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To whom it may concern

Thank you for the opportunity to make a submission to the Joint Select Committee on Australia's Clean Energy Future Legislation

The Conservation Council of South Australia strongly supports the establishment of this carbon pricing mechanism and subsequent improvements to reduce emissions, which science tells us are essential for the future well being of Australians and the environment. We do however have concerns about how voluntary action by individuals, householders, businesses and states is supported under the plan.

The design of the Clean Energy Future Legislation is most important, as the policy is proposed to change from a greenhouse emissions levy, to a cap-and-trade scheme based on permits within a short time. These approaches are quite different in how they influence polluters, consumer markets and community behaviour.

The Conservation Council therefore seeks clarity and improvement in some areas.

Voluntary action is vital

It is critical to acknowledge that whatever the starting price is, the scheme will not be sufficient to reduce emissions at the rate the scientific community suggests is required. This can be deduced as meaning ‘as fast as possible’ if we refer to documents such as the Climate Commission’s report *A Critical Decade* (2010).

Therefore the voluntary efforts of individuals, businesses and governments remain vitally important and must be encouraged rather than hindered. To date however, the Government’s explanation of how voluntary efforts will contribute to the Clean Energy Future Plan has been conflicting and confusing in a number of areas.

Whilst the Conservation Council SA is very supportive of a carbon pricing mechanism we believe that the Government must apply consistent logic acknowledging that *all voluntary efforts which reduce greenhouse gas emissions make it easier for the Government to reduce the scheme cap and Australia’s national greenhouse gas emission target through time*. Currently, the Federal Government does not have this consistent approach and is selective in what it acknowledges or credits as voluntary action.

Voluntary action under the fixed price levy

If the carbon pricing mechanism was merely based on a levy, then all actions to reduce emissions by households, communities and businesses would easily be recognised as additional action, boosted by customers seeking alternatives to goods and services that incorporate the cost of the levy.

- All actions to reduce emissions from householders, communities and business alike would remain as voluntary.
- Any person or entity could adopt low emissions technology, purchasing or efficiency choices to reduce emissions.
- Everyone participates and contributes to the overall outcome for Australia as a whole.

Complementary measures work under a fixed price levy! Actions such as regulating out the worst-emitting processes and supporting low-emission technologies can add to the effectiveness of the fixed price levy for a more rapid transition to a low-carbon economy. These are all complementary to the levy.

Voluntary action under cap-and-trade schemes

With a cap-and-trade scheme however, there are significant changes to what **can** be considered as voluntary, additional and complementary. The Government has so far failed to properly address these matters in the single policy logic that is needed to maintain and grow voluntary efforts. Instead, there is a mixture of what we call rigid thinking and dynamic thinking.

Rigid thinking

Under capped sectors, rigid thinking means that the Federal Government determines the emissions that can be released and no matter what tangible actions individuals make to reduce their emissions voluntarily, the outcome is not changed once the cap is set.

The basic problem is that where one party in a covered sector makes a change to cause less emissions, another party can access the freed-up permits so overall emissions are not changed. Rigid thinking results in a view that **complementary measures do not work under a cap-and-trade scheme, they just pick winners within the scheme.**

Rigid thinking creates the risk that individuals, businesses and states will see no reason to commit to their own greenhouse reduction targets. State greenhouse gas reduction targets would begin to disappear to be replaced with non-abatement targets. Energy efficiency becomes important only as a cost saving measure, not to reduce emissions.

The only way to voluntarily reduce emissions under rigid thinking, is to voluntarily acquire and remove carbon [allowance] units from the market, however, this approach does not work in an environment where the scheme cap is being regularly reviewed and for other reasons that will be described.

This type of rigid thinking is reflected in the COAG Complementary Measures Principles (2008) whereby complementary actions should be limited to sectors that are not covered by the scheme or where the price signal created by the scheme is not sufficient to prevent market failure or where there are non abatement objectives. In many situations the Government is already applying rigid thinking to the detriment of voluntary action and targets in advance of the flexible price period scheduled to start in 2015.

When the Government closed the Greenhouse Friendly scheme many domestic offset providers found that they could not re-accredit their products under the replacement National Carbon Offset Standard as a direct result of rigid thinking. The rationale was that where offsets were created within covered sectors there would no longer be additionality under a cap-and-trade scheme. The new focus of domestic offsets is now through the Carbon Farming Initiative in non-covered sectors.

In practice however, a rigid approach on what is additional and complementary **is full of inconsistencies**. Strictly adhered to, electricity is a covered sector so therefore additional measures focussed on energy efficiency are not complementary, they are picking energy efficiency as a winner, distorting market forces. Yet all Australian governments promote energy efficiency as an essential complementary measure to any market based scheme, and promote energy efficiency as being about more than just cost saving.

