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SUBMISSION: Targets and Progress Review Draft Report

1.1 Introduction

Australia must set clear, ambitious targets and be a leader in the International Climate Movement. As a prosperous, developed nation, we must use our innovation, wealth and opportunity to lead the global shift toward a carbon neutral economy and society. The Government must take strong initiative to set ambitious, binding emissions benchmarks targeted to specific industries and must implement a range of market-based instruments to meet these goals. Civil society wants to promote social engagement with the climate movement - the government must incentivising innovation, provide financial support for research and development and develop a consistent regulatory framework that guides business investment and confidence.

The current proposed Direct Action Plan lacks the strength, capacity and vision to achieve national (and internation) climate targets. Ultimately, it is poorly designed, is not financially cost effective for the government and has limited buy-in from the private sector. A baseline and credit (B&C) scheme is an ineffective model to address environmental objectives and achieve real carbon emission reductions. Additionality is difficult to prove and quantify, credibility relies on a demanding verification process, and its success depends on how and to whom credits are allocated. Whilst an emissions trading scheme (ETS) is crucial to ensure Australia aligns itself with international trends[1] the challenges of a B&C scheme mean it should not be the favoured approach to tackle climate change,. The Abbott Government's Direct Action Plan (DAP) is contingent on the establishment of a B&C system, though its design remains uncertain.[2] The effectiveness of this scheme will be determined by its ability to

[1] Garnaut Climate Change Review 'Emissions Trading Scheme Discussion Paper' (March 2008).
[2] The Climate Institute. 'Implications of the Coalition's climate policy' *The Climate Institute Media Brief* (September 2013) 2.

contribute to a 5% reduction in carbon emissions by 2020.[3] To reach this target, the government must address key design issues, learn from the successes and failures of other baseline and credit schemes and, importantly, build a social and business conscience that is willing to participate in and understand the scheme. A successful ETS must incorporate meaningful allocation, comprehensive verification and ensure high, measurable additionality – to date, B&C schemes have been limited in their capacity to achieve these goals.

1.2 Additionality should be high, taking into account technological, financial and social barriers to ensure emission reduction is real, quantifiable and enduring.

Additionality presents the most significant challenge for B&C schemes to overcome. The key issue with additionality is that it is based on an artificial 'business as usual' hypothesis – by quantifying past emissions, a hypothetical prediction is made to which all trades are based. It fails to account for variables, externalities or indirect effects over time that effect actual output. The approval process and credit regime gives little incentive for offset projects to actually reduce emissions, only to get accredited. Finally, by taking a 'performance standard' approach, any improvement to business-as-usual is viewed advantageously: for example, even though a forest would have been cut down, it may have been replaced by a wind-farm, which could be rewarded through accreditation. For this reason, the 'additionality' benefits of the credit system are falsely constructed, artificial and often unquantifiable. Whether the B&C scheme can address these challenges remains to be seen, as no B&C model has successful accounted for this inherent problem.

[3] Denniss R and Grudnoff M. 'The real cost of direct action: An analysis of the Coalition's Direct Action Plan' *The Australia Institute*, Policy Brief No. 29 (July 2011) 2.

1.3 Allocation should target specific sectors, based on emissions output

Allocation in a B&C scheme is an important design issue because it effects how the carbon price is set, by controlling the demand and supply of credits, and determines which participants will contribute to the market. The method of allocation 'bears significant implications for its environmental and distributive effects'.[4] Regulators must allocate offset credits to a wide variety of abatement certificate providers to encourage innovation, provide flexible options for emitting entities and promote greater diversity within the marketplace. The DAP should focus initially on heavy emitting industries and individuals, include all energy, industrial and fugitive emissions, with the aim of later including some forestry and agriculture sectors.[5] Reverse auctioning aligns with international trends in allocation, which have proved that an oversupply of free credits can devalue carbon price to an ineffective level.[6] To maintain market confidence and activity, the DAP must have effective allocation to ensure target setting can be flexible and responsive to market changes, whilst limiting the potential to over-emit.

1.4 Verification procedures must balance thoroughness and accuracy with efficiency and cost-effectiveness by embracing technology and limiting duplication

A comprehensive verification system is essential to ensure effective implementation of a B&C. According to Sigurthorsson, the key principles for a credible verification system are consistency, transparency, independence, ethical conduct, truthful disclosure, and due professional care.[7] Significant institutional responsibility rests with government authorities to establish eligibility requirements, define

[4] Perdan S and Azapagic A. 'Carbon trading: Current Scheme and Future Development' Slobodan Energy Policy 39 (2011)6040–6054
[5] Productivity Commission, above n 26, 47.
[6] Perdan and Azapagic, above n 72, 1048.
[7] Sigurthorsson G. 'Stakeholder Perspectives: Third Party Verifiers' Presentation at the Confidence Through Compliance in Emissions Trading Markets workshop sponsored by the International Network for Environmental Compliance & Enforcement (Nov. 17-18, 2005): http://inece.org/emissions, cited in Rohleder J 'The Role of Third-Party Verification in Emissions Trading Systems: Developing Best Practices' *Sustainable Development Law & Policy* (Winter 2006) 26-29, 28.

methodologies to quantify offsets and prescribe monitoring and verification systems to ensure compliance.[8] It is important that third party verification be undertaken to maintain consistency, objectivity and transparency. The process should be adjusted to the complexity of the project; it must be efficient and not excessively demanding, it should promote limited transaction costs and balance thoroughness with timeliness. The importance of technology is also crucial; as Rohleder states, 'developing IT systems for reporting and verification processes will facilitate verification for compliance and enforcement'.[9] Online data must be publicly accessible and functions as a key information system for market participants, regulators, monitors and the general public, who must have confidence in its quality and reliability. For offset projects, considerations include which sectors should be incorporated into the market, which types of offset projects should be encouraged and what method of compliance and monitoring will be most cost-effective and efficient for certain sectors.

1.5 Conclusion

Australia faces significant challenges if a B&C scheme is to provide the market-based solution to climate change 'action'. The key design features of a successful B&C scheme are meaningful allocation, comprehensive verification and measurable additionality. Ultimately, a successful scheme will target the largest emitters, impose strong compliance and reporting mechanisms and incentivise the most efficient, productive offset projects to demonstrate real environmental outcomes. However, there are many evident obstacles to achieving these objectives, as the cases of NSW and Alberta revealed. For these reasons, B&C models are not the favoured ETS approach taken by economists, nor environmentalists. The DAP is unlikely to take the decisive, meaningful action necessary reduce emissions in the immediacy. Instead, it represents further delay, increased costs and greater opportunity for industries to continue emitting. As economist Justin Wolfers states, 'Direct Action involves more economic disruption for less

[8] NETT Final Report p160
[9] Rohleder, fdfd

of an environmental payoff'.[10] As bureaucrats continue to debate the design and implementation of a B&C scheme, the long-term burden of this myopic federal policy will ultimately rest with the environment.

[10] Wade M. 'Economists remain convinced carbon tax or ETS is the way forward' Sydney Morning Herald (October 28, 2013). http://www.smh.com.au/federal-politics/political-opinion/economists-remain-convinced-carbon-tax-or-ets-is-the-way-forward-20131027-2w9rv.html#ixzz2kQVpe5r3