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

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Abstract: *This paper explores concepts of additionality and complementarity as they apply to climate policies, programs and actions. These concepts are considered against the backdrop of Australia's carbon pricing mechanism and COAG priority to "fast track a rationalisation of programs that are not complementary to a carbon price". The additionality of policies and actions can be assessed from an individual scale to Australia's national greenhouse target. However, the COAG Complementarity principles reflect a narrow interpretation that complementary measures cannot be additional to reduce emissions at a national scale. The paper concludes that the COAG complementarity principles are restricting effective mitigation policies.*

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. There 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. In New South Wales, an accreditation program for voluntary renewable energy GreenPower was established in 1997 and subsequently expanded for national use in 2000 (URS Australia, 2006). The Renewable Energy (Electricity) Act (Commonwealth of Australia, 2000) then created a mandatory mechanism for new investment in renewable energy generation, requiring a minimum number of renewable Energy Certificates (RECs) from liable wholesalers and retailers.

As businesses increasingly made claims about their greenhouse reductions through purchasing GreenPower and emissions reduction offsets, the Federal Government established a Greenhouse Friendly program (Australian Government, 2006, p.1) to accredit products and provide a level of market assurance. Offsets needed to be "additional, permanent and verifiable greenhouse gas emissions reductions or sequestration" and projects were required to generate abatement that was "beyond 'business-as-usual' investment" (Australian Government, 2006, p.19).

In pursuing an economy wide market mechanism to reduce emissions, a National Emissions Trading Taskforce (2007) considered options such as emissions trading schemes (ETS) and carbon taxes. McKibbon and Wilcoxen (2008) proposed that a hybrid approaches between an ETS and a carbon tax would be more sensible. Importantly, McKibbon and Wilcoxen flagged a key constraint that applies to emissions caps and trading schemes, "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 finding that "The role of complementary measures to the emissions trading scheme is to lower the cost of meeting emissions reduction trajectories". Garnaut reported 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). In essence, a logic had emerged which no longer considered that the policies and programs that delivered greenhouse reductions in the past would be able to reduce the quantity of emissions when caps and targets were set. Emissions reduction would therefore be the exclusive role of the carbon pricing mechanism and individual and business responses would simply changed the mix of how the outcome would be achieved.
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 in the future. This dichotomy of views has never been resolved and forms the backdrop to this paper. The key question centres around whether under an emissions caps and national targets the level of the cap and target is the best outcome that can be achieved, or whether the complementary efforts to reduce emissions in tangible ways make it easier to reduce the scheme caps and targets faster through time.
In 2008, a Strategic Review of Climate Change Programs (Wilkins) supported the views of the Productivity Commission and Garnaut. As the Australian Government continued towards establishing its emissions trading - Carbon Pollution Reduction Scheme (CPRS), the Council of Australian Governments (2008) developed a set of complementarity principles to guide policies that could coexist with the scheme. The CPRS White Paper (Commonwealth of Australia, 2009a, pp.1-9) initially referred to "complementary mitigation policies" but the word 'mitigation' was quickly dropped in subsequent documents. This omission reflected the views of the Productivity Commission, Garnaut and Wilkins to only support policies and programs that did not take place in covered sectors or were not about reducing emissions.
Climate policies and programs are being affected against the back drop of whether policies that complement Australia's carbon pricing mechanism can exist for the purpose or reducing emissions. The current approach to complementary policies that infers that actions within covered sectors cannot achieve additional greenhouse gas reductions on a national basis, poses a high risk of discouraging broader market effort that would enable Australia to prepare for further reductions in its targets and scheme caps.
Section II steps through a chronological sequence of events of 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; 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 and Section VI concludes that there is a clear choice to determine whether market and non-market climate

mitigation policies and programs could co-exist.

II. CHANGING DIRECTIONS

The term ‘Additionality’ in climate policy can best be described in its simplest form as a test of whether an action provides an additional greenhouse reduction benefit compared with existing requirements, operations or plans. 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)

“Kyoto` ratification meant that Greenhouse Friendly abatement was no longer considered additional to our Kyoto target” (Combet, 2010, p.6).

