

## **Submission to Senate Committee on Green Loans.**

[http://www.aph.gov.au/senate/committee/eca\\_ctte/green\\_loans/info.htm](http://www.aph.gov.au/senate/committee/eca_ctte/green_loans/info.htm)

The idea behind the green loans is excellent. Giving households interest free loans to make energy savings in their households and assisting households choose what to do through the use of trained assessors are sound ideas. It would be unfortunate if the concept was abandoned because of difficulties in implementation.

This submission outlines an alternative way of implementing the concept that will prove to be efficient and cost effective and will achieve the policy objectives.

The approach is to use transparent electronic market places for suppliers of goods and services who register their products, the costs, the reduction in energy from installing their products, and the way that energy reduction after installation will be measured and verified. There is a threshold of dollars spent for unit of net energy saved that must be met before a supplier can participate in the market place.

Green Loans must be spent through such market places. If the claims of the supplier are not met then the supplier will be removed from all cooperating market place.

Before green loans are spent an assessor can be engaged and can be paid with money from a green loan. Assessors are suppliers in the market place. They specify what it is they will produce for the householder and the householder pays the assessor directly when the service is provided. Assessors are removed from the market place if they do not provide the services for which they were contracted.

Each person in Australia will be entitled to green loans. To obtain a green loan a person submits an application to the government and the person is allocated the right to the loan. Allocations are based on the inverse of the amount of mains electricity an individual has used in their home in the previous 12 months. Rights to loans can be sold so that those people who do not wish to use the loan facilities, or are unable to take advantage of the loan, can sell their right to another who can use it.

## **The Market Place for green loan investments**

A critical part of a successful green loan implementation is an open transparent market place where people can spend the money they obtain from a green loan. It is how money is spent and making sure it is spent appropriately that is the major compliance issue for this and many other government initiatives. Market Places and the individual contracts between buyers and sellers can supply the information and the control mechanisms to ensure that funds are not wasted and are spent to best advantage. The Investment Market Place for green loans would look something like the Amazon online store. All loans money must be spent through this type of market place.

Using the model of Amazon a market place for green loan investments could be as follows:

Suppliers of goods and services to reduce energy consumption would put up in an online market what it is they are selling. They would make claims about the efficacy of their products and these claims would be in a form that is easily understood. The principle pieces of information that would be supplied would be.

- Energy Likely to be Saved per Dollar expended.
- Cost per kg of net green house gases saved per dollar expended.

- How the energy saved and the greenhouse gases saved are measured both before and after the investment.

The net greenhouse gases saved per dollar expended must be above a given threshold for any products or services to have a listing in the market place. If the future measured reductions of installations fall below this threshold the products or services will be withdrawn from the market place. If the initial estimates were very high and incorrect then the sellers of the products will be banned from further participation in the market place. If buyers were complicit with the sellers in trying to break the rules of the market place then the buyers will also be banned from further participation in the market place.

All buyers and all sellers can report on their experiences with each other. The reports can be made with pseudonyms but if the reports are false and perhaps malicious then the person making the report can be prosecuted for libel or providing misleading statements or using some other existing law. Buyer and Seller experiences can inform future transactions and reputations will become an important factor in future sales.

Because of this and because these reports can be made instantly and be available instantly the ideal of a transparent market place where both buyers and sellers possess full information will be closely approximated. We know that such markets are very efficient in the allocation of resources.

Such a market place will be self regulating. There are many such market places now on the Internet. The best known ones are auction sites such as EBay and the more traditional sites such as Amazon. However, there are many others appearing such as Odesk which is a world wide labour market place for people to sell their skills. Similarly online market places such as car sales are moving from shop fronts to online.

There is a lot of experience in building these markets and there is no reason why several separate markets for specific market niches might not develop. The government would not need to build these market places just set the overall rules under which the market places must operate and private industry will create, build and operate them. If there are many market places then the most efficient and effective will survive - all without cost to the government.

## **Investment Funds for green loans**

Providing interest free loans to any individual gives a benefit to the individual as zero interest loans have value. However, the value of the loans need not be a cost to the government. That is the government can provide citizens with the right to interest free loans where the money is to be invested in ways to reduce green house gases.

Providing such a right is can be low or even zero cost.

