

Chapter 4

Voluntary action

Background

4.1 In April this year, the Senate Economics Committee noted in its report on the CPRS Exposure Draft that many submitters had expressed concern that 'voluntary' action by households would not lead to a reduction in Australia's greenhouse gas emissions.¹ The argument is as follows. Many households (as well as businesses, local and state governments) take action to reduce their emissions, which is primarily motivated by altruistic concern for the environment.² However, under the proposed CPRS, these additional reductions will simply free up more permits for liable entities to purchase and to increase their emissions. This criticism of the CPRS, therefore, is one of design—it would set not only a ceiling on emissions, but also a floor.³

4.2 A leading consumer advocacy organisation welcomed the Committee's comments:

CHOICE is encouraged by the Committee's recognition of the importance of voluntary action and the recommendation for the government to develop policies in this area. We look forward to working with the government to identify practical means to recognise and account for consumer's voluntary action.⁴

4.3 In February 2009, the Minister for Climate Change, Senator the Hon. Penny Wong, rightly noted that voluntary action to invest in energy efficient practices will not only save households money, but will also help make it easier for governments to set even more ambitious targets in the future.⁵ The Exposure Draft stated that in making a recommendation to set the national scheme cap, the Minister *may* have regard to 'voluntary action which is expected to be taken to reduce Australia's greenhouse gas emissions'.⁶ The Commentary to the draft noted that 'voluntary action to reduce greenhouse gas emissions can help ameliorate the economic implications

1 *CPRS ED Report*, Chapter 8.

2 In other words, it is not principally motivated by financial cost.

3 See Dr Richard Denniss, 'Fixing the floor in the ETS: The role of energy efficiency in reducing Australia's emissions', *Research Paper No. 59*, The Australia Institute, November 2008. Several submissions to the Senate Economics Committee's inquiry into the Exposure Draft also identified this issue as a problem. See submissions 3, 5, 21, 33, 35, 42, 49, 52, 55, 74, 79, 82, 84, 87, 93, 97, 107, 110, 111, 112, 116 and 122 of the *CPRS ED Report*.

4 Choice, *Submission 31*, p 3.

5 The Hon. Penny Wong, 'ETS is better than a tax', *The Australian*, 23 February 2009, p. 8.

6 Carbon Pollution Reduction Scheme Bill, *Exposure Draft*, Clause 14(5)(c)(iv).

associated with various levels of national scheme caps, making it more likely that more stringent caps can be set over time'.⁷

4.4 On 4 May 2009, the Government announced that it would make changes to the Exposure Draft of the CPRS bill to enable households to have direct influence on the carbon permit market. First, the government committed to establish an Energy Efficiency Savings Pledge Fund to allow households to retire carbon permits. Second, GreenPower purchases above 2009 levels will be directly recognised when the Government sets CPRS caps. This chapter examines these initiatives and the mechanism in the CPRS bill for the Minister to take voluntary action into account when setting scheme caps and gateways.

4.5 Finally on 7 June the Government announced it would hold public consultation workshops across the country to look further at how voluntary action can best be taken into account when setting future caps. Voluntary actions to be taken into account may include increases in the uptake of energy efficient appliances, the construction or renovation of houses to a star-rating above the minimum required and the use of public transport.⁸

Accounting for voluntary action in setting the cap

4.6 A key concern of the Senate Economics Committee in its inquiry into the Exposure Draft of the CPRS bill was that clauses 14 and 15 would not ensure that voluntary action is recognised transparently and systematically. Accordingly, the committee recommended in its report that subsection 14(5) be reworded such that the Minister 'shall have regard' (rather than 'may have regard') to voluntary action.⁹

4.7 The Department of Climate Change told this committee that the Government had taken legal advice on this recommendation and decided to address this issue:

...through a statement in parliament and in a commitment to address voluntary action in that statement. The approach that has been adopted addresses the committee's concerns by ensuring that voluntary action will be taken into account in a transparent way.¹⁰

4.8 The CPRS bill now requires a written statement to be tabled in parliament outlining the Minister's reasons for regulations underlying scheme caps and gateways.¹¹

7 Carbon Pollution Reduction Scheme Bill, *Exposure Draft*, Commentary, p. 88.

8 Media Release, Hon Penny Wong, 7 June 2009, <http://www.environment.gov.au/minister/wong/2009/pubs/mr20090607.pdf>

9 *CPRS ED Report*, pp. 73–74.