The Greenhouse Friendly (GF) program was closed as it did not, according to the Government, provide additional greenhouse reductions in covered sectors or in relation to Australia’s national Kyoto commitments. Greenhouse Friendly was replaced by the National Carbon Offset Standard (NCOS) (Australian Government, 2010b) and related NCOS Carbon Neutral Program (Australian Government, 2010c). The NCOS excluded most existing Australian based offsetting initiatives and instead 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).

New approaches to provide accreditation for Australian created carbon offsets and a Carbon Farming Initiative (CFI) hand book (Commonwealth of Ausralia, 2012a, p.11) were developed to guide carbon offset initiatives. The CFI handbook described how Kyoto accredited offsets could be used for compliance and voluntary markets, and non-Kyoto offsets could be created for voluntary markets within a carbon pricing framework. The CFI Handbook demonstrated that the Federal Government viewpoint that the offsets created in sectors not covered by the scheme cap are additional, despite uncovered sectors such as afforestation and reforestation also being counted as part of Australia’s National Target to 2020 (Australian Government, 2011a).

A change was occurring whereby individual policies and actions were no longer recognised on their direct greenhouse merits, but would also be considered in terms of whether they would reduce emissions nationally. This aspect would also form much of the thinking to assess whether policies and programs would be complementary to carbon pricing. The COAG (2008) complementarity principles and updated principles (COAG, 2012) (see attachment 1) maintained the thinking of the Productivity Commission, Garnaut and Wilkins, for carbon pricing mechanism to be the exclusive mitigation focussed policy

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). Such a statement considers the cap as the outcome in determining that other policies cannot achieve national additionality. However, 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, 2011b). 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 Australia’s scheme caps and national targets to be lowered through time. Actions that achieve

real reductions in emissions can therefore be considered as additional in the national sense, albeit indirectly. In this way, the everyday actions and choices of individuals, households and businesses to reduce emissions are both important and additional.

3.1. Types of Additionality

It can be observed that different types and forms of additionality apply in greenhouse mitigation policies and actions. These 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 Hypothetical Additionality: a theoretical change in emissions that cannot be assessed against any particular project or action.

3.2. 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 sectors covered by carbon pricing.

In the international context of Australia's greenhouse commitment, achieving net emissions outcome may include purchasing offsets, or allowances from other countries (Australian Government, 2011b). The Kyoto Protocol established a number of mechanisms to enable developed country 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 (UNFCCC, 2011). Interestingly, the UNFCCC did not prescribe how individual countries should go about achieving their targets so there is 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.

3.3. 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 for a quantifiable greenhouse reduction benefit (Kelly, 2011). It can be argued that tangible additionality was the basis for the defunct Greenhouse Friendly program to assure that "Greenhouse Friendly™ abatement projects must generate additional, permanent and verifiable greenhouse gas emissions reductions or sequestration" (Australian Government, 2006, p.1).

3.4. Actions that fall into the category of tangible additionality

Voluntary action in Australia can still be largely considered against the tangible additionality concept. For example:

1) 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. Similarly, energy efficiency actions if taken to reduce emissions are based on the concept of tangible additionality. 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.

2) GreenPower The GreenPower program has historically been considered on tangible additionality thinking whereby a household or business contributes to renewable energy via the accredited GreenPower program to support new additional renewable energy generation (GreenPower, 2008). The Federal Government has subsequently committed that it will ensure

that GreenPower also achieves national additionality (Commonwealth of Australia, 2011b) via the retirement of Kyoto permits and in setting future scheme caps.
3) Offsets When a business or entity has purchased carbon offsets from within Australia, there is usually tangible additionality underpinning the offset. Accreditation systems typically require such things as the creation and locking up of a certain amount of carbon for a given period of time, and that the actions are additional to mandatory requirements.
If tangible additionality was recognised by governments as contributing Australia's capacity to tighten scheme caps and national target through time, then all choices of individuals and entities would be seen to be more important. The role of carbon pricing would include enhancing the voluntary choices of individuals, households and businesses to reduce emissions, beyond the price impact alone.

