

SUBMISSION TO THE
SENATE STANDING COMMITTEE ON ECONOMICS
INQUIRY INTO THE
CARBON POLLUTION REDUCTION SCHEME BILL 2009

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The Voluntary Carbon Markets Association Inc. (VCMA) welcomes the opportunity to provide a submission to the Senate Standing Committee on Economics, which is examining the various Bills drafted to give effect to the Australian Government's Carbon Pollution Reduction Scheme.

Given the short time permitted to make submissions, the VCMA is unable to comment on each and every aspect of the Carbon Pollution Reduction Bill 2009 Bill (and consequential amendment Bills).

Below are some clauses that give rise to major concerns of the VCMA, with our responses and recommendations, where applicable.

In summary, our recommendations are:

1. The Government commit to **enabling legislation** that allows mechanisms for verified voluntary abatement to be recognised by retirement of CPRS units or Kyoto Units in a timely manner
2. Building on existing expertise, an in parallel to the CPRS registries, that a **framework for registration and certification of voluntary abatement is established.**
3. Establish the **Domestic Voluntary Abatement Scheme** using the framework established in point 2 to allow the trading of domestic carbon offsets generated from covered and uncovered sectors in the Australian market.
4. Empower the **Climate Change Regulatory Authority** to administer registries and certification of voluntary abatement. The Authority is supported by an **Independent Expert Panel** to assess risk in local voluntary abatement projects.
5. Ensure that 100% of Greenpower is treated as additional (per Point 1) or, if not possible, ensure the baseline is set using a pre-Kyoto period baseline to avoid manipulation of the cap and to provide a more certain future for the Greenpower industry.

ABOUT THE VCMA

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

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

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

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

THE VCMA BELIEVES RECOGNISING VOLUNTARY ACTION IS IMPORTANT

The VCMA aims to provide an administratively simple solution to allow voluntary abatement to be recognised once the CPRS commences. As acknowledged by the Government¹, the present design of the CPRS creates a disconnection between an *entity's* activities and *aggregate* emissions, through the introduction of the scheme cap. This undermines the environmental credibility of abatement activities that are beyond compliance as part of a household's or organisation's carbon management strategy. To remain credible, offsetting must be underpinned by genuine additional abatement, over and above what will occur through the operation of compliance measures under the CPRS and government complementary actions in response to Australia's Kyoto obligations.

The VCMA's concerns about the adverse implications of the CPRS for the Voluntary abatement market are outlined in detail in the previous submission to the Senate Standing Committee Inquiry into the Exposure Drafts of Legislation to implement the Carbon Pollution Reduction Scheme in March 2009. A copy of this submission is **attached**, for the Committee's convenience.

Timely Recognition of Abatement

Of critical concern to the VCMA is Australia's ability to quantify the effect of local actions which can be shown to be additional to abatement which would have occurred as a result of CPRS price signals at the time when the abatement occurs or soon after. It is the VCMA's contention that without timely recognition of this abatement through adjustments to the CPRS and Kyoto caps, individuals, organisations and communities will feel disempowered and eventually disengage from efforts to make a difference. The VCMA proposes a process whereby verifiable additional action above business as usual will result in timely cancellation of AEU's and AAU's in order to compensate for distortions in the caps caused by the design of the proposed CPRS. This process will facilitate aggregate tracking of voluntary abatement, as well as allowing individuals, businesses, and state and local governments to identify the outcomes of their own efforts. In other words, to allow the actions of Australian individuals and organisations to reduce their carbon footprint to be meaningful at the aggregate level and at the time the abatement action is taken.

In light of the above, in the VCMA's view, mechanisms are required to establish a framework that:

- (a) **empowers voluntary domestic action** and makes it count as additional abatement where this can be justified and at the time of abatement;
- (b) **quarantines voluntary abatement activity from CPRS** and Kyoto compliance requirements; and
- (c) facilitates **monitoring, management and accounting** for voluntary abatement which can be certified and cancelled from CPRS and Kyoto caps;
- (d) allow **individual voluntary abaters** (including households, businesses and local and state governments) to **set their own targets and commitments** by tracking the aggregate level impacts of their voluntary abatement efforts.

