Additionality and Complementarity of Climate Change Mitigation Policies and Programs in Australia

Tim Kelly 2012

Abstract *This paper explores concepts of additionality and complementarity as they apply to a range of existing policies, programs and actions. These concepts are considered against the backdrop of Australia's carbon pricing system and COAG priority to "fast track a rationalisation of programs that are not complementary to a carbon price or are ineffective".*

Additionality of policies and actions can be considered against Australia's National greenhouse reduction target, scheme caps or at a business, project or personal level. It is however more difficult to judge additionality at a national scale and understand the merits of stopping policies and programs on the basis of complementarity.

I. INTRODUCTION

Prior to 2008, Australia's greenhouse mitigation policy environment was based on an agreed Kyoto Protocol target for greenhouse gas emissions to be no more than 108% of 1990 levels, assessed as an average across years 2008-2012. At the time, was no national market mechanism to drive emission reductions, rather any policy or action that could deliver lower emissions was viewed as a positive step in greenhouse mitigation.

The Federal Government established a Greenhouse Friendly program under which Australian-based offsets and products were accredited to provide a level of market assurance for individuals and businesses seeking to reduce or offset their greenhouse gas emissions that these would be "additional, permanent and verifiable greenhouse gas emissions reductions or sequestration" (Australian Government, 2006, p. 1). Accredited projects were required to generate abatement that was "beyond 'business-as-usual' investment"(Australian Government, 2006, p. 19).

In the area of renewable energy, the Renewable Energy (Electricity) Act (Commonwealth of Australia, 2000) created a requirement for additional renewable energy, requiring a minimum number of renewable Energy Certificates (RECs) from liable wholesalers and

retailers. As the creation of RECs could only come from new post 1997 facilities or improved output from existing generation units, the market mechanism drove new investment in renewable energy generation and lower emissions.

Various studies and proposals of market mechanisms were presented such as emissions trading schemes (ETS) (National greenhouse and energy taskforce (NETT), 2007), carbon taxes and hybrid approaches such as that proposed by McKibbon and Wilcoxen (2008). Importantly, McKibbon and Wilcoxen flagged an issue that applies to emissions caps and trading schemes that "the first lesson is that a rigid system of targets and timetables for emissions reductions is difficult to negotiate because it pushes participants into a zero sum game" (McKibbin & Wilcoxen, 2008, p. 1).

In 2007 and 2008, Professor Ross Garnaut was commissioned by the Federal Government to undertake a Climate Change Review. The Productivity Commission made a submission to the Garnaut Review asserting that:

> "with an effective ETS, much of the current patchwork of climate change policies will become redundant", and that "other abatement policies generally change the mix, not the quantity, of emissions reduction. Retaining existing, or introducing new, policies to supplement the ETS would need to offer other benefits (Productivity Commission, 2008, p.12)

The Garnaut Review (2008, p. 299) adopted this thinking yet presented its findings in more subtle language suggesting that "The role of complementary measures to the emissions trading scheme is to lower the cost of meeting emissions reduction trajectories". In line with this thinking, the Garnaut Report also suggested that once an emissions trading scheme was fully operational, the "Mandatory Renewable Energy Target will not address any additional market failures, could distort the market and should be phased out" (2008, p. 299). Others however (see for example Jotzo in Commonwealth of Australia, 2009b; Wong, 2009) argued that voluntary actions by individuals would make it easier to meet national emissions targets and easier to set more ambitious targets.

A Strategic Review of Climate Change Programs (Wilkins, 2008) supported the views of the Productivity Commission and Garnaut. As the weight of the influential views of the

Productivity Commission, Garnaut and Wilkins presented emissions trading as the exclusive mitigation instrument, there was little attention paid to how continuing voluntary greenhouse mitigation and other regulatory policies might best interact with the market mechanism.

