



Municipal Association of Victoria

**Submission to the National Carbon
Offset Standard Discussion Paper**

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The MAV can provide this publication in an alternative format upon request, including large print, Braille and audio.

The MAV is the statutory peak body for local government in Victoria, representing all 79 municipalities. The MAV would like to acknowledge the contribution of those who provided comment and advice during the development of this submission.

While this paper aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils.

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1 Introduction

The MAV welcomes the opportunity to provide comment and inform the development of a National Carbon Offset Standard. This submission is made by the MAV as part of an ongoing commitment to support Victorian local government to respond to the challenges and opportunities presented by climate change. Local government's response to climate change will be in its capacity as a statutory and strategic planning authority, public land natural resource and asset manager, emergency management authority, landfill owner and operator, provider of community health and wellbeing services, and as a community leader and educator.

The MAV is supportive of the need to develop a National Carbon Offset Standard to ensure that credible carbon offset products and services are available to Australian consumers, including local government. The MAV acknowledges that the range of offset products and services will change markedly with the introduction of the Carbon Pollution Reduction Scheme.

The MAV submission raises particular areas of interest from our membership following consideration of the Discussion Paper. In preparing the submission, the MAV has consulted with municipal councils and the Victorian Greenhouse Alliances, whose members comprise predominantly Victorian local government. The content of this submission is informed by responses received.

The Association seeks further opportunities for the involvement of local government nationally in the finalisation of the standard. This will help to ensure that decisions made and principles pursued are pragmatic and supported by municipal councils and the communities they represent.

2 Key points of contention and recommendations

Following consideration of the National Carbon Offset Standard Discussion Paper, the MAV raises particular areas of interest from our membership of Victoria's 79 municipal councils.

- The MAV is disappointed and highly concerned by the Australian Government's announced national emissions reduction target of 5-15 per cent below 2000 levels by 2020. The MAV expresses strong concern about the lack of scientific basis to the establishment of this national target.
- The MAV seeks a commitment from the Australian Government to revisit the national emissions reductions target and in particular the upper limit of the national target.
- The MAV considers it imperative that the Australian Government remains open to making a commitment to a national emissions reduction target of 25 per cent (or higher) to be achieved by 2020 as the government approaches negotiations at the United Nations Climate Change Conference - Council of Parties 15 in Copenhagen, for agreement of an international framework for reducing emissions once the Kyoto agreement ends in 2012.
- The MAV cannot support the Australian Government's announcement that it will provide a fixed administrative allocation of permits to emissions-intensive coal-

fired generators, delivering assistance of around \$3.9 billion, and effectively safeguarding the profits of the fortunate recipients.

- The MAV encourages the revenue generated from the sale of this allocation of permits be used for direct structural adjustment assistance that is targeted at the future competitiveness of the coal-fire regions, such as Victoria's La Trobe Valley, likely to provide greater benefit to the overall economy than private compensatory payments to existing emitters.
- The MAV considers the introduction of a transitional cap on the price of permits to \$40 per tonne at the commencement of the scheme as a major compromise of the scheme's effectiveness.
- The MAV seeks the commitment of the Australian Government to clearly communicate to the Australian public what the different forms of voluntary emissions reduction will achieve once a CPRS is in place, and what each form of voluntary activity will no longer achieve. This is important to ensure that the Australian public are making well informed decisions about where they direct their voluntary effort and resources.
- The MAV considers that the GreenHouse Friendly™ program should be retained, even though the nature of products and services accredited by GreenHouse Friendly™ will differ substantially to what has gone before.
- The MAV supports the establishment of the National Carbon Offset Standard.
- The MAV calls on the Australian Government to give serious consideration to identifying a means by which voluntary emissions reduction activities can achieve an emissions reduction beyond the national target. The MAV appreciates that in this context voluntary activity must be able to meet strict criteria for additionality, measurability and transparency, amongst others.
- The MAV calls on the Australian Government to work with experts to determine how voluntary emissions reductions in scheme covered sectors can be recognised as additional to Australia's national target, and not counted toward Australia's international obligations under the Kyoto Protocol and any new international agreement that will emerge post-2012.
- The MAV calls on the Australian Government to make a firm commitment to not count retired permits, or other Kyoto Units, toward the attainment of national obligations under the Kyoto Protocol and any new international agreement that will emerge post-2012.
- The MAV calls of the Australian Government to work with their international counterparts to ensure the continued integrity of international Kyoto Units.
- The MAV seeks that the Australian Government pursues commitments to social and environmental sustainability for the locations and communities from which international Kyoto Units are derived.
- The MAV encourages that the concept of 'carbon neutrality' should apply to voluntary emissions reductions equal to the sum of an organisations annual carbon footprint, and that purchasing carbon permits to comply with mandatory scheme requirements (or other compliance requirements) is not sufficient to then claim carbon neutrality.
- The MAV calls on the Australian Government to define a minimum set of criteria against which a statement of carbon neutrality can be tested for integrity.