¹ Australian Department of Climate Change, National Carbon Offset Standard Discussion Paper, pg 5

VCMA Recommendations

1. The VCMA urges the Government to explicitly stipulate in the legislation implementing the CPRS that, in exchange for each unit of agreed or certified voluntary domestic abatement the Government will adjust the CPRS and Kyoto caps at the time of abatement or in the auction immediately following certification of the abatement. This is explained in greater detail in Section 3.1 below.
2. The VCMA also recommends that a framework for registration and certification of voluntary abatement is established, with appropriate oversight. This is also explained in greater detail in Section 3.1 below.

The enabling legislation must include a commitment to establishing the above framework, and outline the principles underpinning it, in addition to conferring authority to make regulations to prescribe relevant details.

Pre CPRS Abatement

The VCMA proposes that voluntary abatement prior to the introduction of the CPRS and within the 2008-2012 Kyoto period should also be recognised as additional. If the Government proposes to apply the Kyoto cap of 108% of 1990 emissions for this period, and/or to set a starting point for future emissions caps (under the CPRS and/or an international agreement), it should do this by adjusting the caps. Thus, for the post 2012 period, the 108% starting point would be tightened by the amount of certified voluntary abatement that occurs in the 2008-2012 period.

The abovementioned framework proposed by the VCMA and the methodologies developed by the **Independent Expert Panel** that we suggest in section 1 (b) below, could be utilised in this regard.

1. Proposed Voluntary Domestic Abatement Scheme

The VCMA proposes that a “Voluntary Domestic Abatement Scheme” is established for both covered and uncovered sectors. This Scheme will be operated as a separate but complementary, parallel process to the CPRS. The Scheme will incorporate a mechanism for adjustment of the proportion of voluntary abatement that is certified, based on assessment of the certainty and additionality of the domestic voluntary abatement.

The VCMA’s proposed framework as set out below will have the effect of adjusting Australia’s CPRS and international (Kyoto) caps when (or soon after) the abatement has occurred, to reflect additional voluntary domestic abatement. It will also provide a transparent mechanism for voluntary abaters to demonstrate that they have met voluntary commitments they may make, such as ‘carbon neutral’ or emission reduction targets.

This approach protects the integrity of the CPRS by quarantining it from domestic voluntary abatement. VCMA recognises that it is important for the CPRS to achieve and maintain domestic and international credibility. This means any permit certified under CPRS must meet Kyoto standards. This can be difficult for some types of voluntary abatement, such as energy efficiency, where proving additionality or verifying actual abatement is more challenging (but not impossible, as demonstrated by schemes such as NSW GGAS and Victoria’s VEET). Further, the cost and resources required to meet stringent Kyoto compliance standards can undermine the viability of some forms of voluntary domestic abatement.

The Framework

The framework comprises 4 major elements and one possible further extension:

(a) Establishment of a registry

It is critical to the integrity and transparency of the voluntary abatement market that the creation of and transactions in Australian voluntary abatement are recorded in a formal registry. We note that the Department of Climate Change, in its Discussion paper on the Proposed National Carbon Offset Standard², stated that the Government is considering establishment of a separate registry for permitted domestic offsets. The VCMA endorses this approach – however, such a parallel registry must include all forms of certified voluntary abatement, including Green Power, other forms of renewable energy and energy efficiency measures. The models of ORER or the NSW GGAS scheme could easily be adapted for this purpose.

Whatever model is adopted for such a registry, it is crucial that it tracks the chain of transactions of voluntary action – for example, in relation to voluntary offsets, all transactions from issuing of certificates to final retirement.

