CHAPTER 8

THE GREENHOUSE CHALLENGE

> *Proper evaluation of the Program's effectiveness must be based on a clear assessment of the extent to which the participating companies actually reduce their emissions below the levels they would reach without the Program.*[1]

Introduction

8.1 The Greenhouse Challenge Program was first announced in 1995 as a joint government-industry initiative for working toward the reduction of greenhouse gas emissions by industry.[2] The Program is a key plank of the Government's strategy for demonstrating Australia's early response to the challenge of global warming.[3] 'Early action' policies and programs are broadly aimed at capturing the potential for reductions in emissions through voluntary and cost-neutral steps. They are likely to remain a dominant feature of the Government's greenhouse policy in the absence of binding domestic or international targets.[4]

8.2 This chapter critically evaluates the effectiveness of the Greenhouse Challenge Program as a major Government policy for meeting Australia's Kyoto target. The Committee believes that integrated and strategically managed programs for industry emissions abatement are a critical component of the Commonwealth's overall response to global warming.

8.3 A number of industry witnesses argued that the Greenhouse Challenge should be the basis of national greenhouse policies. Its voluntary approach was clearly preferred to more binding measures by most industry members. The Pulp and Paper Manufacturers Federation of Australia (PPMFA) expressed a typical view:

> The PPMFA considers that an expanded program of voluntary agreements should form the foundation of Australia's national greenhouse response. In our view there are many potential 'no regrets' and 'low regrets' measures

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1 The Australia Institute, Submission 79d, p 2298.

2 The Australian Greenhouse Office, Submission 169, p 1690.

3 It contributes to the major priority of the National Greenhouse Strategy of 'limiting greenhouse emissions', Australian Greenhouse Office, *The National Greenhouse Strategy: Strategic Framework for Advancing Australia's Greenhouse Response*, 1998; and see The Australian Greenhouse Office, Submission 169, p 1680.

4 This definition is taken from a US report by the President's Council On Sustainable Development Climate Task Force, http://www.whitehouse.gov/PCSD/tforce/cctf/cprinc.html. It appears to be a widely accepted explanation of 'early action' policy and fairly describes the approach taken by the AGO.

> that have yet to be fully exploited. This should be done before other measures of a more mandatory nature are considered.[5]

8.4 The weight of evidence presented to the Committee suggests, however, that the Greenhouse Challenge principle of 'no regrets' will severely constrain the capacity of the Government to achieve significant emissions abatement over the longer term. Indeed, there is also some question as to whether the Greenhouse Challenge has achieved significant emissions reductions over and above what would have been achieved through a business as usual approach with normal productivity and efficiency improvements. The level of emissions reduction that it is likely to be required of Australia in meeting our Kyoto commitments, and potentially more stringent commitments beyond 2012, points to the need for a more comprehensive approach.

8.5 Senator Robert Hill, Minister for Environment and Heritage, has stated that: 'The Kyoto outcome has given Australia the breathing space required to make the structural changes in our economy'.[6] The Greenhouse Challenge Program is potentially a key mechanism for engaging industry on the political, social and economic implications of climate change. The Committee believes that the Program has so far failed to exercise a clear strategic role in influencing industry toward an acceptance of the environmental drivers of the 'new economy'. The Committee holds that this needs to be an essential aspect of Australia's practical industry programs, if Australia's economic standing in a global economy is to be preserved over the longer term.

8.6 The Committee is of the view that the Greenhouse Challenge Program can be a useful vehicle for raising industry awareness of climate change and expertise in emissions accounting and emissions abatement. These features of the Program could potentially contribute to preparing industry for the introduction of an emissions-trading system, either internationally or domestically. The Committee concludes that the Program should be viewed as a transitional strategy until a more comprehensive framework for industry emissions abatement beyond 'no regrets' is implemented.

8.7 This chapter also assesses a number of concerns raised with the Committee about the current administrative framework of the Greenhouse Challenge Program, the effectiveness of the Program in delivering additional emissions reduction and the extent to which the Government's relations with industry under the Program are accountable and transparent.

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5 Pulp and Paper Manufacturers Federation of Australia, Submission 190, p 2006.

6 Senator the Hon Robert Hill, *Opening Address to the Insurance Council of Australia's Canberra Conference*, 10 August 2000, Department of Environment and Heritage, Media Release and Speeches, http://www.environment.gov.au/minister/env/2000/sp10aug00.html (13/08/00), p 3.

The Scope of the Greenhouse Challenge Program

8.8 The Greenhouse Challenge Program was first initiated in 1995 under the Keating Labor Government's Greenhouse 21C package. Cooperative agreements with industry were expected to yield in the order of 15 Mt CO2-e by 2000 and include inventories of baseline greenhouse gas emissions, energy and greenhouse gas audits, specific greenhouse action plans and regular objective assessment and reporting.

8.9 In 1997 the Coalition Government continued support for the Program and allocated $27.1m over five years to promote industry involvement in the Greenhouse Challenge Program,[7] (the budget for 1999 to 2000 was $6.431m).[8] It has widespread support among participating businesses. The main focus of the Program's activities has been to build capacity for the accurate measurement and reporting of emissions, and to encourage industry to improve its efficiency in energy use and processing. It has also promoted other greenhouse gas emissions strategies, for example, the use of carbon sinks.

8.10 The Greenhouse Challenge Program targets 55 per cent of Australia's total emissions and aims to cover most sectors of industry. Program members currently account for 47 per cent of emissions from the resource, mining, manufacturing, transport and services sectors and approximately 90 per cent of emissions from the electricity generation sector.[9]

8.11 The Program aims to register 500 organisations by the end of 2000 and 1,000 by 2005. So far, the Australian Greenhouse Office (AGO) has concluded 366 agreements and a further 238 businesses have indicated their 'intent to sign' formal agreements.[10]

8.12 The Greenhouse Challenge Program has deliberately targeted large emitters first and, more recently, developed specific strategies to harness the potential for small- to medium-sized businesses to contribute to emissions reduction. This segment of the market could prove more difficult to capture than big business. There are a very large number of small and medium-sized businesses in Australia with an uncertain capacity to make significant savings.[11] Notwithstanding this, a commitment

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7 Statement by the Prime Minister of Australia, the Hon John Howard, *Safeguarding the Future: Australia's response to climate change*, 20 November 1997, http://www.greenhouse.gov.au/ago/safeguarding.html (17/07/00), p 1.

8 Email to the Committee from Linda Powell, Executive Manager, Partnerships Group, Australian Greenhouse Office, 26 July 2000.

9 Quoted from *Greenhouse Challenge: Evaluation Report* 1999, p 19. See also, *The National Greenhouse Strategy*, 1998, p 34.

10 Letter to the Committee from Linda Powell, Executive Manager, Partnership Group, Australian Greenhouse Office, 23 August 2000.

11 According to the *Annual Report of the Department of Employment, Workplace Relations and Small Business for 1998-99*, there are approximately 948,000 private sector non-agricultural small businesses in Australia. These businesses produce more than one third of Gross Domestic Product and account for about 40 per cent of total public and private sector employment (p 38).

by all parts of industry to sustained reductions in greenhouse gas emissions could play a significant role in meeting Australia's commitments under the Kyoto Protocol.

8.13 The Greenhouse Challenge Program operates on the principle that market-based solutions offer the maximum scope for achieving Australia's greenhouse objectives at the least cost to the economy as a whole. The Program reflects the Government's view that Australia's policy response to global warming should not undermine the competitiveness of our domestic industries. The Prime Minister has consistently argued that Australia's interests:

> … lie both in protecting Australian jobs and Australian industry whilst ensuring that Australia plays her part in the world-wide effort needed to reduce greenhouse gas emissions… we are not prepared to see Australian jobs sacrificed and efficient Australian industries, particularly in the resources sector robbed of their hard-earned, competitive advantage.[12]

8.14 This is the basis of the AGO's promotion of 'no regrets' strategies, which are designed to avoid imposing unnecessary costs on Australian industry, whilst still allowing the Government to achieve its international policy objectives. First advanced by the Labor Government in 1990, the 'no regrets' policy stated that Australia would not undertake emissions abatement without comparable action by other countries. Australia would only commit to actions which delivered benefits in addition to greenhouse gas abatement.[13]

8.15 The Coalition Government has since broadly applied 'no regrets' principles to domestic abatement programs, such as the Greenhouse Challenge. A key objective of the Program implies that progress in emissions abatement is conditional on protecting industry interests:

> A successful program will mean that Australia is developing sustainable strategies that respond effectively to climate change, while enhancing Australian industry competitiveness.[14]

8.16 The Greenhouse Challenge Program does not require a business to adopt any strategy or set of practices aimed at emissions reduction which might impact on its profitability over the short or longer term. Industry currently enjoys a maximum degree of control and flexibility in deciding how and when it will reduce its emissions. This flexibility allows companies to make adjustments to suit their individual business circumstances. The Program allows companies to determine what actions they consider 'no-regrets' (or cost-effective) without any independent measure of what

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12 Statement by the Prime Minister of Australia, the Hon John Howard, *Safeguarding the Future: Australia's response to climate change*, 20 November 1997, http://www.greenhouse.gov.au/ago/safeguarding.html (17/07/00).

13 *Australia and Greenhouse Policy - A Chronology, Background Paper No.4 1997-98*, Parliamentary Library Information and Research Services, p 6.

14 http://www.greenhouse.gov.au/challenge/.

actions may be economic. In the Committee's view, this approach complicates any assessment of the Program because it effectively blurs the distinction between reductions which may have resulted from normal business efficiency measures and those which are attributable to the Program.

8.17 Australia won concessions from the international community at the 1997 Kyoto Conference by arguing that, unlike most other developed countries, Australia's economy was heavily reliant on energy-intensive industries. However, a consensus may now be emerging among developed nations that the economic impact of introducing emissions controls may not be as great as originally thought.[15] This is largely due to the increasing availability of new, efficient and cost-effective energy technologies and the creation of new forms of wealth through the information economy.

8.18 In an address to a US forum on climate change in April 2000, Senator Robert Hill, stated that:

> We need to challenge the mind-set which says that it is necessary to sacrifice economic competitiveness to achieve a better environmental outcome. In fact, the contrary is the case. Strong economics is not only compatible with better environmental outcomes; it can in fact better ensure environmental improvement. The US experience, which is similar to Australia's, is that improved economic performance and growth has given industries the capacity to invest in new technologies which deliver better environmental outcomes.[16]

8.19 Coupled with 1998 National Greenhouse Gas Inventory (NGGI) data indicating Australia's relatively poor performance in emissions abatement, these developments renew pressure on Australia to make a credible contribution to the global effort to mitigating the impact of human activity on the climate.

8.20 More recently, Senator Hill hinted at the prospect of Australia being isolated by international trends in climate change policy:

> The recent US experience that you don't have to sacrifice economic growth to gain savings in greenhouse gas emissions could become another factor which ultimately paves the way for US ratification of the Kyoto Protocol.
>
> The ability of developed nations to decouple their economic growth from emissions growth will have major implications when the international

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15 President Clinton's *State of the Union Address (27 January 2000)*, discounted industry concerns about the economic impact of introducing emissions controls: 'Many people still believe you cannot cut greenhouse gas emissions without slowing economic growth. In the Industrial Age that may well have been true. But in this digital economy, it is not true anymore. New technologies make it possible to cut harmful emissions and provide even more growth', http://www.whitehouse.gov/Initiatives/Climate/main.html.

16 Department of Environment and Heritage, *Hill Addresses Key Global Warming Forum'*, 26 April 2000, Media Release, http://www.environment.gov.au/minister/env/2000/mr26apr00.html.

