

# SUBMISSION TO CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

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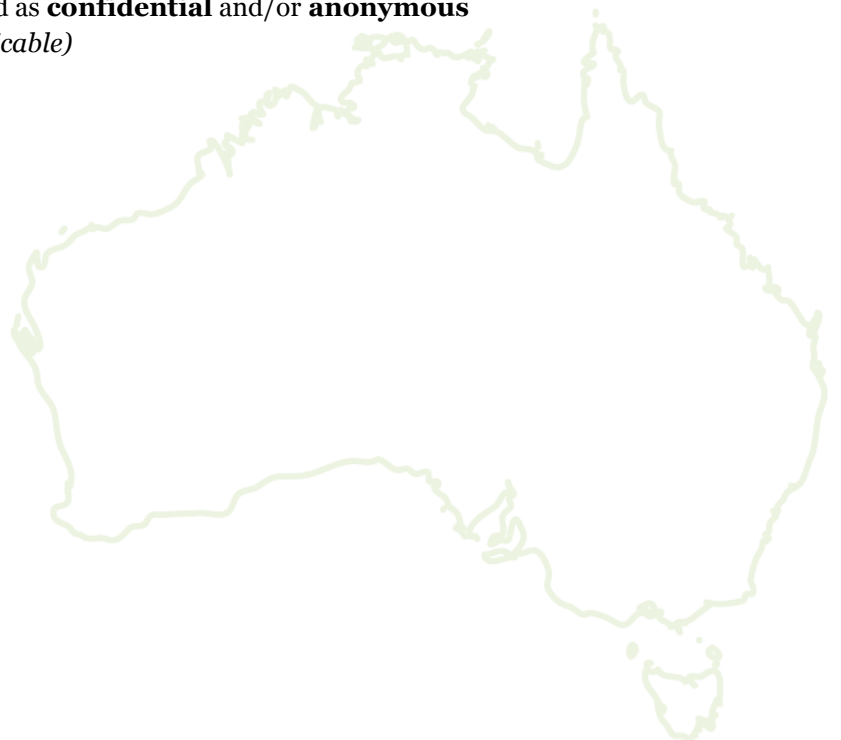
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# Submission to the Carbon Pollution Reduction Scheme Green Paper

Moreland Energy Foundation Limited



The Moreland Energy Foundation was formed in 2000 and is a not-for-profit public company limited by guarantee. MEFL is an organisation committed to facilitating community action on greenhouse gas emissions. We work with the Moreland community to help people, business, schools and community groups make informed, energy-smart lifestyle choices. We offer this submission based on our experience working on sustainable energy solutions with stakeholders from across the community.

### Targets

There is international scientific consensus on the need to keep global warming below 2°C to avoid dangerous climate change, with increasing evidence to suggest that even 2°C of warming may have disastrous effects. Short term targets based on the science are essential to drive the scale of action required, and within an acceptable timeframe. A growing body of research demonstrates that short term action is cost effective and urgently required to avoid the much higher costs of inaction, and that Australia needs to transition to a low-carbon economy.

The IPCC has identified that to keep warming between 2°C and 2.4°C developed countries' emissions must peak by 2010 and then fall 25-40% below 1990 levels by 2020. This was recognised by the Australian Government at the United Nations' Climate Change Conference in Bali in December 2007 and sets the context for a domestic short-term target. The recent disappointing recommendations with regard to the Garnaut Review's "targets and trajectories" work contradicts this commitment and we urge the Government to maintain its commitment to targets that reflect the science and the urgency of greenhouse gas emission impacts.