(b) Certification of voluntary domestic abatement (application of adjustment factors)

There are many possible reasons why a tonne of voluntary abatement may not have the same level of credibility as a tonne of Kyoto standard abatement. But the need for adjustment does not justify ignoring voluntary abatement that cannot meet a stringent Kyoto standard. Many existing schemes (e.g. the NSW GGAS and VEET) make estimates of abatement from a range of activities, taking into account uncertainties, or requiring appropriate monitoring and ongoing adjustment. The key is to determine credible levels of abatement without exposing the regulator and the scheme's credibility to unnecessary risk.

The VCMA also acknowledges that there will be some degree of abatement driven by the flow-on price effect of the CPRS, and the voluntary abatement could be discounted by an appropriate factor to take account of the CPRS price effect during the certification process.

In practice, the degree of difficulty of setting adjustment factors will vary from activity to activity. For example, energy savings at a large industrial plant can be accurately measured whereas savings from some household energy efficiency programs may be more challenging to estimate accurately. GGAS has developed a number of methodologies for estimation of abatement from energy efficiency improvement and other abatement activities. Its experience provides a valuable basis to develop factors for many activities. For example, for forestry activities, factors such as the quality of the risk management strategy, or an insurance scheme, or diversity of locations of tree projects may contribute to the selection of an appropriate adjustment factor.

To address the variability in adjustment factors, the VCMA strongly recommends that an **independent Expert Panel** be established, comprising specialists in verification and carbon accounting. The Expert Panel will conduct relevant analysis of specific abatement activities. It will recommend appropriate adjustment factors and publish the rationales for its proposals.

In practice, the adjustments can be sufficiently pessimistic to provide a good return to Government in carbon reductions at a low risk whilst providing an incentive for the domestic abatement provider to take action, and to make their methodology more robust over time. It also provides credibility for the individuals and organisations that they are making a difference to aggregate greenhouse emissions by promoting domestic innovation and knowhow whilst still assisting Australia meet its international obligations.

² Australian Department of Climate Change, Draft National Carbon Offset Standard, pg 20

(c) Adjustment of CPRS and Kyoto targets to recognise voluntary domestic abatement

The VCMA urges the Government to reduce the number of CPRS permits (AEUs) available by the amount of certified voluntary abatement in covered sectors and to reduce Australia's Kyoto target by the amount of certified voluntary abatement in all sectors. In summary:

- Covered sector voluntary abatement – retire both AAUs and AEUs, and
- Uncovered sector voluntary abatement – retire AAUs only

Retiring AEUs for additional voluntary action is cost neutral to the CPRS. While some claim that cancelling units in response to voluntary abatement is a cost to government (because it would auction fewer permits) and may increase costs for Liable Parties, the reality is that the cancellation of these permits returns the number of permits available in the market to the level that it would have been if the voluntary abatement had not occurred. Rather than subsidising voluntary abatement, this is correcting the 'free riding' for liable parties effect caused by the voluntary action.

Please note that the proposed framework above does not cover voluntary abatement generated from outside Australia. We are not seeking to have the Government retire CPRS permits or Kyoto units based on offsets purchased internationally other than as proposed in the White Paper. However, the model could be extended to achieve this if it was seen by government and community as desirable.

(d) Enabling Legislation

The VCMA submits that the approach outlined in (a), (b) and (c) above, which would establish the platform for the Voluntary Domestic Abatement Scheme, should be incorporated into the final legislation establishing the CPRS.

VCMA notes that the proposed legislation allows (but does not require) the Minister to consider voluntary abatement when setting trajectories for gateways at least 5 years into the future, and proposes that tracking of voluntary abatement by businesses and households would be put in place. These are important steps forward, but the five year delay is unacceptable, the uncertainty of the Minister's response undermines credibility, and the tracking mechanism is insufficient.

(e) A Trading Voluntary Domestic Abatement

Trading of verified voluntary abatement should be allowed under the proposed National Carbon Offset Standard. For the purposes of our proposed model, the VCMA refers to such a credit as a "Certified Voluntary Abatement Unit".

