Senate Standing Committee on Economics
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ENERGY EFFICIENCY OPPORTUNITIES (REPEAL) BILL 2014

INTRODUCTION

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to make a submission to the Senate Inquiry into the Energy Efficiency Opportunities (Repeal) Bill 2014. AIGN supports the repeal of the legislation.

In no area is the risk of poor policy development greater than in the area of energy efficiency, where mandatory compliance and reporting schemes such as the Energy Efficiency Opportunities (EEO) Program have imposed increased costs for industry (who use over 0.5 petajoules of energy annually) and duplicated other Government policies with little additional impact.

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies, and hence energy policies. AIGN's membership represents companies that produce a significant proportion of Australia's energy, use the majority of energy in the mining and manufacturing sectors of the economy, and are important to energy use in transport.

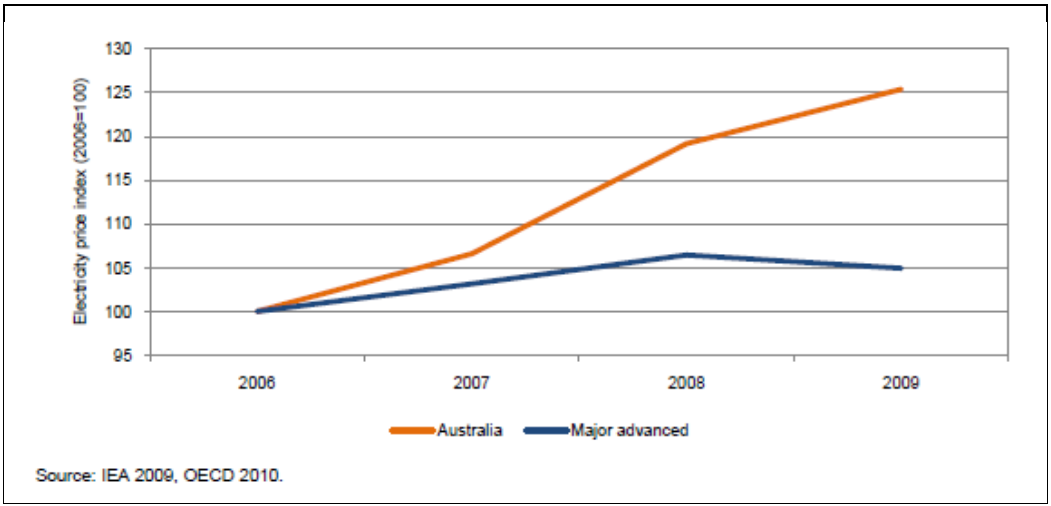
Our members have a range of views on greenhouse and energy policy. This submission accords with the views of AIGN members in general, though it may differ in some particulars from the positions of individual member associations and companies. Some members have prepared submissions of their own, and this AIGN submission should be read in conjunction with those submissions.

RECENT TRENDS IN INDUSTRY INVESTMENTS IN ENERGY EFFICIENCY

It is well understood that energy is an enabler of improved productivity and competitiveness in manufacturing. Given the structure of Australia's economy, and in particular its reliance on energy intensive industry (originally attracted by Australia's low energy prices), it is important that Australia has competitively priced energy. Governments need to avoid policies and programs that are implemented in the absence of market failure or that do not address the underlying market failure specifically, and therefore run the risk of encouraging irrational decision-making. AIGN supports the removal of unnecessary regulation in this area.

With respect to investment in energy efficiency, there is no evidence of market failure, as highlighted by significant recent investment in response to rising energy prices. Figure 1 demonstrates the recent significant increase in energy prices. As energy costs have increased, there is an even stronger incentive for industrial businesses (both large energy producers and large energy users) to minimise their energy use in order to save money.

Figure 1. Real electricity prices in Australia and the seven major advanced economies, 2006 to 2009, index in US dollars[1]



Recent membership surveys by organisations such as the Australian Industry Group and the Australian Food and Grocery Council noted that their members have overwhelmingly responded to increased costs by investment in energy efficiency measures.

Even the recent ClimateWorks Report, *Tracking Progress Towards a Low Carbon Economy*[2] noted, "Industrial emissions intensity has been improving in recent years, driven in part by a large increase in energy efficiency activity, more self-generation of electricity using gas, and improvement in the emissions intensity of processes in the aluminium and cement industries". Going further, the report notes that "…between 2007-08 and 2009-10 the annual rate of improvement in energy efficiency across the sector as a whole has been 1.3% of energy use per year…compares favourably with the most rapid energy efficiency improvement rates internationally…"[3].

