

Chapter 8

Voluntary abatement efforts under the CPRS

8.1 Households are major emitters, responsible through their energy and fuel use for around 25 per cent of emissions covered by the CPRS. Commercial services and government sectors are responsible for a further 10 per cent as a result of their electricity use.¹ Reductions in these emissions will be necessary to achieve deep cuts in emissions.

8.2 A matter of concern brought to the committee's attention is the implication for total emissions under the CPRS of 'voluntary' action by households (and also by business and state and local governments). In this context 'voluntary' action refers to things that are done for (or primarily motivated by) altruistic concerns about the environment rather than (just) in response to a price signal. It is sometimes termed in the literature 'additionality'. Arguably the clearest example of a voluntary action is electricity consumers who opt to pay more for electricity derived from renewable sources rather than fossil fuels. Installing solar panels will save on power bills but when, as is often the case, the installation costs exceed the savings on power bills they can also be regarded as voluntary action in this sense.

8.3 Many submitters are concerned that under the currently proposed design of the CPRS, such voluntary actions do not lead to a reduction in Australia's emissions of greenhouse gases.² For example, a household choosing Green Power will lead their electricity supplier to make fewer emissions and need fewer permits, but this just means that there are more permits available so that, for example, an aluminium smelter can increase its emissions. The total emissions are unchanged.

8.4 The committee heard a range of views on this issue. It was variously characterised as a fundamental flaw or an appropriate consequence of the scheme's design, or just a distraction.

A fundamental flaw?

8.5 Some examples of criticisms of how voluntary reductions are treated under the current proposal are:

¹ Energy related emissions will be included in the CPRS by applying permit obligations to electricity generators, gas retailers and upstream fuel suppliers. These entities are expected to pass carbon costs through to consumers, creating an incentive for firms and households to reduce their energy use. If households and firms fail to respond to the price signal as expected, more abatement will need to occur in other parts of the economy.

² Submissions making this point include Submissions 3, 5, 21, 33, 35, 42, 49, 52, 55, 74, 79, 82, 84, 87, 93, 93, 97, 107, 110, 111, 112, 116 and 122.

... no government scheme should take away the volition of the individual to do good, and this scheme has considerable potential to do that by capping all emissions at five per cent. I believe that individual actions should be additional to that target because if I go out and decide to plant a tree or do something with my own money I do not want that to be seen as insignificant.³

...the current design of the CPRS will ...kill the incentive for Australian businesses, households and individuals to voluntarily make a difference to greenhouse emissions.⁴

The draft legislation renders voluntary consumer action meaningless. It denies consumers the opportunity to act to further reduce Australia's emissions, and in doing so also threatens the viability of a number of emerging industries.⁵

In its current form the legislation fails the many hundreds of thousands of individuals and businesses, as well as local and state governments that have engaged with the carbon offset, GreenPower and energy efficiency markets.⁶

The current design of the CPRS disempowers the community by sending a clear message that local action under covered sectors does not make a difference to Australia's net emissions...⁷

Government campaigns

8.6 Dr Richard Denniss of the Australia Institute has been a prominent critic of the CPRS and the voluntary abatement issue in particular.⁸ Dr Dennis argues that as well as rendering voluntary actions initiated by households ineffective, it makes government campaigns encouraging households to undertake voluntary action ineffective, and arguably disingenuous. He gave the example of the Government's recent initiative to spend \$4 billion on home insulation:

...the Prime Minister...said that the \$4 billion expenditure on insulation would reduce...Australia's emissions by 50 million tonnes. This is demonstrably untrue. If we spend \$4 billion on installation, under the CPRS all we do is reduce the household demand for electricity and we free up 50

3 Professor Tim Flannery, *Proof Committee Hansard*, 27 March 2009, p 101.

4 Voluntary Carbon Markets Association, *Submission 116*, p, 2.

5 Australian Consumers Association, *Submission 93*, p, 2.

6 Total Environment Centre, *Submission 79*, p, 5.

7 Greenfleet, *Submission 82*, p, 5.

8 Dr Richard Dennis, 'Fixing the floor in the ETS: The role of energy efficiency in reducing Australia's emissions', The Australia Institute, *Research Paper No. 59*, November 2008; 'Wong must cap and slice', *The Australian*, 2 March 2009, p. 8.

million tonnes worth of permits by which the aluminium industry or some other industry would expand.⁹

8.7 Other witnesses expressed concern at the contradictory message that the CPRS would send about government campaigns for voluntary abatement efforts:

...at the very least where there is discrete government policy in place, one that directly stimulates and motivates individuals to take steps to reduce their greenhouse profile, that needs to have the integrity of that action preserved...We are concerned that if a perception evolves in the marketplace that putting PV on the group [roof?] does not actually make any difference—it just reduces the cost of carbon permits for major emitters in the economy—that will undermine the enthusiasm and incentive for those households and small businesses to deploy the technology. That will in turn undermine a developing market.¹⁰

