



SUBMISSION TO THE
SENATE SELECT COMMITTEE ON CLIMATE POLICY
BY THE
VOLUNTARY CARBON MARKETS ASSOCIATION INC.

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The Voluntary Carbon Markets Association Inc. (VCMA) welcomes the opportunity to provide a submission to the Senate Select Committee on Climate Policy, which is examining policies relating to climate change.

About the VCMA

The VCMA aims to restore the link between voluntary abatement action by Australians and real reduction in Australia's (and global) greenhouse gas emissions. This link is now threatened by the mechanisms of the proposed CPRS.

The VCMA was established in November 2008 as an independent not-for-profit association. It represents a broad range of organisations and individuals, including (for example):

- **Providers of offsets** from both within and outside sectors covered by the CPRS;
- **Organisations** (such as businesses, local governments, etc) that wish to be seen as '**carbon neutral**', or wish to reduce their greenhouse gas emissions and contribute to Australia's reduction in emissions by purchase of Greenpower or offsets;
- **Businesses** that provide **goods and services** that may contribute to voluntary abatement; and
- **Community organisations**, households and/individuals wishing seeking recognition for their voluntary abatement action.

One of the immediate focus areas of the VCMA is to advocate simple changes to the design of the proposed CPRS so that voluntary abatement action by households and businesses contributes to additional reduction of Australia's greenhouse gas emissions beyond those delivered under the CPRS. VCMA's view is that failure to give appropriate credit to voluntary abatement will disenfranchise Australian households and businesses, and drive investment in low carbon businesses and infrastructure offshore. Various implications of the CPRS design on voluntary abatement are discussed throughout this submission.

Responses to the Select Committee's Terms of Reference

The VCMA's responses to the terms of reference set by the Select Committee are outlined below.

- (a) **the choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account the need to:**
- (i) **reduce carbon pollution at the lowest economic cost,**
 - (ii) **put in place long-term incentives for investment in clean energy and low-emission technology, and**
 - (iii) **contribute to a global solution to climate change.**

The VCMA supports the overarching objectives of the Carbon Pollution Reduction Scheme (CPRS) and emissions trading in principle. Emissions trading is an important part of a suite of policy and regulatory measures that the Australian Government and other governments can and should put in place to reduce Australia's carbon pollution. It is not a "silver bullet" in and of itself and should be complemented by a range of mechanisms, including:

- mandatory minimum performance standards for buildings, vehicles and equipment;
- incentives for abatement, innovation and the development of low carbon industries; and
- a vibrant voluntary abatement market.

In addition, to have maximum impact on reducing aggregate greenhouse emissions, emissions trading systems must be designed properly. As Professor Garnaut pointed out in his final report to the Australian Government in December 2008¹, other alternatives, such as a carbon tax, would be preferable to a compromised emissions trading scheme.

One major perverse outcome of the CPRS, as presently designed, is that it will undermine investment in the very industries that will form a basis of a low carbon economy, drive those businesses offshore, and export Australian jobs. It will also disempower the voluntary abatement activities of many Australian households, businesses, local and state governments.

In the VCMA's view, crucially important considerations are timeliness, certainty and a carbon price that is sufficiently high to drive change toward a low carbon economy. It is critical to have a price on carbon from July 2010, as the uncertainty created by delay would be very damaging to the Australian economy. For example, a lack of carbon price will delay investment in energy supply and demand side infrastructure, which will pose risks of blackouts and other crises.

If a consensus cannot be reached on setting a carbon price in this timeframe through a trading scheme, then in the VCMA's view, it would be preferable to establish an interim carbon tax, with the aim of transition to a trading scheme by 2011 or 2012. This is essentially Professor Garnaut's 'second best' option, as outlined in his report.

- (b) the relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils.**

The relative contribution of other complementary measures will depend on the integrity of the trading scheme and its integration into a comprehensive suite of policy and regulatory measures (as outlined above) and the vigour with which they are pursued.

- (c) whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change.**

The VCMA believes the Australian Government has failed to commit to emission reductions that adequately address the need for decisive action on climate change mitigation. The 2020 target outlined in the CPRS White Paper fails to heed the authoritative advice of the landmark Garnaut Review and globally accepted climate change science. Similarly, it is completely at odds with the consensus of developed nations at the Bali Conference of the Parties in December 2007, that the appropriate range of emissions reductions by 2020 is between 25% and 40%. The VCMA supports a commitment to stronger targets that respond to recent developments in climate science and position Australia early on its trajectory to cut 2050 emissions to 2 tonnes of CO₂ equivalent per capita or other level consistent with globally equitable emissions at a sustainable rate.