- The MAV supports oversight from the Australian Competition and Consumer Commission (ACCC) on all claims of 'carbon neutrality'; and that inappropriate use of the term is subject to penalty that corresponds to the severity of the breach.

3 The Carbon Pollution Reduction Scheme and national emissions reduction target

Addressing climate change is an enormous global challenge. Australians have long undertaken activity to reduce their greenhouse gas emissions. This has occurred largely in the absence of a national regulatory framework. However, the concentration of atmospheric greenhouse gases continues to rise, rather than reduce, and it has come to be widely recognised that voluntary action will not achieve the scale of emissions reduction required to give the global community an opportunity to avoid triggering 'dangerous climate change'¹.

Partially in response to community demand for concerted and significant action, the Australian Government has proposed the introduction of the national Carbon Pollution Reduction Scheme, anticipated to commence 1 July 2010.

The MAV recognises that the introduction of a national Carbon Pollution Reduction Scheme (CPRS) will restrict the quantity of greenhouse gas emissions from sources covered by the scheme (approximately 75 per cent of national emissions at scheme introduction). The MAV acknowledges that the CPRS acts as a 'cap' above which the aggregate quantity of emissions, from these sources, cannot rise.

Whilst supportive of the introduction of a national emissions trading scheme as Australia's central policy response to the challenge of climate change, and in-principle supportive of the broad parameters of the proposed Carbon Pollution Reduction Scheme, the MAV raises three core points of objection to aspects of the CPRS. The MAV addresses each of these in turn:

- An inadequate national emissions reduction target
- The free allocation of permits to industry
- A price cap

An inadequate national emissions reduction target

The MAV is disappointed and highly concerned by the Australian Government's announced national emissions reduction target of 5-15 per cent below 2000 levels by 2020. The MAV expresses strong concern about the lack of scientific basis to the establishment of this national target.

The Prime Minister has indicated that he accepts the findings of the Garnaut Climate Change Review that it is in Australia's best interest to progress toward emissions reduction to 450ppm CO₂-e by mid-century, yet the announced national target if

¹ The term 'dangerous climate change' is commonly associated with an average global warming of 2^oC over pre-industrial levels. The Garnaut Climate Change Review states that a stabilisation target of atmospheric carbon-dioxide equivalent (CO₂-e) concentration of 450 parts per million gives a 50 per cent chance of exceeding this warming level.

adopted internationally will fail to allow the global community to achieve the necessary atmospheric CO₂-e concentration near 450ppm.

The MAV seeks a commitment from the Australian Government to revisit the national emissions reductions target and in particular the upper limit of the national target.

The MAV considers it imperative that the Australian Government remains open to making a commitment to a national emissions reduction target of 25 per cent (or higher) to be achieved by 2020 as the government approaches negotiations at the United Nations Climate Change Conference - Council of Parties 15 in Copenhagen, for agreement of an international framework for reducing emissions once the Kyoto agreement ends in 2012.

The free allocation of permits to industry

The MAV expresses its concern about the substantial and poorly justified allocation of free permits to industry in circumstances where they are not trade exposed.

As Professor Ross Garnaut, the Australian Government's independent climate change advisor previously stated "it will be difficult or impossible to assess the effects of an emissions trading scheme on an individual firm's profitability as the counterfactual supply and demand conditions in those markets cannot be observed". Further, "there is no tradition in Australia for compensating capital for losses associated with economic reforms of general application or for taking away windfall gains from changes in government policy"².