> negotiations begin to determine the first round of post-Kyoto Protocol reduction commitments. Nations which have achieved this decoupling will be well placed to meet these further commitments. Nations which continue in the ways of the past will inevitably face an even tougher, more costly task. It seems sensible that Australia should take precautionary action now to ensure it does not fall into this latter category. [17]

8.21 Australia's national approach of primarily 'no regrets' has allowed the Government to place primary emphasis on the interests of Australian industry in its negotiations in the international arena. It does not automatically follow that, when applied at the level of individual businesses, a 'no-regrets' approach is capable of delivering the best outcome for Australia as a whole. In evidence to the Committee, AGO representatives acknowledged the limitations of voluntary action:

> [The] Government did not believe, and neither did industry at that point, that a target that came out of Kyoto could necessarily be met by voluntary action alone… we now have a range of activities that include voluntary action and regulatory action, where it makes sense, and mandated targets for example in renewable energy.[18]

and

> A key matter for on-going attention is whether the current package of policies and measures will in fact lead to the required net reduction in emissions by 2008 to 2012.[19]

8.22 The Australian Government is engaged in a balancing act. The current policy framework seeks to avoid unnecessary costs in adjustment, whilst recognising the potentially significant costs to future generations of not taking serious action until we are compelled to do so. Senator Hill has indicated his support for the 'precautionary principle' in managing climate change, 'which dictates that we act now to reduce our impact', describing it as 'nothing more than the sort of commonsense approach that Australians take to a range of everyday issues'.[20]

8.23 Pacific Power was one of many contributors to the Committee's inquiry who emphasised the critical role of Government in putting in place the policy frameworks for managing a fundamental shift to new paradigms of economic production:

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17 Senator the Hon Robert Hill, *Opening Address to the Insurance Council of Australia's Canberra Conference*, 10 August 2000, Department of Environment and Heritage, Media Release and Speeches, http://www.environment.gov.au/minister/env/2000/sp10aug00.html (13/08/00), p 3.

18 *Proof Committee Hansard*, Canberra, 9 March 2000, p 17.

19 *Proof Committee Hansard*, Canberra, 9 March 2000, p 4.

20 Department of Environment and Heritage, '*Opening Address by Senator Robert Hill to the Insurance Council of Australia's Canberra Conference*', 10 August 2000, p 2, http://www.environment.gov.au/minister/env/2000/sp10aug00.html.

> … it is important that… there are policy initiatives in place that facilitate a gradual transition from the present industrial base to that of the future.[21]

8.24 The central question posed by the Committee in this chapter is whether Australia's current approach of 'no regrets' greenhouse emissions abatement fully captures the potential for industry to support Australia's long term interests in a sustainable economy, a healthy environment and the preservation of our basic living conditions.

How Should the Greenhouse Challenge Program be Evaluated?

8.25 According to the National Greenhouse Strategy (NGS), the engagement of industry through partnership arrangements is an essential component of the Government's practical response to managing Australia's emissions profile.[22] As international pressure increases for Australia to demonstrate credible emissions savings, enhancing the capacity of industry to contribute to Australia's national greenhouse goals is a matter of urgency.

8.26 It is against this background that the effectiveness of the Greenhouse Challenge Program, as an instrument of national policy, must be assessed. It is the Committee's view that the primary purpose of evaluating the Program should be to determine its success in harnessing the capacity of industry to make a *significant* contribution to our national emissions abatement target. This means that emissions by Australian industry need to reduce over time relative to the levels that would have occurred without policy controls.[23] In assessing the performance of the Greenhouse Challenge Program against this benchmark the Committee has considered whether:

- a substantiated, significant reduction in the levels of emissions by industry has been achieved as a direct result of the Program;
- the Program's market incentives and 'no regrets' approach have been effective as inducements to emissions abatement;
- the Program demonstrates the broadest possible level of participation by business and the deepest possible commitment to emissions reduction; and
- the role of the Program in the overall mix of policies and programs implemented by Government is adequate to the task of reducing our national emissions over the longer term.

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21 Pacific Power, Submission 98, p 803.

22 National Greenhouse Strategy, 1998, p 34.

23 The original objective of the Greenhouse Challenge Program was to 'capture the capacity of industry to abate its greenhouse emissions.' The Wilkenfeld evaluation of the Greenhouse Challenge Program in 1996 noted that '*capture* in this context can be taken to imply two meanings: to *prompt* actions that may not otherwise have occurred, and to *document* actions, whether or not they would have occurred.' This Committee has placed a clear emphasis on determining the extent to which actions have been undertaken as a result of Government policy and more specifically, the Greenhouse Challenge Program.

8.27 The Greenhouse Challenge Program offers a range of incentives which directly and indirectly benefit business competitiveness. Improvements in energy efficiency and consequent reductions in energy costs are obvious benefits of participating in the Program. The Program also provides significant public relations benefits, with Government endorsement of participants' actions and publicly funded advertisements promoting emission abatement activities. Beyond this, the Greenhouse Challenge Program has a potentially significant role to play in facilitating the transfer of expertise between businesses and fostering innovative and flexible approaches to reducing greenhouse gas emissions. For the Government, the Program should also be a key mechanism for deepening industry understanding of the evolving science of climate change and for initiating broad-based discussion on strategies for managing the implications of global warming.

8.28 As a voluntary program, the Greenhouse Challenge Program relies critically on winning the confidence of industry and the broader public in the integrity of the Program and its processes. If the public is to be assured that the Program is making the most effective use of its resources, the Program must aim for a high degree of transparency in all aspects of its management. This chapter will give attention to the AGO's mechanisms for ensuring that the claims made by industry accurately reflect its achievements.

8.29 At the most basic level, the Program needs to demonstrate that it has the capacity to accurately and reliably measure the performance of individual participants. The Government has an important role to play in setting the standards by which the Program's results will be measured, and ensuring that sufficient scientific and technical expertise exists to support the implementation of those standards.

8.30 Measuring the results of the Program is only one, albeit critical, aspect of the Program's activities. Of equal significance for the integrity of the Program are the mechanisms for ensuring that individual participants of the Greenhouse Challenge Program are held to account, if it becomes apparent that they have *not* made credible efforts to comply with agreed standards. Ensuring that the Program adheres to basic principles of accountability also supports the interests of industry as it considers the design of a future emissions trading system.

8.31 This chapter will examine:

- how the results of the Program are verified;
- whether members are held to account for their performance; and
- whether the Program's operations are sufficiently transparent.

8.32 Two independent evaluations of the Greenhouse Challenge Program have been commissioned by the AGO. The first report was prepared by George Wilkenfeld and Associates with Economic and Energy Analysis ('the Wilkenfeld Report') in 1996. The most recent report commissioned by the AGO was completed in 1999 by the 'Greenhouse Challenge Evaluation Steering Group', chaired by Professor Stuart

Harris ('the Harris Report').[24] The findings and recommendations of those evaluations are incorporated into the main discussion of this chapter.

Voluntary Features of the Greenhouse Challenge Program

8.33 The Greenhouse Challenge Program was welcomed by most parts of industry because it gave recognition to the capacity of business to determine how and when it would make emissions savings. The Program offers business a range of market-related incentives to join (for example, reduced energy costs and 'green credentials') whilst placing the onus on business to demonstrate that more interventionist instruments are unnecessary. A number of industry representatives emphasised the practical advantages of the Government's voluntary approach. The following comments were typical:

- Minerals Council of Australia:

> Members who participate in the Program are… best placed to identify and implement policies and measures to abate greenhouse gases appropriate to their business.[25]

- Woodside Energy Ltd:

> … voluntary partnership programs can deliver the required abatement outcomes in a flexible and cooperative atmosphere.[26]

and

- Southern Pacific Petroleum:

> The absence of bureaucratic and regulatory boundaries has enabled a far higher rate of participation and far greater reduction in greenhouse gas emissions (~20 Mt CO_2-e /yr) than would have been achieved in a mandatory framework.[27]

8.34 There are two essential components to industry's practical involvement in the Greenhouse Challenge Program. Participants in the Program are firstly required to set a target for emissions abatement and secondly, to meet that target within an agreed

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24 The membership of the Greenhouse Challenge Evaluation Steering Group was drawn from senior levels of the Australian Greenhouse Office, the Department of Industry, Science and Resources, Agriculture, Fisheries and Forestry - Australia, the Australian Industry Greenhouse Network, the Australian Petroleum Production & Exploration Association and the Cement Industry Federation. Professor Stuart Harris is appointed at the Research School of Pacific and Asian Studies at the Australian National University, (from the *Greenhouse Challenge Evaluation Report*, p 81).

25 *Cooperative Agreement, A Report on the Greenhouse Challenge 1998-99*, Tabled document, 10 March 2000, Canberra, p 2.

26 Woodside Energy Ltd , Submission 129, p 1289.

27 Southern Pacific Petroleum, Submission 172, p 1751.

timeframe. Only the first component appears to be enforced, with the second seemingly subject to on going revision.

8.35 The following discussion explores whether the flexibilities afforded Greenhouse Challenge participants, in meeting their targets, genuinely promote greater emissions abatement than might be the case under a regime with mandatory performance criteria. The discussion will also address whether the voluntary nature of the Program has lessened standards of accountability in the use of public money.

How It Works

8.36 A key feature of the Greenhouse Challenge Program is the emphasis placed on voluntary Cooperative Agreements. A Cooperative Agreement is the practical vehicle for capturing the potential of a company to reduce emissions.

Cooperative Agreements

8.37 On becoming a member of the Greenhouse Challenge Program, a company or industry association commits to the development of a Cooperative Agreement which sets out the company's plan and preferred approach to reducing its level of greenhouse gas emissions within a given timeframe. In the case of an industry association, a Cooperative Agreement would outline strategies for achieving a net reduction in emissions by association members as a whole.

8.38 The typical elements of a Cooperative Agreement are:

- an emissions inventory;
- an assessment of opportunities for abating greenhouse gas emissions;
- the development of specific greenhouse action plans; and
- a commitment to regular monitoring and reporting of performance against action plans and provision for performance verification.[28]

Setting targets

8.39 In the Committee's view, it is important to assess the value of emissions savings achieved by industry in relation to Australia's overall greenhouse gas reduction objectives. The NGGI figures released in 1998 indicate that total greenhouse gas emissions increased by 16.9 per cent between 1990 and 1998, from 389.8 Mt to 455.9 Mt. Australia has already exceeded the 421 Mt level which would enable it to meet our international commitment of 108 per cent of 1990 levels (excluding estimates for land clearing which will affect Australia's 1990 baseline).[29]

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28 See *Guidelines for the Cooperative Agreements Program*, p 2, http://www.greenhouse.gov.au/challenge/guidelines.html.

29 Australian Greenhouse Office, *NGGI*, p A-3.

8.40 Although the first seven Cooperative Agreements under the Greenhouse Challenge Program were concluded in June 1996, it is unlikely that emissions savings as a result of these and subsequent agreements would have had any significant impact on national emissions levels to 1998.[30] If it is assumed that the achievements of the Program and all other abatement programs will come to bear in the NGGI figures for 2000, Australia would need to achieve an annual net decrease of at least 34.9 million tonnes from 1998 figures to reach an average annual target of 421 million tonnes (Mt) for the commitment period of 2004 to 2008.[31] In evidence given to the Committee before the release of the 1998 Inventory figures, the AGO explained that:

> The 'without measures' scenario - that is, no measures - was going to bring us to 140 per cent above the 1990 baseline by 2010. So the measures that were in place through the National Greenhouse Response Strategy, which was the forerunner of the NGS, and the measures that were announced by the Commonwealth in 1997, brought that down to an estimate of 118 per cent. We have revised that estimate slightly to allow a bit more range because of greater than expected growth… .[32]

8.41 These figures have led the Committee to question whether the level of savings expected from industry under the Greenhouse Challenge Program will allow Australia to meet its international obligations.

8.42 In 1997, the Prime Minister, Mr Howard, indicated his expectations for the Greenhouse Challenge Program by announcing that 'participants have committed themselves to reduce their forecast growth in emissions by about 22 Mt of carbon dioxide equivalent by the year 2000'.[33]

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30 Australian Greenhouse Office, *National Greenhouse Gas Inventory: Analysis of Trends and Greenhouse Indicators 1990-1988*, 'It is difficult to detect any effects of the National Greenhouse Response Strategy (NGRS), the National Greenhouse Strategy (NGS) or of programs such as the Greenhouse Challenge from these indicators alone. The NGRS was adopted in December 1992, and its successor the NGS in December 1998, so one or the other was in place for about two thirds of the period covered by this analysis (July 1990 to June 1998). The Greenhouse Challenge Program was in operation for less than half of the period' (pp 59-60).

31 These figures are approximate only as Australia's baseline in terms of actual tonnes of emissions is yet to be firmly established, largely due to the uncertainty of emissions from the land use change and forestry sector, in particular land clearing (see chapter 7).

32 *Proof Committee Hansard*, Canberra, 9 March 2000, p 8. (While the changes from 1990 to 1994 were relatively small, total emissions have increased significantly between 1994 and 1998, NGGI, p A-3).

33 Statement by the Prime Minister of Australia, the Hon John Howard, *Safeguarding the Future: Australia's response to climate change*, 20 November 1997, http://www.greenhouse.gov.au/ago/safeguarding.html (17/07/00).