The CPRS legislation should also make provision for the Government to tighten the cap with less than five years notice (without a requirement for compensation) where credible research indicates that the cap fails to adequately address changes in accepted climate science.

A strong target or cap, however, is not an alternative to accounting properly for voluntary abatement: they are parallel issues. No matter how strong the cap and trajectory, there will be people who want to do more, those who want to offset the impacts of others and organisations that want to be seen as leaders or socially responsible. State and local governments must also be able

¹ <http://www.garnautreview.org.au/index.htm>

to achieve additionality for abatement associated with specific projects and local economic development. In the VCMA's view, both the cap/target and voluntary abatement are important: it's not a situation of "either/or".

(d) an appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be.

Australia's role in reducing global greenhouse gas reductions is significant since our per capita emissions are amongst the highest in the world. Australia is influential in international negotiations and it is therefore incumbent upon Australia to demonstrate leadership in combating an urgent global crisis. It is critical that Australia makes a fair and equitable contribution to the global emission reduction effort, to encourage the participation of developing countries in a global response.

Whatever targets are negotiated by the Australian Government, there will be individuals, organisations and other levels of government who will consider them inadequate. This makes it even more important to properly recognise voluntary abatement action, beyond any national target or cap. Proper recognition of voluntary abatement empowers any person, organisation or government to take action consistent with their beliefs about what a fair and equitable contribution might be and indeed, to choose the form of abatement they regard as most effective and appropriate.

(e) whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues.

According to the current design of the CPRS, options for voluntary abatement or offsets that will reduce Australia's overall level of greenhouse gas emissions are limited to:

- Voluntary purchase and surrender of Australian Emissions Units (AEUs);
- Voluntary purchase and surrender of internationally traded permits eligible under the CPRS – which does not include privately certified offsets such as Gold Standard and Voluntary Carbon Standard, as they are not recognised under the Kyoto Protocol; and
- Under some circumstances, domestic offsets from uncovered sectors.

This creates pressures to shift voluntary abatement activity offshore; resulting in loss of investment in low carbon industries and loss of Australian "green collar" jobs. These are the industries that should be actively encouraged if Australia is to transition to a low carbon, economically successful, future.

The level of the investment signal to the economy will depend on the carbon price set by the emissions trading scheme in both the short and longer term. As noted above, the carbon price must be sufficiently high to drive investment in green collar jobs, research and development, and the manufacturing and service industries. If the design of the emission trading system militates against this general principle, the whole purpose of the scheme is undermined.

Additional comments

The issue of voluntary abatement is relevant to all of the Committee's terms of reference, as outlined above.

Voluntary action is critically important as a means of galvanising community and business support for Australian abatement activity, to reduce global greenhouse gas emissions. Voluntary action does not run counter to the objectives of the CPRS: rather it complements and enhances them.

The **attached** VCMA Submission to the Senate Standing Committee on Economics Inquiry into the Exposure Drafts to Implement the CPRS outlines how the Australian Government can overcome the perverse outcome of disempowering individuals and organisations by adjusting Australia's emission reduction targets to recognise independently verified voluntary action.

In addition to the attached submission, the VCMA outlines below some responses to recent comments on the nature, merits and effectiveness of voluntary abatement.

What is voluntary abatement?

When people think of voluntary abatement, they often think of the actions of individuals and households in purchasing Green Power, or Australian domestic offset products to counterbalance emissions from specific activities. Under the present design of the CPRS, neither of these activities will result in additional abatement and will therefore deliver no environmental benefit.

However, voluntary abatement is not just the actions of households: it involves many and varied abatement activities by business, state and local governments, which drive local economic development and other benefits.

Many businesses are actively pursuing carbon management strategies to reduce their emissions footprint, by purchasing offsets and Green Power. Under the present design of the CPRS, businesses that are not liable parties under the CPRS and that wish to take emissions reduction action that is additional will need to purchase and surrender AEU's or purchase internationally-sourced Kyoto-compliant offsets. This does not generate local environmental or economic benefits.