The MAV cannot support the Australian Government's announcement that it will provide a fixed administrative allocation of permits to emissions-intensive coal-fired generators, delivering assistance of around \$3.9 billion, and effectively safeguarding the profits of the fortunate recipients.

As an alternative the MAV encourages the revenue generated from the sale of this allocation of permits be used for direct structural adjustment assistance that is targeted at the future competitiveness of the coal-fire regions, such as Victoria's La Trobe Valley, likely to provide greater benefit to the overall economy than private compensatory payments to existing emitters.

A price cap

The MAV considers the introduction of a transitional cap on the price of permits to \$40 per tonne at the commencement of the scheme as a major compromise of the scheme's effectiveness. As suggested by Professor Garnaut, a cap on the permit price resulting in the issuance of additional permits renders ineffective the credibility of the quantitative restriction (the emissions limit) upon which the entire emissions trading scheme is predicated.³

² Garnaut R (2008) *Final Report Garnaut Climate Change Review*, Commonwealth of Australia, Canberra p. 315

³ Garnaut R (2008) *Final Report Garnaut Climate Change Review*, Commonwealth of Australia, Canberra p. 314

4 Implications of the Carbon Pollution Reduction Scheme on voluntary emissions reduction by councils and community

In the absence of the Carbon Pollution Reduction Scheme, many organisations and individuals, including municipal councils, have undertaken voluntary action to reduce or offset emissions arising from their operations. This action has largely been in the form of purchase of carbon offsets, energy efficiency activities and the purchase of GreenPower™.

After the CPRS is introduced on 1 July 2010, voluntary action will continue to have a role to play in this new policy environment. However, the outcomes of voluntary action will change in certain cases and it is likely that new offset products will be developed while others disappear.

The MAV acknowledges that with the introduction of the CPRS, voluntary action will continue to reduce emissions at the entity level. Individual action will also contribute to nation-wide efforts to achieve Australia's 5-15 per cent emissions reduction target. However, many forms of voluntary action will no longer achieve emissions reductions beyond this target.

Since the release of the National Voluntary Offset Standard Discussion Paper much debate has ensued about the value of voluntary emissions reduction after the CPRS commences. Questions have been raised as to why one would continue to spend effort and money when many past (and popular) forms of action will no longer provide an environmental benefit beyond what the Australian Government has committed to achieve anyway with its 5-15 per cent target. Comments have been made that voluntary activity by households and communities also reduces the 'cost to polluters'.

The MAV contends that there is value in continued voluntary emissions reduction activity. However, the reason why an individual or council chooses to undertake a specific form of voluntary action needs to be carefully considered in the context of the CPRS and the specific achievements of each form of action understood.

The MAV seeks the commitment of the Australian Government to clearly communicate to the Australian public what the different forms of voluntary emissions reduction will achieve once a CPRS is in place, and what each form of voluntary activity will no longer achieve. This is important to ensure that the Australian public are making well informed decisions about where they direct their voluntary effort and resources.

In the way that the voluntary offsets market emerged over the past decade in response to community and corporate demand, so too can it be expected that a market will emerge for new emissions reduction products and services that offer a means of achieving an environmental gain beyond that which the CPRS will achieve.

It will be critical that the Australian Government and its regulators continue to provide oversight of these new or redefined products and services to give consumers confidence in the integrity of the emissions reduction that they purchase. In this regard, the GreenHouse Friendly™ program should be retained, even though the nature of products and services accredited by GreenHouse Friendly™ will differ substantially to what has gone before. The MAV also supports the establishment of the National Carbon Offset Standard.

The MAV further calls on the Australian Government to give serious consideration to identifying a means by which voluntary emissions reduction activities can achieve an emissions reduction beyond the national target. The MAV appreciates that in this context voluntary activity must be able to meet strict criteria for additionality, measurability and transparency, amongst others.

The core criterion to consider in the context of the CPRS is that of additionality. The MAV recognises that for voluntary emissions reduction to be considered as additional to the national target, the abatement achieved must be beyond what would be undertaken as part of business-as-usual investment, beyond what is required by regulation, or that it has not been done in response to exposure to the carbon price.