Size of the impact

8.8 Views differ about the quantitative importance of reductions in voluntary actions.

8.9 Households and local governments have been the main participants in voluntary abatement action, particularly through purchasing GreenPower. Professor Hamilton extrapolated:

...if we estimate that perhaps 10 per cent of households are interested in taking significant action on a voluntary basis to cut their emissions and they succeed in cutting their emissions in their households by half, overall those voluntary actions would cut Australia's emissions by 0.5 per cent. So the symbolic value of voluntary action by households might be important but in practice they have very little impact indeed. That is why mandatory measures such as an emissions trading system will have a much greater effect, because they will apply to everyone rather than that perhaps 10 per cent of the population that is sufficiently worried and motivated to take voluntary action.¹¹

8.10 Purchases of GreenPower by households, governments and business resulted in abatement of around 1.3 million tonnes in 2007–08.¹² To put this into context, Australia will need to reduce its emissions by 135 million tonnes per annum to achieve a 5 per cent reduction in emissions, and 195 million tonnes per annum to achieve a 15 per cent target.¹³

9 Dr Richard Denniss, *Proof Committee Hansard*, 25 March 2009, p. 77.

10 Mr Matthew Warren, Chief Executive Officer, Clean Energy Council, *Proof Committee Hansard*, 24 March 2009, p. 61.

11 Professor Clive Hamilton, *Proof Committee Hansard*, 25 March 2009, p. 20.

¹² Analysis by the Department of Climate Change.

¹³ Mr Blair Comley, Department of Climate Change, *Proof Committee Hansard*, 30 March 2009, p 2

A benefit of the scheme's design

8.11 Mr David Pearce of the Centre for International Economics told the committee that far from being a problem, the voluntary abatement issue was in fact a benefit of the CPRS scheme. He argued that voluntary action that households undertake lowers the demand for permits, which lowers the price of permits and thereby makes abatement less costly for everybody.¹⁴

8.12 The Australian Industry Group are opposed to recognition of voluntary action:

Ai Group does not understand what of substance is intended by including among the factors that may be taken into account in setting caps the "voluntary action"... Our understanding is that an ETS (or a carbon tax) would encourage households and businesses to reduce emissions by imposing a price... Ai Group submits that the concept of voluntary action should be removed from the list of factors that can be taken into account in setting caps.¹⁵

A distraction?

8.13 One view is that this debate is over-emphasising voluntary action. Prior to adoption of a national cap on emissions, all abatement action delivered an additional environmental outcome, by reducing emissions below what they would otherwise have been. Yet total emissions continued to rise because voluntary abatement was offset by rapidly increasing emissions elsewhere in the economy.

8.14 Professor Clive Hamilton, while acknowledging the presence of the voluntary action problem, views it as a 'distraction from much more important issues with the CPRS, in particular the lack of ambition of the target'. In this context, Professor Hamilton added that if the target had been set at 25 per cent by 2020, everybody would be cutting their emissions for financial rather than altruistic reasons.¹⁶ Furthermore, he regards voluntary action as quantitatively unimportant (see below).

8.15 Dr Frank Jotzo, a Research Fellow at the Australian National University, described the voluntary action issue as 'misleading' and claims that it unnecessarily 'feeds into rising public frustration about climate policy'.

I think that argument as it has been put by some sides in the (voluntary action) debate recently is rather misleading and in my view unnecessarily feeds into rising public frustration about climate policy.

14 Mr David Pearce, *Proof Committee Hansard*, 25 March 2009, p. 92.

15 Australian Industries Group, *Submission 90*, p 5.

16 Professor Clive Hamilton, *Proof Committee Hansard*, 25 March 2009. A similar linkage was put by Dr Richard Denniss: 'when you combine emissions trading with a target that is too low from a scientific point of view, you have an understandable desire on the part of individuals and communities to "do their bit" to "take an extra step" and the design features of a CPRS literally prevent that from occurring; *Proof Committee Hansard*, 25 March 2009, pp. 74–75.

The argument...ignores that there is in fact a national emissions target, such as the five per cent, 15 per cent or 25 per cent reduction, and that is in the end what will determine Australia's contribution to the global effort to reduce emissions.

It is not a design fault of the emissions trading scheme or the particular way in which it is spelt out under CPRS. It is simply a consequence of in fact having a national target, quite irrespective of what domestic policy instrument is to be used to meet that target. If we have a national target then that is the national target.

Is this voluntary personal action to reduce energy use and emissions futile with a national target? No, of course it is not—not at all. It is in fact an integral part of achieving the overall outcome at least cost, and personal action will be encouraged by rising energy prices under the emissions trading system.