10 Mr Barry Sterland, Department of Climate Change, *Proof Committee Hansard*, 22 May 2009, p. 2.

11 *Carbon Pollution Reduction Scheme Bill 2009*, sections 14 and 15.

Buying and retiring permits

4.9 A related concern of the Senate Economics Committee was that the voluntary action problem could not be adequately solved by households buying and surrendering permits on the open market. The Government has emphasised the ability of any person to purchase and cancel Australian emissions units, and for the Government to subsequently cancel a Kyoto unit. The Department of Climate Change explained that the original CPRS (as set out in the Exposure Draft) allowed 'anyone to purchase permits and essentially submit them to the regulator to have them torn up'.¹²

4.10 The Senate Economics Committee report commented that the ability of concerned citizens to buy and cancel permits is not in itself a sufficient outlet for voluntary action. The committee cited—and agreed with—the comments of Professor Alan Pears of RMIT that buying and surrendering permits is 'not very emotionally satisfying'.¹³ Professor Pears argued that taking permits out of the system leaves the additional abatement action to the liable entities, not those who surrender the permits. This effectively takes from them the ability to reduce emissions in a manner that also achieves other goals. As Dr Richard Denniss, Director of the Australia Institute observed, under the proposed CPRS a household that spends \$3000 to replace its off-peak electric hot water heater with a solar hot water system would have no impact on greenhouse gas emissions. However, it would make a significant impact on the level of emissions if instead they purchased permits and ripped them up.¹⁴

How else can households' voluntary actions count?

4.11 One way to ensure that voluntary action counts in addition to the national target is to establish a secondary market to audit and verify households' emission

12 Dr Martin Parkinson, *Proof Economics Committee Hansard*, 18 March 2009, p. 21. *CPRS ED Report*, p. 70. See also Department of Climate Change, Answers to Questions on Notice.

13 Adjunct Professor Alan Pears, *Submission to the Green Paper*, 2008, p. 4. *CPRS ED Report*, pp 71 and 73.

14 Dr Richard Denniss, 'Fixing the floor in the ETS: The role of energy efficiency in reducing Australia's emissions', *Research Paper No. 59*, The Australia Institute, November 2008, p. 9.

reductions. The permits accrued in this secondary market would be removed from the CPRS market.¹⁵

4.12 The Centre for Energy and Environmental Markets at the University of New South Wales has proposed that voluntary action could be recognised through an Additional Action Reserve (AAR). The AAR would annually set aside a proportion of emission units which would be retired if governments, businesses or individuals take emission reduction measures which go beyond a baseline target that emitters are expected to achieve. Through setting aside a fixed proportion of units annually, the Action Reserve would limit recognition of voluntary action and limit potential losses of auctioning revenue. If the allocated emission units are not retired in a given year, they would be returned to the market. The Centre argues that a scheme along these lines would provide a mechanism for 'defined and limited' strengthening of the national emission target which would drive domestic emission reductions rather than potentially draw on international carbon credit markets.¹⁶

4.13 The Committee believes that while there is merit to the idea of a systematic mechanism (such as an offsetting secondary market) to calculate and allow for voluntary action, the precise detail of this type of scheme may be contentious. The AAR would need to determine how to calculate the baseline target that emitters are expected to achieve and the proportion of permits that are to be set aside annually. These may be difficult—and administratively costly—issues to resolve.