Whilst it will be challenging to identify products and services in scheme covered sectors that offer abatement that satisfies the criteria for additionality, the Australian Government should be cautious to dismiss all forms of voluntary emissions reduction in these sectors. For instance, it is suggested by a number of organisations that the purchase of GreenPower™ can demonstrate additionality.

For an Australian community raised to feel a moral obligation to 'do their bit' for the environment, the CPRS may feel disempowering. As such, new opportunities for individual action must be developed and understood. In this regard, the MAV calls on the Australian Government to work with experts to determine how voluntary emissions reductions in scheme covered sectors can be recognised as additional to Australia's national target, and not counted toward Australia's international obligations under the Kyoto Protocol and any new international agreement that will emerge post-2012.

Creating a means for voluntary measures to be recognised as additional to the national target will enable individuals, businesses and municipal councils to continue to actively and meaningfully contribute to the global response to climate change.

5 The purchase and retirement of carbon permits and other Kyoto units

Within the confines of the CPRS the opportunity does exist to take voluntary action that goes beyond the 5-15 per cent national emissions reduction target. The primary mechanism suggested in the National Carbon Offset Standard Discussion Paper is to purchase and 'retire' carbon permits.

The MAV calls on the Australian Government to make a firm commitment to not count retired permits, or other Kyoto Units, toward the attainment of national obligations under the Kyoto Protocol and any new international agreement that will emerge post-2012. For an individual, business or council to voluntarily purchase and retire permits they must have absolute confidence that this effort will achieve additional abatement above the 5-15 per cent national emissions reduction to be achieved by 2020.

The National Carbon Offset Standard Discussion Paper also suggests that beyond the purchase and retirement of domestic carbon permits, individuals may choose to purchase and surrender a range of international Kyoto units. These units, called

Certified Emissions Reductions Units, are generated through initiatives such as the Clean Development Mechanism or Joint Implementation projects.

The MAV calls of the Australian Government to work with their international counterparts to ensure the continued integrity of international Kyoto Units. Further, the MAV seeks that the Australian Government pursues commitments to social and environmental sustainability for the locations and communities from which international Kyoto Units are derived.

6 Carbon neutrality

In recent years a large number of businesses and municipal councils have resolved to become 'carbon neutral' by a date into the future. Nationally, the definition of carbon neutral is loose. The MAV considers that the term 'carbon neutral' means an organisation has not contributed to the stock of greenhouse gases in the atmosphere.

In the context of the CPRS, the MAV encourages that the concept of 'carbon neutrality' should apply to voluntary emissions reductions equal to the sum of an organisations annual carbon footprint, and that purchasing carbon permits to comply with mandatory scheme requirements (or other compliance requirements) is not sufficient to then claim carbon neutrality.

The MAV calls on the Australian Government to define a minimum set of criteria against which a statement of carbon neutrality can be tested for integrity. It is suggested that this require consideration of all Scope 1 and 2 emissions, and voluntary inclusion of Scope 3 emissions. However, the MAV recommends further exploration of this matter with an expert panel to determine an appropriate definition.

For a business or municipal council to fully offset their emissions there will be a significant increase in the cost of claiming their operations, a product or service are carbon neutral. Once the CPRS is introduced liable entities will need to meet the cost of purchasing offsets equivalent to the calculated footprint in addition to the cost of scheme compliance. Where a business or municipal council does not have scheme obligations, and seeks to become carbon neutral they will incur the cost of voluntary offsets plus pay for the passed through carbon price as a consumer.

Having to meet the financial cost of the CPRS and the cost of offsets is likely to reduce the appetite for undertaking voluntary action and for resolutions of carbon neutrality.

The MAV supports oversight from the Australian Competition and Consumer Commission on all claims of 'carbon neutrality'; and that inappropriate use of the term is subject to penalty that corresponds to the severity of the breach.

7 Conclusion

The MAV is supportive of the need to develop a National Carbon Offset Standard to ensure that credible carbon offset products and services are available to Australian consumers, including local government. The MAV acknowledges that the range of offset products and services will change markedly with the introduction of the Carbon Pollution Reduction Scheme.

The MAV has raised here in particular areas of interest from our membership following consideration of the Discussion Paper. The Association seeks further opportunities for the involvement of local government nationally in the finalisation of the standard. This will help to ensure that decisions made and principles pursued are pragmatic and supported by municipal councils and the communities they represent.

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