The more we do individually the easier it will be to collectively meet the national target, and that in turn will make it possible to go for more ambitious targets further down the track. That, of course, requires that targets will, in fact, be ratcheted down if and when we find that it is easier to reduce emissions as anticipated, or if the signs and other countries actions indicate that a stronger target for Australia will be needed.¹⁷

Treatment of voluntary action under the CPRS

Voluntary reductions and future caps

8.16 The commentary on the *Exposure Draft* lists a number of 'additional domestic factors' to which the Minister *may* have regard when setting targets and caps for national greenhouse gas emissions. One of these factors, listed in clause 14(5)(c)(iv) of the bill, is 'the extent of actions voluntarily taken by Australian households to reduce Australia's greenhouse gas emissions'. The commentary notes that:

Voluntary action to reduce greenhouse gas emissions can help ameliorate the economic implications associated with various levels of national scheme caps, making it more likely that more stringent caps can be set over time.¹⁸

8.17 This argument has been reiterated by the Minister for Climate Change, who argued that the voluntary abatement issue had been misunderstood. Rather than simply free up carbon pollution permits for others to use:

...individual and community action to be more energy efficient not only saves them money, it will contribute directly to Australia meeting our

17 Dr Frank Jotzo, *Proof Committee Hansard*, 19 March 2009, p. 31.

18 Exposure draft, *Commentary*, p. 89.

emissions reductions targets. Strong household action also helps make it easier for governments to set even more ambitious targets in the future.¹⁹

8.18 In evidence to this inquiry, the Secretary of the Department of Climate Change, Dr Martin Parkinson was asked how voluntary actions would be accounted for under the CPRS. He responded that there are two ways in which voluntary action undertaken by households can be recognised under the scheme; by purchase of permits (discussed below) and :

...the minister and future ministers have in their capacity of setting future caps the ability to take account of likely voluntary action when they set the caps.²⁰

8.19 However, the caps are fixed five years in advance. Furthermore, there is no obligation on the then minister to take account of voluntary action in setting future caps. It is just something that *may* be considered.

'Ripping up' permits – an alternative form of household action

8.20 The Secretary of the Department of Climate Change explained that another way concerned citizens could contribute to emissions reductions was:

...the scheme allows anyone to purchase permits and essentially submit them to the regulator to have them torn up. If they do that, the government will take out of operation an assigned unit, under Kyoto.²¹

8.21 It is not clear how practical it will be for individuals to buy single permits. If the minimum permit refers to a tonne of emissions, it may cost about \$25, but if they refer to a thousand tonnes of emissions they would cost around \$25,000 which would be out of reach of a typical household. The Authority is expecting to be dealing with about 1,000 permit users and may not relish having to deal with possibly millions of individuals entering the market (with their numbers swelling if in addition to individual environmentalists making purchases, so do individual speculators).

8.22 The organisation *Sandbag*, based in the United Kingdom, encourages individuals to voluntarily retire permits by aggregating donations from individuals and buying and retiring permits. It concedes that 'a very large number of individuals (or a few individuals with lots of money) would be needed to materially affect the price but it is theory at least an immediate action'.²²

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

20 Dr Martin Parkinson, *Proof Committee Hansard*, 18 March 2009,

21 Dr Martin Parkinson, *Proof Committee Hansard*, 18 March 2009, p 21.

22 'Carbon crumbling – Part 2', *Sandbag*, <http://sandbag.org.uk/node/132>

8.23 Professor Pears notes that while individuals could buy and surrender permits, this is 'not very emotionally satisfying'.²³ He argues 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.

Possible ways of recognising voluntary emission reductions

8.24 A number of submitters proposed that the bill be amended to allow scheme permits and Kyoto units to be cancelled for voluntary abatement, what is sometimes referred to as a 'cap and slice' scheme:

While the draft legislation allows future caps to be set with consideration to the level of voluntary action, the exposure draft does not allow immediate recognition of voluntary action under the CPRS. For an example of how this could be achieved, the purchase of additional renewable energy through green power could be converted into tons of CO₂ equivalent avoided and CPRS permits retired accordingly.²⁴

The CPRS legislation must not be passed without a mechanism that guarantees the extinguishment of equivalent Australian emission units and Kyoto units for every tonne of greenhouse emissions abated voluntarily.²⁵

