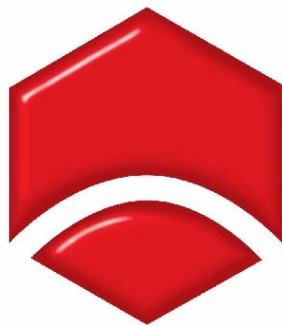


**COMMENTS ON ABATEMENT  
INCENTIVES PRIOR TO THE  
COMMENCEMENT OF THE AUSTRALIAN  
EMISSIONS TRADING SCHEME**

**Submission to the Climate Change Group  
Department of Prime Minister & Cabinet**



**ENGINEERS  
AUSTRALIA**

**November 2007**

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## **1: INTRODUCTION**

Engineers Australia is the peak body for engineering practitioners in Australia, representing all disciplines and branches of engineering. Membership is now approximately 83,000 Australia wide and Engineers Australia is the largest and most diverse professional engineering association in Australia. All Engineers Australia members are bound by a common commitment to promote engineering and to facilitate its practice for the common good. Engineers Australia is pleased to offer its views on the Discussion Paper issued on Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme.

Engineers Australia is very supportive of the steps being taken to establish emissions trading in Australia. The experience accumulated from Australia's greenhouse measurement program and emissions reduction policies provides a sound basis from which to develop the trading scheme. There are many practical issues to resolve and Engineers Australia looks forward to future interactions with the development process. Of particular concern to Engineers Australia is that energy efficiency is fully incorporated into Australia's emission reduction policies.

Some energy efficiency options will become economic as a result of the change in relative prices resulting from emissions trading, but many will not because various non-market barriers impede progress. Yet if the full potential of energy efficiency is realized the emissions reduction required from emissions trading is less. This outcome is desirable for both equity and overall market efficiency reasons. It should not be presumed that the market mechanism will always produce the most desirable outcome. An example is the perverse reality that the achievement of economic efficiency in the National Electricity Market, by reducing electricity prices, has increased the demand for electricity and is thus responsible for a portion of the resulting increase in emissions. The remedy is the introduction of an emissions constraint. The general failure of the market to bring forward more energy efficiency options is the result of a similar failure to value energy efficiency.

With the change in Government Engineers Australia draws attention to the inordinately long time frame previously proposed for the introduction of emissions trading in Australia. Engineers Australia favours an earlier introduction. With this in mind Engineers Australia is willing to facilitate the involvement of its members in the process as proposed to the Australian Greenhouse Office in respect of external audits for greenhouse and energy reporting compliance.

The comments below follow the sequential order of the discussion paper.

## **2: KEY CONCEPTS AND DEFINITIONS**

Engineers Australia generally accepts the key concepts and definitions offered in Box 1.1 of the discussion paper. However, Engineers Australia notes the difficulties associated with the new terminology required under new arrangements and suggests that additional work will be necessary to ensure that the concepts and definitions are widely and correctly understood. This should incorporate the examples used to illustrate what is meant. For example, on the bottom of page 3 the discussion paper argues that energy efficiency and fuel efficiency measures cannot be used to generate "offset credits".

In the light of the distinction made between "early action credits" and "offset credits" on p 9, this argument is sound enough. However, it would be more helpful were the example to point out that energy efficiency and fuel efficiency measures could be "early action credits" and avoid misleading propositions such as "liability for these emissions will rest with the power generator and the fuel distributor respectively"<sup>1</sup>. It is certainly the case that these organisations will have a role to play in improving energy efficiency and fuel efficiency, but so will consumers, appliance manufacturers, builders, and car manufactures. Indeed a strong case can be made that power generators will lose revenue through energy efficiency and may not promote it adequately. Relying simply on consumers and others to respond to the impact of emissions trading on energy demand misses the point about non-market barriers and technical barriers to improved energy efficiency.

Engineers Australia strongly supports using energy efficiency to limit the cost of achieving greenhouse gas reduction. Undoubtedly some energy efficiency opportunities will respond to changing price relativities induced through emissions trading, but many will not because the barriers impeding their take up require the application of other instruments. It may be argued that this will occur in due course. However, shaping the boundaries of the emissions permit market is just as important as ensuring precision about market concepts and definitions. Engineers Australia believes that more attention to these issues is essential in the early stages of designing the emissions trading scheme, including in this discussion about how early abatement incentives are to be recognised.