In 2008, as the Australian Government then moved towards establishing emissions trading Carbon Pollution Reduction Scheme (CPRS), the Council of Australian Governments developed a set of complementarity principles (2008) to guide policies that could coexist with the CPRS emissions trading scheme. In the CPRS White Paper (Commonwealth of Australia, 2009a, pp. 1-9)Initially these were envisaged as "complementary mitigation policies" but the word 'mitigation' was quickly dropped for subsequent documents. The resulting complementarity principles reflected views of the Productivity Commission, Garnaut and Wilkins with support only for policies and programs that were not about reducing emissions, or did not take place in covered sectors.

This paper explores how Australia's current Carbon Pricing Mechanism is far from being a mature and effective emissions trading scheme. Yet is being applied in such a way that there is a premature focus on the national target and scheme cap. This is discouraging broader market effort that would enable Australia to prepare for further reductions in its targets and scheme caps and is failing to properly assess the cost effectiveness of climate change policies that reduce emissions.

Section II steps through a chronological sequence of events in the changing nature of Government support for climate change mitigation. Section III discusses various levels of additionality. Section IV discusses the complementarity of policies action with a carbon pricing mechanism, whilst Section V considers a clash of the various different types of logic and mixed messages on how emissions can be reduced in Australia's carbon priced market. Section VI presents a clear choice for a future approach as to whether market and non market climate mitigation policies and programs could co-exist.

II. CHANGING DIRECTIONS

On 30 June 2010, the Australian Government ended its Greenhouse Friendly accreditation program terminating many of Australia's home grown carbon offset initiatives.

The Federal Government provided the following justification:

- "Given broad coverage under the Scheme [CPRS] there will inherently be less scope to pursue domestic offset activities"(DCCEE, 2009, p. 16)
- "Covered emissions sources are not additional"(DCCEE, 2009, p. 16)
- ; and,
- "Kyoto ratification meant that Greenhouse Friendly abatement was no longer considered additional to our Kyoto target". (Combet, 2010, p. 6).

Additionality by itself however, does not determine whether the Government supports certain climate change policies and programs. For example, energy efficiency takes place within covered sectors yet the Department of Climate Change and Energy Efficiency (DCCEE) promotes "Reducing the amount of energy we use is a quick, simple and cost-effective way to reduce Australia's greenhouse gas emissions" (2011).

The Greenhouse Friendly program was replaced by the National Carbon Offset Standard (NCOS) (Australian Government, 2010b) and related NCOS Carbon Neutral Program (Australian Government, 2010c) which came into force on July 1, 2010. The program excluded most Australian based offsetting initiatives. Instead the NCOS recognised certain Kyoto based carbon offset units, Gold Standard offsets and Australian based initiatives that were not covered by Australia's Kyoto accounting (Australian Government, 2010c). Surprisingly, residual credits generated under the Greenhouse Friendly program were re-recognised in the second edition of the NCOS (DCCEE, 2012, p.5)

New approaches to provide accreditation for carbon offsets and Carbon Farming Initiative hand book (Commonwealth of Ausralia, 2012a, p.11) was developed to guide carbon offset initiatives. The handbook describes how offsets can be created in sectors not covered by the emissions trading scheme caps, and therefore these actions are considered by Government to be additional to scheme caps. However, all sectors when aggregated together fit within a single national emissions reduction target. As such, the idea of considering actions in those sectors not covered by scheme caps really makes no difference under a national target. This is a major inconsistency in the Government's logic on what can be considered as additional.

The Australian government's approach has been to support climate mitigation policies that are 'in addition' to covered sector targets and national targets. In designing climate change policies and programs, or taking action as an individual or business, other types of additionality are also important. 'Tangible additionality', 'theoretical additionality' and sub categories such as being additional to a particular scheme, policy or program play an important part in decision making by individuals and businesses.

