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## **Submission**

# **Response to the Discussion Paper: *Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme***

**Submitted By  
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## **ICLEI – Local Governments for Sustainability**

ICLEI was officially founded in 1990 as the International Council for Local Environmental Initiatives, with the idea that the cumulative effect of cities working in partnership could have a measurable effect on a global scale. More than 200 local governments from 43 countries convened at our inaugural conference, the World Congress of Local Governments for a Sustainable Future, at the United Nations in New York. ICLEI was recognised as the international environmental agency for local governments.

In 2003, ICLEI's members voted to revise the organisation's mission, charter and name to better reflect the current challenges local governments are facing. The International Council for Local Environmental Initiatives became ICLEI - Local Governments for Sustainability with a broader mandate to address sustainability issues.

Globally, ICLEI is a partner with the Clinton Foundation in the Clinton climate Initiative, which is focused on aligning investors with forty large cities across the world to dramatically increase energy efficiency (Melbourne and Sydney are both in the current group of cities benefiting from this initiative). ICLEI works with the Robert Redford-backed Sundance Summit to influence US city mayors and state governors to adopt aggressive reduction targets. Other major partners include the International Energy Agency, the International Union for the Conservation of Nature and the United Nations Environment Program.

Of specific note is the work ICLEI Oceania has achieved in building the capacity of the local government sector to reduce their greenhouse gas emissions through the Cities for Climate Protection® (CCP®) program. The program has over 800 cities that are doing practical climate action on the ground in Asia, Africa, Australasia and the Americas. In Australia 231 councils, covering 84 % of the population, are actively undertaking inventories of their greenhouse gas emissions; setting emission reduction goals; and implementing actions as part of their Local Greenhouse Action Plans to reduce greenhouse gas emissions in their own corporate facilities as well as partnering with sectors of their municipality.

ICLEI Oceania has demonstrated what can be achieved through a pragmatic, quantified and non-partisan approach to greenhouse action. Australian CCP councils have achieved greenhouse gas abatement totalling nearly 13.3 million tonnes since 1997.<sup>1</sup>

ICLEI is currently working with the Clinton Foundation, Microsoft and Infosys to develop the next generation of software for councils to measure and report on their greenhouse gas emissions. Aligned to this is a new global open source standard – or ICLEI Protocol – which defines the underpinning principles of calculating greenhouse gas emissions locally. This is being developed collaboratively over the coming months and is due for release mid 2008.

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<sup>1</sup> Go to our website for copies of reports <http://www.iclei.org/index.php?id=1508>

## **Key Points In Response to the Discussion Paper**

The discussion paper notes that commercially viable energy efficiency measures fall under the category of ‘business as usual abatement’. While this use of an ‘investment test’ to determine additionality is widely accepted, using it in isolation results in emission reduction action being defined as uneconomic. It assumes that an efficient market economy will result in all financially viable actions being taken by business in order to maximise profits, whereas practical observation shows that this is not the case.

There are many instances of commercially viable activities that are not undertaken by the majority of businesses - waste reduction and energy reduction are two areas in which simple, zero cost actions reduce business costs, yet a visit to any business premises will reveal multiple opportunities.

There are many tests that can be applied to determine whether an action to reduce emissions goes beyond the normal course of business (e.g. GHG Protocol for Project Accounting). While using a strict economic test satisfies the belief that a free market operates efficiently, there are many other factors involved in a business decision to not implement commercially viable actions. These include lack of capital, poor knowledge of the opportunities, lack of skills or time, or simply a focus on core business activities.

A preferable approach to assess the additionality of an abatement action is that it exceeds regulatory requirements and goes beyond common practice in the relevant industry. This does not require an assumption that all markets operate efficiently.

### **Sectoral coverage**

A key opportunity arises for local government engagement in an emissions trading scheme if the waste sector is not covered. Local government is traditionally responsible for waste management in their communities. Although they are required under legislation to perform waste management services, there are many options available to reduce subsequent emissions that arise from disposal.

Local governments that are responsible for the downstream management of waste could potentially implement abatement measures that are eligible to raise offsets for sale into the scheme. ICLEI looks forward to further consultation on sectoral coverage in early 2008.

### **Offset credits**

New projects, eligible to generate offsets, are defined as those implemented after 3 June 2007. Under the proposed approach, recognition for early action would be granted only to actions implemented between 2007 and the commencement of obligation under an emissions trading scheme in approximately 2011.

This approach disregards abatement that has resulted from actions implemented by business and local government since 1997 under Greenhouse Challenge and Cities for Climate Protection programs, respectively.

While there are sound reasons for defining *early action* as that which occurs after the scheme was announced, consideration should be given to recognising business and local government experience from 1997 to 2007. This could be done through using that experience to establish an abatement price. Both business and local government now have sufficient experience to know their abatement cost, such that the auctioning of all permits would be feasible. A free allocation of permits seems unnecessary given the wealth of experience that has been generated through programs supported by the Australian Greenhouse Office.

### **Emissions reporting**

The discussion paper seeks advice on relevant data sources outside of NERS that could be used to report energy use and abatement activity. Options that should be considered are the National Pollutant Inventory, the Energy Efficiency Opportunities program and various state government EPA programs. If waste is a covered sector, consideration should also be given to the Cities for Climate Protection® software, which holds extensive local government information on that sector.

### **Administrative arrangements**

The use of existing Greenhouse Friendly standards to accredit early action has the potential to introduce double counting. Greenhouse Friendly is based on lifecycle emissions whereas the emissions trading scheme is designed on the basis of upstream, direct emissions. An early action accredited to Greenhouse Friendly standards, in sectors other than agriculture, forestry and other land use, should include a proportion of emissions from upstream processes that may also be covered by the emissions trading scheme. Where the Greenhouse Friendly standards are used to accredit offsets, a portion of that abatement will be from a covered sector and therefore not properly regarded as an offset.

### **General points**

The early adoption of a strict national emission reduction target, together with the auctioning of permits, will help to establish a carbon price that identifies the full range of abatement opportunities at an early stage of the scheme operation. Such an approach will enhance the social and economic co-benefits of any complementary and voluntary measures adopted in conjunction with the emissions trading scheme.

The current proposed design, involving a target just below *business as usual* and the free allocation of permits, would not encourage private sector investment in complementary measures. Additional support will be required from government to compensate for any impost on the community from increasing energy costs.

Local government could play a valuable role in an emissions trading scheme. In addition to being a potential provider of offsets from the waste sector, if it is not covered, local

government could aggregate emission reductions from small sources. This would only be possible if the design includes a mechanism to transfer the right to emission reductions to an upstream party with an obligation under the scheme. At present, the design does not include such a mechanism so there is minimal incentive for an obligated party to fund downstream action, particularly with a low carbon price. If the current design is adopted, it will be the responsibility of government to compensate the community for the impact on end users of energy.

If the scheme design remains as currently proposed, the demonstrated ability of local government to deliver abatement should be recognised by identifying them as a key sector to deliver appropriate complementary measures.

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