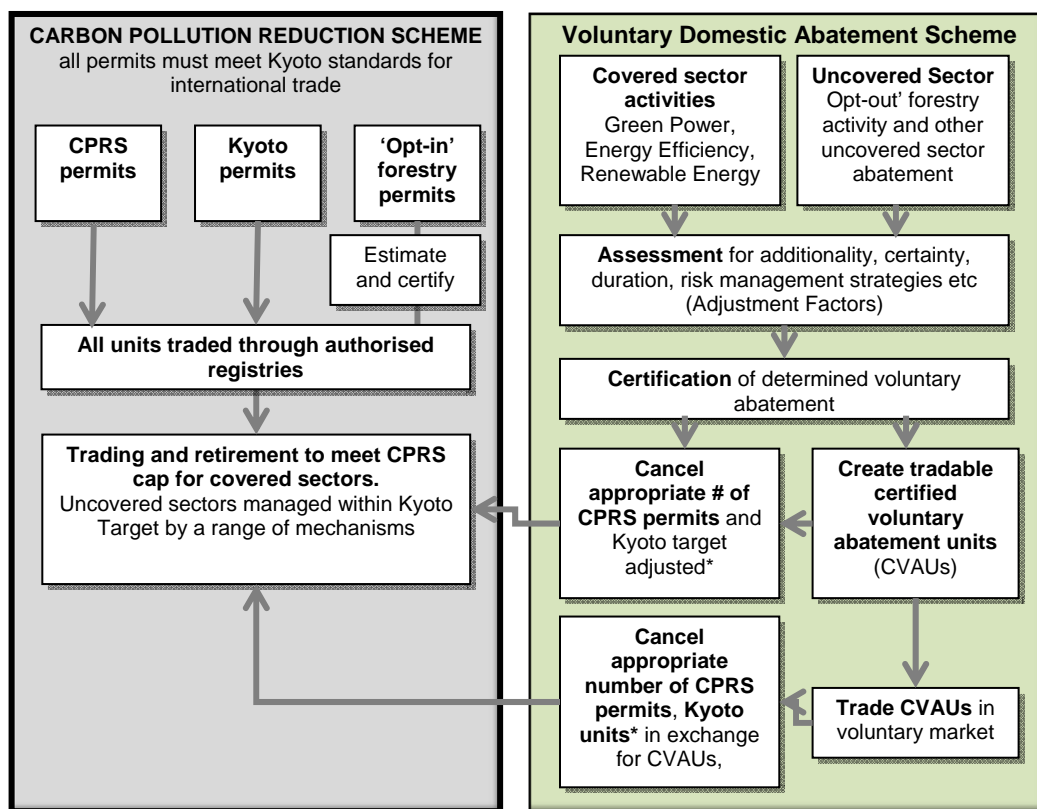
This process would have the effect of transferring the credit from the abatement from one party's declared inventory to another's – only after the abatement has been certified in accordance with the abovementioned process of adjustment.

The VCMA notes that one of the major implications of the design of the CPRS is that the supply of voluntary offset credits into the voluntary market will be severely limited (since the government has indicated that no offsets can be created from covered sectors). The proposed VCMA framework addresses this market failure by creating an opportunity for abating organisations to create a tradable commodity that could supply the voluntary market and therefore provide incentive for innovation and stimulus for new abatement projects. In this sense, it may operate as an incentive scheme similar to Renewable Energy Certificates and will allow the purchaser to have greater choice in the type of abatement that they invest

in, as well as promoting Australian innovation and emerging technologies. Tracking of the abatement through the registry will ensure that it is only counted once thus minimising risk to the Government.

The VCMA framework also provides an opportunity for the progressive ramping up of recognition of emerging abatement options.. For example, early biochar projects could be treated as voluntary abatement, and the extent of cancellation of permits via the VCMA model would be determined by the expert panel, taking into account uncertainties, extent of monitoring, etc. As knowledge improves, a case for consideration of biochar as a Kyoto-certified form of abatement could be made, so that it would shift into the CPRS. At present, emerging abatement options suffer the 'all or nothing' problem. Without international agreement they cannot be part of internationally accredited trading schemes. But there is nothing else. The VCMA model provides some degree of recognition, and provides time and revenue to build a case for international recognition. The VCMA model also offers an option for the building industry to gain recognition for its efforts at abatement.

