2022 FEDERAL ELECTION POLICY STATEMENTS

ENERGY AND CLIMATE

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Key Points

To set Australia up for a thriving and clean economy and carefully manage our energy transitions, the next Government should:

- *Inform all policy with goals of net zero emissions and global competitive advantage;*
- *Halve Australian emissions by 2030 and set challenging, relevant energy cost goals;*
- *Ensure new policy development is iterative, integrated and inclusive;*
- *Adopt the Australian Climate Roundtable principles for climate policy and support clean technology deployment at scale to drive down costs;*
- *Prepare for the challenges of accelerating coal power closures and manage them effectively and fairly on behalf of energy users and closure-affected communities;*
- *Build consensus on an efficient electricity resource adequacy framework to end the fragmentation of the National Electricity Market;*
- *Grow electricity networks with public finance and support for affected communities;*
- *Coordinate hydrogen development and transport electrification to cut power costs;*
- *Pursue globally competitive infrastructure costs to drive energy advantage;*
- *Work with the States on a new national strategy to lift energy management, energy efficiency, electrification and adoption of clean gases as appropriate for different energy users to ease transition and reduce system costs;*
- *Facilitate new natural gas supply only where it makes long term sense and has community consent. Flexible supply and storage are more likely to be useful;*
- *Foster clean hydrogen supply and demand, but ensure policy avoids inequitable impacts on vulnerable businesses and households. Set a technology-neutral best practice Safeguard benchmark for new hydrogen production;*
- *Maintain ACCC gas market monitoring, preserve or strengthen the gas security mechanism, and monitor the Gas Code of Conduct and enhance if necessary;*
- *Lower Safeguard Mechanism baselines, enable automatic crediting of outperformance, and ensure measures maintain trade competitiveness;*

- *Develop measures to grow public and private demand for low-emissions materials;*
- *Strengthen Australia's existing industry-led vehicle CO2 Emissions Standard to a co-regulatory scheme;*
- *Broaden the remit of ARENA and CEFC to address the clean economy;*
- *Avoid crude limits on land sector participation in carbon markets;*
- *Build confidence in emissions data, especially land sector abatement, through a fresh Climate Change Authority review and Federal-State work on best practices in measurement and management of land clearing;*
- *Prepare the economy and communities for lower demand for emissions intensive exports, pursue all opportunities for clean economy exports, and get ready for carbon border adjustments in major economies.*

Policy Approach

The next three years could set Australia up to achieve a new clean energy advantage and a thriving and clean economy. Working with the states and territories, industry and others, the Commonwealth can help prepare for faster, more coherent and successful transitions.

Goals and policy making

Australia's next government needs to be guided by clear goals for climate and energy and apply strong principles and standards to the development of policies to pursue those goals.

Goals

- All relevant areas of policy should be informed by the national goals of net zero emissions by 2050 and long-term competitive advantage in a net zero emissions world.
- Australia should develop energy cost benchmarks (representing price and consumption) for households and different categories of business and industrial consumer. We should set challenging but relevant goals for our relative international performance and identify the tractable drivers for better outcomes.
- 2030 emissions goals should deepen in order to reach the 2050 goal, support needed investment and deployment, and keep pace with our international partners and commitments. While there is no one best number, roughly halving emissions by 2030 would put Australia in the mainstream of advanced economies.

Process

- Policy development should be:
    - Iterative, with regular updates to ensure they remain relevant given the rapid pace of technological, market, social and global developments;
    - Integrated, taking coherent account of the needs and interconnections of the diverse economic sectors, policy portfolios, geographic regions, social demographics and arms of policy involved. Approaches that are narrow or siloed will not succeed.
    - Inclusive, developed in full dialogue with all parts of the community and ensuring local context analysis to understand existing capabilities and competitive advantages in specific regions. Closed processes focussed on Parliamentarians will be much less robust and effective than open processes that draw on the breadth of experience, expertise and perspective stakeholders have to offer.

- Updated 2030 goals and an updated long term emissions strategy are particularly important to develop through deep consultation and transparency. The Climate Change Authority should be asked to coordinate a public process to provide advice on these matters to inform decisions by the end of 2022.
- The Low Emissions Technology Statement process should continue to be iterated based on Australia's evolving long- and medium-term goals and strategy.

Policy preferences

- Substantial private and public investments will be needed to achieve the goals. Both an overall favourable investment environment and specific, credible and supportive policy frameworks will be essential to deliver investment that is sufficient and efficient.
- The Australian Climate Roundtable principles for climate policy aim to help Australia play its fair part in international efforts to achieve the Paris Agreement goals. They address the characteristics of ideal policy, cost control, trade competitiveness, innovation, equity, stability, the energy and land sectors, adaptation, use of any revenue, administration and review.
- Policies to drive down clean technology costs through deployment are very important. They should:
    - collectively address all economic sectors and regions
    - be large enough to drive meaningful change consistent with medium and long term goals;
    - provide a sound basis for private investment;
    - support the growth of demand for low, zero and negative emissions products; and
    - support broad access and opportunity.

