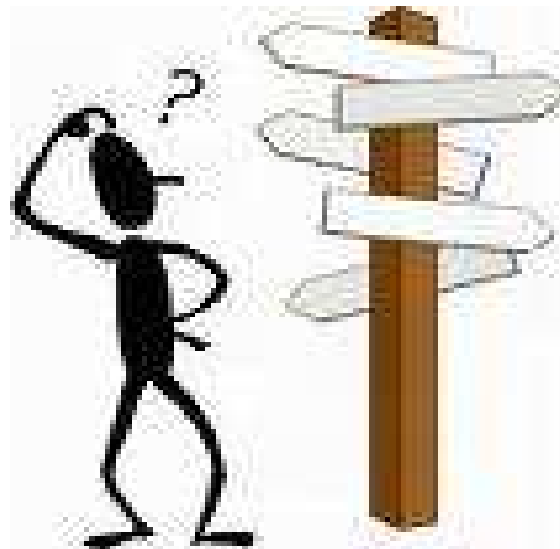




A low carbon future – the challenge for business

National Sustainability Forum April 2010

A challenging time



Ai Group Leaders' Group

- **Formed to refresh Ai Group's policy position**
- **A cross-section of business leaders**
- **Science, international developments, abatement possibilities, policy options and timing**



Principles

- **Do not erode competitiveness of trade-exposed industries;**
- **Meet international emissions reduction commitments at least cost;**
- **The continuity of energy supply should be assured;**
- **Support for emissions reduction R&D;**
- **Compliance costs/regulatory burdens minimised.**



Clearing the ground

- Uncertainties around the science
- Risk mitigation approach
- International developments
 - More to Copenhagen Accord than meets the eye
 - UN process flawed but ongoing
 - New opportunities
 - Hot spots – US, China, India



Competitiveness

- **Pre Global Agreement**
- **EITE/CCAF in CPRS context**
- **Outstanding EITE issues:**
 - Coal not included
 - Threat of premature erosion
 - Scope 2 and 3
 - Value added
- **Trade-exposed activities below EITE threshold/CCAF?**



Least cost

- Lowest *marginal cost of abatement* » market mechanism over micro-regulation
- ETS, Carbon Tax, Baseline and credit
- Addressing competitiveness » micro-regulation (EITE, baselines, refunds for carbon content of exports and tariff on non-priced carbon content of imports)



Electricity

- **Risk of disruption to supply – render high-carbon capacity uneconomic before adequate greener capacity came on stream**
- **Gas the most apparent direction but RET an expensive tilt in the field**
- **Loss of asset value**



Research and Development

- **High emphasis in Garnaut report but not in CPRS**
- **Is market signal/standard R&D tax incentive sufficient?**
- **Too much weight on CCS?**
- **Is R&D support a better approach for renewables than RET?**



Compliance and admin costs

- NGERS
- Addressing competitiveness issues
- 240 programs administered by over 50 agencies
- High risk of more measures

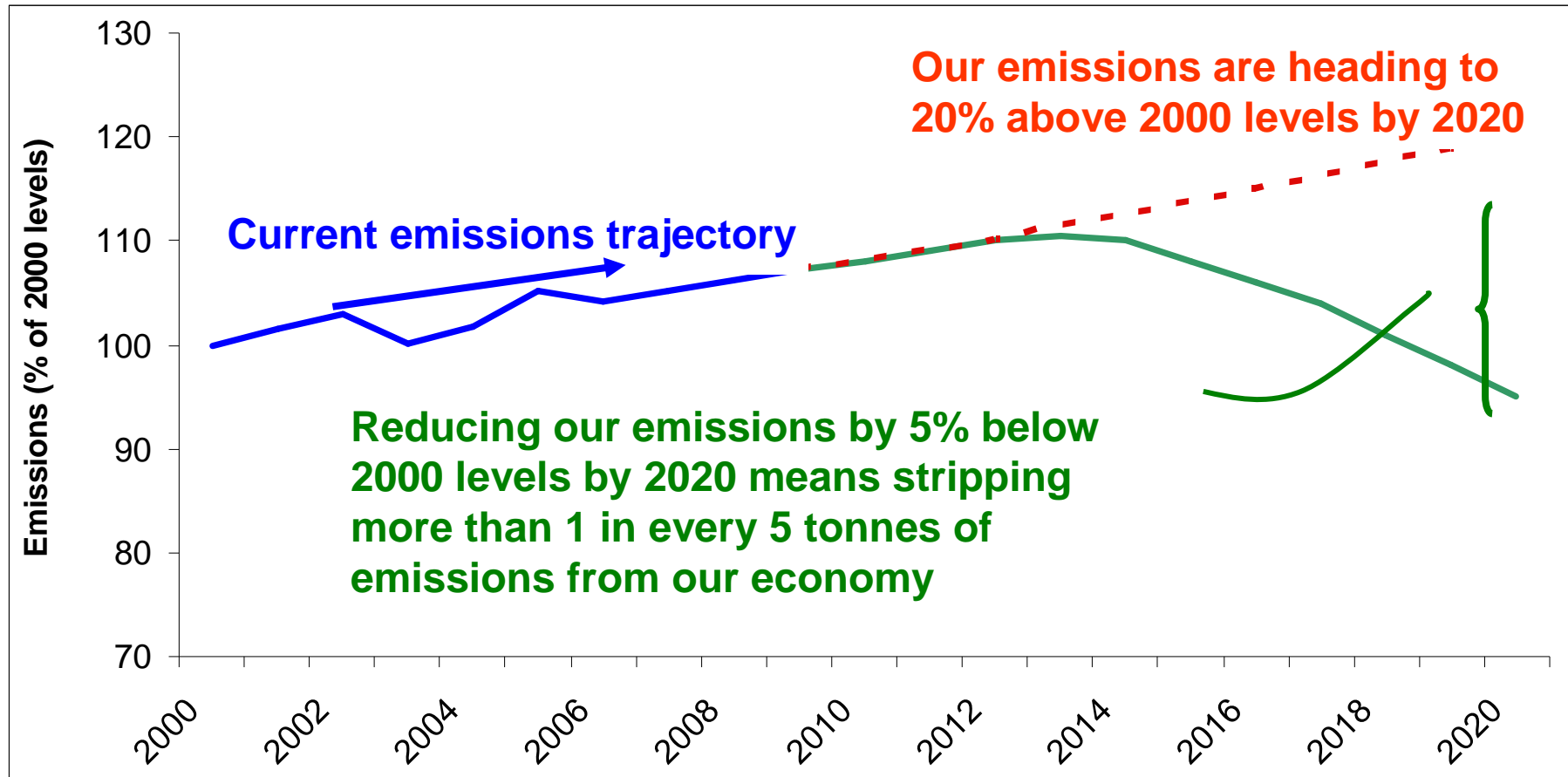


Finding a way through





Unconditional 2020 target of 5% below 2000 remains ...



Market mechanism the long-term solution
... but when
... competitiveness measures needed



Possible directions

- Fix and refine design of the long term framework: a market mechanism, adequate competitiveness measures, and NGERs
- Meanwhile, pursue low cost abatement, build capacity and reduce exposure – inform business and consumers of implications and opportunities and urge/incentivise/require mitigation (including white certificates)
- Add or refine complementary or transitional measures where appropriate, but guard against abatement measures that are high cost (including compliance and admin)
- International – continue efforts to build on agreements and expand carbon markets; forestry and technology transfer are early opportunities
- R&D – e.g. soil carbon, CCS, low emission generation, industrial processes
- Development of voluntary carbon markets





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