



CLIMATE CHANGE, ENERGY EFFICIENCY AND SOCIAL EQUITY: RESPONSES THAT BENEFIT ALL AUSTRALIAN HOUSEHOLDS.

A joint statement from Choice, ACOSS and ACF

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INTRODUCTION

Climate change is one of the most pressing issues facing Australian society. Choice, ACOSS and ACF have joined forces to find fair responses to this challenge that benefit all Australian households, including those on low incomes. Many of these measures are already available and demonstrably effective.

Improvements to energy and water efficiency, for example, can significantly reduce consumption of energy and water, cut greenhouse gas emissions and reduce utility bills.

The advent of an emissions trading scheme, likely to occur in the next decade, will affect other policies and programs. Gains in energy efficiency made before then will moderate the impact of a carbon price. Any investment in energy and water efficiency will pay dividends both in the short and long term. Our responses can and should begin immediately. These policy responses must ensure that all households are involved if we are to reduce the risk of further harm to our environment and mitigate the effects of climate change.

If governments introduced well-supported policies to improve energy efficiency in conjunction with a carbon price, appropriate tariffs and a safety net, no consumer should be worse off and greenhouse emissions should fall.

CLIMATE CHANGE AND ITS IMPACT

Compelling scientific evidence suggests that the impact of climate change on Australian society will be widespread¹. Across all parts of Australia, we can expect temperatures to

¹ IPCC 2007 *Climate Change 2007: The Physical Science Basis: Summary for Policymakers. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* Intergovernmental Panel on Climate Change, Geneva, accessed at <http://www.ipcc.ch/SPM2feb07.pdf>, March; Preston, B.L. and Jones, R.N., 2006 *Climate Change Impacts on Australia and the Benefits of Early Action to Reduce Global Greenhouse Gas Emissions*, CSIRO Aspendale accessed at http://www.businessroundtable.com.au/pdf/BRT-on-CC_Climate_Impacts-CSIRO.pdf, March; CSIRO 2006 *The Heat Is On*; Preston, B.L. et al 2006 *Climate Change Impacts on Australia and the Benefits of Early Action to Reduce Global Greenhouse Gas Emissions* CSIRO February.

increase, rainfall patterns to change, sea levels to rise and extreme weather events such as cyclones and bushfires to become more frequent and intense.

Key vulnerable systems and regions will be affected by climate change in categories as broad as agriculture, energy, water supply, settlements and emergency services, ecosystems and biodiversity, and regional areas. These changes will impact on the cost of energy and water and flow through to most goods and services. They will affect the way we live and work and impinge on our health and wellbeing. It is likely that the effects of climate change will be disproportionately felt by already vulnerable communities, including people on low incomes and communities directly dependent on their local environment for survival.

Reducing our consumption of resources is essential to lessening the impact of climate change, and many measures are already available to assist us in achieving this, without compromising our quality of life.

Low income and disadvantaged households

The impacts of climate change will be particularly harsh on low income² households and disadvantaged communities. Many of these households will be adversely affected for the following reasons:

- *Low income earners tend to live in areas more likely to be adversely affected by climate change*, and have far less ability to move or make other necessary adjustments to their living circumstances.
- *On average, low income earners spend a greater proportion of total weekly household budget on energy and water* than wealthier households. In real dollar terms, low income households spend half as much on electricity and gas as the wealthiest households. But as a proportion of household spending, lower income households spend almost twice as much as wealthier households. Similarly, the cost of water and sewage is, relatively, a third higher for low income households than it is for households on an average income. In real dollar terms, transport and fuel costs for a low income household are about half that of an average household – however as a percentage of total weekly spending, the share spent on fuel is about the same for both.³ Given that energy and water are essential services, when the prices of these services increase, householders are left with little option but to pay the extra. All price increases have a far greater impact on total household spending in low income households. Research here and overseas reveals that demand for essential goods and services including electricity and water is price inelastic (i.e., when the quantity demanded does not change much with the price change). At the lower end of the income market, price is a blunt, regressive and unreliable tool for demand control.

²Low income is a relative term but one commonly accepted definition would include about 40% of all households.