A new competitive advantage in energy

Australia's former competitive advantage in carbon-intensive energy is gone. Building a new advantage in clean energy is achievable but demands coherent and efficient action.

Electricity

- Australia's electricity systems are changing rapidly. Market conditions, age, investor preferences and policy mean that coal generator closures will accelerate. Innovation, low cost, strong resources and emissions goals mean that variable renewables will increasingly dominate supply. This transition will not be straightforward or easy, but it can and must be managed effectively, avoiding negative impacts on price, security and reliability.
- Closures require adequate notice and timely alternative investments. Successful transition is not just about the power system; fair treatment of affected workers, communities, and supply chains is essential so that they can thrive.
- Many energy market reforms to manage the transition are under discussion but yet to be refined, agreed or implemented. The Federal Government can play an important role in bringing stakeholders together, encouraging national consistency, and ensuring reforms are coherent with the economy-wide goals of energy advantage and net zero emissions. Key reforms include:
    - Demand side participation and the coordination of distributed energy resources to help consumers and create system-wide value. Numerous workstreams on market reform, technical standards, pricing, education, consumer protection and more need to be driven together to achieve this potential.
    - Resource adequacy mechanisms, including consideration of a capacity mechanism. Governments no longer seem confident that the existing market design can drive necessary investment, and their consequent interventions further impact purely private activity. A new settlement is needed that commands broad consensus and

provides greater stability. Agreement will require deep consultation with stakeholders, especially energy users; and confidence that a new settlement, including any resource adequacy mechanism, can support competitive energy costs and net zero emissions while maintaining levels of reliability and security for which users are willing to pay.

- Energy system operation and energy user outcomes can be greatly improved by both broad improvements in demand-side energy efficiency and smarter management of energy use to minimise the demands of peak loads and maximise the value from peak supply. The next Government should work with the States to refresh the National Energy Productivity Plan, ensure all areas of energy use are addressed by appropriate policies, and back the NEPP with sufficient resources to achieve its goals.
- Australia should enhance its power networks, accelerate the development of new infrastructure, and reduce the risks to energy users. Key initiatives should include:
    - Clarifying national emissions goals in 2022 to inform transmission system planning and economic regulation decisions;
    - Providing more systematised support to communities affected by transmission development and other energy megaprojects to address concerns and build social license for the many projects that will be essential;
    - Using the public balance sheet to speed transmission development and protect energy users from excessive cost and risk, through financial arrangements with transmission providers that provide a shorter term return to developers and a longer term return to taxpayers; and
    - Accelerating the deployment of smart meters, which are essential to support better integration of flexible demand and distributed energy resources.
- New sources of electricity demand, particularly the growth of hydrogen electrolysis and electric vehicles, could greatly lower electricity system costs if well coordinated, or raise costs if not. Achieving and accelerating these benefits should add discipline and urgency to energy, industry and transport policy.
- We should aim for globally competitive costs for energy infrastructure delivery. Australia's success in reducing finance costs, delivering timely and stable regulatory decisions, and increasing construction sector productivity will play a significant role in determining our energy competitiveness. Delivery capacity needs to be coordinated with the Integrated System Plan pipeline and other major project demand.

Gases

- Natural gas plays vital roles in industry, power and households today. But the price outlook is bleak and emissions objectives will require alternative ways of delivering these energy services.
- Uses and users of gas are diverse. There is uncertainty about the relative merits and prospects of efficiency, electrification and fuel switching to clean gases including biomethane and hydrogen. The best answers are likely to differ for different energy users.
- Australia should take steps to reduce natural gas demand across all sectors through context-appropriate support for energy efficiency, electrification and fuel switching to clean gases.
- New natural gas supply options should only be facilitated where they make long-term sense in light of affordability and emissions goals, and can be developed with

community safety and consent.

- Supply and demand flexibility can help avoid gas price spikes driven by scarcity. This includes storage and LNG import terminals.
- Clean hydrogen is a promising tool for decarbonising many activities. Reducing current high costs requires policies to drive demand and deployment in tandem. The purpose of fostering early demand is to drive cost reduction, and early uses may not be long-term ones. Hydrogen support policies should avoid inequitable impacts on vulnerable households and businesses. Setting a technology-neutral best practice Safeguard benchmark for new hydrogen production would help build confidence in this fuel.
- Gas market competition and reform remains important to avoid still worse price outcomes. Elements include:
    - Market safeguards, including an extension of the existing Australian Domestic Gas Security Mechanism and alternatives like a national interest test on new gas developments or a prospective national gas reservation scheme, should be considered based on practicality, efficiency and effectiveness.
    - ACCC scrutiny of the domestic gas market is important and should continue.
    - The effectiveness of the voluntary Gas Industry Code of Conduct should be closely monitored and a prescribed voluntary or mandatory Code considered if necessary.