In previous submissions to the Senate I outlined how such zero interest loans can operate. These can be found at:

Submission number 1 is at [http://www.aph.gov.au/senate/committee/eca\\_ctte/green\\_loans/info.htm](http://www.aph.gov.au/senate/committee/eca_ctte/green_loans/info.htm)

Submission number 11 is at [http://www.aph.gov.au/senate/committee/economics\\_ctte/small\\_business\\_10/submissions.htm](http://www.aph.gov.au/senate/committee/economics_ctte/small_business_10/submissions.htm)

A short presentation outlining the idea of interest free loans can be seen at [http://www.youtube.com/watch?v=ELJbMezH\\_B4](http://www.youtube.com/watch?v=ELJbMezH_B4)

While the details of exactly how interest free loans will operate would be a matter for the department the following is one possibility.

The government decides how much money in total can be profitably spent each year on reducing green house gases. As well the government estimates the amount of money needed to be invested over the next ten years for Australia to become a net emissions free country. The lower of these two amounts is taken as the total amount of rights to zero interest loans to allocate each year. The government announces that rights to interest free loans will be given over the next ten years.

Rights will be allocated to those who apply for rights. That is, people do not have to accept rights if they do not want them. Importantly this enables the rights to be taken away from any individual if they break the rules of interest free loans. The size of the allocation will be based on the inverse of the previous years mains electricity consumed in the normal dwelling place of the individual. That is, those who are consuming less mains electricity will get more rights. As the rights will continue over many years it is to the advantage of each individual to continue to drop their consumption of mains electricity. This will in turn reduce energy consumption through behavioural change.

Many people will not be able to spend loan money effectively. They will be able to sell their rights to others who can. There will be an online market place for the sale of rights.

## **Taking up and using Rights to Interest Free Loans**

When a person takes up and uses the rights to obtain interest free money they will at the same time enter into a contract on how to repay the loan. Repayments will come from 50% of the investment returns from the investments made with the loans and may also be modified by previous repayment experience with previous loans. For example, if previous loans are not being repaid as expected then the percentage return of the money from the investments may be made higher - or if the loans are being repaid more rapidly than expected then the repayments can be set at a lower percentage.

The mechanics of how these investment returns are calculated will be part of the contract between the buyer and seller in the previously described "Market Place for Green Loan Investments".

Green Loans will be allocated by financial institutions who are equipped to handle the distribution and expenditure of loans. The cost of administering the loans and the distribution of the money will be a fee taken from the loan money.

Because the loans are interest free the Reserve Bank will supply interest free money to the financial institutions as needed to meet the rights commitments when they are taken up.

Compliance enforcement with the loan rules and repayments is handled by excluding individuals from future loans. This applies to those who break the rules of contracts they enter into when accepting rights, when taking up loans and when investing money from the loans.

## **Cost and Risk to the Government**

The cost to the government is minimal and will be mainly overall supervision of the rules and contracts entered into by individuals and organisations. Even though Government Costs will be low, government control of the overall objectives will be high. Government will vary the amounts of interest free loans allocated and the rules under which the loans are given. The cost of the Reserve Bank issuing interest free loans is minimal and because the loans are for productive purposes they will be non inflationary.

The Risk to the government of operational failure are low and even if it does occur it will be dealt with by normal commercial contract laws. Any faults with the system will be seen almost immediately and action can be taken before too much damage is done both economically and politically.

## **Summary of Benefits**

As well as providing green loans for energy reduction the approach will remove the need for government to introduce an emissions trading regime to encourage investment in ways to reduce green house gas concentrations in the atmosphere. The approach is guaranteed to provide the most cost effective allocation of resources to reduce green house gases because the money is spent through an open transparent market place and we know market places are the most efficient way to distribute resources.

The system will be equitable and fair. Those who contribute the least to the problem because they consume less mains electricity will get the greatest benefit.

From the point of view of the citizen the system will be simple and easy to use. They will apply for the rights to loans and if they wish they can sell those rights. They will be able to do this over the phone or over the Internet. If they take up loans they will use the loans through an electronic market place which will be similar to existing electronic market places.

Repayment of loans will be "automatic" and will be established at the time of taking out the loan.

Compliance will be handled by existing contract law and by excluding people from future benefits if they break the rules.

The cost will be minimal and market systems will soon arise that will be paid for from transaction costs paid when the system is used.

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