Under rigid thinking, the voluntary surrender of Renewable Energy Certificates (for which no corresponding reduction in the scheme cap or National Target is proposed) would not be additional and should not be permitted as they come from within a covered sector. Yet surprisingly, the Government has recognised voluntary RECs in its National Carbon Offset Standard with no planned corresponding retirement of Australian carbon units or Kyoto units.

The Government also talks about what it would recognise as voluntary action under its rigid thinking, failing to acknowledge that wherever Australians use less or make choices for goods and services that result in lower emissions, they are contributing to reduced emissions regardless of whether the Government can account for these actions or not.

Dynamic thinking

Dynamic thinking of how voluntary action should work under a cap-and-trade scheme is also reflected in many of the Government's messages.

With dynamic thinking scheme caps and the national target would be tightened as fast as possible as a result of progress from both voluntary efforts and greenhouse pricing. With dynamic thinking, if companies or individuals are able to halve their electricity use through energy efficiency or buy products and services from within covered sectors to reduce their emissions, then this is a good thing as it facilitates the Government lowering scheme caps. This is particularly relevant to the proposal to set the cap each year for the fifth year in advance, during the flexible price period.

With dynamic thinking, if states choose to have greenhouse reduction targets equal to or more ambitious than the scheme cap or national target this can be seen as a good thing overall as it will enable the Government to reduce caps and targets at faster rates. There is a place for COAG Principles to guide good policy-making that prevents unsustainable outcomes (such as the Solar Credits multiplier fuelling phantom Renewable Energy Credits, displacing renewable energy already required by law and further fuelled by state-based feed-in tariffs). There is no need however for complementarity principles to prevent state governments from setting greenhouse targets or even state-based greenhouse regulations to restrict greenhouse-intensive development.

With dynamic thinking, scheme caps and the national target are **not** treated as fixed outcomes cast in stone as a result of arduous negotiations and adhered to for certainty, they are just the best we can do whilst we strive to do better.

Conflicting logic by Government

During the Federal Government's consultation on the carbon pricing schemes in recent years, the impact of cap-and-trade approaches on voluntary action was only partially addressed, with selective application on what might be additional under capped sectors. This is not only an Australian problem, it is a global problem wherever cap-and-trade schemes are implemented, yet it is a more significant issue in Australia, which has a strong public appetite for voluntary action. There is therefore a need to deal properly with voluntary action and different types of additionality under the Clean Energy Future Plan and legislation.

Different kinds of additionality

- National additionality (whether an action reduces Australia's total emissions) is largely determined by the way that the Government makes adjustments to Australia's greenhouse policies given the progress of reducing emissions. Where the Government has confidence that its programs do provide national additionality that is appropriate, but it should not be at the expense of recognising that tangible actions such as using less electricity as just as important.
- Tangible additionality relates more to real things that people and businesses can do such as using less and choosing better technologies or alternatives. Even turning off lights and turning down air conditioners or heaters are additional tangible actions that everyone can take. The Government should ensure that tangible additionality receives the greatest encouragement at the individual, household, business or even state level. Tangible additionality should be acknowledged and recognised and encouraged within covered sectors. State-based greenhouse reduction targets that achieve faster greenhouse reductions should be encouraged rather than discouraged.
- Hypothetical additionality is often the construct of paper or electronic trading of permits, emission units and derivatives for voluntary surrender. Such mechanisms may or may not make any real difference depending on how these mechanisms interact with other schemes. The concept of government issuing permits that are then voluntarily surrendered as voluntary action (under a rigid thinking approach) is an example of hypothetical additionality.

Why the voluntary surrender of permits does not work as voluntary greenhouse abatement

The voluntary surrender of permits does not work because there is a clash between rigid and dynamic thinking approaches on managing voluntary actions under the flexible price period (cap-and-trade scheme).

- Those people taking traditional tangible actions to reduce emissions under a cap-and-trade scheme by using less electricity or switching to low-emission alternatives free up permits (directly or indirectly) which can cause emissions elsewhere but they do make the situation more feasible for the Government to tighten caps progressively through time. This sounds reasonable so far.

- Then come those that voluntarily acquire and surrender Australian carbon [allowance] units (in effect throwing them in the bin). No actual emissions are reduced but the scarcity of permits and higher permit prices make it harder for the government to tighten scheme caps and the national target. Rather than this approach forcing reductions elsewhere in the economy, it just cancels out the traditional tangible voluntary effort (described above) tonne-for-tonne. Because two different logics are applied in the economy at the same time, the hypothetical additionality of this approach is false. We can call this the 'cancellation of effort' problem as two voluntary efforts cancel each other out.

Quite frankly, the tax-deductible pledge fund described in the Clean Energy Future Plan to help individuals buy and cancel carbon permits is a bizarre notion that cannot be justified under the Government's mixed approach to voluntary action and very real cancellation of effort problem.

