



25 March 2009

The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Sir

## **Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme**

Greenfleet welcomes the opportunity to respond to the Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme (the Legislation). This is not a confidential submission. Greenfleet acknowledges that the Carbon Pollution Reduction Scheme (CPRS) is the hub of the Australian Government's Climate Change policy. The operation of an efficient market mechanism is one way that the Government can achieve substantial reductions to greenhouse gas emissions over time. However, there is merit in the operation of a robust voluntary market that garners the community's and industry's desire to take credible action that is complementary to the CPRS and that will deliver reductions beyond compliance.

### **Summary & Recommendations**

It is imperative to recognise and promote voluntary action by individuals and businesses that wish to make a difference to global emission reductions. 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, thus failing to galvanise the recognised need and desire to contribute to the solution on a household by household, business by business basis.
- **Drives voluntary abatement offshore**, through the preferential purchase of international permits over local abatement.
- **Stalls the growth of a carbon-constrained economy** by killing 'green-collar' jobs, innovation, skills and knowledge in Australia's renewable energy and carbon abatement industry and once again, sending the message that imported solutions are better than those developed within our shores.

**AVOID REDUCE OFFSET**

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The **uncertainty** regarding the operation of the CPRS and recognition of voluntary action creates an excuse for further **delays in taking action**.

These issues can be overcome by developing simple mechanisms that allow the local voluntary market to operate in alignment with the CPRS. These mechanisms for empowering voluntary action are:

- A **commitment by the Australian Government** to quarantine voluntary abatement activity from CPRS and Kyoto compliance requirements,
- Inserting a **clause into the CPRS legislation** that enables adjustment of the CPRS and Kyoto caps for each unit of retired Australian certified voluntary abatement.
- (Re)establish a **framework**, which is aligned to the CPRS registries, for the registration and certification of voluntary abatement.

### **About Greenfleet**

Greenfleet was one of the first, if not *the* first organisation to operate in the voluntary carbon market in Australia. Since commencing operation in 1997, our mission has been to reduce the impact of greenhouse gas emissions on the environment. We encourage individuals and organisations to *make a difference* by reducing greenhouse emissions in three ways, namely:

- **Avoid** Greenfleet promotes all ethical means of preventing greenhouse gas emissions by individuals and organisations.
- **Reduce** Greenfleet advocates the use of greenhouse gas efficient behaviours and technologies in the home, the workplace and for the movement of people and goods.
- **Offset** Greenfleet uses biodiverse forest sinks, and other forms of greenhouse gas offsets, to counterbalance those emissions that cannot be avoided or reduced.

We have made considerable effort to ensure that this approach is consistent with established methodologies under the Greenhouse Gas Protocol and the approach adopted under Greenhouse Friendly™ certification. Greenfleet was the first not for profit organisation to gain approval as a Greenhouse Friendly™ abatement provider.

More than 10,000 Australian individuals and hundreds of Australian organisations support Greenfleet. Levels of support vary from tens of dollars, to hundreds of thousands of dollars each year. Our corporate supporters range from small to medium business operators, local councils, state governments, federal government departments and large companies including AAMI, Fosters Group, Telstra Corporation, Europcar, Merck, Sharp & Dohme, Symbion Health, Corporate Express and Leaseplan. Many of our supporters have won awards for taking action to reduce the impact of their businesses on the environment. Awards won include the Gold Banksia Award, People's Choice Banksia Award, Ethical Investor 2008 Sustainable Company of the Year, and Best Green Business in the 2008

Action Coach My Business Awards, Greenfleet itself was a finalist in the United Nations Association of Australia World Environment Day Awards 2008.

### **Impact of the CPRS on Voluntary Action**

Greenfleet is very concerned with the impact that the implementation of the CPRS will have on the voluntary market in Australia. In particular, that the CPRS design as proposed '*places a cap on aggregate emissions from covered emissions sources it breaks the link between individual action and aggregate emissions*' (Department of Climate Change, 2008). The National Carbon Offset Standard Discussion Paper proposes limited mechanisms for individuals and organisations to participate in the voluntary market being;

- Purchase a Permit, or
- Purchase a recognised international (Kyoto) unit.

These mechanisms, whilst valid, limit Australians' choices in the type and source of abatement actions. They also fail to recognise that Australians are capable of making significant reductions in their carbon footprint when provided with appropriate knowledge, tools and incentives to do so. Australian's need to know that their actions make a difference. The success of the water saving campaign in Victoria is a great example where savings are recognised and constantly fed back to the community, which in turn is encouraged to do more. The recently released report '*An Australian Cost Curve for Greenhouse Gas Reductions*' (McKinsey & Co, 2008) shows that price mechanisms alone are not sufficient motivation to change behaviour to generate significant reductions in emissions. The maintenance of an effective voluntary market can generate additional savings in greenhouse emissions for Australia as well as garnering community good will in contributing to the solution. The size of the voluntary market may not be as significant as the proposed mandatory market but its existence is critical in crystallising public support for action on climate change thereby maximising abatement.