### Complementary measures

The proposed emissions trading scheme is unlikely to lead to significant emissions reductions in the short term, particularly if free permits and sectoral exemptions are included in the early years of the scheme. Given that emissions from developed countries need to have peaked and begun to decline by 2010, and given that any real impacts of a proposed trading scheme will be delayed until the medium-long term, it is clear that complementary measures will be required in all sectors in the short term at least. Complementary measures should include:

- A strong mandatory renewable energy target
- A nationally consistent gross feed-in tariff for renewable energy
- Energy efficiency measures, including: targeted programs to improve existing building stock; robust, nationally consistent standards for new buildings; expansion of the MEPS program; targeted programs for low income households
- Information provision and educational programs (including carbon and energy labelling, targeted programs for culturally and linguistically diverse communities, information for renters)
- Deployment at commercial scale of low emission technologies (such as cogeneration) and shift towards decentralised energy networks
- Direct regulation (such as *mandatory energy performance disclosure for buildings at point of sale and lease*)
- Research and development into renewable energy, structural adjustment and adaptation planning
- Capacity building and professional development programs to support the development of a "green collar" economy
- Capacity building and professional development programs to encourage sustainable practice among existing tradespersons and professionals, including builders, architects, real estate agents and plumbers.

*Voluntary emissions reductions*



MEFL is concerned that the introduction of an emissions trading scheme that does not allow for the number of permits available in a given year to be reduced in recognition of voluntary emissions reduction activity may create perverse incentives against voluntary action outside the scheme. The draft Garnaut Review identified this issue, stating that an ETS would be likely to “cannibalise” voluntary reduction measures such as purchasing Green Power or offsets<sup>1</sup>. The issue is also identified within the CPRS Green Paper, which states that complementary measures can be justified “only if they lead to a lower cost for the given level of abatement or are of a transitional nature such that they change the capacity of the economy to respond, thereby allowing the Government to set a more demanding cap in the future” (p. 31).

MEFL does not believe that this is an appropriate approach. Given the scale of the task ahead, and the significant contribution of households and individuals to Australian emissions, it does not make sense to discourage the community from participating in emissions reduction activity. In addition, MEFL’s community program delivery and outreach work has found that the community desperately wants to act on climate change in ways that will make meaningful contributions to domestic emissions reductions.

Further, if the introduction of the CPRS means that voluntary action by groups or individuals outside of the scheme does not actually reduce emissions beyond the fixed cap, but rather has the effect of subsidising major polluters to meet their obligations under the scheme, this will raise serious questions about the validity of claims that Government makes about the impact and implications of policies aimed at voluntary action, such as Green Loans or Solar Cities.

MEFL recommends that the fixed cap should be annually reduced by the certified voluntary abatement undertaken in that financial year. This will ensure that the major emitters still pay an appropriate price for their emissions whilst voluntary measures drive down Australia’s total emissions further and faster than would otherwise be the case.

#### *Barriers to adopting low-carbon lifestyles and practices*

MEFL’s experience has found that there are numerous barriers to adopting low-carbon lifestyles. Many of these barriers are complex in nature and cannot be addressed via price signals and market mechanisms alone. This highlights the need to ensure that the CPRS is one of many measures to combat Australia’s rising greenhouse emissions.

The barriers MEFL’s work has identified include:

#### **Landlord/tenant split incentives**

Many energy efficiency improvements require significant financial outlay; tenants, particularly those on short-term leases, have little incentive to undertake costly improvements to assets they don’t own, especially if they are unlikely to see a sufficient financial return during their tenancy. Landlords, meanwhile, may own the asset/investment but won’t see significant economic return through running cost savings as they generally don’t pay energy bills for let properties. In the absence of regulation and incentives, tenants generally have little ability to encourage landlords or property managers to undertake energy efficiency retrofits, particularly within a high-demand, low-availability rental market.

Some studies have indicated that tax incentives may be an effective way to encourage landlords to improve the efficiency of rental properties, however very few exist under the current taxation system<sup>2</sup>.

Whilst the Real Estate Institute of Victoria<sup>3</sup> has identified a strong demand for energy and water saving features among home buyers, the lack of requirements for energy and water performance disclosure at point of sale and lease in most states makes it difficult for home buyers and renters to determine how “green” a prospective home is likely to be.

#### **Developer/buyer split incentives**

Property developers generally aim to generate the highest returns possible for the lowest capital expenditure. This means that developers tend to comply with the minimum standards required under regulations and have little incentive to innovate. Owner-occupiers have a direct financial interest in buying efficient buildings; however, consumer demand for efficient buildings has traditionally been too low to impact on the majority of development activity. While this is beginning to change, a range of barriers stand in the way of consumer demand translating into sustainable outcomes. These include a lack of understanding about what constitutes an efficient building on the consumers’ behalf; and a lack of expertise about sustainable building design and construction on the industry’s behalf, which often leads to a misconception that sustainable buildings are inherently more expensive to build.