The complementarity of climate change programs is the other major determinant of whether non-carbon pricing climate policies and programs will be supported to continue in parallel to the market based carbon pricing system. The COAG complementarity principles (2008) and updated (2012) (see attachment 1) maintained the thinking of the Productivity Commission, Garnaut and Wilkins, and were established as the instrument of determining the future worthiness of a climate related policy. COAG have established a priority to "fast track a rationalisation of programs that are not complementary to a carbon price or are ineffective, inefficient or impose duplicative reporting requirements" (COAG Select Council on Climate Change, 2012). Remarkably however, there is no test of ineffectiveness under the COAG Complementarity principles to determine how well a policy or program may still reduce emissions where a different policy objective is the primary driver, such as overcoming price barriers.

III. ADDITIONALITY

Whether policies are additional to a carbon pricing mechanism is not as simple as the statement that "In the presence of a national emissions cap, policies that aim to abate emissions (either in covered or uncovered sectors) will not generally cause additional abatement" (Commonwealth of Australia, 2011a, p.5). It is also important to recognise the need for the progressive tightening of such targets. Australia's current 5% unconditional greenhouse reduction target by 2020 also needs to be significantly tightened through time to achieve the 80% reduction target by 2050 (Australian Government, 2011a).

In considering approaches to climate policy, building preparedness and incentives towards adopting higher rates of emissions reductions or tighter targets should therefore be incorporated into the policy framework. In this regard, it can be argued that in parallel with Australia's carbon pricing mechanism, all forms of greenhouse abatement whether in covered sectors or not, can make it easier for such targets to be lowered through time. Under this line of thinking, additionality is important at all levels, including in the everyday actions and choices of individuals, households and businesses.

4.1. Types of Additionality

It can be observed that different types and forms of additionality apply in greenhouse mitigation policies and actions and are summarised by Kelly (2011, p. 2) into three types:

- National Additionality - the impact of mitigation at an economy wide or national level;
- Tangible Additionality - a material change in emissions compared with no action that can be directly quantified); and,
- Hypothetical Additionality - a theoretical change in emissions that cannot be assessed against any particular project or action.

4.2. National Additionality

The Federal Government has focussed on one particular area of additionality when it comes to assessing the complementarity of climate policies and programs, being that actions should be additional to Australia's National commitment under the Kyoto Protocol or emissions trading. The Federal Government supported energy efficiency from within covered sectors to assist Australia to meet National Targets, but did not support Greenhouse Friendly accredited offsets from within covered sectors that would also assist Australia in achieving its national target. Such inconsistencies have not been explained.

In the international context of Australia's commitment to reduce greenhouse gas emissions (Australian Government, 2011a) Australia has nominated a net emissions outcome that incorporates purchasing offsets, or allowances to pollute from other countries. The Kyoto Protocol established a number of mechanisms to enable developed signatories to the Protocol flexibility to meet their target obligations. These mechanisms include 'Emissions trading' based on trading of emissions allowances such as the Clean Development Mechanism (CDM) and Joint Implementation (United Nationa Framework Convention on Climate Change accessed July 2010).

Interestingly, the UNFCCC did not prescribe how individual countries should go about achieving their targets. Nations could use direct regulation, permit based systems or carbon taxes coupled with voluntary responses. Therefore, there is also no reason why voluntary actions that assist countries to meet their targets should not be encouraged in any national policy framework, even where some actions may be precluded from trading across national borders.

4.3. Tangible Additionality

The term ‘tangible additionality’ can be used to describe actions that can be linked back to a specific action that has resulted in prevention, reduction or removal of greenhouse gas emissions. Tangible additionality links actions with real outcomes such as projects that result in an identifiable greenhouse reduction benefit (Kelly, 2011). It can be argued that tangible additionality was the basis for the defunct Greenhouse Friendly program whereby the Federal Government assured consumers via the Greenhouse Friendly Guidelines (Australian Government, 2006, p. 1) that “Greenhouse Friendly™ abatement projects must generate additional, permanent and verifiable greenhouse gas emissions reductions or sequestration”.