Sadly, under the proposed CPRS design, Greenfleet's approach to encourage individuals and organisations to avoid & reduce greenhouse emissions becomes meaningless. As the National Carbon Offsets Standard Discussion Paper makes note, reducing demand for energy or consumption of fuel merely frees up emission units for other emitters, but does not result in a net reduction in Australia's emissions under the CPRS. So reductions in demand will have a price impact, making it cheaper for other emitters, but not a net emission impact.

Thus the CPRS design sends a clear message to individuals and organisations that any local action that they take will not contribute to reductions in greenhouse emissions. This is a perverse outcome of the CPRS design.

In the absence of meaningful provision for voluntary action under the CPRS, people with a desire to reduce emissions will have no other option than to purchase and surrender permits and/or source other credits created overseas. In Greenfleet's experience, people prefer to support measures that achieve multiple benefits – for them, their community and the environment. Retiring a credit does not allow the purchaser to determine the focus of the abatement action. This limited approach disenfranchises our supporter base as well as the other hundreds of thousands of Australian families (and many leading businesses) that are currently active in the voluntary market.

In turn, it is reasonable to expect a loss of local investment in emission reduction technology and transfer of funds to projects developed overseas. It will also compromise the development of the clean energy and carbon abatement industry in Australia, causing loss of innovation, skills, jobs and local investment at a time when many other parts of the economy are under significant stress.

Abatement actions in Australia should not be less valuable than any action taken overseas.

### **Options for Greenfleet**

Greenfleet has two choices for generating abatement from its biodiverse forests for the voluntary market under the CPRS design; to 'opt in' or to 'opt out'. Additionality is a cornerstone of credible voluntary abatement so the key issue is demonstrating 'additionality' to the voluntary market under either choice.

The diagram below aims to summarise potential outcomes for proving additionality under the Scheme. The first option requires no commitment from the Government to change any rules but it is least desirable as it weakens and dilutes the case for additionality, and thus weakens the potential contribution of the voluntary market.

The remaining options require the Government to commit to changing the rules for measuring net emissions in Australia<sup>1</sup>, but in each case, the changes strengthen the case for additionality and empower the community to go beyond the minimum compliance mandated by the CPRS and Australia's international commitments. Furthermore, these changes will allow the government to reliably measure the support for voluntary action in the community, which in turn, allows the community to send a signal to Government to take further action.

<sup>1</sup> Changing the rules assumes that the approach is allowable under the Kyoto mechanisms.

## Voluntary Market Options

No Change To Rules.	Change the Rules	
<ul style="list-style-type: none"> <li>• <b>Option 1</b> <b>Generate permits (and cancel them) In Scheme</b></li> <li>• Neutral CPRS</li> <li>• - ve to Kyoto</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Option 2</b> Change rules so abatement not recognised for Kyoto</li> <li>• Neutral CPRS</li> <li>• Neutral in Kyoto</li> <li>• (may not be possible in K rules)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Option 3</b> Extinguish permits with CPRS Cap</li> <li>• Best possible outcome</li> <li>• +ve CPRS</li> <li>• +ve Kyoto (if rules allow).</li> <li>• Forward extinguish % of estimated abatement</li> <li>• True up period going forward.</li> </ul>

### Neutral – no net impact

Creating a forest sink permit then cancelling it will neither impact on price of supply of permits to the Scheme or Australia's net emissions

### -ve - negative impact

Forest abatement is counted towards meeting mandated net emission targets and therefore is not considered additional.

For example, under Kyoto, Australia must meet its commitment to ensure that net emissions do not exceed 108% of 1990 levels. Australia will meet its commitment by local abatement or by purchase of international units so the growth of local forest sinks arguably merely subsidises the Government's commitment.

### + ve - a positive impact

Forest abatement is counted towards reducing either or both the CPRS or Kyoto caps. Under this approach, the Government would deduct verified voluntary action from Government targets, thereby ensuring that voluntary action is additional.

## Australian Government Empowering Local Action

The Government can overcome the conundrum of disempowering individuals and organisations by recognising independently verified voluntary action, and reducing Australia's targets accordingly.

In summary:

### 1. **Cancel AAU's for Verified Voluntary Abatement**

Cancelling Assigned Allocation Units (AAU's) against verified voluntary action abatement is price neutral to the scheme and demonstrates commitment by the Government to encourage people to do more.

### 2. **Cancel RMU's and AAU's for Verified Voluntary Market Reforestation and Avoided Deforestation (ie non-opted in)**

Cancelling reforestation generation of Emission Removal Units (RMU's), and subsequently of AAU's generated, is neutral to Australia's Kyoto target, is price neutral to the CPRS and will create a net reduction in aggregate greenhouse emissions in the atmosphere (on a global basis).