8.43 The 1999 Harris Report states that participants of the Greenhouse Challenge Program 'have exceeded the 22 Mt CO_2-e of abatement expectation for 2000'.[34] The Report continues:

> For end-users, abatement actions undertaken under action plans are expected to achieve 23.5 Mt CO_2-e of abatement in 2000. More specifically, without the [Greenhouse] Challenge, annual emissions would have grown between 1995 and 2000 (assuming static efficiency) by 25.6 Mt CO_2-e (without abatement actions) or 20.8 per cent. They are, in fact, expected to grow by only 2.1 Mt CO_2-e (with abatement actions) or 1.6 per cent.[35]

8.44 In its submission to the Committee the AGO noted that:

> Initially, the sole performance indicator for the Program was emissions savings, with an initial estimate of achieving 15 Mt of greenhouse gas abatement annually by 2000.[36]

8.45 Given that independent verification of most Greenhouse Challenge Agreements is still to be completed, these figures appear to be derived from estimates provided by Program participants themselves. Whilst the Committee does not necessarily call into question that savings in emissions have been made by companies, it cannot accept as given that the figures presented are in fact accurate. To date, the Greenhouse Challenge Program appears to have primarily relied on members to abide by the spirit of the Program in recording their achievements. Recently verification has been completed of 31 participants, but the results have not yet been made public.

8.46 The voluntary nature of the Cooperative Agreements means that individual industry members or associations are able to determine their own target for emissions abatement. Currently, this target does not need to be expressed in terms that would make its relationship to Australia's overall abatement objective clear. The Wilkenfeld Report noted that New Zealand has implemented such a measure:

> The Australian Greenhouse Challenge Program appears to be considerably more rigorous than the US approach, but less structured than New Zealand (*where industry emissions are linked to a national reduction target*).[37]

8.47 The Committee believes that, if companies are to be granted the flexibility to determine their own targets, these should be related to the level of savings that particular sectors of industry or, industry as a whole, could be expected to make toward Australia's national objectives.

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34 Note that this estimate is taken from the report by Professor Stuart Harris, *Greenhouse Challenge: Evaluation Report*, 1999, p 3. This figure is higher than the 21 Mt CO_2-e indicated in The National Greenhouse Strategy, 1998, p 34.

35 *Greenhouse Challenge: Evaluation Report*, 1999, p 37.

36 Australian Greenhouse Office, Submission 169, p 1690.

37 George Wilkenfeld and Associates, 1996, p 12 (emphasis added).

Recommendation 84

The Committee recommends that the Greenhouse Challenge Program:

- **establish benchmarks for emissions abatement by sectors of activity;**
- **assess participants in relation to relevant benchmarks; and**
- **assess participants in relation to Australia's overall target.**

Recommendation 85

The Committee recommends that the Australian Greenhouse Office develop its capacity to verify and compare the emissions output of individual enterprises to sectoral benchmarks and make these sectoral benchmarks publicly available.

Forecasting future emissions

8.48 Each Greenhouse Challenge participant is required to monitor its level of emissions relative to either a 1990 or 1995 baseline. The baseline is calculated by developing an inventory of the volume and type of emissions a company most probably generated in 1990 or 1995.[38] This baseline forms the basis for setting the company's target for reducing emissions and verifying the extent to which progress is being made under the Greenhouse Challenge Program. Companies are responsible for assessing their own baselines and for setting targets for emissions abatement.

8.49 There are two main methodologies which companies can use to forecast future emissions. The first rests on an assumption that a business would not increase its efficiency in energy usage up to the target date without the intervention of targeted programs to achieve this effect. This is known as the **'**frozen' or 'static' efficiency assumption' (FE) and appears to be the mostly commonly used methodology by companies participating in the Greenhouse Challenge Program.[39]

8.50 The Committee heard a number of criticisms of this approach centring on the fact that businesses regularly introduce new technologies and management systems as part of normal business development which, over time, generally yield efficiencies in the order of between 1 and 1.5 per cent.[40] In explaining to the Committee the

38 'The inventory is the 'fixed point' and the baseline is the trend from which emission abatement performance is assessed… ' from the *Greenhouse Challenge Independent Verification Program: Verification and Reporting Guidelines*, March 2000, p 8.

39 'A static efficiency measure of emission abatement is used by most participants', *Greenhouse Challenge, Evaluation Report*, 1999, p 23; and Ms Gwen Andrews, Chief Executive Officer, AGO, told the Committee that: 'The Program was always based on a static efficiency baseline…', *Official Committee Hansard*, Canberra, 3 May 2000, p 4.

40 'As energy efficiency is improving most of the time - large-scale economic models typically assume a rate of improvement of 1 per cent to 1.5 per cent per annum', The Australia Institute, Submission 79d, p 2300.

assumptions underlying its economic modelling, ABARE drew a distinction between the normal trajectory of technical change and 'induced technological change' brought about by specific policy measures:

> Induced technical change needs to be seen separately from technical change that is happening in the economy anyway, regardless of what governments do. Our assumption is that there will be about a 1.1 per cent improvement in energy efficiency overall for the economy, over time, between now and 2010. That assumes that the Government is not actually undertaking any specific action to address climate change.[41]

8.51 By assuming that the only changes in the emissions profile of a company are brought about by measures prompted by the Greenhouse Challenge Program, the level of abatement in emissions attributable to the Program is likely to be at least equal to the normal trend-line of business development, ie 1 to 1.5 per cent.

8.52 The 1996 evaluation of the Greenhouse Challenge Program by George Wilkenfeld and Associates points out that that the FE approach 'is an entirely artificial concept and does not reflect what would have been likely to occur even in the absence of the GCP'.[42] This is because the frozen efficiency approach discounts energy efficiencies achieved as a matter of course in the life of a business. In this scenario, emissions savings can be wholly attributed to the Program without explicitly acknowledging what might have been achieved without specific greenhouse gas measures.

8.53 In evidence to the Committee, the Australia Institute argued against the use of the FE method in forecasting emissions:

> The use of the frozen efficiency assumption by the participating companies, endorsed by the Greenhouse Challenge Office, has a built in bias. It exaggerates the emissions reductions that are reported by the companies and therefore the Program.[43]

8.54 It is likely that in forecasting future emissions, a number of companies may have underestimated average rates of improvement in business efficiency for their industry and may also have overestimated the level of emissions likely to be produced under normal business conditions.

Business as usual

8.55 The second methodology for forecasting emissions is referred to as the 'business as usual' (BAU) scenario. Under this approach the calculation of the forecast incorporates improvements that would occur as a result of normal business

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41 *Official Committee Hansard*, Canberra, 16 August 2000, p 893.

42 Wilkenfeld Report, 1996, p 27.

43 Dr Clive Hamilton, *Proof Committee Hansard*, Canberra, 10 March, p 56.

development *and* in the absence of the Greenhouse Challenge Program. Forecasts calculated using the BAU approach would most probably reveal significant differences in progress when compared to achievements calculated using a frozen efficiency methodology. This is because companies are currently able to claim that BAU improvements to the operations of their business are the result of Program strategies for emissions abatement.

8.56 The 1996 Wilkenfeld Report stated that:

> Nearly all the projects nominated by the companies as greenhouse reduction measures have been under consideration for some time (several years in some cases), and represent major energy-efficiency, productivity and/or worker safety gains of the kind the companies pursue routinely as part of their core business.[44]

8.57 After reviewing the actions companies were intending to undertake to reduce emissions, the Report concluded that 'about 83 per cent of the emissions reduction would most likely be realised in a business as usual scenario'.[45] The Australia Institute has commented that this means that 'only 17 per cent of emissions reductions claimed by companies were a result of that Program and 83 per cent of the claimed reductions would have happened anyway.'[46] The 1999 Harris Report acknowledged that 'some of the actions reported under the Greenhouse Challenge Program would have occurred in any event'; and concedes that 'precise quantification of abatement against business as usual is problematic due to data and methodological difficulties'.[47]

8.58 In evidence to the Committee, a number of company representatives indicated that many investments in energy efficiency were not primarily driven by greenhouse gas considerations. According to Pacific Power this was because 'the Greenhouse Challenge is largely limited to no regrets actions that may have been economic in any case'. Normandy Mining Ltd similarly argued that 'reducing greenhouse gases is often good business in its own right as it means reducing energy usage and hence costs'.[48]

8.59 Orica explained that a particular project to convert its Botany chemical from liquid feedstock to ethane was part of a broader strategy of positioning the company for the future:

> Would we have done this in any case? The answer is that we probably would have done this. Orica takes the view that greenhouse gas abatement, of which the Greenhouse Challenge is a part, is part of a much wider debate

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44 Wilkenfeld Report, 1996, p 20.

45 Wilkenfeld Report, 1996, p 28.

46 Dr Clive Hamilton, Submission 79d, p 2303.

47 *Greenhouse Challenge, Evaluation Report,* 1999, p 46.

48 *Proof Committee Hansard,* Perth, 17 April 2000, p 475.

> around sustainability in the chemical industry. If we are to have an industry that is sustainable going out into the future, we clearly recognise that we have to think about new ways of doing things.[49]

8.60 In a similar vein, Wesfarmers CSBP Limited explained that:

> Our new ammonia plant does not exist because it is more greenhouse efficient. It exists because the old one was inefficient and there is a large market there for ammonia in Western Australia. Having decided to build an ammonia plan, we then set out to build one that had a co-generation facility so it was greenhouse efficient and cost-efficient… . We are certainly not claiming that our ammonia plant was constructed, designed and built for greenhouse gas reduction. But when we decided to do it, we decided to make it as efficient as we could.[50]

8.61 These testimonies highlight the practical difficulties of reliably distinguishing between those actions which would have occurred in the absence of the Greenhouse Challenge Program and those which can be attributed to the Program.[51]

8.62 The 1999 Harris Report notes however that, 'measured against a business as usual scenario, the forecast of 10 Mt CO_2-e of abatement… seems achievable'.[52] This estimate assumes that only 35 per cent of the total estimated savings resulting from the Greenhouse Challenge Program can be counted towards reducing national BAU emissions growth.[53]

8.63 A number of industry representatives asserted that there was little point in trying to identify the specific contribution of the Program in achieving an abatement target:

> Personally, I do not think it is a very profitable debate to try to dissect how much would have happened anyway. The point is that it has happened and it should be encouraged to continue to happen.[54]

> … there is no doubt that it (emissions reduction) has been done and been advanced under the Greenhouse Challenge Program. And what is wrong with people getting credit for doing good things? It is good for their shareholders and it is good for the country.[55]

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49 *Proof Committee Hansard*, Canberra, 10 March 2000, p 99.

50 *Proof Committee Hansard*, Perth, 17 April 2000, p 520.

51 *Greenhouse Challenge, Evaluation Report*, 1999, p 23.

52 *Greenhouse Challenge, Evaluation Report*, 1999, p 46.

53 Great Southern Energy, Submission 150, p 1559.

54 Australian Aluminium Council, *Proof Committee Hansard*, Canberra, 10 March 2000, p 51.

55 Minerals Council of Australia, *Proof Committee Hansard*, Canberra, 10 March 2000, p 72.

8.64 However, a number of witnesses argued that a net reduction in emissions is, in itself, an insufficient measure of the effectiveness of the Greenhouse Challenge Program. The impact of the Program would be more accurately captured by assessing the *difference* the Program has made to the volume of greenhouse gases emitted by a company or association since joining the Program. The Australia Institute expressed the view of many critics of the Program that:

> Proper evaluation of the Program's effectiveness must be based on a clear assessment of the extent to which the participating companies actually reduce their emissions *below the levels they would reach without the Program*.[56]

8.65 Greenpeace Australia similarly argued that:

> The primary objective of all greenhouse policy has to be to deliver substantial, real and timely reductions in greenhouse gas emissions. This has to be the primary criterion for judging the performance of these programs.[57]

8.66 The Committee considers that the AGO has a clear obligation to demonstrate that public money is being used to full benefit. If a Greenhouse Challenge participant cannot demonstrate progress in saving emissions beyond BAU projections, then the Committee questions whether the resources and benefits of the Program should accrue to it.

Recommendation 86

The Committee recommends that the Greenhouse Challenge Program require participants to develop their emissions forecasts using business as usual methodologies.