4.4. Other actions that fall into the category of tangible additionality

Voluntary action in Australia can still be largely considered against the tangible additionality concept. Actions by individuals, households and businesses to reduce emissions whether there will be a tangible reduction in greenhouse gas emissions are made on a daily basis. For example:

Using less – If a decision is made to turn off unnecessary lighting in a dwelling or business to reduce emissions (as well as any reasoning to save cost), then this is additional action by the person turning off lights and is based on the tangible additionality concept.

If a person chooses to walk or ride a bicycle rather than driving a car, this action has tangible benefits to reduce greenhouse gas emissions.

All energy efficiency actions if taken to reduce emissions are based on the concept of tangible additionality.

Contributing to renewable energy via GreenPower-

Where a household or business contributes to renewable energy via the accredited GreenPower program, there is an expectation that this activity is creating new additional renewable energy generation, above that which is required by law(GreenPower, 2008). GreenPower has been historically considered on tangible

> additionality thinking. The Government has subsequently committed that it will ensure that GreenPower also achieves *national additionality* (Commonwealth of Australia, 2011b) via the retirement of Kyoto permits.

Purchasing Australian Based Offsets-

> When a business or entity has purchased carbon offsets from within Australia, there is usually tangible additionality underpinning the offset. Accreditation systems typically assure such things as the creation and locking up of a certain amount of carbon for a given period of time, that the action was additional to mandatory requirements.

If tangible additionality was supported and encouraged by Governments, then the impact of carbon pricing would be to enhance and accelerate individuals, households and businesses to make choices to reduce emissions. However, the Government's position that "No individual entity affects aggregate emissions from covered sources"(DCCEE, 2009, slide 9) does not support tangible additionality as being relevant when it comes to carbon pricing.

4.5. Hypothetical Additionality

Hypothetical additionality is the term that could be used to describe the promotion of voluntary contributions in market mechanisms, in the absence of any direct link to real tangible action. Hypothetical additionality suggests that emissions will be reduced indirectly through market forces.

An example of this is the *voluntary removal of permits* concept under a cap and trade scheme (Commonwealth of Australia, 2011b, p. 108). In practice, such a concept will not commence before the variable price period of Australia's carbon pricing mechanism which is scheduled to start in 2015 (Commonwealth of Australia, 2011b, p. 21), and still has a long way to go before it could be accepted by the market as effective. For instance, where caps are subject to regular review, there would need to be confidence that the tightening of caps was not being slowed because of permit scarcity, caused in part through the voluntary retirement of permits.

Indeed the emissions reductions of tangible voluntary actions are cancelled out by the voluntary surrender of permits under a cap and trade scheme because both drive opposite market forces. For example, traditional voluntary actions such as using less or being energy efficient will free up emission permits, therefore lowering the market price of permits and creating the conditions easier for the Government to reduce the cap in later years. Voluntary removal of permits however will add market scarcity, (without adding any tangible action to reduce emissions), and therefore increase the market price of permits creating the conditions that are more difficult for the Government to reduce the cap in later years. Similarly, where international ETS partners are involved, voluntary permit cancellation makes it harder for collective nations to agree on tighter emission targets. In both the national and international trading frameworks, there is a potential for full cancellation of two different approaches to voluntary action, one being tangible reductions, the other being the hypothetical reductions from voluntary removal of permits.

IV. COAG complementarity principles

It is important to review climate change mitigation policies and programs to determine their effectiveness, how they interact and whether they cause harm to the effectiveness of other policies. This policy space is now being dominated by the complementarity principles (COAG, 2008, 2012).

4.6. History leading to the complementarity principles

As outlined in Section II, the concept of constraining climate change policies in Australia was suggested by the Productivity Commission, Garnaut Review and subsequently in the *Strategic Review of Australian Government Climate Change Programs* (Wilkins, 2008, pp 8-14), which recommended the following, under an emissions trading scheme:

- "The Commonwealth should be primarily responsible for mitigation policy and all jurisdictions should contribute to a nationally coordinated approach to adaptation
- Phase out of programs assessed as not complementary to an ETS, and,
- Environmental protection and planning laws across all jurisdictions should not require anything more than compliance with the ETS in respect of the emissions associated with projects in sectors covered by the scheme".

