



CARBON REDUCTION INSTITUTE

Carbon Reduction Institute: Submission to the Federal Government on the Green Paper

The Carbon Reduction Institute commends the Federal Government on the urgent actions it has taken to introduce a mandatory emissions trading scheme.

The Carbon Reduction Institute submits that the design of the Carbon Pollution Reduction Scheme as outlined in the Federal Government's Green Paper will have negative consequences for parties wishing to take voluntary action in Australia. Mandatory schemes are the most effective method to ensure action is taken by businesses to reduce their climate impact but unfortunately the proposed CPR Scheme leaves no room for emission reductions beyond the national targets through implementation of voluntary actions from organisations and individuals within Australia.

Another point of concern for us is the inability to create ERU's in Australia from Joint Implementation projects. There is immense potential for JI projects within Australia due to the emissions intensity of our electricity grid and the availability of other greenhouse reduction projects. Similarly, an allowance for the creation of offsets within the CPRS will attract the involvement and efficiencies of the private sector to the implementation of the lowest cost of emission reduction measures in Australia.

The Carbon Reduction Institute has been working since 2006 to foster a shift to a low carbon economy through engagement with the business sector. It does this by offering education, greenhouse audits, carbon management consultancy and sourcing voluntary carbon offsets. The Government's GreenPower and Greenhouse Friendly schemes were put in place many years ago to assist business and individual consumers to take voluntary action to reduce their footprint and have recently been overwhelmingly popular. Mandatory emissions trading should result in larger reductions of Australia's greenhouse emissions than either of these voluntary schemes but the Carbon Reduction Institute believes that the loss of additionality, and therefore credibility, of actions in these schemes due to the CPRS can and should be avoided.

Australians are some of the larger per capita greenhouse emitters on the planet, primarily due to our reliance on cheap electricity from coal-fired power plants. Our energy usage patterns are also to blame for our large greenhouse footprint, with a general culture of apathy and disinterest to efficient use of energy. Due to our poor current performance, energy efficiency is the most cost effective method of reducing greenhouse gas emissions as savings in energy costs generally ensure that energy efficiency measures deliver a positive return on their investment. The Carbon Reduction Institute believes that insufficient incentives will occur under the CPRS to drive the investment in energy efficiency that is needed to achieve the lowest cost greenhouse emissions reduction for Australia.

COVERAGE OF INCENTIVES

One of the greatest concerns the Carbon Reduction Institute has about the scheme is that the coverage offered by incentives is not equal to the coverage of the scheme. For instance while the permit liability for electricity and fuel lies with upstream suppliers, the user of this energy will have very little incentive to reduce their energy consumption apart from a slight rise in their costs. Similarly the energy supplier has no incentive to encourage the more efficient use of the energy they supply as this would reduce the demand for their product. The lack of correlation between liabilities and incentives for parties covered in the scheme will cause unnecessary price pressure on the carbon pollution permits and decrease the effectiveness and efficiency of the scheme.

Look up while walking through Sydney at night and you can see by the number of lights left on in office buildings that energy costs are often not a sufficient driver for the user to reduce energy consumption. Likewise, the slow uptake of energy efficient compact fluorescents in households, a cheap product that generates large savings through energy reduction, also demonstrates that financial reasons are not enough to compel action to reduce energy consumption.

A 2-3 cent increase of electricity prices that is likely to occur with the implementation of the CPRS will not be enough on its own to drive the investment and action that is needed to reduce energy usage. Energy efficiency trading schemes are being developed in many states to attempt to overcome this barrier to action, primarily funded through liabilities placed on the electricity retailers. With different energy efficiency schemes proposed in each state this method for implementation of energy efficiency is heavily bureaucratic and disregards the frameworks for greenhouse emission reductions that already exist within Australia that can be applied. Such frameworks include the NSW Greenhouse Gas Reduction Scheme and the Federal Greenhouse Friendly Scheme.

Although both these schemes have multiple issues with the additionality and permanence of some greenhouse savings they credit to projects, they have resulted in a large volume of additional greenhouse savings through energy efficiency in homes and businesses because project proponents have been able to create greenhouse credits in these schemes which they have then sold to scheme participants. This has resulted in the distribution of over 20 million compact fluorescent lamps to households and businesses in NSW years before the introduction of the Minimum Energy Performance Standards for lighting.

Allowing a similar function for the CPRS would enable Australian businesses to use their innovation and entrepreneurship to assist with the reduction of Australia's greenhouse emissions at the least cost possible. The Carbon Reduction Institute recommends that the government investigate measures to enable any party to take part in the scheme as an emissions abatement project operator. Project operators that have implemented measures to reduce energy usage or greenhouse emissions for third parties should be able to 'steal' a volume of carbon pollution permits from the pool being auctioned, corresponding to the emissions savings that have been verified to have occurred due to the projects operation.

In this model project operators could provide greenhouse reducing technologies to households supplemented or paid for through the sale of carbon pollution permits. The installation of insulation, energy efficient lighting, solar or gas hot water heaters and other greenhouse gas reducing technologies could be funded through this mechanism. It would also enable parties that are required to purchase permits to find and fund the most cost effective emissions reductions.