Transparency

The verification process

8.67 Each Greenhouse Challenge participant must agree to independent verification of their progress in emissions reduction. Both Government and industry recognise that the credibility of the Program depends to a significant extent on whether the claims made by industry in reducing greenhouse gas emissions can be verified by independent, formal processes. The Australia Institute expressed a common view put to the Committee that 'independent opinion is essential if the public is to have confidence that tax payers' funds are being spent effectively'.[58]

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56 The Australia Institute, Submission 79d, p 2298.

57 *Proof Committee Hansard*, Canberra, 23 June 2000, p 752.

58 The Australia Institute, Submission 79d, p 2300.

8.68 The verification guidelines developed by the AGO attempt to find a pathway between ensuring transparency in reporting and heeding the concerns of industry about releasing information it may regard as confidential. Verification guidelines developed by the AGO state:

> Independent verification will be conducted in a manner that preserves the high standard of commercial-in-confidence which the Greenhouse Challenge Program has maintained in respect to its participants… . Verifiers must be prepared to sign a confidentiality agreement with the Challenger that is to be verified, if requested.[59]

8.69 The AGO clearly recognises the important role of verification reporting in building public confidence. The draft guidelines subtly warn companies to match their public assertions with sufficient evidence of performance:

> If reported publicly, independent verification of greenhouse achievements may help to strengthen the public trust and acceptance of a corporation's environmental commitment… many Greenhouse Challenge enterprises will confidently look forward to independent verification confirming the serious nature of their commitment and may wish to make these results public.[60]

8.70 The Guidelines indicate that companies selected for verification will be required to make public a report on whether the reported inventory, baseline and actions were accurate within an acceptable range.[61] They also foreshadow the need for a more detailed in-confidence report recording the actual results of the verification process.[62] These guidelines point to the minimum level of public reporting the AGO appears to believe is necessary to demonstrate the integrity of Greenhouse Challenge members and of the Program itself. The Committee is not convinced, however, that the current boundaries drawn between public and private reporting are justified or support the longer term interests of the Program.

Recommendation 87

The Committee recommends that all companies be required to verify assessments of Greenhouse Challenge Program emissions savings and to publicly disclose details.

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59 *Greenhouse Challenge Independent Verification Program: Verification and Reporting Guidelines*, March 2000, pp 4, 15.

60 *Greenhouse Challenge Independent Verification Program*, *2nd Discussion Paper* (Draft), April 1999, p 30.

61 'within 10% of the aggregate emissions of the firm', *Greenhouse Challenge Independent Verification Program*, p 3.

62 *Greenhouse Challenge Independent Verification Program: Verification and Reporting Guidelines*, March 2000, p 15.

The integrity of the Greenhouse Challenge Program verification processes

8.71 According to the Australia Institute, the policy of self-assessment provides companies with an incentive 'to overstate their 'business as usual' emissions, and therefore to exaggerate the cuts due to the Program'. The Australia Institute contends that this has led to the Program being 'plagued with systematic overstatement of emissions reductions'.[63]

8.72 The AGO appears to have gone some way to ensuring that the Greenhouse Challenge Program does not rely exclusively on results reported by its members. The AGO's *Guidelines for Greenhouse Challenge Independent Verification,* produced in March 2000, provide details on how emissions savings by Program participants will be verified.[64]

8.73 At the time of the writing of the Harris Report in 1999, only pilot evaluations had been completed of the first four companies to have joined the Greenhouse Challenge Program: BHP, Shell, CRA and ICI.[65] The Report determined that 'verification revealed that the reported data and the processes for identifying emissions and collecting data were robust'.[66]

8.74 The confident results of the initial evaluation of the Greenhouse Challenge Program do not, however, appear to have been sustained. In Senate Estimates Committee Hearings conducted on 3 May 2000, the AGO revealed that 76 Program participants had submitted progress reports and that of these a number had amended their reports to reduce the amount of emissions they had originally forecast:

> When we are receiving progress reports, companies are in fact adjusting their action plans. Some are adjusting them down. Some are just adjusting the nature of their actions. But it is correct that we have had nine implement all of their actions in the years they said they were going to. 4 have met their forecasts in other ways. 62 have in fact amended their action plans to reduce the amount of emissions they had originally forecast they would reduce and so forth. So there have been some reductions in the amount they originally forecast, which is normal.[67]

63 Dr Clive Hamilton, *Proof Committee Hansard*, Canberra, 10 March 2000, p 56.

64 The guidelines are intended to be used by independent verifiers to determine the accuracy of the self-reporting of baselines, emissions inventories and abatement progress under the Challenge. G*reenhouse Challenge Independent Verification Program*: *Verification and Reporting Guidelines,* 6 March 2000.

65 ICI is now known as Orica Pty, Ltd.

66 *Greenhouse Challenge, Evaluation Report,* 1999, p 61.

67 Mr John McBride, Director Greenhouse Challenge, AGO, Senate ECITA Estimates Committee Hearings, *Official Committee Hansard*, Canberra, 3 May 2000, p 2.

8.75 The AGO stated that, of 76 participants, only '8 have met their original forecasts'.[68]

8.76 These results are disappointing, but do not technically breach the terms of a Cooperative Agreement. The Verification Guidelines suggest that there a number of options available to Greenhouse Challenge members that do not achieve their targets for emissions reduction:

> In the event that there are any identified material deficiencies the Challenger shall agree with the AGO remedial action. This can include amending the progress report… .[69]

8.77 The guidelines further indicate that 'participants are also able to withdraw from the Program without penalty'.[70]

8.78 The Committee acknowledges that there is a need to build expertise in estimating and verifying industry emissions, and that this will come from experience. It is, however, a matter of concern to the Committee that information on revisions made by companies to their Cooperative Agreements is not easily accessible to the public.

8.79 The AGO has recently contracted Det Norske Veritas (DNV) to manage the verification of another 31 Greenhouse Challenge participants.[71] According to its website, DNV is an independent Norwegian 'foundation' specialising in certification and quality assurance services.

8.80 An October 2000 media release from the Minister for Industry, Science and Resources, Senator Minchin, reported that 31 Greenhouse Challenge members were independently verified in 2000. The release stated that 'the verification process cleared all but 5 of the firms taking part and the Greenhouse Office is now working with 5 companies to correct some minor reporting errors'.[72]

8.81 However, no information about the performance of the verified members has been released. The Committee is concerned that these verification results are not open to scrutiny and that such secrecy only perpetuates the problems involved in accurately

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68 Mr John McBride, Director Greenhouse Challenge, AGO, Senate ECITA Estimates Committee Hearings, *Official Committee Hansard*, Canberra, 3 May 2000, p 2.

69 *Greenhouse Challenge Independent Verification Program, 2nd Discussion Paper* (Draft), April 1999, p 16.

70 *Guidelines for the Cooperative Agreements Program*, http://www.greenhouse.gov.au/challenge/guidelines.html.

71 DNV has been given responsibility for managing 17 auditors selected by the AGO (*Official Committee Hansard*, Canberra, 25 June 2000, p 625). See also http://www.dnv.com/dnvabout/.

72 Senator the Hon Nick Minchin, Media Release, *Greenhouse Challenge Delivers Credibility*, 11 October 2000.

assessing the effectiveness of the Greenhouse Challenge Program in stimulating emissions reduction.[73]

Recommendation 88

The Committee recommends that any changes to the level of forecast emissions savings by Greenhouse Challenge Program members made after the signing of Cooperative Agreements be publicly disclosed.

Have enough resources been allocated to verification?

8.82 The importance of verification to the overall credibility of the Greenhouse Challenge Program cannot be overstated.

8.83 The AGO has clearly applied risk management principles to verification, recognising that, as the Program increases its membership, the total cost of verification will escalate. According to the Draft Verification Guidelines:

> Based on the experience of the pilots, a likely cost of between $8,000-$20,000 per single GCIV is indicated.
>
> … annual expenditure of approximately 5-10 per cent of Program resources might provide for some 15-30 independent verifications to be conducted per annum. In FY1999-2000 this would cover around 10-20 per cent of those organisations that should have one or more progress reports submitted during this period. A similar level of funding in subsequent years would still allow a reduced but acceptable number of verifications.[74]

8.84 It is likely that an increase in the number of small and medium-sized businesses would require the Government to significantly increase its allocation of resources to verification. However, a sufficient number of verifications need to be carried out to support the claims of the Program. The Committee doubts whether a 10 per cent to 20 per cent selection of members would ensure the Greenhouse Challenge Program is regarded as credible.

8.85 A question also arises whether the costs of verification should in fact be borne by Government, when there are such significant benefits of Greenhouse Challenge membership for industry.

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73 Senator the Hon Nick Minchin, Media Release, *Greenhouse Challenge Delivers Credibility*, 11 October 2000.

74 *Greenhouse Challenge Independent Verification Program, 2nd Discussion Paper* (Draft), April 1999, p 30.

Recommendation 89

The Committee recommends that verification be funded by industry, while remaining independent of industry.

Accountability

8.86 The Greenhouse Challenge Program verification framework can only be effective to the extent that the results of verification carry some consequence for a Program participant. If a company is shown to be making progress in emissions-savings, then the full benefits of success should naturally accrue to it. By the same token, if a company is unable to demonstrate that they have made a genuine attempt to abide by the spirit of the Program, then a penalty of sufficient weight should be imposed. Mechanisms of accountability ensure that members continue to behave responsibly and are rewarded fairly. They are also fundamental to the practice of sound public administration.

8.87 An important way in which the Greenhouse Challenge Program promotes accountable behaviour by its members is by emphasising the importance of credible publicity about achievements under the Program. The following paragraphs discuss the role of public relations in the Program and whether it is used as an effective instrument for ensuring that the claims made by participants are credible.

The Role of Public Relations

8.88 The Greenhouse Challenge Program offers companies and industry associations an effective vehicle for publicising their commitment to environmentally-sensitive business practices. The Program encourages companies to highlight their association with the Program by using a Greenhouse Challenge logo as part of their business promotions. A Greenhouse Challenge Program newsletter published by the AGO and a well-developed internet site also help to profile the businesses and environmental practices of Program members. Approximately $260,000 was dedicated by the AGO toward Greenhouse Challenge public relations/communications in 1999 to 2000.[75]

8.89 As well as gaining recognition for individual actions toward abatement, participants also benefit from sharing in the successes of the Program as a whole. For many companies, participation in the Greenhouse Challenge Program helps to reassure the public that companies are playing their part in a national effort toward managing global warming. Many businesses are beginning to recognise the role of

75 Email to the Committee from Linda Powell, Executive Manager, Partnerships Group, Australian Greenhouse Office, 26 July 2000.

'corporate citizenship' in creating a sustainable basis for future business and in generating shareholder value.[76]

8.90 As members of the Greenhouse Challenge Program, companies receive the Government's endorsement to showcase their commitment to current best practice in the management of greenhouse gases. Endorsement by the Government of a company's environmental achievements can play a potentially valuable role in influencing public perceptions and share prices.

8.91 A question raised by the evidence presented to the Committee was whether a company's decision to join the Greenhouse Challenge Program was primarily motivated by the public relations benefit, rather than a genuine commitment to emissions reduction. The 1996 Wilkenfeld Report suggested that:

> [t]he primary motivation for GCP participation would most likely be seen in terms of the opportunity to demonstrate corporate responsibility and the greenhouse reduction value of existing projects.[77]

8.92 The 1999 Harris evaluation of the Greenhouse Challenge Program reported that 'approximately 20 per cent of surveyed participants stated that one of the reasons for joining the Program was to promote a 'clean and green' image'.[78]

8.93 In the light of the value of positive publicity to participants, the Program has the option of using the public relations incentive as a penalty for non-compliance. The Draft Guidelines for Verification suggest that companies that do not achieve their targets could be penalised by:

> … the removal of the enterprise's public profile and progress report summary from the Program literature and the AGO website… to stem possible damage to the Program's credibility.[79]

8.94 Companies are also likely to be aware that withdrawing from a relatively high profile program such as the Greenhouse Challenge Program could lead to public questioning about their performance in emissions reduction. The public relations penalty may be high enough to encourage a company to increase its efforts toward achieving its agreed level of emissions abatement.

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76 '… new currents in society influence the degree to which business is accepted as a respected and relevant player in the development of public policy. At the level of individual corporations there is an impact on the so-called licence to operate, taking that term to mean a company having a sufficient level of community support to enable it to continue operations, let alone to realise its full potential' (Campbell Anderson, President of the Business Council of Australia, *The Changing Nature of Public Policy*, www.bca.com.au/docs/eng/speech.html, p 7).