4.14 However, in preferring the less structured approach proposed in the CPRS bill, the Committee strongly urges the Government to clarify how clauses 14 and 15 of the bill will operate. The Committee is encouraged that the Government has stated its intention to do so (see paragraph 4.6).

15 Dr Denniss has suggested such a system with a fixed exchange rate of less than one for one between CPRS emissions permits and the proposed secondary permits for household reduction. He has argued that if two tonnes of household emissions are exchanged for one tonne of CPRS permits, the action of individual households would have a demonstrable effect on the overall level of greenhouse gas emissions nations. Dr Denniss emphasises that the key in establishing a secondary market is to 'ensure the accuracy of the measurement of both the baseline and the discretionary reductions in energy use that can be attributed to the actions of a household'. He suggests using historic data from household electricity bills but concedes that the accuracy of estimates of emissions reductions 'is unlikely ever to match the accuracy of the measurement of emissions from the burning of fossil fuels'. 'Fixing the floor in the ETS: The role of energy efficiency in reducing Australia's emissions', *Research Paper No. 59*, The Australia Institute, November 2008, p. 10.

16 Centre for Energy and Environmental Markets, 'The possible role of an Additional Action Reserve (AAR) in the CPRS to facilitate additional voluntary and policy efforts to reduce emissions', *Concept Note*, p. 1. See also Dr Regina Betz, *Proof Senate Economics Committee Hansard*, 27 March 2009, p. 118.

Energy Efficiency Savings Pledge Fund

4.15 As part of a suite of changes to the Exposure Draft legislation announced on 4 May 2009, the Government proposed to establish a \$25.8 million Energy Efficiency Savings Pledge Fund.¹⁷

4.16 The Pledge Fund will enable households to calculate their energy use, to pledge to reduce their emissions through investing in energy efficient appliances and to buy carbon pollution permits. The Government will establish a website for this purpose and the pledges will be pooled with all contributions tax deductible.

4.17 The Fund will enable households to verify their greenhouse gas emissions, invest to reduce these emissions and to use the money saved from their lower energy use to retire permits from the CPRS market. Although the money paid by households to retire permits is tax deductible whether it is paid to the government or to not-for-profit environmental groups, the Pledge Fund's official sanction may encourage more people to engage in this process. Moreover, as the following section notes, the Government has established a mechanism to recognise directly the emission-reducing investments made by households when setting the cap.

Supporting voluntary action through GreenPower

4.18 GreenPower is a government accredited renewable energy programme whereby energy providers supply energy to households from sources such as hydro, wind power and biomass at an additional cost to the standard electricity account. This cost is then invested in the renewable energy sector. The Government's GreenPower website states that for the period 1 October to 31 December 2008, 'over 877 000 Australian homes and 34 000 businesses are voluntarily purchasing GreenPower', which represents roughly 10 per cent of Australian homes.¹⁸

4.19 The Government has identified GreenPower as the key 'voluntary' action undertaken by households. In its 4 May announcement, the Government stated that:

Additional GreenPower purchases above 2009 levels will be directly recognised when the Government sets caps under the Carbon Pollution Reduction Scheme. Additional GreenPower purchases will be measured annually and future caps will be tightened on a rolling basis.¹⁹

4.20 The Explanatory Memorandum to the CPRS bill elaborates:

17 As noted in Chapter 3, the Pledge Fund forms part, along with the Energy Efficiency Trust, of the Australian Carbon Trust.

18 'GreenPower now in 10 per cent of Australian homes', *GreenPower News*, 28 February 2009, <http://www.greenpower.gov.au/admin/file/content13/c6/GreenPower28.pdf> (accessed 22 May 2009).