<sup>1</sup> Garnaut Climate Change Review – Draft Report (2008), p. 354.

<sup>2</sup> Australian Conservation Foundation, ACOSS & CHOICE (2008) *Energy & Equity: Preparing households for climate change*.

<sup>3</sup> Real Estate Institute of Victoria (2007) ‘Home Buyers Get the Green Bug’, accessed online <http://www.reiv.com.au/news/details.asp?NewsID=543>

### Intermediaries

The majority of consumers rely largely on advice from 'intermediaries' (tradespeople and professionals) when making decisions about energy efficiency. For example, the advice that an architect or draftsman gives in the design of a renovation will be critical to the efficiency of the finished product. Many design professionals have limited understanding of, or expertise in, energy efficient design, and it can be difficult for a client to determine whether they are getting sound advice. In this manner we have seen a trend towards bigger homes with spaces that are harder to heat and cool, inefficient lighting, heating and cooling systems and resultant increases in residential energy demand.

Further, while some industries have developed 'green' accreditation schemes (such as Green Plumbers, Eco Smart Electricians and various green builder programs run by industry associations) other critical industries are yet to do so, making it difficult for a consumer to know how to access good advice.

### Cultural barriers

Information about reducing greenhouse emissions in a domestic context may not reach culturally and linguistically diverse (CALD) communities due to language and other barriers. Information that is accessible to these communities can be inappropriate if it fails to understand and address specific cultural factors (such as the expectation in some cultures that a household will have multiple fridges in order to feed large groups of visitors, for example).

### Technological limitations

Technological barriers include:

- Poor availability of energy efficient products in Australia (for example, clothes dryers bought and sold here rate no higher than 3.5 stars under the energy labelling scheme)
- The long life of some products (such as hot water systems), which can continue to function well beyond their recommended lifespan. This can be an issue due to the decline in efficiency over time, and the lack of incentive to purchase more efficient replacements while the original product still functions, particularly when the consumer lacks understanding of how efficiently the product runs.
- Some products are inherently inefficient compared to alternatives, irrespective of their relative efficiency compared with other products of the same type. Space central heating systems, for example, heat air within rooms even though the most significant impact on human comfort comes from the temperature of building surfaces rather than the temperature of air.

### Trends

Consumer trends are often based on aesthetics or other factors unrelated to environmental performance. The prevalence of halogen downlights, which consume significantly more energy than fluorescent and LED lighting, is a good example, as is the tendency toward open plan living. Running cost and even capital cost does not appear to be a significant factor in these choices, meaning they are unlikely to be significantly affected by price signals.

### Poor standard of existing building stock

Existing buildings in Australia perform poorly compared with international developed country averages. Building energy use is responsible for a significant and growing proportion of Australia's greenhouse gas emissions, and studies such as the McKinsey Report<sup>4</sup> have

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<sup>4</sup> McKinsey and Company (2008) *An Australian Cost Curve for Greenhouse Gas Reduction*

identified building efficiency improvements as one of the key opportunities for low cost, short term emissions reductions. While market based mechanisms, such as the energy efficiency trading schemes under development in Victoria, NSW and South Australia, may encourage a level of opportunistic retrofitting, the CPRS is unlikely to have a significant impact on building efficiency in the short term.

There is a range of other barriers that must also be addressed so that a comprehensive range of strategies can be effectively implemented in our community response to climate change. These include:

- Low prioritisation given to running costs compared with capital outlay
- Lack of education and information about options
- Socio-economic barriers
- Mobility and technical competency

MEFL commends the Commonwealth Government's current and impending policy programs to tackle these barriers, including Green Loans, Stage 1 & 2 commitments under the National Framework for Energy Efficiency, insulation and solar hot water rebates and the phase-out of inefficient lighting, and calls for the continued funding of these programs along with the introduction of the additional complementary measures identified at the beginning of this section.

