**Additional Action Reserve:**
A proposed mechanism to facilitate additional voluntary and policy emission reductions efforts in emissions trading schemes

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**The Key Issue:**

- Once the cap on emissions has been set, then no actions by individuals, communities, businesses or governments can provide additional reductions beyond the level of the cap.
- i.e. installing a home solar PV system on the roof will just free up emission permits.
- Variously characterised as a fundamental flaw, or an appropriate consequence of the scheme’s design, or just a distraction (Senate Economics Committee, 2009).
One concern is that social responsible driven action will be undermined

- May dis-empower those who actively want to make a difference and result in an attitude of “it’s the government’s problem, they can fix it.”
- Australian Technology Association survey of current or potential Greenpower customers:
  - 33% of current users would cease subscribing if it made no overall impact on Australia’s aggregate emissions.
  - 49% of those who were considering purchasing GreenPower stated that they would not do so should their efforts not make a difference.

Another concern is that the climate policy ‘backup’ at State and Local Government level will be lost

- Up until recently in both Australia and the US it was the States and Local governments that filled the climate policy vacuum.
  - Do we want to lose this option? (Especially if it looks like we get a highly compromised ETS)
- Is there a fundamental issue of liberty involved in restricting the choice of aggregate emissions to the Commonwealth Government?
  - With the case of charitable donations or foreign aid we would probably object if private donations resulted in a corresponding reduction of government aid.
CPRS November 2009 amendments after negotiations with the Coalition:

“Measures to further encourage voluntary action:

- Creation of a new mechanism to take voluntary action into account in target setting, with potential for targets to be adjusted beyond 15 or 25 per cent.

To further enhance the environmental outcomes from the CPRS, the Government will also:

- Develop a method for ensuring that the collective voluntary action by households - beyond that projected as a result of the CPRS – will be taken into account in setting future caps.
- Recognise all emissions savings from the use of GreenPower in determining the cap.”

There are a number of mechanisms for Additional Action:

- **Buy and retire emission permits**
  - Simple and credible reductions.
  - No link or credit to personal emission reducing actions. Not psychologically satisfying.

- **Purchases domestic offsets**
  - Reduced pool of options. Opt-out re-forestation?

- **Purchase overseas offsets**
  - Credibility issues of genuineness of offsets.
  - Limit to this option if we want large scale global reductions.
  - Drives green investment and jobs offshore.
**Mechanisms for Additional Action II**

- **Reduce the cap to account for additional action**
  - Periodically reduce the cap based on ex-ante or ex-post additional action.
  - CPRS claims to do so for Greenpower.
  - Credibility issue since only will ‘be taken into consideration in setting the cap’. Adjustment up to five years ahead.

- **Retire allowances on behalf of additional action**
  - Additional Action Reserve.
  - Combines tangible, psychologically-satisfying actions (such as installing a home solar PV system) with a transparent process that assures such actions are having an immediate effect in reducing national emissions.

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**Framework of the AAR**

(i) **Set a new emission target which augments the original target** by including additional potential reductions (e.g. for a target of -20%, increase it to -30%)

(ii) **Place the AEUs corresponding to the additional reductions in a reserve.** Thus, instead of allocating, for example, 100% of a particular year’s AEUs to the market, only allocate 88% and put 12% in the reserve.

(iii) **Create a Positive List (PL) of measures (programs),** which can constitute additional reductions
Framework of the AAR (II)

(iv) When the annual compliance period is over, any additional actions that have been implemented will have their reductions verified. The equivalent number of permits to the verified reductions will then be cancelled from the reserve.

(v) If the aggregated reductions do not use up the reserve within a compliance period, the remaining AEUs will be auctioned off.

(vi) If the aggregate reductions are going beyond the reserve within a compliance period, the reserve level will be evaluated over time and a new reserve may be introduced in order to allow for more reductions.

Guidelines for creating the Positive List

1) Whether it is unlikely to be driven by the CPRS or some other policy because of a market failure or institutional barrier, for example energy efficiency activities.

2) Whether it is clearly occurring because of voluntary action as evidenced by additional payments above the market cost of the product or service (e.g. GreenPower.)

3) Whether it is relatively easy to quantify the abatement achieved.

Examples:

- Energy Efficiency Programmes.
- GreenPower.
- Additional renewable energy deployment driven by targeted policies.
- Electric vehicles.
- Public transport roll outs.
- Green “new deal” stimulus policies which lead to emission reductions.
The potential for sustainable energy futures

There are similar reserve approaches in other schemes

- The EU ETS has a special reserve for new entrants, and
- Countries with Joint Implementation Projects create a JI reserve in order to avoid double counting.
- Some schemes have also had reserves to provide incentives for investing in renewable energy, energy efficiency, and early action by providing free permits as a financial reward.
- Regional Greenhouse Gas Initiative (RGGI) - States allowed to set-aside annually approximately one percent of its budget for retirement purchases for renewable energy generation.
Conclusion

- If it is possible to address the problem in a way that requires minimal changes to the current legislation and does so in a manner that minimizes the impact on liable parties to the scheme, then it should be given serious consideration.
- The Additional Action Reserve is one possible mechanism.
- More work would need to be done on creating a credible Positive List and verification process.

Thank you
Arguments from the “Don’t worry about it” school

- There are ways to account for voluntary action under an emissions trading scheme (see next slides).
- The level of voluntary action is claimed to be small.
- It wasn’t a big issue at all in Europe.
- There are more pressing concerns such as the free allocation of allowances to the coal sector and emissions intensive trade exposed (EITE) industries and the stringency of the level of the cap itself.