With an incentive to run abatement projects, Australian businesses will seek out the cheapest way to reduce energy consumption and greenhouse emissions in every sector of Australia.

The inclusion of an "opt-in" option for forestry projects already has many Australian businesses keenly investigating forestry investment opportunities, even before the scheme details have been finalised. A similar option for household energy efficiency or other greenhouse emission abatement projects would see the same enthusiastic reaction.

ADDITIONALITY OF VOLUNTARY ACTION

There are a large number of projects occurring within Australia that are funded through voluntary actions that are at risk with the implementation of the CPRS. Unless the emissions savings from voluntary actions such as the purchase of GreenPower are separated from the National Greenhouse Inventory these voluntary actions will have not reduce the purchaser's impact on the climate. With the establishment of a national emissions cap the actions of individuals or businesses (such as the purchase of GreenPower) will not reduce total greenhouse emissions beyond the emissions cap set by the government.

The Carbon Reduction Institute has grave concern that the signing of Kyoto and the announcement of Carbon Pollution Reduction Scheme has rendered all voluntary action since the beginning of 2008 ineffective and non additional to the mandated targets. Unless voluntary actions such as the use of Green Power are separated from the country's inventory they will simply be reducing the number of permits required to meet the mandated targets.

If the government does not separate voluntary actions from our inventory and make them additional to the National Greenhouse Inventory then funds for voluntary emission reduction projects will be sent overseas and Australia will lose the very effective voluntary actions that have driven significant investment into clean technology projects so far. Truly additional greenhouse gas reduction projects will then need to be run in developing countries and the ability for voluntarily funded actions in Australia will be lost.

If emission reduction through voluntary actions such as the purchasing of GreenPower or Greenhouse Friendly products is separated from the National Greenhouse Inventory it will ensure that these actions retain their ability to achieve additional greenhouse gas emission savings.

One possible mechanism for achieving this would be to create a system of “carbon debits”. Carbon debits would represent a ‘+1 t CO₂e unit’ which could cancel out the -1 tCO₂e units created through greenhouse abatement projects and GreenPower. It could work similarly to a GreenPower Right, in that a retailer of GreenPower or project proponent that creates a carbon credit would be required to purchase a carbon debit and apply this to the relevant sector of our national greenhouse accounts. For example, if a project proponent created a carbon credit from a project that diverted organic waste from landfill into a composting scheme and sold a carbon credit from this into a voluntary scheme then they would need to register a carbon debit in the waste sector of the national greenhouse inventory. When reconciling its accounts, the government would quantify the emissions from the waste sector and would capture the reduction from the project during this process; however the +1 unit would ensure that the reduction wasn’t counted for a second time by the government.

This concept could also be used to adjust the allocation of permits during auctions and could also allow us to implement/accept Joint Implementation projects.

INTERNATIONAL LINKAGES

Australia has potential projects with some of the lowest cost per tonne of greenhouse gas abatement in the world. If Australian organisations were able to run projects funded through the Joint Implementation mechanism (JI) from the Kyoto Protocol large amounts of investment could be realised in energy efficiency and greenhouse reduction technologies and infrastructure within Australia.

Due to our greenhouse-intensive fossil-fuelled electricity sector, the saving of one MegaWatt-hour (MWh) of electricity in Australia through the development and installation of energy efficient technologies has double the benefits to the climate than if the same measure were to occur in many European countries. For this reason European organisations would happily fund Joint Implementation projects in Australia to meet their requirements under the EU-ETS.

The downside to investments through the JI mechanism is that any emissions saved by JI projects are owned by the project operator and therefore the avoided emissions would be added to Australia’s national greenhouse inventory, and therefore need to be reduced elsewhere to meet our target.

A possible solution could be that JI projects are allowed to create credits for a maximum period of 5 years; after this the emissions savings would initially be attributed to the project proponent. After 5 years the savings produced from these projects would account toward our national inventory. This would enable a large amount of investment into measures that reduce Australia’s emissions.

SUMMARY

The Carbon Reduction Institute congratulates the Federal Government on its prompt action to address our climate change impact. However we have concerns that the mechanisms that exist within the voluntary carbon market in Australia will be ruined without careful design of the CPRS.

Incentives currently exist for third parties to undertake greenhouse abatement and energy efficiency projects within Australia. These have resulted in the development of the second largest mandatory emissions trading scheme in the world (NSW GGAS) and a strong national voluntary emissions trading market. Whilst these schemes have some flaws, their achievements are a testament to the ingenuity of the Australian market and the participatory design of the scheme.

The non-uniform coverage of liabilities and incentives in the mandatory scheme combined with the inability to separate emissions savings through voluntary actions means that Australia will miss out on the lowest cost abatement efficiencies.

In summary, the issues we have raised for the proposed CPRS are:

- The misalignment of incentives and liabilities for participants of the scheme;
- The lack of additionality for voluntary actions; and
- The inability to take advantage of the international trade

We hope the Federal Government considers the issues we have raised when formulating the design of the CPRS. So far the vast majority of greenhouse reduction measures occurring in Australia have been incentivised by an open regulatory market and the commitment to voluntary actions. We hope that these actions are able to continue within the CPRS and assist Australia in reducing our overall carbon footprint.

Kind Regards,

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