Secretary, Climate Change Group, Department of the Environment, *Committee Hansard*, 18 March 2014, p. 9.

94 Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11; AMWU, *Submission 50*, p. 10.

95 WWF-Australia, *Submission 67*, pp 2–3.

6.70 In contrast, if international emissions reductions were accessible under the ERF, the committee notes that it *might* be possible for the ERF to meet increased targets. This is discussed further below.

Accessing international credits

6.71 The Direct Action Plan proposes to source all emissions reductions domestically, rather than using any overseas emissions credits.[96] However, many submissions queried whether this was the best approach.[97] For example, the IGCC submitted that 'access to verified international permits supports our emissions reduction objectives, reduces abatement costs and supports low carbon technologies internationally'.[98]

6.72 Many noted that purchasing international permits for emissions reductions would be cheaper and more cost-effective.[99] The Climate Institute suggested that some of the ERF funds should be apportioned to purchase credible Kyoto Protocol-compliant emission units 'as an insurance policy against the risk that domestically sourced abatement is not available at the scale or price required to achieve Australia's international carbon budget obligations'.[100]

6.73 Mr Jackson from The Climate Institute further argued that:

> This is a global problem. If we limit access to international markets then we limit our ability to contribute to the global problem. The ability to achieve much stronger targets is in part linked to our ability to access international markets.[101]

6.74 Several submissions suggested that access to international emissions credits should be part of 'make-good' provisions under the ERF. For example, the Australian Industry Group suggested that it would reduce the risks for bidders if proponents were

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96 Direct Action Plan, p. 2.

97 See, for example, Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 3; Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 3; Sustainable Energy Association, *Submission 90*, p. 7; Mr Tenant Reed, Principal National Advisory, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 52; Australian Industry Group, *Submission 92*, p. 3; Professor David Karoly, *Submission 72*, p. 2; Professor Frank Jotzo, *Committee Hansard*, 28 February 2014, p. 35; Mr Nathan Fabian, IGCC, *Committee Hansard*, 7 March 2014, p. 11; Mr John Hawkins, *Submission 7*, p. 7; Carbon Market Institute, *Submission 64*, p. 9 cf Mr James Wight, *Submission 65*, p. 15; Corporate Carbon Advisory, *Submission 79*, p. 2.

98 IGCC, *Submission 94*, p. 3.

99 See, for example, Dr Paul Burke, *Committee Hansard*, 28 February 2014, p. 38; Mr Tim Buckley, *Committee Hansard*, 7 March 2014, p. 17; Mr Tenant Reed, Principal National Advisory, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, pp 52 and 56; Mr Erwin Jackson, Deputy CEO, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 9; Professor Ross Garnaut, *Submission 105*, p. 5.

100 The Climate Institute, *Submission 2*, p. 8.

101 Mr Erwin Jackson, Deputy CEO, The Climate Institute, *Committee Hansard*, 5 February 2014, p. 10; see also AMWU, *Submission 50*, p. 10.

able to access international carbon credits, particularly in relation to the 'make good' provisions under the ERF.[102]

6.75 The committee notes that the recent Climate Change Authority report recommended that:

> The government use international emissions reductions to bring any gap between domestic reductions achieved under the Direct Action Plan and the recommended 2020 goals. [103]

6.76 And further that:

> The government establish a fund to purchase Clean Development Mechanism units to complement the Direct Action Plan and help meet the recommended 2020 goals.[104]

6.77 In response to questioning on these recommendations, Mr Fraser, Chair of the Climate Change Authority, explained, although they 'would like to see most of the reductions in emissions occur through domestic actions':

> In the short term, to get a credible start on the task of reducing emissions for the 2020 target, it is not practicable to get these domestic measures in place to achieve the minimum 15 per cent goal that we talked about…in the next five or six years you cannot expect the kinds of investments to occur and be flowing through to get to that 2020 emission reduction target…in the short term, if we are going to make a serious attempt to get to the 2020 target, we have to resort to permits for international emission reductions.[105]

6.78 Mr Fraser provided the following example:

> Even if you could get emission standards for light vehicles in place tomorrow, by the time the whole light vehicle fleet turned over it would be eight or 10 years. It would be a longer period of time before the full effect of these domestic emission reductions would start to flow through. That is true of so many other investments. Even if they start tomorrow to replace old and inefficient power plants or to put more renewable energy projects in place, it takes time, even with the best will and the best political environment in the world, to do that.[106]

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102 Mr Tenant Reed, Principal National Advisory, Public Policy, Australian Industry Group, *Committee Hansard*, 5 February 2014, p. 52; see also Australian Industry Group, *Submission 92*, p. 3; Origin, *Submission 45*, p. 8; The Climate Institute, *Answers to questions taken on notice from public hearing*, Melbourne, 5 February 2014, p. 1; Energetics, *Submission 59*, p. 3; ESAA, *Submission 61*, p. 5.