We note that this approach can be undertaken by Registered Forest Entities that wish to voluntarily



retire permits generated under the CPRS but is not an option currently available to the forests not opted into the CPRS.

### 3. **Cancel RMU's, AAU's and AEU's for Voluntary Action**

Cancelling RMU's, AAU's and AEU's has a positive impact on the Scheme and Kyoto as it places greater pressure on large emitters to do more and does not subsidise their actions, in fact it will send a clear signal that they have to do more.

This approach provides the community, and thus the Government, an opportunity to determine how far and deep reductions in emissions can go beyond the minimum mandated by Government.

To send a signal to the Voluntary market, the Government could hold back a percentage of AEU's that will be applied to verified voluntary action. All voluntary action could be applied against this reserve and, at the end of each year a truing up process that reconciles actual retired voluntary action against the reserve could be undertaken. This exercise is relatively easy if the registries for retiring voluntary abatement run in parallel to the CPRS registries and it provides a transparent mechanism for recognition of voluntary action that compliments the Scheme. If the Government finds that the demand for voluntary action is less than expected, those permits are freed up in the following year. However, if voluntary action is found to do more than anticipated, it sends a clear message to the Government to tighten the cap.

This approach will restore the community's faith that they can make a difference and can contribute to greater reductions in greenhouse emissions.

### **Further Comments on Reforestation under the CPRS**

We note that under the CPRS design, providers of abatement within forestry sectors can 'opt in' to create additional emission units, or they can 'opt out'. The overall abatement outcome will vary, depending on the choices made by the forestry operation and how the government treats the action for Kyoto accounting purposes.

However, Greenfleet notes that the CPRS suggested mechanisms for certifying forests provide no test for additionality, nor leakage and in its base form, it appears that it will not require independent verification of abatement from registered forest entities for approved projects where 'the computer program', presumably the National Carbon Accounting Toolbox (NCAT) defaults are used.<sup>2</sup> This means that in addition to new plantings, existing forests which were established for harvesting can also be a source of permits under the Scheme (and thus a source of offsets to the voluntary as well as the mandatory markets). Furthermore, using an average longer term carbon estimate, rather than a minimum long term estimate, has been proposed in generation of CPRS emission units and is of a lower

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<sup>2</sup> **Guidance and Regulations** - We note that to date no draft regulations or guidance has been formally released by the Department of Climate Change that deal with the detail on how reforestation projects will be administered. The statements made rely on informal discussions with Department of Climate Change staff.

standard than that applied in the NSW Greenhouse Gas Abatement Scheme and Greenhouse Friendly™. This lower standard will likely increase the supply of units from commercial forests to the market but will diminish the reputation and credibility of the Australian Emissions Trading Scheme in generating permanent greenhouse reductions.

The Greenhouse Friendly™ standard for forest abatement encompasses these tests. We note the Government's recent announcement to abandon Greenhouse Friendly™ from commencement of the CPRS. No transitional arrangements for those organisations that have invested in Greenhouse Friendly™ approval have been provided.

Given a voluntary standard is likely to impose additional requirements on the abatement provider, it seems unreasonable that this voluntary abatement is not fungible with the CPRS, particularly when forest emission units generated under the CPRS can be used for the voluntary market.

Greenfleet also notes that avoided deforestation is not allowed as a source of abatement under the CPRS, nor has it been considered in the National Carbon Offset Standard Discussion Paper. It is possible that entities holding existing rights to clear forests may forfeit these rights in exchange for recognition of voluntary abatement. There has been precedent set in recognising avoided deforestation in Australia under Greenhouse Friendly™ and with REDD projects overseas. It is appropriate that the Government recognises the contribution of local avoided deforestation, particularly given the terrible contribution that deforestation makes to global emissions and the lack of liability under the CPRS for non-opted in forests. In short, the CPRS provides no incentive for maintaining old growth forests that were established prior to 1990. The CPRS sends no signal to neighboring countries that there is a credible market for avoided deforestation projects.

### **Conclusion**

Greenfleet's aim is to maximize action that reduces the impact of greenhouse gases on the environment. We believe that it is very important that the market receives a clear and unambiguous signal regarding the cost of carbon. The Carbon Pollution Reduction Scheme plays a very important role in providing that signal. However, members of the community and organisations can also make an important contribution in taking action on climate change which is beyond the minimum levels set by the CPRS. The design on the CPRS should not impede the impact of their contribution; it should encourage people and business to do more. It is within the Government's power to ensure that this contribution is recognised.

We are happy to discuss any aspect of this submission at anytime. Please feel free to contact our office on 03 9642 0570.

Yours sincerely



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