To prevent the cancellation of effort problem, the pledge fund should only deal with accredited offsets based on real tangible action and exclude carbon allowance units that are merely created by governments. The Government should not provide a mechanism that treats Australian carbon [allowance] units or international emission allowance units as offsets because permits to pollute are just not offsets. There is ample opportunity for the voluntary market to buy real offsets that are founded in tangible greenhouse mitigation achievements via domestic and international markets.

The Joint Select Committee should investigate how the Government intends to deal with voluntary action in all sectors for the longer term.

Accuracy in terms

The mechanism must adequately define terms and use the various types of units accurately, such as the difference between difference between offsets and allowance units.

- By allowing the import of emissions allowances or offsets from other countries to meet mandatory requirements, Australia does not reduce its emissions, it is allowed to generate more emissions.
- Australian carbon units should be properly defined as Australian carbon **allowance** units. As previously stated they are not offsets and should not be used as offsets under the National Carbon Offset Standard.
- Where Australian corporations purchase allowance units from overseas these should not be confused with offsets.
- Where Australian corporations purchase accredited offsets from overseas which could be converted into Australian carbon [allowance] units they enable Australia to emit more pollution undoing the mitigation that had been achieved overseas.

The description of units and such activities needs to be accurate.

Coverage of sectors

The move toward approving voluntary actions in sectors not covered by the scheme and dismissing voluntary activities from within a covered sector is perhaps short-sighted. Progressively, emissions reductions will be required in all sectors in all countries. By relying on non-covered sectors for voluntary offsets (or from countries without emission caps) the architecture could build in a dependency on uncovered areas and may deter future coverage.

The Joint Select Committee should ask how the risk of creating unintended dependencies on uncovered sectors for offsets may ultimately result in a greater barrier to reducing emissions compared with an approach that encouraged voluntary solutions and offsets from within covered sectors.

Furthermore, the Joint Select Committee should question the danger of other nations becoming overly dependent on providing allowance units and offsets to countries like Australia to meet its obligations, as this may prevent future progress of many nations to commit to targets to reduce their emissions.

Fairness of cap-and-trade pass through costs

As with a fixed price levy, there needs to be a process for fairness to be assured in pass through costs.

The Joint Select Committee should question how greenhouse pass through costs will be applied to GreenPower customers given that these customers pay extra to avoid or reduce emissions.

I would be happy to provide further explanation of the changes that we believe are required to ensure that this very necessary carbon pricing mechanism enhances voluntary action in all sectors by all potential participants.

Kind regards

Tim Kelly

Tim Kelly
Chief Executive

ATTACHMENT 1

COAG Complementarity Principles

COAG Principles for Jurisdictions to Review and Streamline their Existing Climate Change Mitigation Measures

A set of principles (Figure 1) has been developed to guide assessment of emission reduction measures and determine whether the measures complement emissions trading.

Figure 1 Complementarity Principles

Principles

Complementary measures should be assessed against the following principles.

1. The measures are targeted at a market failure that is not expected to be adequately addressed by the Carbon Pollution Reduction Scheme or that impinges on its effectiveness in driving emissions reductions.

   - For example, research and development failures, common use infrastructure issues, information failures and excess market power.

   Complementary measures should adhere to the principles of efficiency, effectiveness, equity and administrative simplicity and be kept under review. They may include:
   a) measures targeted at a market failure in a sector that is not covered by the Carbon Pollution Reduction Scheme.
   b) measures for where the price signals provided by the Carbon Pollution Reduction Scheme are insufficient to overcome other market failures that prevent the take-up of otherwise cost-effective abatement measures.
   c) measures targeted at sectors of the economy where price signals may not be as significant a driver of decision making (e.g. land use and planning).
   d) some measures in (a) or (b) may only need to be transitional depending on expected changes in coverage or movements in the carbon price.

2. Complementary measures should be tightly targeted to the market failure identified in the above criteria that are amenable to government intervention. Where the measures are regulatory they should meet best-practice regulatory principles, including that the benefits of any government intervention should outweigh the costs.

3. Complementary measures may also be targeted to manage the impacts of the Carbon Pollution Reduction Scheme on particular sectors of the economy (for example to address equity or regional development concerns). Where this is the case, in line with regulatory best-practice, the non-abatement objective should be clearly identified and it should be established that the measure is the best method of attaining the objective.

4. Where measures meet the above criteria, they should generally be implemented by the level of government that is best able to deliver the measure. In determining this, consideration should be given to which level of government has responsibility as defined by the Constitution or convention/practice, the regulatory and compliance costs that will be imposed on the community, and how the delivery of the measure is best coordinated or managed across jurisdictions.