From Derek Bolton,

25th March, 2009

CCBR (Climate Change Balmain-Rozelle) is an independent collective of residents in the Balmain/Rozelle area of Sydney who share concerns about the threat from climate change, focusing mainly on emissions from power generation. CCBR is a volunteer group that is not funded or steered by any private or government body or political party. PO Box 890 Rozelle NSW 2039

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For more information please see http://www.climatechangebr.org/

CCBR is a member of Australia's Climate Action Network, CANA.

http://cana.net.au/

This submission has been approved by a quorum of CCBR.

As well as most of the concerns expressed by many other members of CANA (totally inadequate targets, importing credits, etc.) CCBR has the following two concerns with the CPRS.

1.   Loss of incentive to change

> It is unfortunate that the debate around EITEs has become bogged down around the question of whether and how much to compensate. The method is crucially important. Under the present proposals, compensating in direct proportion to the cost of buying permits, there is a catastrophic loss of incentive for EITEs to adopt less polluting technologies. This was already raised in detail in section 3 of CCBR's submission to the Green Paper (http://www.google.com.au/search?sourceid=navclient&aq=h0&oq=ccbr%20green%20paper&ie=UTF-8&rlz=1T4RNWN_enAU256AU257&q=ccbr+green+paper+submission).

> Algorithms that do not suffer this fatal flaw exist and would be far preferable, even if they can lead to "windfall" profits in some circumstances. Section 3 of our Green Paper submission is included at the end of this mail.

2.   The price cap

In the commentary:

3.13   "The Scheme will have a price cap in the form of access to an unlimited store of additional Australian emissions units, issued at a fixed charge, for the first five financial years. The purpose of the price cap is to set a maximum cost of compliance for liable entities. Liable entities will have the option of purchasing these units before the final surrender date for a particular financial year. These units cannot be traded or banked for future use."

So this will only have an effect if the auction price hits the cap value. But once it does that, emitters might well purchase enough of these to cover all their emissions and bank the auctioned ones (since they don't expire). That will effectively extend the price cap, at the same level, for the next year, defeating the next clause:

3.14   "The amount of the charge for each year is set out in the draft bill *[Part 4, Division 2, clause 89]*. The Government's intention is to set it high enough so that its probability of use is low, while providing protection against major price shocks. The amount of the charge rises in real terms by 5% per year."

There needs to be a clause that says an entity cannot surrender unbankable units while it holds bankable units, and it needs to take into account trading. Maybe "an entity cannot surrender banked units of a given vintage if it has previously surrendered unbankable units of the same or later vintage".

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Section of the CCBR's Green Paper submssion

Compensation and the Incentive Principle

While we accept the need to soften the economic impact for various industries in the short term, the manner of doing so is critical.

Compensation which is tied directly to the actual impact, such as free or cheaper permits, is inherently flawed, as it destroys the incentive to develop less harmful modes of production. It would be better to compensate in proportion to production. This could be based on some percentage of historic emissions per unit of production, or better still, on current international best practice for the industry. The percentage would start at less than 100% and reduce over time.

Example:

> A company produces widgets by a process which emits some amount of CO_2e per widget. At the current price of permits, that adds \$1 to the \$10 cost of a widget.
>
> The Government currently rebates 60% of the cost of permits for widget production.
>
> An alternative technology is available which adds 25c to the production cost of a widget but reduces emissions by 50%.

Without the rebate, the company would calculate:

> - Current technology: extra cost = \$1
>
> - Alternative technology: extra cost = 25c + 50% × \$1 = 75c
>
> Result: company adopts cleaner technology to save money.

With the rebate, the company calculates:

> - Current technology: extra cost = 40% × \$1 = 40c
>
> - Alternative technology: extra cost = 25c + 50% × 40% × \$1 = 45c
>
> Result: adopting the alternative technology cuts the rebate from 60c to 30c, leaving no incentive.

Figure 1: Incentive and Rebates, Example

Now suppose that instead of the rebate being 60% of the actual ongoing need for permits it is fixed at 60% of permits needed using current technology. This means that the alternative technology can be adopted and still reap 60c rebate per widget.

- Current technology: extra cost = $1 – 60c = 40c

- Alternative technology: extra cost = 25c + 50% × $1 – 60c = 15c