3.5. Hypothetical Additionality

Hypothetical additionality is a 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. Under hypothetical additionality emissions would 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). This option 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 may not be accepted by the market as effective. For example, where caps are subject to regular review, those voluntarily retiring permits to offset emissions would need to be confident that the tightening of caps would not be slowed because of permit scarcity, created in part due to their voluntary retirement action.
Another complication is that 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 governments to reduce the cap in later years. However, the voluntary removal of permits will contribute to market scarcity, (without adding any tangible action to reduce emissions), towards a higher market price of permits creating the conditions that are more difficult for the government to reduce the cap in later years.
Similarly, where international emissions trading 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.

3.6. 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 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 renewable energy (and related greenhouse gas reductions) compared against what was already by the Renewable Energy (Electricity) Act (Commonwealth of Australia, 2000). These actions simply displaced renewable energy that was

already required.
From 1 January 2011, the splitting of the Renewable Energy Target (RET) into two parts partially addressed the problem. In the revised scheme (Australian Government, 2010a) the Large Scale Renewable Energy Target (LRET) was segregated from the mostly voluntary small scale systems but was set at a handicap of 4,000 GWh per year below the previous mandatory Renewable Power Percentage (RPP). 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 Federal Government funded Renewable Energy Rebate scheme and was proposed as a declining scale over a number of years. Regardless of the value of the multiplier in any year, such a concept fails any test of tangible additionality, national additionality, or theoretical additionality for every REC created by the multiplier. GreenPower and Voluntary Surrender of LRET Certificates
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 Federal Government has pledged that the voluntary surrender of GreenPower eligible Renewable Energy Certificates is to be associated with the equal retirement emissions allowances under the Kyoto rules and adjustment to future scheme caps to ensure national additionality. The Federal Government’s mechanism for the voluntary surrender of Large Scale Renewable Energy Certificates outside the GreenPower accreditation program includes no such commitment. Other voluntary action
The Federal Government has signalled it will take traditional voluntary actions of households into account. 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. In essence the Federal 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 recognised.

IV. COMPLEMENTARITY

In Section 1, the concept of constraining climate change policies in Australia as suggested by the Productivity Commission and in the Garnaut Review was introduced. In this section the method of implementing constraints to climate change policies is explored. 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. Whilst tangible additionality was an accepted test of policy effectiveness prior to carbon pricing, this policy space is now being dominated by the complementarity principles (COAG, 2008, 2012). Complementarity extinguishes additionality as a test for actions in covered sectors because of the assumption is that the carbon pricing mechanism is the only greenhouse reduction policy that achieves the greenhouse reductions to a pre-determined level.

4.1. History leading to the complementarity principles

The Strategic Review of Australian Government Climate Change Programs (Wilkins, 2008, pp 8-14), 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”.

Following the Wilkins Review, the Council of Australian Governments – COAG (2008) decided that all climate change policies and programs should be assessed for their complementary. Policies and programs that were found to be non-complementary should be phased out or shut down. Testing of whether policies and programs met the complementarity principles became a major determinant whether a climate policy or program would to continue and would also influence the objectives of policies and programs that were supported as complementary.

The complementarity principles (as updated in May 2012 to reflect the language of the Clean Energy Future plan) made 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 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 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, 2008, p.1). Whilst not being definitive that complementary measures should not include greenhouse mitigation, the language of the principles coupled with the recommendations of the Productivity Commission, Garnaut and Wilkins have led many State and Federal Government agencies to take the view that policies that are deemed as complementary must not have a primary objective to reduce emissions.

In summary, the complementarity principles reflect a narrow view of national additionality, removing any primary objective to reduce emissions and thereby dismissing the need to assess the tangible greenhouse outcomes of complementary measures.