The proposed framework for the Voluntary Domestic Abatement Scheme is summarised in the following diagram:



* Note that voluntary abatement in a covered sector would require cancellation of both CPRS permits and Kyoto units. For voluntary abatement in an uncovered sector, only Kyoto units would be cancelled.

This proposed framework is provided to provide context for and clarification of the VCMA's positions in relation to key aspects of the CPRS Draft Bills, as outlined below.

AUSTRALIAN CLIMATE CHANGE REGULATORY AUTHORITY BILL 2009

The VCMA notes the very broad scope of the Climate Change Regulatory Authority (CCRA) proposed under this Bill, and that the existing Office of the Renewable Energy Regulator and the National Greenhouse and Energy Data Officer will be subsumed into this Authority, along with the CPRS.

The Climate Change Regulatory Authority will have the capacity to set up registries, databases, reporting and compliance mechanisms for the CPRS and the Mandatory Renewable Energy Scheme. Accordingly, the VCMA believes CCRA is the appropriate institution to administer and enforce the voluntary abatement market, in addition to these important functions.

Specifically, to give effect to the proposed framework for recognition of voluntary action outlined earlier in this submission, a number of institutional arrangements will need to be established, including in relation to the following areas:

- Establishment of a **formal registry** to record transactions in voluntary offsets and retirement thereof, as outlined in section 1 (a) above;
- Convening of the **Independent Expert Panel**, as outlined in section 1 (b) above;
- Administration of **verification processes**; and
- Creation and administration of other relevant mechanisms and protocols.

Accordingly the VCMA recommends that a specific unit is empowered within the Climate Change Regulatory Authority that assumes responsibility for administration and enforcement of the voluntary abatement market in relation to the above areas, and appropriate governance mechanisms and compliance standards.

This would mean that, whilst arrangements to establish the framework for the Voluntary Domestic Abatement Scheme are aligned with the design of the CPRS, they remain separate and avoid administrative complexity.

We note that the focus of the Regulatory Authority will be on administration and enforcement of the Scheme, rather than advising on emissions reduction trajectories. However, for the reasons discussed above, the VCMA believes that it will need to consider adjustments of emissions trajectories, based on recognition of voluntary action rather than climate science.

Relevant Expertise

In this regard, we note that Members of the Regulatory Authority will have relevant expertise in relation to economics, industry, energy production and supply, energy production and reporting, greenhouse gas reduction measurement and reporting, greenhouse gas abatement measures, financial markets and trading of environmental instruments. The VCMA recommends that the criteria for Members also include capacity to construct economic and emission models and projections based on adjustment for voluntary abatement. In its explanatory material, the Government states that it would, as a matter of policy, track a range of potential voluntary abatement activities for consideration in future adjustments of gateways, so it is appropriate that the Regulatory Authority has such expertise.

We anticipate that one Member of the Climate Change Regulatory Authority would assume responsibility for Voluntary Abatement Unit within the Regulatory Authority, with assistance provided by an **Independent Expert Panel**, as described above. The **Independent Expert Panel will** comprise specialists in verification and carbon accounting, as well as marketing, communication and program design (in relation to the design of practical mechanisms for voluntary abatement). The Expert Panel will conduct relevant analysis of specific abatement activities. It will recommend appropriate adjustment factors and publish the rationales for its proposals. The Expert Panel must

be supported by appropriate staff and financial resources within the abovementioned Unit of the Regulatory Authority.

CARBON POLLUTION REDUCTION SCHEME BILL 2009

The Explanatory Memorandum (EM) to the Carbon Pollution Reduction Scheme Bill sets out the Government's understanding of the treatment of Voluntary Abatement under the CPRS. Our interpretation of the scheme design, as it relates to voluntary abatement, is set out beneath the Government's position.