19 The Hon. Kevin Rudd, 'Helping all Australians do their bit on climate change', *Media Release*, 4 May 2009.

The Government has indicated that additional GreenPower purchases will be measured annually and taken directly into account in setting scheme caps five years into the future, on a rolling basis. For example, the 2016-17 cap will be tightened to reflect the difference between 2009 and 2011 GreenPower sales, multiplied by a factor to reflect the emissions saved. This will achieve emissions reductions beyond Australia's national targets as it will be backed by the cancellation of Kyoto units.²⁰

4.21 The Committee welcomes this announcement. It notes that several submitters to the Senate Economics Committee's inquiry into the Exposure Draft of the CPRS legislation suggested that the Government could take GreenPower purchases into account when setting the national cap.²¹

4.22 A leading consumer advocacy organisation praised the measure, although wanted it taken further:

CHOICE welcomes the Federal Government's acknowledgement that voluntary actions by consumers should be additional to the mandatory actions of the CPRS. The government's decision to recognise voluntary actions by counting new GreenPower purchases as additional when setting CPRS caps, backed by the cancellation of Kyoto units, is a small first step to implement this recognition.²²

Recognising other voluntary actions

4.23 The Senate Economics Committee noted in its April 2009 report that in addition to GreenPower, 'there is publicly available data such as reduced energy consumption by households' that could be used to take account of voluntary action.²³ This committee is pleased that the Explanatory Memorandum (EM) to the CPRS bill details those voluntary actions—other than GreenPower—that may be taken into account by the Minister when setting scheme caps and gateways. The EM states:

A range of other indicators of voluntary action may also be taken into account. As a matter of policy, the Government will monitor annual emissions from the household sector, and will monitor and consider the uptake of certain energy efficiency activities among households and businesses where there are clearly defined business-as-usual benchmarks, and where improvements can be detected. In doing so, the Government will consider trends in the construction or renovation of houses to a star-rating above the minimum required, the use of public transport and the expansion of public transport services, and the uptake of more energy efficient appliances (particularly those that consume a significant proportion of

20 *Explanatory Memorandum*, p. 80.

21 For example, the submissions to that inquiry from the Total Environment Centre and Greenfleet.

22 Choice, *Submission 31*, p 4.

23 *CPRS ED Report*, p. 73.

household energy such as water heaters and airconditioners) beyond regulated levels. Action in these sectors could be taken into account by assessing the extent to which the uptake exceeds historical trends, factoring in electricity price changes, regulation and any direct government assistance.

For example, the Government would collect data on the proportion of houses with a 6 star rating that are being constructed, compare this with historical trends and calculate the reduced emissions likely over the full life-cycle of the buildings. This calculation could inform the Government's cap setting decision. Another example could be monitoring the overall fuel efficiency of the passenger vehicle fleet in Australia. The trend improvements in fuel efficiency could then be compared to historical trend improvements, taking account of fuel price changes and other relevant factors. Estimates of emissions reductions could then be used to inform the Government's decision regarding appropriate scheme caps and gateways.²⁴

4.24 The Explanatory Memorandum recognises that it is not possible to list all household and individual actions that could be measured and taken into account by the Minister. It rightly notes that these 'will evolve over time in response to changing carbon prices, technological developments and other economic and social developments'.²⁵ The committee welcomes the Government's decision to hold public workshops to further determine how voluntary action can best be taken into account when setting caps and urges the Government to continue to promote and monitor voluntary action by households and individuals, with a view to taking these emission reductions into account when setting future caps and gateways.

Conclusion

4.25 The Committee emphasises that the task of reducing Australia's CO₂ emissions extends beyond the CPRS market for liable entities. It is important that the voluntary actions of households to reduce their emissions are taken into account not only when the Minister sets scheme caps and gateways, but also in the trade of permits. In this context, the Committee welcomes the Government's initiatives to enable households to retire carbon permits and to recognise directly GreenPower purchases above 2009 levels. All these initiatives send the right message to households that they can play a valued role in reducing greenhouse gas emissions.

24 *Explanatory Memorandum*, pp 80–81.

25 *Explanatory Memorandum*, p. 81.