The Council of Australian Governments – COAG (2008) subsequently made a decision that all climate change policies and programs should be assessed for their complementary with

the federal government approach. Policies and programs that were found to be non-complementary should be phased out or shut down. The logic was that the carbon price would be the driver for Australia to meet its emissions reductions target, and therefore no other policies or programs aimed at reducing emissions would be necessary. The complementarity principles (updated May 4, 2012 to reflect the language of the Clean Energy Future plan) make provision for policies and programs where:

- The measures are targeted at a market failure that is not expected to be adequately addressed by the carbon price or that impinges on its effectiveness in driving emissions reductions
- Benefits of Government intervention should outweigh the costs
- Targeted to manage the impacts of the carbon price on particular sectors of the economy (for example to address equity or regional development concerns)"(COAG (Council of Australian Governments), 2012, p. 1).

In targeting policies to manage impacts on particular sectors of the economy, the principles also stated that "the non abatement objective should be clearly identified" (COAG (Council of Australian Governments), 2008, p. 1). Such language of the complementarity principles coupled with the recommendations of the Productivity Commission, Garnaut and Wilkins have led many Government agencies taking the view that policies that are deemed as complementary must not have a primary objective to reduce emissions.

4.7. Implementation of the COAG Complementarity Principles

The principles are based on the assumption that a mature emissions trading scheme would achieve the greenhouse gas emissions reductions required, yet in reality emissions trading whether considered in Australia or against a bigger pool of global emissions trading partners has made little progress towards any reduction in emissions (McKibbin & Wilcoxen, 2008, p. 1).

The COAG complementarity principles sought to guide the streamlining of climate change policies, yet have not defined a process that would apply the principles consistently. In particular, the following criteria of the complementary policies are open to interpretation:

> *"a) measures targeted at a market failure in a sector that is not covered by the Carbon Price"(COAG, 2012, p. 1).*

This criterion by itself would rule out energy efficiency and incentives to use less or to switch to alternative low energy/fuel because these actions occur within sectors covered by carbon pricing. This principle is largely cancelled by the following principle.

> *b) measures for where the price signals provided by the Carbon Price are insufficient to overcome other market failures that prevent the take-up of otherwise cost-effective abatement measures (COAG, 2012, p. 1).*

Energy efficiency policies and programs can however be ruled back in as complementary on the basis that they assist in addressing market failures where the carbon pricing signal is deemed not sufficient to take up efficiency abatement measures. It could also be argued that until greenhouse gas emissions are lowered to sustainable levels (as guided by science or in line with the Government's long term 80% reduction target), that market failure still applies.

It is possible that criterion a) can be applied selectively to exclude all or any policies that reduce emissions in covered sectors whilst criterion b) can be used selectively to support any one of these policies. Hence, the complementarity principles can be used to define any policy other than the carbon pricing mechanism as un-necessary and market distorting, or alternatively they can be used to excuse extremely costly and inefficient policies on the basis that they are not intended to reduce emissions. Attachment 1 shows the agreed COAG complementarity principles (2012) in full.

The COAG Climate Change Council Communiqué includes agreement to:

> "develop urgent advice in advance of the next COAG meeting on how to fast track a rationalisation of programs that are not complementary to a carbon price or are ineffective, inefficient or impose duplicative reporting requirements, including terms of reference and a proposed process for an expedited review of complementary climate change measures" (2012, p. 2).

At the same time as the Government is applying its complementarity principles that exclude the need for individuals, and businesses to focus on reducing emissions, the Government is still encouraging individuals and households to reduce their carbon footprint, without openly communicating that such reductions (unless associated with permit removal) are not viewed by Government as additional voluntary action.