GreenPower

The Government has committed to taking account of the uptake of GreenPower in setting caps. GreenPower purchases above 2009 levels will be taken directly into account in setting scheme caps 5 years into the future on a rolling basis. The Government has committed to cancelling equivalent numbers of Kyoto Units. (*EM section 2.27, page 80*). The DCC Factsheet includes a visual interpretation of this, showing both the lower and upper bounds of the gateway being reduced in response to Green Power sales above 2009 levels.

However, in its explanatory document, the Government states that the Minister is required to take all reasonable steps to ensure that the scheme caps are within the upper and lower bounds of the Gateway (if any) for the relevant year. (*EM 2.17, page 78*). This would potentially limit the additionality of Green Power abatement. This possible contradiction needs to be resolved.

VCMA position

The VCMA's position is that all GreenPower sales in a given year must be treated as additional abatement by retiring permits at auctions as near as possible to the time of abatement.

The application of a baseline such as the proposed 2009 baseline, no matter how elegant and logical in theory, is impractical.

First, a baseline that is not set in the past is open to gaming and manipulation, and threatens to impact on the GreenPower market in the short term. GreenPower buyers can influence the level of the 2009 baseline during the remainder of the baseline period. This provides a clear incentive to stop buying GreenPower for the remainder of the baseline period in order to reduce the threshold above which future purchases will be recognised as additional. This could cause serious market dislocation.

Depending on how the baseline is applied, there are two possible outcomes.

If a baseline is applied as a sales threshold, the only time that the purchase of GreenPower makes a difference is if the baseline is exceeded, and no-one will know when this occurs until later in any year. This will result in consumer reluctance to purchase GreenPower early in any year.

GreenPower under this arrangement is undermined as customers cannot be sure that their purchases will contribute to pollution reduction and as a result will progressively move to undertake other measures that do – this will effectively spell the death of GreenPower.

Alternatively, if the abatement from GreenPower sales above the 2009 baseline is averaged over all GreenPower, then the abatement - particularly in early years - will be heavily discounted. For example, if GreenPower sales in 2011 are 25% above 2009, then 125% of 2009 sales will achieve 25% of additional abatement, meaning that each unit of GreenPower is discounted by a factor of five. Purchasers wanting to make a difference would have to buy 5 times the amount of

GreenPower to achieve abatement equivalent to pre-2009 levels of abatement. This seems unlikely to be attractive to many consumers!

VCMA recognises that the Government has used inventories and modelling to incorporate past levels of GreenPower sales into its caps. However, this process to date is not sufficiently transparent to give us confidence that voluntary uptake of Greenpower prior to 2009 has been used to reduce the cap. Furthermore, the application of a baseline as proposed undermines the simplicity and commercial viability of GreenPower. The only practical solutions seem to be to adjust the caps so that all GreenPower can be treated as additional, or accept that this is a small distortion in the cap (which is a minor issue in comparison with the scale of allocation of free permits and other compensation being offered to some Liable Parties).

The VCMA considers that its proposed framework (as outlined above) would treat GreenPower in the same way as other forms of certified voluntary abatement, which would avoid the abovementioned policy challenges.

The VCMA also notes that the Government's proposal to allow Green Power to tighten the cap (even though 5 years into the future) means that this form of abatement is being given preferential treatment over other forms of voluntary abatement. There seems to be no rationale to support this differentiation.

Other Forms of Voluntary Action by Households and Business

The Government will monitor annual emissions from the household sector and will monitor and consider uptake of certain energy efficiency activities among households and businesses beyond regulated levels. Action in these sectors could be taken into account [in setting of future caps] based on the extent to which historical trends are exceeded, factoring in adjustments for electricity price changes, regulation and direct government assistance. (*EM section 2.28, page 80*).

The areas included "may evolve over time in response to changing carbon prices, technological developments and other economic and social developments". (*EM section 2.30, page 81*).

The Government will state how voluntary abatement has been taken into account. (*EM section 2.34, page 81*).

Chapter 8 of the EM states that in relation to voluntary cancellation, a registered holder of AEU's, Kyoto units or non-Kyoto international emission units may request the Authority to cancel one or more of those units". (*EM section 8.20, page 200*).