77 Wilkenfeld Report, 1996, p 20.

78 *Greenhouse Challenge, Evaluation Report*, 1999, p 59.

79 *Greenhouse Challenge Independent Verification Program, 2nd Discussion Paper* (Draft), April 1999, p 42.

The case of Coca-Cola Amatil

8.95 Evidence given to the Committee by Greenpeace Australia suggests that there is some potential for the public relations effort of the Greenhouse Challenge Program to displace a primary focus on verifiable emissions abatement. Greenpeace cited Coca-Cola Amatil (CCA) as an example of a company which has actively promoted its 'Challenge credentials', but is accused of having misled the public about the nature of its contribution to the 'Green Games' in Sydney 2000.

8.96 According to the AGO, CCA has been a member of the Greenhouse Challenge Program since December 1999. Its Cooperative Agreement covers soft drink production facilities around Australia and its Action Plan for 2000 is expected to achieve a 4 per cent reduction in emissions (approximately 7,000 tonnes CO_2-e).[80]

8.97 An advertorial featuring the CCA appeared in *The Australian* in May 2000, endorsed by Senator Chris Ellison, Special Minister of State.[81] The advertorial was published as part of a series designed to profile the actions of Greenhouse Challenge members contributing to the Olympic Games. The series is funded by the AGO. The AGO stated the purpose of the series in an explanatory note to the Committee:

> In response to the increased interest in environmental issues generated by the Olympic Games, Greenhouse Challenge has worked with SOCOG to increase membership of Greenhouse Challenge through the network of Olympic sponsors. To link climate change concerns with other environmental issues in the Olympic context, the actions of Challenge members contributing to the Olympic Games have been included in a series of advertorials placed in *The Australian*, running monthly from October 1999 to September 2000.
>
> …..
>
> In the case of the Olympics, the Green Games theme offered an excellent opportunity for the Challenge to promote the greenhouse gas reduction actions that specific SOCOG sponsors were undertaking as a means of encouraging similar actions from industry.

8.98 The AGO further explained that:

> The Greenhouse Challenge does not advertise on behalf of members. While the AGO encourages organisations to join Greenhouse Challenge and to take as many actions to reduce greenhouse gas emissions as they are willing, the specific actions and achievements of members are not generally advertised.

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80 Email to the Committee from Linda Powell, Executive Manager, Partnerships Group, Australian Greenhouse Office, 3 August 2000.

81 See advertisement at appendix 7 of this report.

8.99 The advertorial in this instance appears to have been funded by the AGO on the basis of CCA's contribution to the Olympics. It describes this contribution in the following terms:

> As a leading manufacturer of soft drinks, Coca-Cola Amatil is supporting the Sydney 2000 Olympic Games through supplying soft drinks to athletes, volunteers and spectators at the Games.[82]

8.100 The main focus of the advertorial is CCA's use of efficient lighting systems at its production facilities, the basis of its Cooperative Agreement under the Greenhouse Challenge Program. The advertorial appears to suggest that the soft drinks supplied by CCA are manufactured at sites using efficient lighting systems

8.101 The AGO has explained that CCA is a separate company to Coca-Cola.[83] CCA does, however, appear to be responsible for the distribution of soft drink at the Olympics within the terms of Coca-Cola's contract with the International Olympic Committee to act as the official supplier of soft drink at the Sydney Olympics. The advertorial asserts that: 'The Coca-Cola company is a Team Millennium Olympic Partner'.[84]

8.102 The advertorial clearly implies a close corporate relationship between CCA, the Greenhouse Challenge member, and Coca-Cola, an official corporate sponsor of the Olympics. This may have led readers of *The Australian* to believe that the environmental contribution of Coca-Cola to the Olympics is endorsed by the Program.

8.103 According to a paper published by Greenpeace Australia, the main contribution of Coca-Cola to the Olympics lies in the supply of refrigeration units. Coca-Cola planned to use 1,800 units, only 100 of which are considered to be environmentally-friendly. About 1,700 fridges will use a cooling system which uses the synthetic gas, HFC.[85] HFCs have a extremely high global warming potential (GWP) of 33,000 times 1 unit of CO_2.[86]

8.104 In the Committee's view, the basis of CCA's Cooperative Agreement under the Greenhouse Challenge - lighting systems - is only indirectly linked to its contribution to the Sydney Olympics. Of greater concern than this is the suggestion that the environmental practices of Coca-Cola are endorsed by the Greenhouse Challenge or the AGO.

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82 'Coca-Cola Amatil Taking up the Challenge', *The Australian*, 25 May 2000, p 19.

83 Email to the Committee from Linda Powell, Executive Manager, Partnerships Group, Australian Greenhouse Office, 3 August 2000.

84 'Coca-Cola Amatil Taking up the Challenge', *The Australian*, 25 May 2000, p 19.

85 *Coca-Cola: Ice Cold Coke - Boiling Hot Planet*, http//www.greenpeace.org.au, p 5.

86 Senator Bob Brown, *Proof Committee Hansard*, 22 June 2000, p 718.

8.105 The Committee believes that it is reasonable for the AGO to have pursued a specific and limited strategy of public relations to capture broader industry interest in the Greenhouse Challenge Program in the context of the Olympics. The Committee is concerned, however, that the AGO has in this instance failed to demonstrate transparency and accountability in the management of the Program's relationship with industry. The Committee's main concerns are that:

- the advertorial does not make the corporate relationship between CCA and Coca-Cola clear, and, that it seeks to create the impression that CCA activities under the Program are related to Coca-Cola's general environmental practices;
- the Greenhouse Challenge Program resources have been used to promote a company (CCA *and* Coca-Cola) whose record of actual emissions abatement is, at best, unclear;
- that the advertorial does not make clear that it has been funded by the AGO or provide the rationale for advertising sponsorship;
- the advertorial does not make clear that its purpose is to attract new members to the Program. The incentive for a prospective member to do so is implied - official endorsement of a company's 'green credentials'- even if the verification of actual achievements remain outstanding; and
- that the scope for Program arrangements with industry members to be independently scrutinised is generally limited.

8.106 Greenpeace Australia argued that this:

> … point(s) out the great flaws of… the Greenhouse Challenge… because someone like Coca-Cola was able to join the Program, get taxpayer funded advertising in national newspapers, yet continues with this global policy of using HFC refrigerants when clear and economic alternatives exist.[87]

8.107 The AGO's sponsorship of CCA highlights the potential for the Greenhouse Challenge Program to be undermined by a lack of transparency about the terms of the Government's relationship with Program members.

Recommendation 90

The Committee recommends that the terms of advertising for the Greenhouse Challenge Program be made clear in each advertisement.

87 *Proof Committee Hansard,* Canberra, 23 June, p 678.

Recommendation 91

The Committee recommends that advertising of the Greenhouse Challenge Program featuring one or more of its members, be funded through a contribution by all Program members to a consolidated advertising fund.

Foundations for the Future

8.108 Engaging industry in emissions reduction is necessarily a long term strategy which will continue to evolve as new knowledge emerges about the nature of climate change and as the international framework develops to manage the implications of this for national economies. This section considers the role of the Greenhouse Challenge Program as a catalyst for broadening industry awareness of greenhouse issues and for developing the capacity of Australian industry to prepare their response to the challenge of global warming.

Increased awareness of greenhouse issues

8.109 An important emphasis of the Greenhouse Challenge Program is fostering awareness of the role that management culture and processes can play in a company's overall strategy for emissions abatement. Both the Wilkenfeld and the Harris Reports identified changes in a company's strategic planning, management structure, systems, attitudes and priority-setting as factors which could significantly influence energy efficiency and greenhouse emissions among Program participants.[88] The Harris Report claimed that two-thirds of the organisations surveyed reported positive management and cultural changes, 'with the most important changes relating to processes and practices shaping the way that decisions are made'.[89]

8.110 As well as raising industry awareness about the benefits of greater energy efficiency, the Greenhouse Challenge Program offers companies a 'conduit into the Commonwealth greenhouse policy environment'.[90] In evidence to the Committee, Wesfarmers described itself as a 'relatively small chemicals company on a world-scale' which sees a key benefit of the Program as the opportunity to gain access to current debates on greenhouse policy:

> Even if you do not agree with everything the Australian Greenhouse Office does, at the very least you have got the ability to access information and find out where the debate is going.[91]

88 Wilkenfeld Report, 1996, p 26; and Harris Report, p 42.

89 *Greenhouse Challenge, Evaluation Report,* 1999, p 42.

90 Australian Greenhouse Office, Submission 169, p 1691.

91 *Proof Committee Hansard,* Perth, 17 April 2000, p 523.

8.111 The Greenhouse Challenge Program has deliberately sought to influence the top level of decision-making in participating companies and associations. It has done this by requiring CEOs to sign off on Cooperative Agreements and by giving CEOs access to high level decision-makers in Government. The Government's agreement with the Cement Industry Federation (CIF) 'was signed by the chairman of the CIF management committee and the then three relevant government ministers'.[92] Wesfarmers joined in 1997 signing an agreement with the AGO in the presence of 4 Government ministers.[93]

8.112 Many witnesses attested to the success of the Greenhouse Challenge Program in enhancing CEO understanding of the role of industry in national emissions abatement. This appears to have significantly contributed to the commitment of managers and staff throughout those companies to develop and manage effective greenhouse strategies. High level promotion of the Program by CEOs appears to have been a catalyst for the development of a range of specific, practical measures aimed at increasing energy efficiency and reducing emissions.

8.113 The Australian Industry Greenhouse Network (AIGN) explained that:

> … in most cases Greenhouse Challenge played a role by requiring companies to formally focus on their emissions inventory and what opportunities existed to do something about that and by requiring CEOs, or top management, to sign off on agreements.[94]

8.114 The Minerals Council of Australia similarly recognised that the educative role of the Greenhouse Challenge Program could accelerate the introduction of efficiency measures by its members:

> … a very significant Program in turning around the attitudes of a lot of people in the industry in embarking on the challenge of looking at energy efficiency… [it] really served as a process of alerting people, as a process whereby senior officers in companies recognised that in the interests of their shareholders it was a win-win and they should take this pathway. I think it is fair to say that some of those investments have been accelerated as a result of the Greenhouse Challenge and the net benefits are very significant.[95]

8.115 MIM Holdings Ltd, a member of the Minerals Council, stated that the Greenhouse Challenge Program had influenced the company to implement:

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92 David Cusack, Chairman, Greenhouse Gas Working Group, *Mitigation of Greenhouse Gas Emissions from the Australian Cement Industry*, http://www.engaust.com.au/other/CIA0699-2.html.

93 *Proof Committee Hansard,* Perth, 17 April 2000, p 520.

94 AIGN, *Proof Committee Hansard,* Melbourne, 20 March 2000, p 139.

95 Minerals Council of Australia, *Official Committee Hansard,* Canberra, 10 March 2000, p 70.

> … environmental initiatives at all levels of the company, ensuring that all employees are trained in environmental awareness programs and inductions. All employees are also accountable for their environmental performance.[96]

8.116 Normandy Mining Services, a Greenhouse Challenge participant since 1998, outlined to the Committee its initiatives:

> Each site has an energy efficiency management plan. It also has an energy management greenhouse coordinator who reports monthly to corporate management on energy use and greenhouse emissions. Each site undergoes a regular assessment… on a lot of risk areas and those include energy management and greenhouse emissions.[97]

8.117 The Greenhouse Challenge Program appears to have successfully influenced a number of business leaders to embrace emissions reduction strategies. The Harris evaluation of the Greenhouse Challenge indicated that over half the surveyed participants believed the Program had played an important role in stimulating abatement action. Dr Clive Hamilton, however, suggested an alternative conclusion: 'nearly half said the Program played no role in stimulating abatement action'.[98]

Increased technical expertise

8.118 The emphasis of the Greenhouse Challenge Program on increasing awareness about greenhouse issues among senior managers may have led to greater company investment in new technical approaches to improving energy efficiency:

> Some of these things certainly would make good economic sense to do. But I think what has happened is that the greenhouse debate, and particularly the debate surrounding Kyoto and the signatures of the various countries at Kyoto, has drawn more attention to that area of our business… [it] has made us focus more on that area and find we do have some control, we can do things more efficiently… .[99]

8.119 The Cement Industry Federation (CIF) explained to the Committee that it had developed a Greenhouse Energy Management System (GEMS) which allowed its member companies to systematically identify opportunities for greenhouse abatement and develop plans for action.[100] As a result CIF members have:

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96 *Cooperative Agreement, A Report on the Greenhouse Challenge 1998-99*, Tabled document, 10 March 2000, p 5.