V. CLASH OF LOGICS

In 2008 the former Minister for Climate Change Penny Wong, wrote an opinion piece stating that "In fact, individual and community action to be more energy efficient not only saves them money, it will contribute directly to Australia meeting our emissions reductions targets. Strong household action also helps make it easier for governments to set even more ambitious targets in the future" (Wong, 2009).

The Department of Climate Change and Energy Efficiency (DCCEE) on its Promoting Energy Efficiency web page, has stated that energy efficiency is:

> "a critical way for Australia to waste less energy, reduce our demand on energy resources and lower our greenhouse gas emissions. Reducing the amount of energy we use is widely believed to be the quickest, simplest and most cost-effective way to reduce Australia's greenhouse gas emissions (2011)".

But such logic contradicts the views of the Productivity Commission, Wilkins Review and the Government's approach to complementary policies. The Australian Government contradicts itself in its statements. For example in its *Estimating The Cost of Abatement - Framework and Practical Guidance* report (Commonwealth of Australia, 2011a, p.5) the Government states that "In the presence of a national emissions cap, policies that aim to abate emissions (either in covered or uncovered sectors) will not generally cause additional abatement".

In another example, when seeking feedback on its National Energy Savings Initiative the Government asks the question "Given the complementarity principles outlined in Appendix D, how could an Energy Savings Initiative with a primary objective of helping to reduce greenhouse gas emissions be considered complementary to a carbon price? (Australian Government, 2011b, p. 19)" two distinct logics can be seen to emerge and could be presented in the following way:

1. With a national target established and carbon pricing scheme caps to start in 2015, tangible actions to reduce emissions make no difference to the national outcome and therefore all market participants (except for programs that remove carbon permits), should simply adapt to the changing costs caused by carbon pricing

or

2. Well designed emissions reduction policies (federal, state and local) and tangible voluntary actions to reduce greenhouse gas emissions will allow Australia's national target and scheme caps (commencing in 2015) to be tightened faster than would otherwise be possible.

Perhaps the more important question to ask is: Which logic if adopted, would create the best culture for a low carbon economy to attract the greater number of active participants and encourage a greater level of innovation from the consumer market perspective in addition to the responses of corporations covered directly by the carbon pricing mechanism? One approach considers the national target as an end point, whilst the other looks to the low carbon economy as a journey to move to lowering emissions targets and reducing emissions as fast as possible, valuing all individual, household and business mitigation effort.

5.1. Selective use of additionality and COAG complementarity principles

Even though the complementarity principles are not yet working in the framework of an ETS, they are already used as the key test for streamlining and re-defining climate change mitigation policies. They have also made it easier for Governments to excuse the abandonment of climate policies as per the following examples:

South Australian Government 2011-12 Mid-Year Budget Review

Abolishing the Renewable Energy Fund which will save **$11.7 million** acknowledging the need to support individual projects will be diminished with the introduction of a price on carbon which in itself is designed to reduce carbon intensity (Snelling, 2011).

Scrapping of Australia's proposed national caps on the emissions profile of new power stations

The Age reported:

> "The Gillard government has dumped an election promise to introduce rules to limit greenhouse gas emissions from new power plants. Launching a long-awaited energy policy paper, Energy Minister Martin Ferguson said the proposed emissions standards - which Prime Minister Julia Gillard said would mean an end to the building of "dirty" coal power plants - had become redundant, given Australia was introducing a carbon price" (Arup & Morton, 2011).

5.2. Inconsistencies in the use of the additionality card

Considering all types of additionality (whether national, tangible or hypothetical), the following examples show that the Australian Government has not been consistent in its use of additionality to underpin or extinguish different voluntary mechanisms and schemes:

- **Voluntary actions of householders selling Renewable Energy Certificates via the Mandatory Renewable Energy Target.**

  From the Year 2000, to December 2010, householders that established solar hot water systems and photo-voltaic solar panels on their rooftops and sold or signed across their Renewable Energy Certificates (RECs) did not cause additional MWh of renewable energy (and related greenhouse gas reductions) compared against what was already required under the law, being the Renewable Energy (Electricity) Act (Commonwealth of Australia, 2000). Therefore, the voluntary action was not additional to the established mandatory outcome.