³ ABS 2006 *Household Expenditure Survey*

- *Lower income households are currently less able to introduce measures to improve energy efficiency.* Few households with low incomes are able to afford significant energy efficiency measures such as insulation, new hot water systems or rainwater tanks. One in four Australian households are in private rental or public housing and do not have rights or incentives to make capital improvements. Energy consumption in low income households is partly shaped by the market in second-hand appliances and cars. Many second-hand appliances are inefficient, waste energy and increase bills. Factors affecting efficiency include design, technology, age and maintenance. Appliance efficiency details (energy ratings) are usually removed at first purchase, making it difficult for subsequent buyers to choose wisely. Buyers of new cars (businesses and wealthier individuals) who usually own a car for only a few years and around a quarter of the car's lifetime emissions, historically have a low concern for fuel efficiency. However, these wealthier purchasers are the purchasers who dictate the emissions and running costs for later purchasers.

POLICY RESPONSES

There are many possible policy responses to climate change that might be considered and supported by government. We are concerned here only with two approaches.

(a) Improving energy efficiency

(b) Placing a price on carbon through an emissions trading scheme

These policy responses, while independent concerns, should be considered as a complementary approach likely to achieve the best policy outcomes. They have potential to bring benefits to all domestic consumers of energy and water. However, they should be implemented in ways that acknowledge the circumstances of low income households, while accounting for and actively counteracting the risk of adverse outcomes.

(a) Improving energy efficiency

Energy efficiency is the quickest and cheapest way to cut greenhouse pollution – particularly over the next 10 years. This makes major energy efficiency measures an essential part of any serious plan to tackle climate change and reduce greenhouse pollution by at least 30 per cent by 2020.

Better services, lower bills

A range of smart technologies exist that use a lot less energy to deliver the same (or better) service to consumers. Becoming energy smart will save on household and business energy bills and help protect Australians against the impact of energy price increases as we clean up our energy supply.

Cost-effective and available now

A comprehensive Government review found we could immediately reduce our energy use by up to 30 per cent using off-the-shelf cost-effective technologies, with immediate economic benefits and an average 'payback' of four years.

If we implemented only half of the opportunities identified to cut energy waste, our economy would be stronger, new jobs would be created and we'd use less energy. In addition, we'd cut pollution, while earning a significant return on our investment.

Recommended government policy responses

A massive new national program could leverage significant private sector investment to retrofit all Australian homes within a generation. Such a program should aim to retrofit five per cent of existing homes a year and should include:

1. • Effective and regularly evaluated **education** campaigns on the most effective means to achieving, and subsequent benefits of, energy and water efficiency.
2. • Home **audits** of energy and water use that result in recommendations for behaviour change and physical improvements and referral to sources of assistance.
3. • **Financial and other assistance** for low income households to implement measures that improve water and energy efficiency.
4. • Improved **labelling** on products and appliances so that initial and second hand purchasers can make informed decisions about energy efficiency at the point of purchase.
5. • Financial and taxation **incentives to encourage landlords** to retrofit properties to improve energy and water efficiency.
6. • Improving energy and water efficiency in **public housing**.
7. • **Mandatory** energy efficiency **standards** in all new buildings.

(b) Placing a price on carbon through an emissions trading scheme

There is widespread and growing support among governments, business and the wider community for the introduction of a carbon price through an emissions trading scheme. This should be implemented as a mechanism to drive reductions in greenhouse gas emissions. The detail of such a scheme is unresolved but the timing of its introduction is somewhere between three and five years away.

In designing an emissions trading scheme, it is important that consideration is given to ensuring the costs of such a scheme are not borne disproportionately by low income

households. All consumers including low income households should be provided with appropriate education and incentives for being more energy efficient.

Recommended government policy responses

An emissions trading scheme should be designed and have regard to complementary measures that:

1. Improve energy **efficiency** for households that account for awareness and behaviour, home modifications, standards for buildings and appliances, and upgrades for equipment and appliances.
2. Develop **tariff** structures that appropriately recognise the essential nature of energy and water while pricing to encourage efficient consumption.
3. Establish **safety net** provisions to ensure that low income households have the opportunity to improve efficiency but are not burdened with price increases for essential services. One way to do this would be through the recycling of revenue from permit auctioning from a well designed emissions trading scheme. The revenue could be used to provide assistance and incentives to adjust, compensate those low income households who are adversely affected, encourage research and economic development, and so on.