97 Normandy Mining Services Pty Ltd, *Proof Committee Hansard*, Perth, 17 April 2000, p 477.

98 *Proof Committee Hansard,* Canberra, 10 March 2000, p 56.

99 Western Australia Chamber of Minerals and Energy, *Proof Committee Hansard*, Perth, 17 April 2000, p 475.

100 Cement Industry Federation (CIF), Submission 135, p 1424; see also David Cusack, Chairman, Greenhouse Gas Working Group, *Mitigation of greenhouse gas emissions from the Australian cement industry,* http://www.engausyt.com.au/other/CIA0699-2.html.

> … introduced changes to their business practices to include GEMS evaluations in management decision-making. Operating practices have changed and options and actions for reducing greenhouse gas emissions have been identified. [101]

8.120 A number of industry representatives referred to the benefits of industry and government working together to build expertise in resolving problems in the implementation and monitoring of emissions abatement. The AIGN in its submission argued that industry experiences with implementing various abatement strategies could make a valuable contribution to the development of government policy:

> Expertise is being built on how to identify, monitor, manage and report greenhouse gas emissions at the level of individual organisations. Within participating organisations, decision-making frameworks and processes are being developed to address emission reduction options. Within government, a more detailed understanding of the emissions profiles is emerging along with a greater understanding of how more efficient and effective policies and measures can be developed.[102]

8.121 Woodside Energy Ltd also emphasised the importance of 'learning by doing':

> The Greenhouse Challenge has industry workbooks that have refined the NGGI methodology and sufficient feedback mechanisms exist in the various Inventory processes to ensure a process of continuous improvement.[103]

8.122 The knowledge gained through the Greenhouse Challenge Program provides industry with an effective platform for influencing high-level development of greenhouse policy and the features of any future regulatory framework.

8.123 The CIF explained that the Greenhouse Challenge Program had prompted the development of modelling capable of providing 'a richer analysis of sectoral behaviour and opportunities for greenhouse gas abatement'.[104] This would offer policy-makers and legislators a better understanding of the need for and impacts of specific policy measures:

> Since greenhouse issues are impacting in so many areas in such a diverse number of ways, sectoral and enterprise impacts must be better understood if the real drivers for change are to be harnessed and if the real, rather than preconceived, challenges are to be addressed.[105]

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101 Cement Industry Federation (CIF), Submission 135, p 1424.

102 Australian Industry Greenhouse Network (AIGN), Submission 113, p 923.

103 Woodside Energy Ltd, Submission 129, p 1312.

104 Cement Industry Federation (CIF), Submission 135, p 1424.

105 Cement Industry Federation (CIF), Submission 135, p 1424.

8.124 Sectoral information could prevent decisions which 'turn out to be unnecessary, with far reaching cost and competitiveness implications for Australian industry, and indirectly, for the Australian community'.[106] Sectoral information would also allow the Government to assign responsibility for abatement more clearly and apply pressure more selectively.

8.125 Greenpeace Australia alluded to the strategic use to which sectoral information could be put by the Government:

> Without a national strategic vision which can be used to identify sector by sector and mechanism by mechanism what we are going to do, then we will continue to see a business as usual approach.[107]

8.126 Many companies would also see the development of greater expertise in measuring, monitoring and reporting as a logical way of preparing for the possible introduction of an emissions trading system. The Australia Institute pointed to the value of the Greenhouse Challenge in preparing for a future emissions trading framework:

> The introduction of a cap-and-trade emission permit system will make the GCP redundant for all firms that have legislated emission caps. A baseline-and-credit trading system would probably draw heavily on information in GCP agreements in order to establish baselines for major polluters. The targets in the agreements themselves would be redundant, although the actions specified in the agreements would provide a guide to some of the activities that may generate credits.[108]

8.127 The Committee believes the Greenhouse Challenge should be viewed as a useful transitional mechanism to a national emissions trading system. It should increasingly incorporate features which assist in the identification and costing of abatement options available to firms. This would also require a greater focus on the calculation of baselines and BAU forecasts, and the development of sound reporting mechanisms.

Recommendation 92

The Committee recommends that the Greenhouse Challenge Program give greater attention to the development of sectoral analysis and reporting. This should be consistent with international reporting guidelines.

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106 Cement Industry Federation (CIF), Submission 135, p 1424.

107 *Proof Committee Hansard,* Canberra, 23 June 2000, p 681.

108 Dr Clive Hamilton, Submission 79d, p 2305.

Recommendation 93

The Committee recommends that the Greenhouse Challenge Program be reviewed with a view to structure the Program as a transitional strategy to build industry capacity for a future emissions trading scheme.

Limitations of the Greenhouse Challenge Program

8.128 The effectiveness of the Greenhouse Challenge Program needs to be reviewed against the background of the Government's broader environmental philosophies and policies and their effect on business investment decisions. The introduction of international or domestic emissions trading, for example, would render the current Program framework obsolete.

8.129 The uncertainty surrounding the future features of an emissions trading system could inhibit managers from making decisions which result in emissions reduction because, perversely, this course of action could undermine competitiveness in the future. In this example, the objectives of the Greenhouse Challenge Program are directly undermined by the anticipated need to achieve the same objectives in the future (see 'credit for early action' below).

8.130 This section of the chapter examines whether the current Greenhouse Challenge framework is capable of capturing the full potential of industry to reduce emissions in view of uncertainties about the future direction of Australia's policy response to global warming. In particular, this section will examine the limitations which arise from the voluntary nature of the Program and its current emphasis on 'no regrets' measures.

Investment Strategies

8.131 A number of witnesses indicated that uncertainties in the future direction of government policy tended to inhibit strategic planning and investment for emissions abatement. Both industry and environmental representatives agreed that significant reductions in industry emissions would mostly likely require investment in large-scale capital projects. The Australian Aluminium Council, for example, emphasised that: 'the investment and lead times for development of new technology and replacement of existing plant are substantial'.[109]

8.132 The Pulp and Paper Manufacturers Federation of Australia (PPMFA) stated in its submission that: 'many potential 'no regrets' and 'low regrets' measures have yet to be exploited' and that 'this should be done before other measures of a more mandatory measure are considered'. In evidence to the Committee, however, the

109 Australian Aluminium Council, Submission 167, p 1671.

PPMFA acknowledged that further emissions reduction would be difficult to achieve under a 'no regrets' framework:

> … industry has probably taken most of the so-called 'no regrets' measures that are available to it. So, to reduce its emissions, it has taken the measures that it could take which made economic sense; it has really taken most of these… .
>
> If you wanted to look at substantial further emissions, you would be looking at very significant capital upgrades… major new investment in new plant and equipment that would be more energy-efficient, for example. So it is really a quantum leap up the next level of performance that may be possible to be achieved.[110]

8.133 The voluntary nature of the Greenhouse Challenge Program and its current approach of 'no regrets' are unlikely to prompt industry to invest beyond standard efficiency improvements. Great Southern Energy explained in its submission that:

> … there is a limit to what individual companies can achieve in such a framework. Large emission reduction measures involving significant costs are not likely to be implemented with a 'no regrets' approach. The magnitude of the Kyoto target would indicate that mandatory programs with legally binding targets are now required that go beyond 'no regrets'. Major emission reduction programs require legally binding targets for commercial certainty. [111]

and

> … you need certainty in this whole process if we are going to achieve the result in the time frames that appear to be required.[112]

8.134 Greenpeace Australia similarly argued:

> Emission reduction measures requiring significant capital investment are not implemented in a voluntary approach.[113]

8.135 The Committee concludes that the current 'no regrets' framework does not influence the market to reward investment in abatement beyond BAU.

The case of Pacific Power

8.136 The importance of a national policy approach to greenhouse abatement capable of aligning economic and environmental incentives was highlighted to the

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110 *Proof Committee Hansard*, 23 June 2000, p 778.

111 Great Southern Energy, Submission 150, p 1559.

112 *Proof Committee Hansard*, Canberra, 23 June 2000, p 689.

113 Greenpeace quoting experts in energy reform (Lovins, Moskovitch), Submission 183, p 1937.

Committee by Pacific Power, a major investor in both coal and the generation of renewable energy.

8.137 In evidence to the Committee, Pacific Power explained how the current electricity market favoured the generation of electricity from coal over gas. The low cost of conventionally produced electricity as a result of market deregulation directly undermined the production of less emissions-intensive energy. Pacific Power stated that its contribution to the Greenhouse Challenge Program was no longer feasible in light of the disincentives at work in a market in which companies compete to deliver cheap electricity at the expense of environmental outcomes:

> In particular regard to the Greenhouse Challenge, Pacific Power, considered at the start of the Program that a gas-fired combined cycle plant would be commercially viable by around the year 2000. To this end, preliminary design and detailed environmental studies were carried out for a 400 MW plant at Wollongong and Development Consent was gained. That particular plant would have produced electricity with approximately 1,300,000 tonnes of carbon dioxide emissions each year less than the equivalent amount of electricity from NSW coal-fired plant. This was the principal initiative in Pacific Power's Greenhouse Challenge agreement.
>
> Due to current conditions in the electricity market, and the introduction of new coal-fired plants in Queensland, this plant is unlikely to proceed for several years.[114]

8.138 Current standards in contractual arrangements also meant that it was generally more economical to generate potentially surplus electricity by using back-up systems than to face hefty fines when demand cannot be met: 'Generators operate in modes that optimise their own commercial performance, but to the detriment of the environmental outcome'.[115] According to Pacific Power, investment in greenhouse friendly energy production, '… could be justified on environmental grounds only if the mix of policies were in place to create the market conditions that would enable the sale of the output'.[116]

8.139 The example of Pacific Power highlights the need to ensure that Australia's greenhouse policies are developed and implemented within a 'whole-of-government' framework that minimises, as far as possible, tensions between Australia's commercial and environmental interests. In Pacific Power's view:

> The inadequacy of the current mix of measures is highlighted by the fact that millions of dollars are being invested in coal-fired generation in

114 Pacific Power, Submission 98, p 804.

115 Pacific Power, Submission 98, p 806.

116 Pacific Power, Submission 98, p 804.

> Queensland whereas, current market conditions preclude the development of gas-fired generation.[117]

8.140 A submission by Mr Peter Kinrade of the University of Melbourne, commented on the negative effects of the current contradications in government policy-making. Drawing on work by the Allen Consulting Group, he writes:

> We still have the situation where different jurisdictions are adopting often inconsistent and conflicting greenhouse-related policies and objectives. Even within the Commonwealth there is little indication that the greenhouse implications of other major policies and reforms are considered. For example, the greenhouse implications of the national energy market reforms have been largely overlooked, leading to a situation where the reforms are likely to lead to a net increase in greenhouse gas emissions, at least in the short-to medium-term.[118]

8.141 In the Committee's view, Government expenditure on the Greenhouse Challenge Program and similar incentives is wasted, if the operations of the market render its objectives unviable. This is very much the case in the national electricity market.

Credit for Early Action

8.142 A number of industry representatives expressed concern to the Committee about the lack of Government assurance that industry would *not* be penalised for taking early action. Their concern stems from the possibility that future governments could impose greater demands on industry to increase its contribution to national emissions savings. If participants in the Greenhouse Challenge introduce measures which result in emissions savings in the short-to medium-term, they may be less well placed in the future to make further significant gains.

8.143 This means that under an emissions trading system or a less well-developed system with limited mandatory features, companies which have already implemented efficiency measures may find it more difficult to generate tradeable credits. The Business Council of Australia expressed a common concern:

> What those companies are becoming concerned about is that at the point where the Government says, 'More yet is needed by everyone', and those who are not contributing are going to be forced to contribute, then those who have made the satisfactory contribution to date are going to be hit with a double whammy, to be asked to do yet more when they have in fact gone a long way down the track.[119]

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117 Pacific Power, Submission 98, p 802.

118 Mr Peter Kinrade of the University of Melbourne, Submission 164, p 1651.

119 *Official Committee Hansard*, Melbourne, 21 March 2000, p 181.