Sectoral transitions

Driving a successful transition to net zero emissions raises distinctive issues in each sector of the economy, though coordination of effort, management of interlinkages and a close eye on community transition are vital to all.

Industry

- Credible policy signals, demand for cleaner products and favourable investment conditions are essential to industry decarbonisation.
- The Safeguard Mechanism should be built on as a driver of long-term abatement within industry and the wider economy. Important elements of Safeguard reform should include:
    - Gradually lowering baseline intensities on a predictable and equitable basis;
    - Automatically crediting performance below baselines, using the baseline reductions as the guarantee of integrity;
    - Measures to maintain trade competitiveness for Safeguard facilities. Options to assess for effectiveness, equity and efficiency include the rate of baseline decline; reviewability or variation of the rate for all facilities or for subsets; transition support outside the Safeguard including funding, finance and contractual arrangements; ability to borrow from future baselines; and border adjustment measures.
- The Safeguard Mechanism is only relevant to large facilities. The Commonwealth should work with the States to level up support for industrial energy efficiency, electrification and fuel switching at non-Safeguard facilities.
- Demand for clean products and inputs will accelerate transformative investment in clean production. However many clean products and materials currently have a significant cost premium. Among many potential options to foster this demand, the Australian Government should consider:
    - Signaling growing forward demand for clean materials in public procurement,

especially for infrastructure and public buildings, and encouraging the States to do likewise.
    - Industrial contracts for difference (CfDs), similar to the energy CfDs used in Australia and elsewhere but focused on the gap between prevailing prices for relevant materials and the strike prices bid in a competitive process by potential producers of clean materials.
    - To speed commercialisation and deployment of the full range of relevant clean technologies across all sectors, the Government should legislate to broaden the mandates of ARENA and CEFC to cover facilitation of a net zero emissions economy.

Transport

- Work with industry to strengthen Australia's existing industry-led vehicle CO2 Emissions Standard to a co-regulatory arrangement under the *Recycling and Waste Reduction Act 2020* that can more effectively support both improved fuel economy and uptake of zero-emissions vehicles, while remaining adapted to Australian circumstances.
- Charging infrastructure rollout needs greater urgency and links to built environment standards (see below). Close coordination with electricity system development is essential.

Built environment

- The Government should work with States on upgrade programs across different built environment sectors, including public buildings, low income housing and rental properties, that can be dialled up and down depending on economic conditions;
- Work with the Australian Building Codes Board, NABERS and others to ensure that mandatory standards and voluntary systems are well designed to promote individually and systemically cost-effective energy use, and help support uptake of clean transport and clean materials. Ensuring provisioning in new buildings for the future installation of vehicle chargers is urgent.

Land and agriculture

- Given the importance of land sector abatement to existing offsetting and Australia's future emissions reduction and export opportunities, a strong reputation for integrity is essential. The Climate Change Authority should be asked to conduct an out-of-cycle review of the integrity of Australia's emissions data, especially for land sector abatement, in cooperation with the Australian National Audit Office and, where relevant, State regulators and auditors.
- Collaborate with States on common approaches to measuring land clearing and best practices for land clearing controls that balance landholder flexibility with the need to end deforestation.
- Avoid crude limits on land sector participation in carbon markets.

Trade

- Work with trade partners, investors, global supply chain participants on opportunities to expand clean energy inputs including minerals, clean energy exports including power and hydrogen derivatives, and clean energy-intensive products to support their net zero goals.
- Manage impacts of overseas decarbonisation on our exports, regions and sectors. Net zero commitments by major customer economies will take time to play out, but require early preparatory action on regional transition and economic diversification strategies, with a strong local voice supported by national resources.
- Improve Australia's readiness for Carbon Border Adjustment Mechanisms (CBAM) and other carbon-related trade measures overseas, including by:
    - Better understanding the emerging EU CBAM and learning lessons from it;
    - Advocating with the EU and others for CBAMs to be fair, workable and WTO-consistent;
    - Engaging with the EU and US on their emerging sectoral agreements on clean aluminium and steel, and potentially participating if they are fair, workable and WTO-consistent;
    - Negotiating emissions data recognition agreements with the EU and other jurisdictions to ease business engagement with CBAMs;
    - Support WTO reform regarding CBAMs;
    - Positioning Australian industry for advantage under CBAMs by implementing other reforms above to ease emissions reductions in industry and across the economy;
    - Exploring Australian CBAM options.