



Brotherhood
of St Laurence

Working for an Australia free of poverty

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Climate Change Authority

Submission regarding 2020 Review of the Emissions Reduction Fund

The Brotherhood of St Laurence (BSL) welcomes this opportunity to comment on the Climate Change Authority (CCA)'s review of the Emissions Reduction Fund. The BSL believes that Australia must do more to lower our emissions and increase our resilience against climate change, including through the ERF. As we saw during the 2019–20 bushfires, Australia is highly vulnerable to the impacts of climate change, and unprepared for their scale and impact. People already facing disadvantage are likely to be particularly affected as they lack the social and financial capital to avoid or recover from disasters.

As the Australian Government's flagship climate change policy, the Emissions Reduction Fund (ERF)¹ should theoretically provide much of the emissions abatement necessary to meet our international commitment to keeping warming well below 2°C. However, the ERF on its own is not suitable for the task because the scale of change required is well beyond its budget, and to date emissions reductions have not impacted some of the sectors responsible for the bulk of emissions. Nevertheless, while the ERF is in place, it is important that it is used as effectively as possible.

Where possible, priority should be given to projects that provide co-benefits and increase climate resilience—for example, retrofitting homes to be more energy efficient and resilient against high temperatures.

The remainder of this submission addresses questions from the CCA's consultation paper. Our focus is on households, particularly low-income ones.

How is the ERF performing overall?

While the ERF is successfully delivering some abatement, it has several key limitations:

- **Too little abatement relative to what is required:** The ERF has delivered approximately 75 million tonnes of abatement over the past eight years, but Australia needs to reduce its emissions by 395–462 million tonnes by 2030 to meet its Paris Agreement commitments without using carryover credits.²

¹ In 2019, the Commonwealth announced the Climate Solutions Fund, a continuation of the ERF with some additions. This submission uses the name 'Emissions Reduction Fund' to be consistent with the CCA's terminology.

² Climate Change Authority 2020, '2020 Review of the Emissions Reduction Fund Consultation Paper'; Commonwealth of Australia 2019, *Australia's emissions projections 2019*, Department of the Environment and Energy, Canberra.

Rather than increasing as it needs to, the rate of abatement contracted by the ERF has slowed, which may reflect the exhaustion of cheap, 'low-hanging' abatement opportunities.³

- **Some methods too complex:** For some forms of abatement, such as aggregating small energy efficiency projects, the ERF's requirements are too complex and expensive, resulting in very limited uptake. In some cases, it may not even be possible to deliver a compliant project for the money the ERF would provide. For further detail, see the BSL submission to the combined review of ERF energy efficiency methodologies.⁴
- **Not working for key sectors:** as the consultation paper states, 97% of certificates generated in the ERF so far have been in 'vegetation, waste and savanna fire management projects'. There has been very little abatement in highly polluting sectors such as energy and transport, let alone the transformation these areas will need if Australia is to decarbonise its economy.⁵ Energy efficiency projects make up less than 1% of abatement certificates delivered, despite their potential to 'be one of the lowest cost methods for realising Australia's abatement goals' according to the CSIRO.⁶
- **Potential skew towards non-additional abatement:** The ERF risks purchasing abatement that would have occurred anyway, because the Commonwealth cannot necessarily know what a business would have done in the Fund's absence. This may be exacerbated by the fact that the ERF buys the cheapest available projects, because projects that would be profitable even without the ERF can bid into the Fund at lower prices than projects that require ERF funds to be viable.⁷

What parts of the ERF could be improved and how?

The BSL believes the ERF could be improved through measures to increase uptake and simplify administration for participants, such as:

- **Simplifying methods with little uptake, or subsidising measurement:** where ERF measures are complex and have low uptake, we recommend that methods are reworked in consultation with stakeholders, to lower the cost and work required to participate. For further detail related to energy efficiency, see the BSL submission to the combined review of ERF energy efficiency methodologies.⁸ Alternatively, subsidising the cost of measuring abatement (as recommended by the King Review) might enable participants to comply with complex methods.
- **Providing upfront payment for some methods:** for some potential project proponents, having to wait until emissions have been measured before they receive payment would make participation in the ERF unviable because they would incur unaffordable upfront costs. Providing upfront payment for methods with high initial costs would help address this and encourage uptake.

³ <https://www.reputex.com/research-insights/accu-contract-prices-rise-but-regulator-takes-the-low-road-at-erf-auction-10/>

⁴ See <http://library.bsl.org.au/jspui/bitstream/1/11774/1/BSL_subm_ERF_energy_efficiency_methods_2019.pdf>.

⁵ These sectors are also covered by the ERF's safeguard mechanism, which we understand is outside the scope of this review.

⁶ Quoted in G King, S Smith, D Parker, & A Macintosh 2020, *Report of the Expert Panel examining additional sources of low cost abatement*. Department of Industry, Science, Energy and Resources.

⁷ Burke, PJ 2016, 'Undermined by adverse selection: Australia's direct action abatement subsidies', *Economic Papers: A Journal of Applied Economics and Policy*, vol. 35, no. 3, pp. 1–14.; Senate Environment and Communications References Committee. (2014). *Direct Action: Paying polluters to halt global warming?* Commonwealth of Australia.

⁸ See <http://library.bsl.org.au/jspui/bitstream/1/11774/1/BSL_subm_ERF_energy_efficiency_methods_2019.pdf>.

We also recommend the Commonwealth consider contracting at higher prices, especially where co-benefits exist, as this will increase the volume of abatement available at auction and could attract projects that are more complex or more likely to be additional.

‘Should the ERF more explicitly address climate resilience and impacts? If so, how?’ and ‘What role could the ERF play in future economic recovery efforts?’

Yes, the BSL believes that the ERF should incentivise projects that provide co-benefits such as economic stimulus and climate resilience, including by creating a sub-fund for them in recognition of their benefits to government and broader society.

Energy efficiency projects, for example, could create employment, increase resilience against extreme heat, protect health, lower government spending on health care and energy concessions, lower peak electricity demand and thus investment in the electricity network—all in addition to reducing carbon emissions. However, at present the ERF would not recognise these benefits and the project would struggle to compete against cheaper projects with fewer co-benefits.

For further information about this submission, please contact: Damian Sullivan (e: dsullivan@bsl.org.au m: 0405 141 735) or David Bryant (e: dbryant@bsl.org.au ph: 03 9483 2470).

Yours sincerely,

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