8.25 Dr Denniss has argued that the Exposure Draft of the CPRS bill should be amended to allow the number of permits to be reduced each year directly in line with the amount of pollution saved by voluntary action. The creation of a secondary market of permits based on households' emissions reductions would enable household emission reduction permits to be exchanged for CPRS permits. To account for difficulties in the accuracy of household emissions measurements, Dr Denniss proposes that secondary market permits be exchanged for CPRS permits at a fixed rate of 2 to 1. If two tonnes of household permits was exchanged for a tonne of CPRS permits, 'it is impossible for the secondary market in household efficiency permits to dilute the value of CPRS permits so long as the measurement error is less than 50 per cent'.²⁶

8.26 Professor Pears, in his submission on the Green Paper, argued for a scheme that provides 'immediate and clear' recognition for abatement efforts that go 'beyond reasonable expectations'. Energy retailers would account for the quantities of Green Power sold, which is deducted from the cap when sales are reported. Moreover, all individuals and companies that commit to reduce emissions through energy efficiency

23 Adjunct Professor Alan Pears, *Submission to the Green Paper*, p 4.

24 Mr Andrew Catchpole, Hydro Tasmania, *Proof Committee Hansard*, 24 March 2009, p. 15.

25 Total Environment Centre, *Submission 79*, pp 4,5.

26 Dr Richard Dennis, '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.

improvement would be required to report under NGERS. If the reductions exceed those of the cap trajectory, they will be acknowledged as additional abatement.²⁷

8.27 However, he concedes there are complexities involved in determining what constitutes 'voluntary' action under the CPRS, and in trying to translate every form of voluntary action into tonnes of abatement:

In the discussions we have had with the department, the concern that they have, which we are sympathetic to, is about creation. I should go back a step. When it comes to individuals doing various actions, there are a range of motivations for those actions and they vary as to deciding to ride a bike or walk to work, rather than driving, or catching public transport. They go through to purchases of white and brown goods, and what sort of car you drive. It does open a Pandora's box if you try to account for every one of these voluntary actions.²⁸

8.28 Mr Pearce of the Centre for International Economics referred to:

...white certificate type schemes, those things where you recognise abatement in the built environment. It is probably more important in the commercial sector than in the household sector, but you recognise that abatement and you get some form of reward for it. It could be linked to the CPRS or to some sort of trading scheme in the sense that what you could get is actually permits under that scheme for abatement.²⁹

8.29 In its submission on the Green Paper, the Carbon Reduction Institute suggested creating a system of carbon debits which would cancel out CO₂ units through greenhouse abatement projects and Green Power:

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 debits 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 into 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.³⁰

8.30 Dr Regina Betz suggested:

27 Adjunct Professor Alan Pears, Submission on the Green Paper, p. 7.
<http://www.climatechange.gov.au/greenpaper/consultation/pubs/0331-pears.pdf>

28 Mr Matthew Warren, *Proof Committee Hansard*, 24 March 2009, p. 60.

29 Mr David Pearce, *Proof Committee Hansard*, 25 March 2009, p. 92.

30 Carbon Reduction Institute, *Submission on the Green Paper*, p. 2.
<http://www.climatechange.gov.au/greenpaper/consultation/pubs/0547-carbon-reduction-institute.pdf>

...there could be an option to introduce an additional action reserve, which would mean that we are setting aside part of the allocation that would otherwise go to industry into a reserve and we would allow units in the reserve to be cancelled based on specific actions that are part of a positive list.³¹

Committee comment

8.31 While relying on voluntary action will not solve the problem of climate change, this does not mean that the contribution of voluntary action should be dismissed.

8.32 People want to feel that they are making a contribution, even if only in a small way, to saving the planet. The growing perception that the CPRS negates actions taken by individual households to reduce emissions is eroding support for the scheme. This must be addressed.

8.33 The size of voluntary actions to cut emissions is hard to measure. It may be only a modest proportion of total national emissions, but it may already be reasonably large and, if encouraged, may increase further as awareness of the impact of climate change grows.

8.34 The Committee supports the ability of concerned citizens to buy and cancel permits but do not believe that on its own this mechanism provides a sufficient outlet for voluntary action.

8.35 The Committee therefore believes that introducing some measures to continue encouraging voluntary action is a worthwhile initiative.

8.36 Some 'voluntary' or 'altruistic' reductions in emissions can be readily measured, such as customers signing up to Green Power or sales of solar panels. Other indications could be derived from publicly available data such as reduced energy consumption by households. The difficulty of defining 'voluntary action' and the diverse, sometimes complex proposals for methods of recognition make it difficult to prescribe one course of action.

Recommendation 3

8.37 The Committee recommends that the government develop policies complementary to the CPRS to encourage voluntary action.

Recommendation 4

8.38 The Committee recommends that the wording of section 14(5) of the CPRS Bill 2009 be amended so that in making recommendations on emissions

31 Dr Regina Betz, *Proof Committee Hansard*, 27 March 2009, p 118.

caps the Minister "shall have regard" rather than "may have regard" to "voluntary action".