8.144 The AIGN proposed to the Committee that any achievements recorded under the Greenhouse Challenge Program should be the basis of estimating the extent of early credit.[120] The CIF similarly advocated 'that any verifiable action to reduce greenhouse gas emissions since 1990 should be fully recognised under any future emissions reduction policy'.[121] The AIGN suggested that the lack of assurance by Government may inhibit some companies from either participating or extending their existing plans. There was, however, insufficient evidence presented to the Committee to determine whether this in fact deterred companies from joining the Program.[122]

8.145 The Sydney Futures Exchange suggested that establishing a mechanism for 'protecting baselines' could ensure that emitters who take early action are not disadvantaged. This involves the Government and companies agreeing on a baseline level of company emissions that is net of any greenhouse abatement activity. The Exchange provided an international example of how this might work in a voluntary context:

> Canadian Government and industry are currently moving to incorporate baseline protection into their voluntary action program. Under their approach companies apply for emissions reductions that have occurred since Jan 1, 1990 to be registered for the purposes of baseline protection. Eligible emissions must be real, measurable and verifiable.[123]

8.146 A number of witnesses stated that uncertainties in the ratification and rules of the Kyoto Protocol made decision-making about domestic abatement difficult. The current lack of clarity about international flexibility mechanisms (such as the Clean Development Mechanism) meant that industry was unsure about whether to invest in domestic abatement measures or to initiate projects overseas which might generate carbon credits in the future. If international agreement is reached on flexibility mechanisms at CoP 6 (the 6th Conference of the Parties) in November 2000, the Greenhouse Challenge Program would need to consider the possibility of business choosing to pursue abatement measures outside Australia.

8.147 Credit for early action was a significant area of concern for witnesses, and is discussed in more detail in chapter 9. Discussion particularly focused on how early action would be recognised after the introduction of mandatory emissions reduction measures such as emissions trading. While the Committee considers that proposals for the *reward* of early action may be problematic, it would be relatively easy to design an emissions trading system so that companies were not *penalised* for early action vis-à-vis companies who had failed to take early action.

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120 *Proof Committee Hansard,* Melbourne 20 March 2000, p. 138.

121 *Proof Committee Hansard,* Canberra, 23 June 2000, p 712.

122 'The expansion of participation and extension of the action plans would be greatly enhanced by a clear commitment from Government that organisations will not be disadvantaged for taking voluntary actions now relative to those not taking such actions' (Mr John Maxwell Eyles, Executive Director, AIGN, *Proof Committee Hansard,* Melbourne, 20 March 2000, p 137).

123 Sydney Futures Exchange, Submission 161, p 1623.

Recommendation 94

The Committee recommends that a future emissions trading system be designed to ensure that companies are not penalised for early emissions abatement activity.

Australian Democrats Recommendation 11

The Australian Democrats recommend that the Government explore mechanisms for protecting the baseline of each Greenhouse Challenge Program member, on the basis that such baselines record reductions that are independently verified.

No Regrets and Beyond

8.148 With some exceptions, measures under NGS are premissed on 'no regrets' as a basis for industry action on greenhouse gas emissions. An article published in 1994 by former ABARE Director, Mr Brian Fisher, states that 'regrets' policies directly target the greenhouse problem and so involve costs to national income. By contrast 'no regrets' policies involve indirect greenhouse measures. These are policies which 'improve, or at least do not reduce, national income while at the same time lead to complementary reductions in greenhouse gas emissions'.[124]

8.149 Advocates of this approach argue that those measures with the lowest net costs or highest net benefits should be undertaken before more costly measures. In the context of the Greenhouse Challenge Program the 'no-regrets' principle implies that companies are not required to undertake measures which will impact on normal business development interests. Woodside Energy Ltd referred to *The Third Draft of the NGS* which defines 'no regrets', in broad terms, as:

> Measures which have financial, social and environmental benefits to the community at large, in addition to reducing greenhouse gas emissions, and which, over time, are sufficient to outweigh the direct and indirect cost associated with such measures.[125]

8.150 This definition does not necessarily exclude measures which result in a direct or immediate financial penalty for a given company. The financial costs of reducing emissions may be adequately balanced by other benefits which contribute to the social good.

8.151 It was clear from evidence presented to the Committee that industry would like greater assurance from Government that the future profitability of companies

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124 Mr Brian Fisher, Executive Director, ABARE, 'The Development of International Climate Change Policy', *Australian Commodities*, vol 1, March 1994, p 51.

125 Woodside Energy Ltd, Submission 129, p 1306.

would not be undermined by the adoption of 'beyond no regrets' measures. The AIGN stated:

> We expect that there are likely to be a range of measures, both regulatory and potentially market mechanisms. So what we are really looking for at a broad level is a clear commitment from Government to say, as we move forward in all of this, that companies which have tried to do the right thing through programs such as the Greenhouse Challenge have a documented track record there and will not be disadvantaged compared with those who have not done that.[126]

8.152 Great Southern Energy expressed a common view that: 'Major emissions reduction programs that go beyond a 'no regrets' approach require certainty, a long timeframe and flexibility'.[127] Wesfarmers CSBP Ltd highlighted the current lack of recognition for early action as an impediment to progress beyond no regrets: '… without assurance that reductions will be credited when policy is developed, further progress beyond 'no regrets' may be limited'.[128]

Are Voluntary Measures Enough?

8.153 It is clear that industry saw the Greenhouse Challenge Program as a viable alternative to proposals for the introduction of a carbon tax in 1994-95.[129] The Harris Report notes:

> In the belief that it was possible to demonstrate that voluntary action by the private sector could produce significant results in emissions abatement, Australian industry approached the then Commonwealth Government with a proposal for a voluntary greenhouse abatement program.[130]

8.154 A number of witnesses believed that industry enthusiasm for the Greenhouse Challenge Program stemmed from a concern that more restrictive greenhouse policies would be introduced. A submission provided by the Australia Institute quotes a coal industry newsletter as evidence that industry was primarily concerned with avoiding the imposition of stricter measures:

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126 Australian Industry Greenhouse Network (AIGN), Submission 113, p 138.

127 Great Southern Energy, Submission 150, p 1560.

128 Wesfarmers CSBP Ltd, Submission 103, p 845.

129 David Cusack, Chairman of the Greenhouse Gas Working Group of the CIF, stated in a 1999 paper that 'Industry was not in favour of such a measure because of the potential adverse effects on business competitiveness.'

130 *Greenhouse Challenge, Evaluation Report*, 1999, p 11.

> The release of Australia's Greenhouse Challenge Evaluation Report has demonstrated the value of voluntary action, and provided industry with an argument against mandatory measures to curb greenhouse gas emissions.[131]

8.155 The Australia Institute further claimed that:

> Industry has frequently used the existence of the Program to deflect demands to take more serious action to cut emissions. It has also been of value to the Government; while appearing to act on the issue it has not alienated industry. It has also provided it with ammunition with which to respond to the sustained attacks on Australia abroad.[132]

8.156 The Australia Institute suggests that the Greenhouse Challenge Program has arguably done more harm than good by 'blunting public demands for more effective action'.[133]

8.157 National Inventory figures released in July 2000 indicate that Australia faces a greater challenge in meeting the Kyoto target of 108 per cent than originally anticipated. Australia in 1998 exceeded our international commitment by 16.9 per cent, excluding emissions from land clearing. Given that this trend is likely to continue, the question arises whether the current contribution of industry to emissions reduction will be sufficient to meeting our overall national target. The scope for flexibility and cost-effectiveness in Australia's response to meeting the Kyoto target will clearly reduce as the binding period of 2008 to 2012 draws closer. As was put to the Committee by Australia's Ambassador for the Environment: 'That is when you actually have to do things that will make you comply'.[134]

8.158 The AGO recognises that the current balance of voluntary and regulatory measures may need to be adjusted as the challenge of meeting Australia's obligations becomes clearer.[135] The introduction of mandatory targets for the use of renewable energy in the generation of electricity and the proposal for a 'greenhouse trigger' are examples of the Government's efforts to reign in Australia's escalating national emissions profile:

> The fact that, prior to Kyoto, Government negotiated and put in place, with the support of industry, a broader range of measures beyond just Greenhouse Challenge, indicates that Government did not believe, and neither did industry at that point, that a target that came out of Kyoto could

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131 Dr Clive Hamilton, Submission 79d, p 2301, quoting *Ecoal*, a quarterly newsletter of the World Coal Institute, Vol 32, December 1999.

132 Dr Clive Hamilton, Submission 79d, p 2306.

133 Dr Clive Hamilton, Submission 79d, p 2298.

134 Ambassador Ralph Hillman, *Proof Committee Hansard*, Canberra, 9 March 2000, p 15.

135 'A key matter for on-going attention is whether our current package of policies and measures will in fact lead to the required net reduction in emissions by 2008 to 2012' (Ms Gwen Andrews, Chief Executive Officer, AGO, *Proof Committee Hansard, Canberra*, 9 March 2000, p 4).

> necessarily be met by voluntary action alone… . We now have a range of activities that include voluntary action and regulatory action, where it makes sense, and mandated targets for example in renewable energy.[136]

8.159 The Australian Conservation Foundation argued for greater intervention by Government in the management of emissions, a position that goes beyond the Government's current preference for market-based solutions:

> … you have to have a carrot and stick approach from the national Government and you have to have leadership. At the moment the AGO focuses on the carrot approach - the incentives. Without the ability to mandate targets, without legislative mechanisms much more thoroughly developed at the Commonwealth level, there is a limit to what you can achieve through voluntary initiatives. That is where the attention is needed. The role of the AGO could be deepened and could be far more effective at delivering incentives where they are needed… perhaps it would have a role to play particularly in monitoring and evaluating and informing to help with legislative initiatives… .[137]

8.160 Whilst the Greenhouse Challenge Program has gone some way toward harnessing the potential for industry to significantly reduce the national emissions profile, it may not in itself be sufficient to delivering the outcomes sought by the Government. Pacific Power summed up this viewpoint:

> The Greenhouse Challenge seems to have been effective in reducing emissions on a 'no-regrets' basis. However a review of the forecast emissions reductions by organisations signed up for the greenhouse challenge fall far short of Australia's Kyoto target. Additional mechanisms, well beyond those likely to result from Greenhouse Challenge, will be needed if Australia ratifies the Kyoto Protocol. [138]

8.161 Pacific Power also argued that 'it is also unreasonable to expect volunteers to carry the burden of emissions reduction'.[139] A number of witnesses argued that binding targets and a regulatory framework to ensure compliance with those targets are necessary for going beyond what purely voluntary measures can achieve. Greenpeace highlighted a common concern with the Government's current approach: '… our main concern with the voluntary approach that is put forward is that it is not underpinned by any hard place, by any real hard targets'.[140]

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136 Ms Gwen Andrews, Chief Executive Officer, AGO, *Proof Committee Hansard*, Canberra, 9 March 2000, p 17.

137 Australian Conservation Foundation (ACF), *Official Committee Hansard*, Melbourne, 21 March 2000, p 195.

138 Pacific Power, Submission 98, p 804.

139 Pacific Power, Submission 98, p 803.

140 Greenpeace Australia, *Proof Committee Hansard*, Canberra, 23 June 2000, p 676.

8.162 From an international perspective there are, in the main, two attitudes that Australia can adopt on 'beyond regrets' measures. The first body of opinion argues that we should not undertake unilateral measures which carry a cost to our economy before other countries agree also to abide by the same rules. The critics of this approach argue that Australia's reputation on environment issues has already been considerably damaged by Australia's argument of 'special circumstances' at Kyoto. The likelihood that Australia will not meet the Kyoto target may reinforce the view that Australia is unwilling to adopt the necessary measures to effectively manage the challenge of climate change.

Options for the Future

Comprehensiveness and burden-sharing

8.163 Industry emissions make up a significant proportion of Australia's national emissions. Around half of Australia's emissions however, issue from non-industry sources. A number of industry representations to the Committee argued that managing Australia's emissions profile would therefore mean drawing in other parts of the Australian economy. The following comments by Western Australia Minerals and Energy were typical:

> … the greenhouse issue is an important issue for the whole community… . Certainly, everyone will feel the impact of response measures, particularly if they cause economic upheaval… response measures must be undertaken across the whole community.[141]

> Measures confined to just a few sectors, typically comprising relatively small numbers of comparatively large emitters, will fall short of the success policy-makers would wish for them.[142]

8.164 To date, the Greenhouse Challenge Program has primarily focused on capturing major emitters. The AIGN asserted that the Program had:

> … excellent coverage in some key areas including 100 per cent coverage of aluminium and cement production, 98 per cent of oil and gas extraction and electricity generation and distribution and 91 per cent of coal mining.[143]

8.165 The Minerals Council stated that:

> … 78 per cent of emissions from mining (including 91 per cent from coal mining) are covered by companies participating in the Greenhouse Challenge. On the minerals processing side, 89 per cent of emissions from

141 *Proof Committee Hansard,* Perth, 17 April 2000, p 473.