The Bill provides for voluntary cancellation of AEU's, Kyoto units or non-Kyoto international emission units. (*EM section 8.78, page 210*).

However, AEU's issued in the fixed price period are not able to be voluntarily cancelled. (*EM section 8.79, page 210*).

VCMA position

These commitments could provide a practical basis for the implementation of the VCMA model.

However, there is no certainty that voluntary action *will* be taken into account by the Minister in setting gateways. VCMA notes that a previous Inquiry has recommended that the Minister be *required* to take account of voluntary abatement.

Further, delaying adjustment for voluntary action by five years introduces a serious level of uncertainty that will undermine consumer confidence as to whether their actions really will deliver additional abatement. There are two key issues here.

First, retirement of permits for voluntary abatement is a correction, so that the room under the cap is the same after the voluntary action as it would have been without it. As noted earlier, failure to make this correction in a timely manner leaves additional room under the cap and allows other parties to 'free ride' on the efforts of voluntary abaters for at least five years.

Second, the nature of consumer markets is that buyers seek certainty and confidence, as well as immediacy: 'a bird in the hand is worth two in the bush' is a saying with underlying truth. The attraction of an immediate impact on Australian and global emissions is far more powerful than the possibility of such an impact five years into the future via a complex mechanism devised by experts and government. If we are to have a vibrant voluntary market, it must offer immediacy and certainty to customers.

The Government's desire to offer Liable Parties investment certainty by fixing caps five years into the future is misplaced, at least with regard to voluntary abatement. As noted earlier, retirement of permits in response to voluntary abatement leaves the same number of permits in the market as would have existed if the voluntary abatement had not occurred. So this does not create additional uncertainty for Liable Parties. It simply avoids a 'free rider' effect that could offer them windfall benefits.

Even in the broader picture, Government should maintain the right to adjust caps with limited notice where there are sustained unexpectedly low permit prices, where consensus on climate science indicates a need for stronger action, and where international agreements support stronger action. Any Liable Party should make their own analysis of the situation: it is clear that the major uncertainties regarding climate change are towards a need for more stringent action, so Liable Parties will need to develop contingency strategies anyway.

Further, clarification is required as to how voluntary abaters could achieve additional abatement during the period of fixed price permits. Since there would be an unlimited number of fixed price permits, and they are not tradable in periods of market-driven prices, there would indeed be no point in voluntary abaters buying fixed price permits. But the question arises as to how they would be able to 'make a difference' in that period. Would they be able to buy tradable permits from the future trading period?

Gateways

The Minister is required to take all reasonable steps to ensure that the scheme caps are within the upper and lower bounds of the Gateway (if any) for the relevant year. (*EM 2.17, page 78*).

VCMA position

This could be interpreted to mean that future adjustments of the cap for GreenPower (as discussed earlier) or other voluntary abatement cannot move the cap below the previously published Gateways for up to 20 years. Given that the published Gateways may not adequately reflect changing climate science or community expectations, this unreasonably constrains abatement potential.

The key differences now between VCMA's position and that of the Government relate to:

The timing of any proposed retirement of permits in response to voluntary abatement: the Government (where it proposes to, for Green Power) adjusts caps and gateways on a rolling basis 5

years into the future. VCMA proposes retirement of permits at the time of abatement (by utilising an allocation based on estimates of activity) or at the next auction.

The certainty of consideration of voluntary abatement by the Minister. VCMA considers it must be certain, not at the discretion of the Minister, and that it must be able to affect the gateways.

Limitation of tax deductibility to only voluntary retirement by households of CPRS permits via the proposed pledge mechanism. VCMA considers any tax deductibility should be applied consistently across all forms of certified abatement.

The Government accepts that there will be a need for monitoring of voluntary abatement activity, and that the forms of abatement considered will evolve over time, requiring an ongoing process for determining eligibility. VCMA proposes an Expert Panel to play this role.

The Government's model for the Regulatory Authority can be easily adapted to include the VCMA model, as discussed earlier.