  From 1 January 2011, the splitting of the Renewable Energy Target (RET) into two parts only partially addressed the problem. In the revised scheme (Australian Government, 2010a) the Large Scale Renewable Energy Target (LRET) was set at 4,000 GWh per year below the previous mandatory Renewable Power Percentage. The Government would only make up the difference if there was less than 4,000 GWh per year of small scale certificates under the Small Scale Renewable Energy Target (SRET), which includes voluntary renewable action.

- **Solar Credits Multiplier**

  Through amendments introduced in 2009 to the Renewable Energy (Electricity) Act (2000), the Australian Government established a solar credits multiplier to be used to increase the financial benefit for householders selling RECs to help recover costs when installing small scale solar photo-voltaic, wind and hydro systems. The multiplier replaced a previous Government funded Renewable Energy Rebate scheme and was proposed as a declining scale over a number of years before phase out. Regardless of whether the multiplier in any year was assigned at two times the real generation output or even five times the real generation output, such a concept fails any test of national additionality, tangible additionality or theoretical additionality for every REC created by the multiplier.

- **GreenPower and Voluntary Surrender of GreenPower Eligible RECs**

  The NCOS Carbon Neutral Program Guidelines (Australian Government, 2010c, pp. 4-5) allows individuals and businesses to treat GreenPower and GreenPower eligible Renewable Energy Certificates to contribute towards achieving carbon neutrality.

  The voluntary surrender of GreenPower eligible Renewable Energy Certificates is to be associated with the retirement of an emissions allowance under the Kyoto rules and therefore can only be justified on the basis of tangible additionality within Australia. The retirement of permits to match the additional renewable energy generated would preserve the tangible greenhouse reduction achieved at the National level.

  For Large Scale Renewable Energy Certificates surrendered outside the GreenPower accreditation program, the Government has made no commitments to retire Kyoto units or reduce the number of domestic permits so there is no method that would result in National additionality of this action.

- **Other voluntary action**

  The Federal Government has signalled that it will take traditional voluntary actions of households into account, for such actions as using less, and energy efficiency. On its Voluntary Action web page (Australian Government, 2010d), the intention was described as:

  > "The Government will estimate annual emissions from household consumption of electricity, gas and transport fuels, and compare it against a baseline of expected household emissions. If total household emissions are below the baseline, then the difference will be reflected in more stringent future CPRS caps".

  Such a commitment is however largely unachievable as it is not possible to segregate the voluntary actions of those causing less greenhouse gas emissions from other households that may cause greater emissions. The assessment could only be based on net household averages compared against undefined expectations. Many actions such as turning off lights, buying a fuel efficient car or walking to work would be precluded by the averaging nature of the calculation methods.

In essence the Australian Government is suggesting that voluntary actions must be able to be monitored or assessed by Government as additional on a national basis before they are formally recognised as additional.

5.3. Use of complementarity principles to excuse lack of additionality

As previously discussed, where certain policies take place within covered sectors or are not additional in a National sense, the complementarity principles can be used by Governments to maintain support for these initiatives on the basis of addressing market failure or focusing on non abatement objectives. This means that the complementarity principles are created with built in wild card exemptions and loopholes that can allow a government to choose or reject any policy or program and still claim that they implementing the principles.