103 CCA, *Targets and Progress Review*, Final Report, February 2014, p. 186.

104 CCA, *Targets and Progress Review*, Final Report, February 2014, p. 186.

105 Mr Bernie Fraser, Chair, Climate Change Authority, *Committee Hansard*, 7 March 2014, p. 33.

106 Mr Bernie Fraser, Chair, Climate Change Authority, *Committee Hansard*, 7 March 2014, p. 33.

Benchmark price

6.79 Finally, some witnesses expressed the view that 'benchmark price' proposed by the Green Paper should be made public, thereby increasing transparency. For example, Ms Kirsten Rose from the Sustainable Energy Association observed that:

> A benchmark price in a reverse auction is helpful to the participants, because they know roughly where they need to come in at to be competitive…the benchmark price should be public, it should be open to all to see, not necessarily on that specific auction.[107]

6.80 The CEFC warned that, if the benchmark price were kept confidential, participants in ERF auctions would run a risk that the undisclosed price cap in the auction would be well below the minimum price required, which could lead to waste time and expense for participants. This risk, in turn, could be a strong disincentive to participation. The CEFC recommended:

> Publishing a benchmark price in advance for the auctions would ensure that only those participants who can achieve abatement below the benchmark will expend time and money developing project proposals and participating in auctions.[108]

6.81 Similarly, Mr Wood from the Grattan Institute suggested that the ERF could create 'at least a shadow carbon price', and 'it will be very important to have price visibility' under the ERF.[109]

Committee comment

6.82 The committee notes that there has been very little detailed public analysis of the Emissions Reduction Fund and its proposed design. The evidence to this committee overwhelmingly indicated that there are numerous inherent design problems with the Emissions Reduction Fund. Establishing baselines, and ensuring that emissions reductions are truly additional, will be extremely difficult and impose a high administrative burden on the Government. The evidence also highlighted that the five-year timeframes proposed for contracts under the Emissions Reduction Fund are insufficient to provide investor confidence and encourage long-term business investment in low-carbon technologies and projects. Based on its current proposed design and budget, it is unlikely that the Emissions Reduction Fund could be sufficiently 'scaled up' as Australia needs to make stronger emissions reductions in the future.

6.83 Clearly, any scheme to reduce Australia's emissions needs to ensure that there is a limit or 'cap' on overall domestic emissions, and penalties for polluters who

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107 Ms Kirsten Rose, Chief Executive, Sustainable Energy Association, *Committee Hansard*, 31 January 2014, p. 6; see also Mr Benjamin Rose, Sustainable Energy Now, *Committee Hansard*, 31 January 2014, p. 34; 350 Australia, *Submission 33*, p. 8; Mr John Hawkins, *Submission 7*, p. 3.

108 CEFC, *Submission 75*, p. 25.

109 Mr Tony Wood, Program Director—Energy, *Committee Hansard*, 5 February 2014, p. 8.

exceed reasonable emissions limits. The committee notes evidence that the so-called 'safeguard mechanism' has some potential in this regard, but there is almost no detail about how the 'safeguard mechanism' will work and whether there will be sufficient penalties and robust baselines associated with the mechanism. Further, the Department indicated that the 'safeguard mechanism', which is absolutely critical to the scheme, will not even be in place until 1 July 2015 at the earliest.

6.84 The committee also considers that the proposal to review the Emissions Reduction Fund in 2015 is extremely premature. The auction process itself will take time in terms of preparing bids and assessing projects. It will also take time to get projects under way and achieving emissions reductions. The safeguard mechanism may not even be operational at that point. As such, it will be difficult to make an accurate assessment of the success or otherwise of the Emissions Reduction Fund.

6.85 The committee is also deeply concerned that there is no budget for the Direct Action Plan beyond 2017, and that there appears to be no climate policy or plan at all beyond 2020. Climate change will not be solved by then: it is a long-term problem that requires a long-term solution. Further, the lack of long-term planning and resultant uncertainty undermines investment and business confidence in the very sectors that we need to be encouraging in the transition to a low-carbon economy.

6.86 In light of all these issues, the committee considers that the Emissions Reduction Fund is a fundamentally flawed proposal and should not proceed. However, if the Government insists on proceeding with the Emissions Reduction Fund, the committee considers that it will need increased funding and staffing, a robust safeguard mechanism, an overall limit on Australia's emissions, longer timeframes and to allow access to international emissions credits.

Recommendation 11

6.87 The committee recommends that the Government not proceed with the Emissions Reduction Fund as it is fundamentally flawed and in doing so notes that:

- **there is insufficient funding to be able to secure enough abatement to meet Australia's emissions targets now and into the future;**
- **there is a lack of a robust safeguard mechanism with stringent baselines and penalties for exceeding baselines;**
- **there is no legislated limit or 'cap' on Australia's emissions in line with emissions reductions targets;**
- **there is no access to international emissions credits;**
- **the maximum terms of contracts for purchasing emissions reductions under the Emissions Reduction Fund need to be increased;**
- **the use of international permits needs to be limited at 50%, with the maximum caps being 12.5% from Certified Emissions Reductions under the Clean Development Mechanism and 37.5% from European Union permits;**

- **an increase of staffing will be required within the Department of the Environment to enable the scheme to be designed properly;**
- **an increase of staffing will be required within the Clean Energy Regulator in order to administer the scheme properly; and**
- **the maintenance and establishment of a range of complementary measures, including the Renewable Energy Target and fuel emissions standards are required.**

6.88 In particular, the committee also notes the overwhelming support for allowing the purchasing of international emissions credits as a cost-effective means of reaching Australia's emissions reduction target. The committee supports the recommendations of the Climate Change Authority in this regard.