### *Revenue allocation*

Recognising the impacts the CPRS will have on households and communities, Australia's ethical imperative to assist climate refugees and developing nations, and the need to ensure that the CPRS can stimulate the transition to a low-carbon economy, revenue raised by the scheme should be used for:

- > Renewable energy research, commercialisation and deployment
- > Assistance for low income households
- > Contributing to international adaptation financing for the least developed countries
- > Assistance for climate refugees and our Pacific neighbours
- > Phase-out and industry structural adjustment for emissions-intensive products like beef, aluminium and cement
- > Land stewardship payments to reduce land-based emissions
- > Addressing energy efficiency market failures
- > Providing adjustment measures to assist the most adversely affected communities & workers
- > Increasing and improving public transport services and networks
- > Incentives for reforestation of native species via a biodiversity fund.

### **Low income households**

MEFL recognises that low income households will be disproportionately impacted by cost increases related to the CPRS, and that there is a pressing need to minimise the economic impact on these households. According to a recent report by the ACF, ACOSS and CHOICE (2008)<sup>5</sup>:

*Many low income households already struggle to keep up with energy and water bills. They are also more likely to live in poorly-insulated and inefficient rental accommodation, and spend a higher proportion of their income on energy, water and fuel than other Australians. They are least able to respond to increases in prices and to invest in more efficient homes. Given that energy and water are essential services, when the prices of these services increase, householders are currently left with little option but to pay the extra.*

As well as being disproportionately impacted upon in terms of living costs and fuel poverty, low income households are likely to suffer greater adversity from the direct impacts of climate change due to factors including current disadvantage, regional location, inadequate climate proofing of housing (particularly those in poorly

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<sup>5</sup> Ibid

maintained public housing, low income rental properties, and Indigenous people in rural communities), and low adaptive capacity<sup>6</sup>.

MEFL believes that direct financial assistance should not be the sole method of assisting low income households to adapt to the CPRS, and that revenue should be used to build the capacity of social and environmental service providers to deliver targeted energy efficiency and climate proofing programs. Models such as MEFL and the Brotherhood of St Laurence's Phoenix Fridge project and the Victorian Government's Energy & Water Taskforce provide a template for achieving social and environmental outcomes.

### *Scheme coverage and auctioning of permits*

As detailed within the Garnaut Climate Change Review's Draft Report<sup>7</sup> an emissions trading scheme needs to include as many sectors as possible: to share responsibility for climate change action, to increase the opportunities for emissions reductions, and to reduce the overall cost of the scheme. MEFL believes that only agriculture, land use and forestry can justifiably be excluded (until abatement measurement can be conducted adequately for these sectors). In the meantime, complementary measures are urgently required to ensure that emissions are reduced from these sectors.

The structure of some transition mechanisms, including fuel tax cuts, will create perverse incentives that work against the objectives of the CPRS. For example, through fuel tax cuts for the first years of operation of the CPRS private motorists will be shielded from the carbon cost of petrol, while electrified public transport will be impacted by increased electricity prices. Tax reforms undertaken as part of the CPRS must focus on removing perverse incentives and subsidies for heavy polluting industries and activities. As a priority, the incentives for increased car use provided by the Fringe Benefits Tax should be removed and redirected to programs aimed at reducing car use.

#### **Permits**

MEFL calls for 100% of permits to be auctioned from the beginning of the scheme, with no permits given away free. MEFL believes this is the most economically efficient, transparent and fair approach. Giving away free permits undermines the objective of the scheme and has the potential to delay action from major greenhouse polluting industries, a serious concern given the urgency of the emissions reduction task.

Revenue from auctioning permits should be used to assist communities, particularly vulnerable and disadvantaged sectors, and support structural readjustment for communities that are currently dependant on carbon intensive industries, including coal-fired electricity generation. The Renewable Energy Generators Association (REGA) found that renewable energy generation creates jobs in rural and regional areas<sup>8</sup>, and revenue from the CPRS provides a good opportunity to facilitate this transition from heavy-polluting to clean energy industries and capitalise on the economic, social and environmental benefits that such a transition will make possible.