ENERGY EFFICIENCY INVESTMENT IS A BUSINESS DECISION

Rather than an area of government intervention, AIGN considers that investment in energy efficiency is fundamentally a business decision, which is impacted by a wide range of considerations. In an environment

[1] "Garnaut Review Update", *Update Paper 8: Transforming the Electricity Sector*, 29 March 2011, http://www.garnautreview.org.au/update-2011/update-papers/up8-key-points.html.

[2] http://www.climateworksaustralia.org/sites/default/files/documents/publications/climateworks_trackingprogress_overview_july2013.pdf, p18.

[3] Ibid., p18.

of rising energy costs, examining the cost-effective use of energy is an indispensable part of business management, which both large energy producers and large energy users undertake as a matter of course. AIGN endorses the comments of the Parliamentary Secretary to the Minister for Industry, Bob Baldwin, in his second reading speech on the EEO Repeal: "Energy productivity is now core business for Australian industry and industry is best placed to define the processes and make decisions on how best to manage energy"[4].

The EEO Program, as a policy that narrowly focused on reductions in the use of energy, implies that the use of one factor of production can be minimised without regard to the opportunity costs associated with other inputs. Such an approach may translate into lower growth for the Australian economy as it isolates one aspect of a business and considers it out of context, thus leading to poor policy design.

Investment, and hence production decisions, are driven by the combined costs of all inputs and best reflect a company's perspective of the economic environment and their competitiveness within it. Investment decisions within the industrial sector are largely based on the ability to secure long-term, competitively priced supplies of raw materials, energy and labour. Decisions by business on capital investment, which take time to mature and are typically large (compared to current expenditure), have to be based on predicted returns and meet a range of other key business priorities.

Although many constraints to energy efficiency investment can be identified, some reflect the rational decision-making of energy users and do not of themselves represent market failure. Importantly, energy is not considered in isolation by industry, but as one of a range of factors contributing to performance and profitability. As a general rule, higher energy efficiency equals better performance and profitability, but this does not mean that every opportunity to invest in energy efficiency can, or should, be realised.

If improving energy efficiency is foregone in favour of more cost-effective opportunities in other areas, this is a rational decision in the best interests of the business. It is not a reflection of market or information failure for a company not to prioritise investment in energy use, but rather it reflects a rational, context-driven perspective that it will seek to maximise its return on investment.

AIGN welcomes the recognition implicit in the repeal of the EEO that energy prices and the desire for cost reduction, business improvement strategies and corporate targets, are substantially more compelling drivers in motivating energy management in comparison with regulatory requirements.

A number of AIGN members have reported that the EEO's administrative and implementation costs have been very high (in the order of several million dollars), and that the program has not induced any investments in energy efficiency that would not have occurred on the basis of normal business decision-making. The EEO is additional and not complementary to a mechanism like the ERF, which provides the scope for support to industry to reduce emissions.

[4] http://parlinfo.aph.gov.au/parlInfo/genpdf/chamber/hansardr/b93d9c6e-c89b-4e3b-815b-42d1e54f2e99/0027/hansard_frag.pdf;fileType=application%2Fpdf

ENCOURAGING INVESTMENT IN ENERGY EFFICIENCY

As investment in energy efficiency is fundamentally a business decision; the success of policies and strategies to promote greater uptake of energy efficiency measures will depend primarily on the business case for such investments. Businesses have adapted to various policy and other changes. Rising energy costs and the pressures of global competition pose continuing challenges for industrial extraction and manufacturing sectors. In order to maintain the international competitiveness of Australian industry, it is critical that the national policy framework provides the right environment for large industrial operations to continue to invest in Australia.

From industry's point of view the formula for a step change in energy efficiency is relatively straightforward:

A competitive industry = a profitable industry

A profitable industry =investment and replacement of capital stock

Investment = new energy efficient technology

New technology = step-change in energy efficiency

CONCLUSION

Governments can best support investment in industrial business efficiency by providing a stable, nationally integrated, industrial, energy and climate change policy environment in which policy risks are minimised. AIGN does not consider energy efficiency policy to be necessary, or to contribute to a supportive investment environment.

Government policies and programs that are implemented in the absence of market failure, or that do not address the underlying market failure specifically, run the risk of encouraging irrational decision-making. This is particularly the case when the form of intervention is obligatory and prescriptive. For these reasons AIGN supports the repeal of the Energy Efficiency Opportunities Act 2006 in favour of allowing decisions on energy efficiency to be determined by the sufficiency of natural market forces.