142 *Proof Committee Hansard,* Perth, 17 April 2000, p 473.

143 Australian Industry Greenhouse Network, Submission 113, p 923.

> machinery and metals manufacturing is covered by the Challenge with 100 per cent coverage from aluminium and iron and steel.[144]

8.166 The Australian Coal Association stated that,'at present 75 per cent of black coal produced is covered by companies which are participants in the Greenhouse Challenge'.[145]

8.167 A number of the current participants of the Greenhouse Challenge Program expressed the view that they had already made a significant contribution to emissions savings and that further demands for abatement should be extended to other parts of society.

8.168 The Australian Aluminium Council argued that it had a limited capacity to make further savings and that more effort should be made to engage other parts of the community in emissions reduction:

> There is a tendency so far for Governments to focus mainly on the energy producers and energy-intensive users, because these are visible and relatively easy to deal with. However it is important to understand that very significant emissions are related to other sectors such as the commercial business sector, the household and service sectors, the transport sector (especially motor vehicles), and the agricultural sector. Australia's abatement strategies must focus on the full range of possibilities and it is in these other sectors that many of the most effective actions may rest.[146]

8.169 The Pulp and Paper Manufacturers Federation of Australia (PPMFA) similarly argued that it should not be required to deliver significant emissions savings beyond its achievement to date:

> We consider that we have already performed very well in reducing our emissions. The same cannot be said for many other areas of the economy… before focussing on an industry that already has a good record in reducing its emissions, there are many other sectors of the economy where the focus should be put where there are relatively low measures that could be taken which would substantially reduce Australia's emissions.[147]

8.170 In the main, industry bodies saw the promotion of energy efficiency by all users as a necessary step before considering the introduction of more stringent measures for industry. Industry representatives offered a number of suggestions on how this should be done:

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144 *Cooperative Agreement, A Report on the Greenhouse Challenge 1998-99,* Tabled document, p 3.

145 Australian Coal Association, Submission 140, p 1462.

146 Australian Aluminium Council, Submission 167, p 1671.

147 *Proof Committee Hansard,* 23 June 2000, p 778.

- extending the coverage of the Greenhouse Challenge Program to untapped sectors, such as transport and agriculture;[148]
- where appropriate, negotiated agreements with companies and sectors;[149]
- tailoring greenhouse response measures to target sectors;[150]
- increasing the number of businesses registered with the Program;[151]
- better management of land clearance and the pursuit of forestry and land rehabilitation programs that have economic and/or environmental benefits as well as greenhouse abatement;[152]
- increasing the contribution of government services to national emissions savings;[153]
- increasing coverage of energy-intensive manufacturing;[154]
- increasing the focus on end user efficiency, eg buildings, transport, potential for long term changes to urban design and transport modes;[155] and
- extending the Program to cover small-to medium-size businesses.[156]

8.171 The 1996 Wilkenfeld Report notes that:

> … it is not the largest emitters but the second rank (say 20 to 500 Kt per annum) where the greatest untapped potential lies, and where the GCP is more likely to prompt actions that would not otherwise have been taken.[157]

8.172 The Committee broadly supports the integration of these recommendations into the framework of the Greenhouse Challenge Program, as far as is practicable. However, the Committee notes that the practice of this large industry sector in pointing to other energy users could be said to be an attempt to distract from its own obligations.

8.173 The current costs of verification make it prohibitive for Government to extend the coverage of the Greenhouse Challenge Program. Incorporating the vast number of

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148 The Minerals Council, *Proof Committee Hansard,* Canberra 10 March 2000, p 70.

149 Australian Industry Greenhouse Network, Submission 113, p 914.

150 Cement Industry Federation (CIF), Submission 135, p 1424.

151 Cement Industry Federation (CIF), Submission 135, p 1424.

152 Australian Industry Greenhouse Network, Submission 113, p 915.

153 Australian Industry Greenhouse Network, *Proof Committee Hansard,* Melbourne, 20 March 2000, p 137.

154 Australian Industry Greenhouse Network, Submission 113, p 932.

155 Australian Industry Greenhouse Network, Submission 113, p 932.

156 Australian Aluminium Council, Submission 167, p 1674.

157 Wilkenfeld Report, 1996, p 25.

small emitters in Australia (small business, farmers, householder, motorists) on a voluntary basis is administratively burdensome and unlikely to result in significant or sustained savings. The Committee also recognizes that that it would be unreasonable to require small emitters to fund the verification of their assessments and concludes that this factor and the 'no regrets' framework of the Program does not provide a suitable mechanism for capturing the broader community of smaller emitters.

Recommendation 95

The Committee recommends that the Australian Greenhouse Office assess whether proposals to extend the Greenhouse Challenge Program would be more effectively dealt with other programs or by legislation.

Taking the Lead

Industry

8.174 The primary benefit of the Greenhouse Challenge Program is the scope it provides for industry to play an active - even leading role in contributing to Australia's commitment to greenhouse gas reduction. The Program provides a platform for continuing dialogue and cooperation between government, industry and the community on the development of practical strategies for emissions abatement. From the point of view of industry the effectiveness of the Program is affected by a range of uncertainties:

- the likely costs to business of compliance with government imposed targets;
- the design features of a domestic or international future emissions trading system and the timing of their introduction;
- the Government's likely approach to giving businesses credit for early action;
- options available to business for reducing the domestic cost burden through the use of international flexibility mechanisms (with or without a trading system); and
- the effects of the interaction of a number of Government policies on the environment, new industries, regionalism, employment and our international relations.

8.175 In the light of these uncertainties, industry representatives, in general, expressed a clear preference for the Greenhouse Challenge Program to remain a Program based on voluntary measures.

8.176 Many witnesses saw scope to build on the current framework and insights gained from the Greenhouse Challenge Program. The main advantage cited by industry of refining the existing framework lay in avoiding the need for the complex legislation and management changes that would accompany the introduction of an

emissions trading system. The following view put by the Business Council of Australia was common:

> … the voluntary Greenhouse Challenge Program provides an institutional framework and basis which could, we believe, be further enhanced and expanded to achieve the Government's objectives in this instance.[158]

8.177 The Cement Industry Federation (CIF) suggested that Greenhouse Challenge agreements provide a framework for considering the concept of negotiated, legally binding agreements between Government and each industry/sector:

> The basic elements of a negotiated agreement - inventory, abatement actions and forecasts are already part of each Greenhouse Challenge agreement, as is the process for annual reporting of achievements, and independent verification of results. The main additional step would be to negotiate the target to be achieved by the industry/sector by an agreed date (the means of reaching the agreement a matter for the industry or sector).[159]

8.178 Energetics Pty Ltd brought to the Committee's attention the implementation of a Voluntary Energy Efficiency Programme (VEEP) by the European chemical industry since 1992. The Program commits its members to significant and quantified improvements in specific energy consumption. Energetics considered this approach 'a logical extension to the existing Greenhouse Challenge'.[160]

8.179 In response to a question by the Committee about the desirability of introducing mandatory components to voluntary agreements, the PPMFA said:

> That is certainly worth exploring. If we are looking at the next generation of greenhouse challenge type agreements, to use the Government's phrase of 'mutual obligation'. I think you can have a situation where more is required of industry. Potentially industry or sectors or individuals could be required to meet a specific target… . You could have penalties for not meeting that target.[161]

8.180 A number of witnesses however, argued that as a purely voluntary scheme, the Greenhouse Challenge Program has a limited capacity to influence industry toward climate change actions:

- George Wilkenfeld and Associates:

158 *Official Committee Hansard,* 21 March 2000, p 176.

159 Cement Industry Federation (CIF), Submission 135, p 1432.

160 Energetics Pty Ltd, Submission 143, p 1493.

161 *Proof Committee Hansard,* 23 June 2000, p 706.

> Australia can meet its commitment under the Kyoto Protocol, but only if far more vigorous and effective action is taken than currently envisaged.[162]

- The Australia Institute:

> … there must be penalties. It goes without saying. I believe large segments of industry often prefer a mandatory approach because it actually levels the playing field. If you look at the international evidence on voluntary agreements, the essential conclusion is that they do not really have much impact… they conclude that they are not very effective at achieving their objectives.[163]

- Greenpeace Australia:

> We are not suggesting that the GCP should be abolished. It clearly has a role to play as part of Australia's greenhouse policy response. However, given the shortcomings in the Program, it must not be used, as it is by industry and government, to deny the necessity of more substantial efforts to reduce emissions, including mandatory measures.
>
> Furthermore, until the GCP can be made more rigorous, and genuine emission reductions can be adequately measured, the Program should not be used as a tax-payer funded exercise to improve the corporate image for greenhouse polluting companies.[164]

8.181 The Committee believes that the present voluntary arrangements do not encourage industry to adopt systematic and comprehensive approaches to emissions reduction which go beyond 'no regrets'. Voluntary participation means that taking the lead in abatement is largely unrewarded by the market. This has resulted in a minimum level of action by a relatively small number of emitters, undertaken largely in the interests of avoiding current market or Government penalties.

Government

8.182 The Committee emphasises that the Government has a critical leadership role to play in establishing and enforcing a regulatory framework for long term, sustainable emissions abatement. Many witnesses to the inquiry urged the Government to acknowledge that the current regime of voluntary abatement will not support Australia's long term interests:

- Australian Conservation Foundation:

> … a lot of what we are putting in front of you today actually requires Government leadership, legislation and policy changes that the Greenhouse Office is not responsible for… . One of our challenges is finding a point of

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162 George Wilkenfeld and Associates, Submission 85, p 659.

163 Dr Clive Hamilton, *Proof Committee Hansard*, 10 March 2000, p 65.

164 Greenpeace Australia, Submission 183a, p 2422-23.

> receptivity and a policy dialogue at the national level where one can adequately put forward these perspectives and really form a view that does include mandated action on how we tackle greenhouse in Australia.[165]

- Friends of the Earth (Victoria):

> Voluntary measures have a place but they do not actually replace having a regulatory framework. That needs to come at a Commonwealth level.[166]

- Australian Conservation Foundation:

> I think the central issue is the capacity for national leadership and coordination through legislation.[167]

- The Australia Institute:

> When you have something as important and urgent as reducing Australia's greenhouse emissions, the past evidence in Australia and the international evidence strongly suggest that mandatory measures are required.[168]

8.183 The Committee believes that the Greenhouse Challenge Program partnership model does not appropriately balance the Government's desired outcomes with the capacity of industry, as a whole, to reduce its emissions. Under the current framework of the Program the risk of not achieving a significant and sustained level of abatement is borne mainly by Government. The voluntary nature of the Program means that Government is reluctant to impose penalties if agreed targets are not achieved, recognising that this may deter prospective participants from joining. Ultimately, the consequences of not sharing the burden of abatement equitably across all of industry at an early stage in our abatement effort could impose a severe penalty on the Australian economy in the future.

Conclusions

8.184 The Committee is of the view that, in the absence of an established domestic or international emissions trading system, the Greenhouse Challenge Program can play a valuable role in encouraging industry to adopt emissions abatement strategies.

8.185 The Committee is not convinced that the administration of the Greenhouse Challenge Program conforms to acceptable standards of transparency. The Committee recognises that the voluntary nature of the Program may have resulted in minimal conditions being imposed on participants. However, the Committee firmly believes that the Program must demonstrate complete integrity in setting emissions reduction targets and reporting of industry achievements.

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165 *Official Committee Hansard*, Melbourne, 21 March 2000, p 198.

166 *Proof Committee Hansard*, Melbourne, 20 March 2000, p 167.

167 *Official Committee Hansard*, Melbourne, 21 March 2000, p 195.

168 Dr Clive Hamilton, *Proof Committee Hansard*, Canberra, 10 March 2000, p 65.

8.186 The current emphasis of the Greenhouse Challenge Program on voluntary participation and compliance affords industry considerable flexibility in deciding how and when it will reduce emissions. The Committee recognises the value of undertaking least cost measures in the immediate to short term, but emphasises the need for industry to prepare for 'beyond no regrets' measures and to implement all cost-effective emissions reduction measures.

8.187 In the Committee's view, the Government has a critical role to play in establishing an integrated national framework - with an appropriate balance of voluntary and mandatory features - capable of promoting the long term interests of the Australian community as a whole. This means managing Australia's transition to a new forms of economic wealth based on principles of environmental sustainability.