Voluntary action by households and communities has been actively encouraged by Commonwealth, State and local government incentive programs, for example state government subsidies for installation of solar hot water systems.

In addition, local and State governments can undertake their own voluntary emissions reductions activities — for example, several state governments have publicly committed (in some cases as election commitments) to offsetting the emissions of energy intensive desalination plants. Under the present CPRS design, governments cannot fulfill such commitments through the purchase of offsets that support economic and social development in their own jurisdictions.

Another example of government voluntary action is local investment in low emissions and/or renewable energy infrastructure, such as Victoria's \$100 million contribution to the development of a large scale solar farm near Mildura.

It is clear that state governments are becoming increasingly concerned that the above activities will not be additional and are reconsidering their emissions reductions targets, policies, incentive and investment programs.²

How significant is voluntary abatement?

Voluntary abatement is already a \$150 million per annum activity in Australia, and is likely to grow as people become more concerned about climate change and want to do more to cut Australia's emissions. But beyond the amount of money, this is a fundamental principle: an individual or organisation that acts should be able to achieve additional abatement at the aggregate or global level – using the form of abatement they prefer.

² See for example, concerns raised in Victorian Government Ministerial briefings, as reported in the article "Cabinet talks on target's futility", by Royce Millar and Adam Morton, *The Age*, 24 March 2009, page 1

Why do we need more than the price signal provided by the CPRS to drive voluntary action?

Some commentators are asserting that the CPRS will close the gap between renewable energy and conventional energy prices, and make energy efficiency more attractive – and that this is a sufficient incentive.

In reality, many economic studies show that large changes in energy prices have little impact on energy use. The CPRS will certainly send a signal encouraging abatement, but it will have a modest effect on most businesses and households. Also, many abatement measures will still cost more (e.g. investing in solar cells), so there is a need to encourage voluntary action over and above the CPRS. Lastly, the CPRS will directly involve only about 1,000 large emitters in trading. They will select the forms of abatement that suit them best – not the forms that other Australians prefer, nor even those that would be cheapest for society. Therefore, we need complementary mechanisms for individuals, non-liable businesses and government to engage in abatement activities that are most appropriate and effective for them.

Price signals are relatively minor in decisions about voluntary abatement because those who take voluntary action are prepared to pay a price premium provided they are assured that they are “making a difference” to global emissions reductions.

Voluntary abatement already counts under the CPRS so why the need to account for it separately?

The Government argues that, under the present CPRS design, voluntary abatement lowers the demand for permits and therefore lowers the price of permits and therefore makes achieving the emission cap less costly for the whole society. This means that Governments will be able to set tougher caps in the future. Therefore the assertion is that voluntary abatement does in fact have an impact within the CPRS. In theory, this is true. However, the detailed design of the CPRS, which allows 100% imported permits to be used for compliance, and at least initially, bans export of Australian permits, means the pool of permits available will be extremely large.

Therefore, removal of permits due to voluntary action will have a very small impact on the permit price and hence the total cost of abatement. The Government’s argument clearly does not stand up as the price impact of voluntary abatement will be negligible. Timely and appropriate recognition of voluntary abatement, in the manner proposed by the VCMA in the attached submission, will be far more effective in ensuring that voluntary abatement has a positive impact.

Further, individuals, businesses, and governments are focused on seeing a short term outcome for their voluntary abatement efforts. The current design of the CPRS effectively discourages voluntary activity since it clearly shows that any consideration of voluntary action will not take place for at least five years. Further, adjustments beyond 2015 will be at the discretion of the particular Minister in the particular Government at a particular time in the future.

This certainty that voluntary abatement will not be considered for at least five years – and may not in fact be considered at all - destroys any impetus for the survival and growth of an innovative and dynamic market which currently drives job growth and multiple benefits for the community. This also disempowers the actions of many community members, local governments and companies wishing to make a difference to global emissions and undermines the community’s support for abatement broadly.

For further elaboration on the VCMA’s views on the importance of voluntary abatement and suggestions for relatively easy amendments to the CPRS design to recognise and account for voluntary abatement activity, please refer to the **attached** submission.

The VCMA is grateful for the opportunity to provide this submission to the Senate Select Committee on Climate Policy. We would be pleased to provide further information on any of our comments.