4.2. Implementation of the COAG Complementarity Principles

The COAG complementarity principles sought to guide the streamlining of climate change policies, without a defined process to apply the principles consistently. In particular, the following criteria of principle 1 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. However, principle 1a) is largely cancelled by 1b):

“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).

Under principle 1b), energy efficiency policies and programs can 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 Federal Government's long term 80% reduction target), that market failure still applies.
It is possible that principle 1a) can be applied selectively to exclude all or any policies that reduce emissions in covered sectors whilst principle 1 b) can be used selectively to support any one of these policies. Hence, the complementarity principles are created with built in wild card exemptions and loopholes that could be used to define any policy other than the carbon pricing mechanism as un-necessary and market distorting. Alternatively the principles can be used to excuse extremely costly and inefficient policies on the basis that they are not intended to reduce emissions.
The COAG Climate Change Council Communiqué of May 2012 that outlined the agreement to: "fast track a rationalisation of programs that are not complementary to a carbon price or are ineffective, inefficient or impose duplicative reporting requirements", (2012, p.2) is driving a new phase of climate policy review with the added justification that carbon pricing has now commenced.

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) continues to advise on its Promoting Energy Efficiency web page, 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)".
Despite this advice targeted at reassuring those in the community committed to playing their part to reduce emissions, the Federal Governments has a concurrent contradictory position 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).
The two distinct logics 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. Examples of implementing the Complementarity Principles

The implementation of the complementarity principles includes both the erosion of objectives to reduce emissions and the abandonment of climate policy commitments. An example of eroding the objective of reducing was evident when the Federal Government sought feedback on its National Energy Savings Initiative (NESI), asking 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, 2011c, p.19)”. The Government’s NESI taskforce has subsequently recommended that “with the carbon pricing mechanism now in place, further consideration of a national Energy Savings Initiative should not include a primary objective of reducing greenhouse gas emissions”(Commonwealth of Australia, 2012, p.34).

Complementarity principles have also made it easier for governments to justify the abandonment of climate policies as per the following examples: The South Australian Government abolished its the Renewable Energy Fund in its 2011-12 mid-year budget review saving $11.7 million, citing that “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).

In late 2011, the Gillard Government abandoned its election commitment to limit greenhouse gas emissions from new power plants. The Age reported Energy Minister Martin Ferguson as saying:

“... 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. Complementarity principles justify policies that don’t reduce emissions

As previously discussed, where certain policies take place within covered sectors or are not considered additional, 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.

A clear example was the passing of legislation in June 2012, for the Clean Energy Finance Corporation (CEFC) to administer a fund of up to $10B. Of this total fund, $5B can be spent on renewable energy projects, and allows these projects to be accredited to create and sell Large Scale Renewable Energy Certificates. Under the current Renewable Energy Target, 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, and risk inefficiency and harm to low carbon markets, it is in line with the complementarity principles.

VI. CONCLUSION

A carbon constrained economy based around a 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 and aspirations, yet the responsibility of ensuring that national additionality does not need to be a burden placed on individuals and businesses. Nor does it need to extinguish the objective of reducing emissions in energy efficiency, living greener and buying low emission products and services. Support for complementary measures to include key objectives for reducing emissions in tangible ways would encourage individuals, households and businesses to reduce emissions faster than the carbon price acting alone which then helps government set lower national targets and scheme caps.

Failure of governments to support reducing emissions in tangible ways, as complementary would continue a perverse outcome to discourage emissions reductions unless the motivation is driven by cost. Programs based on theoretical additionality such as the voluntary retirement of permits are yet to be fully tested and will require transparent and sound methodologies before consumers could be expected to support such concepts.

There is choice of logic that the Government could consult widely on as follows: 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 deserve careful discussion with the Australian community as a whole, and should not be rushed through the COAG Reform Taskforce without adequate consideration of the long term ramifications, particularly as the two options are mutually exclusive. 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

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