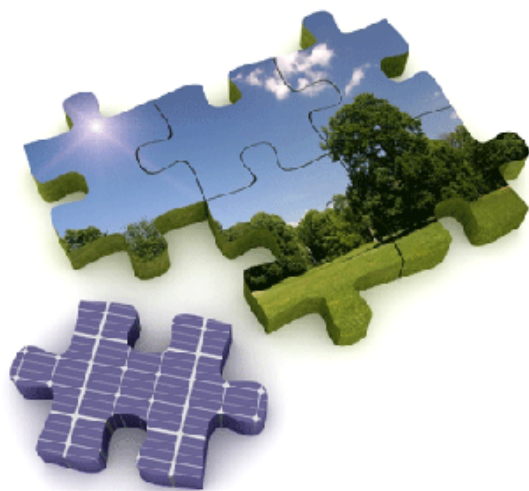


## There's more to it than the price of carbon

Anna Skarbek

**A significant milestone was achieved with the passage of the Federal Government's Clean Energy Future legislation this month. It will finally create an emissions trading scheme for Australia, making low-carbon investments more attractive relative to fossil fuel alternatives and business as usual.**



Credit: Alex Slobodkin/istockphoto.com

What is less well known is that the policy package is more than just a carbon price: it also offers significant complementary measures to help boost business uptake of energy efficiency and carbon farming and support investment in cleaner power generation.

ClimateWorks Australia's research shows that, together with the carbon price, these programs – if implemented effectively – could reduce Australia's emissions by 124 million tonnes. This would take us over three-quarters of the way towards achieving the minimum emissions-reduction target of 5 per cent by 2020 through actions taken in Australia – that is, not including international offsets. This outcome is more than double the Treasury modelling estimates for what could be achieved in Australia through the emissions trading scheme alone – just 58 million tonnes by 2020.

Our research provides solid evidence for strengthening Australia's 2020 pollution cap from 5 to 25 per cent when it is reviewed by the independent Climate Change Authority in two years.

In August, ClimateWorks undertook a detailed analysis of the impact of all the measures in the government's carbon price package. We assessed the package's ability to achieve the abatement potential identified in our [Low Carbon Growth Plan for Australia](#) using the McKinsey cost curve methodology, which ranks emissions-reduction activities by their cost and emissions avoided.

The analysis showed that Australia already has technologies and practices in place that could reduce our emissions by at least 25 per cent below 2000 levels by 2020. These activities fall broadly into three categories, in order of cost: energy efficiency, land use and cleaner power generation.

Looking at financial and non-financial barriers to reducing carbon emissions in these three key areas, we found that the carbon price improves the profitability of these actions by making it more cost-effective for business to reduce emissions. This occurs through both the effect of the AU\$23/tonne starting price, and through the ‘signalling effect’ for businesses making longer-term investments. These businesses know that the carbon price will rise throughout the life of that asset, and that this price can be valued.

Non-financial barriers to reducing emissions include access to capital, information and market structures. These are not addressed by the carbon price, but can be removed as a result of complementary measures in the package. For example, the package provides financial support in the form of grants, loans, equity investments or loan guarantees that will overcome some of the shortage of capital faced by investors.

Measures that provide access to information and improve awareness and understanding of how to achieve energy savings will also help households and businesses reduce emissions.

The complementary measures in the Clean Energy Future package offer programs for each of the three key areas of energy efficiency, land and cleaner power.

Energy efficiency programs include the proposed National Energy Savings Initiative (a ‘white certificate’ scheme), a Clean Technology Investment Program (grants for investing in more energy efficient equipment) and tax breaks for Green Buildings.

Land use programs include the [Carbon Farming Initiative](#), in which farmers and landholders can earn revenue from creating carbon credits through reforestation, fire management and reducing emissions from livestock and fertilisers. To help get these activities underway, \$429m funding will be provided through the Carbon Farming Futures program for workshops, accreditation and pilot projects.

For cleaner power generation, the \$10 billion Clean Energy Finance Corporation, modelled on the UK Green Investment Bank, will help finance cogeneration and projects developing renewable technologies. Assistance will also be provided for contracts for closure, which offer payments for early retirement of the most emissions-intensive coal-fired power stations.

Smart program design and delivery will be critical to ensuring the complementary measures in the carbon price package deliver their full potential for emissions reduction. We need to be closely monitoring progress.

We also need to ensure that enough is done to unlock the remaining opportunities to achieve at least a 25 per cent reduction (272 million tonnes CO<sub>2</sub>e). This is the upper end of the government’s international commitment, and the lower end of the Intergovernmental Panel on Climate Change’s recommendation. It will be necessary to build upon the momentum that this carbon price package can create, and extend its efforts – through measures to deploy more low-emissions power, more ambitious mandatory efficiency standards, and incentives to make it easier for those not currently reached by the package to implement the remaining profitable activities.

All this is within our reach – and it is critical to achieve it this decade.



Anna Skarbek

*Anna Skarbek is Executive Director of ClimateWorks Australia, an independent non-profit organisation whose mission is to facilitate substantial emissions reductions in the next five years in Australia by working with government, business, industry groups and the community via a collaborative action-based approach. It was formed through a partnership between The Myer Foundation and Monash University and has international links with the US-based ClimateWorks Foundation.*

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