### *Business Opportunities*

Considerations of mechanisms to address climate change, such as the CPRS, must embrace the substantial economic stimulus available to regions and nations that approach sustainable energy solutions in an innovative and comprehensive way. The CSIRO, ACF and the Dusseldorp Skills Forum have modelled some very positive potential outcomes, with regard to growing the "Green Collar Economy" showing how we can take strong action to tackle climate change and create millions of new job opportunities.

Using two different economic models, CSIRO found:

- If Australia takes significant action to cut greenhouse gas emissions national employment will still increase by between 2.6 and 3.3 million over the next two decades.
- Jobs in sectors that generate a lot of greenhouse pollution – like transport, construction, agriculture, manufacturing and mining – are still forecast to grow strongly in the next decade.
- In these high environmental impact industries 3.25 million workers will need to be equipped with new, more sustainable skills<sup>9</sup>.

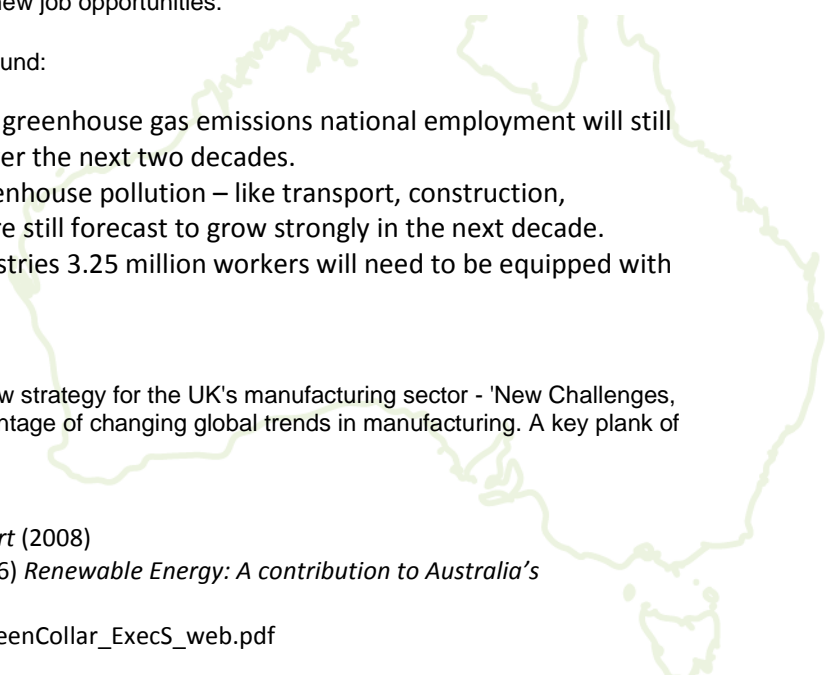
The UK Government has recently unveiled a new strategy for the UK's manufacturing sector - 'New Challenges, New Opportunities' - to help UK firms take advantage of changing global trends in manufacturing. A key plank of

<sup>6</sup> ACF, ACOSS & CHOICE (Ibid)

<sup>7</sup> Garnaut Climate Change Review – Draft Report (2008)

<sup>8</sup> McLennan Magasanik Associates Pty Ltd (2006) *Renewable Energy: A contribution to Australia's environmental and economic sustainability*

<sup>9</sup> [http://www.acfonline.org.au/uploads/res/GreenCollar\\_ExecS\\_web.pdf](http://www.acfonline.org.au/uploads/res/GreenCollar_ExecS_web.pdf)



that strategy includes “seizing the opportunities of the low carbon economy, supporting skills, realising overseas opportunities, and improving the perceptions and understanding of manufacturing”<sup>10</sup>.

In conclusion, MEFL commends the Government’s consideration of the Carbon Pollution Reduction Scheme and urges that the scheme be developed to: respect and reflect the science of climate change; recognise the value and importance of (so called) complementary measures; maintain work and focus on reducing the barriers to sustainable energy outcomes; and, harness the financial and economic value of sustainable energy.



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<sup>10</sup> <http://www.berr.gov.uk/bbf/enterprise-smes/enterprise-framework/index.html>