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<sup>1</sup> Department of Prime Minister and Cabinet, Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme, September 2007, p3

### **3: ENSURING ALLOCATION RULES MAINTAIN ABATEMENT INCENTIVES**

Engineers Australia recognises and accepts the need to offset negative impacts from emissions trading on the competitiveness of trade exposed, emission intensive firms. Providing an up front, once and for all free allocation of permits as compensation is a suitable approach. However, there is considerable scope for controversy in practise. Engineers Australia looks forward to a discussion paper which addresses this issue and which proposes concrete methodologies to assess openly and transparently the concepts involved, for instance, "disproportionate (that is, significantly larger than average) loss of asset value" and when is an industry in the modern economy not trade exposed.

Engineers Australia supports the use of verified emissions data from the National Greenhouse and Energy Reporting System as the basis for early abatement credits and permit allocation. Providing the arrangements and standards set out in Section 3 of the discussion paper are adhered to, Engineers Australia sees no difficulty with using data from any of the existing Commonwealth greenhouse programs. The onus of providing acceptable evidence should always lie with firms expecting to benefit from recognition of "early abatement credits" and "offset credits" and this should be clearly stated. The framework of the NGERS should be the only basis for recognizing credits. Simply encouraging firms to report through NGERS is inviting the possibility of alternative arrangements and all the potential disputes this might give rise to. It needs to be plainly stated that the NGERS is the only basis on which claims will be considered.

Engineers Australia is very supportive of setting a cut-off date of 3 June 2007 for asset compensation. Clearly there is a need for a definition of an asset in existence at that date. Engineers Australia has reviewed the definition used by the National Electricity Market (NEM) for this purpose and believes that greater specificity is necessary.

The NEM criteria, applied sequentially, describe progressively tighter commitment to a new project and would be of considerable assistance to inform judgments as to when new capacity might come on line when analyzing forecasts of future electricity demand and supply. This is a rather different situation to establishing that an asset is "in existence". A number of the NEM criteria relate to very early stages of a project, for instance land acquisition and planning approvals. While funds would have been expended to achieve these steps in the process, many projects fail to proceed

further due to a variety of considerations which will have nothing to do with the introduction of emissions trading. Accordingly, it would not be appropriate to put much weight on these criteria.

The critical issue for determining whether an asset was in existence on 3 June 2007 is whether the project has proceeded beyond the point of no return, that is, where the costs of its cancellation exceed the costs of project completion. There are elements of this in the NEM criteria but they do not convey this meaning. Certainly, signed off contracts for financing, for machinery and equipment and for construction should be part of a determination. The NEM criteria, as they stand, simply provide a framework for an informed judgment/decision and leaves significant room for disagreement. Engineers Australia believes that a more substantial basis than the NEM criteria will be necessary to facilitate transparent and defensible decisions about whether assets were in existence.

#### **4: POSITIVE INCENTIVES TO UNDERTAKE ADDITIONAL ABATEMENT**

Engineers Australia strongly supports the standards proposed for abatement credits. The criteria of additionality, permanence, measurability and verification are essential and should not be compromised. Engineers Australia accepts that as wide a range of abatement activity as possible should be considered. Verification should include when projects were established. Engineers Australia accepts the need for new terminology but reiterates the point made earlier that clarity in definitions and examples used to illustrate concepts is necessary.

Engineers Australia supports initial arrangements based on processes for the Greenhouse Friendly Program. However, while accepting that allowing proponents to adapt or use their own methodologies can serve a useful purpose, the onus for demonstrating that these methodologies conform to necessary standards should lie with the proponents and not with those responsible for the administration of early abatement.

The need to review the forest offset protocol assumes some urgency given the limited window available for early abatement credits. At this stage there is a decided lack of specificity about other early abatement protocol, perhaps due to the current stage of the political cycle. For these protocols to assume any relevance urgent action will be needed once the election has been concluded.

A National Register for abatement offsets and credits which is transparent and openly accessible is indispensable. As far as

possible, international considerations should be built into the arrangements from the outset.

Engineers Australia supports the proposal that the scheme regulator exchanges early action credits for emission permits dated for use in the first year of the scheme, that there be no limits on the number of such credits that can be recognised and that early abatement is taken into account when setting the emission target.

From time to time press references to the poor standards of some voluntary offset schemes have appeared. Engineers Australia sees this as evidence that administrators will need to be particularly vigilant in applying the proposed standards to offset schemes. Providing this is done Engineers Australia would see the voluntary offset market as a transition to full emissions trading.