A clear example of a policy risking inefficiency and harm to low carbon markets was passed by Parliament in June 2012, securing Legislation for the Clean Energy Finance Corporation (CEFC) to administer a fund of up to $10B. Of this total fund, up to $5B can be spent on renewable energy projects, and allows these projects to be eligible to create and sell Large Scale Renewable Energy Certificates. These certificates will displace other renewable energy already required by law resulting in zero additional renewable energy and zero reduction in greenhouse gas emissions overall. Concerns about this impact were identified in a recent Senate Economics Committee inquiry relating to the Clean Energy Finance legislation (Commonwealth of Ausralia, 2012b) The stated objective of the CEFC is to, "overcome capital market barriers that hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies". Even though this policy decision on renewable energy projects may not achieve any additional greenhouse mitigation, it is in line with the complementarity principles.

VI. CONCLUSION

Australia is at a cross roads in determining whether greenhouse mitigation policy will be 1) a function of compliance with a carbon pricing mechanism with rates of emissions set by Government or 2) the framework will support every person, household and business to take tangible steps to reduce emissions in the choices that they make, beyond any driver to save money, enhanced by carbon pricing to facilitate choices for lower emitting activities, products and services.

A carbon constrained economy based around Government setting national targets and caps with little recognition of the benefits of tangible actions creates the risk of constraining progress and innovation. The Federal Government has responsibility for designing policies that are efficient and effective to achieve national targets, yet the responsibility of ensuring that national additionality is achieved does not need to be a burden placed on individuals and businesses. The Government should support concepts that encourage a role for all participants in the community and in markets to get on with the job of creating a low carbon economy, making it easier for national targets and scheme caps to be reduced through time.

In contrast, programs based on theoretical additionality need to be proven in transparent policies with sound methodologies before consumers could be expected to support concepts such as the voluntary retirement of permits.

Therefore, there is choice of logic that the Government should consult widely on: Will additional action be limited to depend on voluntary retirement of emission permits and buying offsets from uncovered sectors or from overseas? Or; will our low carbon economy be about encouraging real mitigation in all sectors and in all parts of the economy, aided by a price on carbon, making it easier to tighten Australia's national target and scheme caps through time?

These two options that deserve careful discussion with the Australian community as a whole, and should not be rushed through the COAG Reform Taskforce with minimum thought on the long term ramifications, particularly as the two options are mutually exclusive. On a final note, the Government should apply its choice of logic consistently to ensure that policies and programs can be seen to have full integrity as they operate in the market framework.

Attachment 1 COAG Complementarity Principles

COAG Complementarity Principles
(As amended by SCCC, 4 May 2012)

Complementary measures should be assessed against the following principles.

1. The measures are targeted at a market failure that is not expected to be adequately addressed by the carbon price or that impinges on its effectiveness in driving emissions reductions.

   - *For example, research and development failures, common use infrastructure issues, information failures and excess market power.*

   Complementary measures should adhere to the principles of efficiency, effectiveness, equity and administrative simplicity and be kept under review. They may include:

   a) measures targeted at a market failure in a sector that is not covered by the carbon price.

   b) measures for where the price signals provided by the carbon price are insufficient to overcome other market failures that prevent the take-up of otherwise cost-effective abatement measures.

   c) measures targeted at sectors of the economy where price signals may not be as significant a driver of decision making (e.g. land use and planning).

   d) some measures in (a) or (b) may only need to be transitional depending on expected changes in coverage or movements in the carbon price.

2. Complementary measures should be tightly targeted to the market failure identified in the above criteria that are amenable to government intervention. Where the measures are regulatory they should meet best-practice regulatory principles, including that the benefits of any government intervention should outweigh the costs.

3. Complementary measures may also be targeted to manage the impacts of the carbon price on particular sectors of the economy (for example to address equity or regional development concerns). Where this is the case, in line with regulatory best-practice, the non-abatement objective should be clearly identified and it should be established that the measure is the best method of attaining the objective.

4. Where measures meet the above criteria, they should generally be implemented by the level of government that is best able to deliver the measure. In determining this, consideration should be given to which level of government has responsibility as defined by the Constitution or convention/practice, the regulatory and compliance costs that will be imposed on the community, and how the delivery of the measure is best coordinated or managed across jurisdictions.

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