Proposal for a Climate Act for a Sustainable Society developed by National Society of Conservationists - Friends of the Earth Hungary

Why do we need a Climate Act to tackle the challenges related to resource use and socio-economic problems?

While we see more and more clearly that today's resource wasting, growth-bound economy serves the short term interests of smaller groups as opposed to the long term interests of the whole society, and that the costs of environmental degradation will have to be paid back, we still have not realised the necessity to radically change our view and practice. The direction and the system of tools of this radical change are both missing still. Laws have become segregated dealing with partial problems, following contradictory objectives and serving often conflicting interests, and it becomes impossible to harmonise them beyond a certain point. An overarching regulatory framework is needed that can harmonise different objectives. The climate act should therefore assist the solution of social, economic, and environmental problems through fulfilling the following tasks:

- It should be **preventive and responsive** at the same time. On one hand it should, as far as possible, prevent even greater harm. On the other hand it should help adapting to future environmental and socio-economic changes.
- In order to foster sustainable use of resources, it should **restructure the production and consumption patterns** towards using less input and generating less waste and pollution.
- It should **optimize the proportion of manual and machine labour** in order to boost employment.
- It should provide **low cost loans** for innovation, transforming production and consumption, and should determine payback period that is appropriate for realising investments that are socially and environmentally beneficial, even if the payback time is long.
- It should **create market for environmentally friendly products and services**, and encourage innovation in this direction.
- It should provide the **right market signals** for environmentally conscious consumer and producer decisions.
- It should contribute to the **elimination of social injustice** and inequality in the distribution of goods and burdens.
- It should encourage **efficient and effective resource management**, and ensure that it does not lead to the shifting of environmental pressures.
- It should contribute to mitigating and eliminating the **energy dependency**.
- It should ensure meeting **international commitments** in the fields of emissions reduction, increasing energy efficiency and substitution by alternative energy resources.

The Proposed Set of Instruments: Natural Resource Quota Scheme

The proposed Climate Act for a Sustainable Society aims to

- provide a **comprehensive** set of tools for the roots of the problems related to climate change, and mitigate the drivers leading to climate change,
- gradually **reduce the total fossil and nuclear energy use** of Hungary,
- set **targets for reducing national GHG emissions** for 2050 and interim periods,

- promote energy conservation, energy efficiency and renewable energy resources through providing **incentives** and **interest free loans** for citizens, communities and economy to realize needed investments,
- enhance **environmental consciousness** for the needed structural change.

Support for the proposed Climate Act for a Sustainable Society:

- Hungarian Parliament resolution in 2009 on preparing a climate act for which **343 MPs** voted yes.
- In 2010 the Climate Act was drafted, which was **supported by all parliamentary parties** at the general debate, and by 100 MPs personally.
- **525 NGOs** including green, social, youth, science, faith organizations supporting the Act.
- **Political supporters** including the Minister of Environment and Water, Spokesperson for the Parliament, as well as key party leaders.
- The Climate Act has become a **cross-country, cross-party and cross-sectoral issue** addressing environmental, social and economic problems at the same time.

The proposed regulatory system is based on 3 + 1 pillars.

Pillar 1: The Energy Quota

The energy quota means a yearly consumption entitlement for the entire society and for every consumer individually. Every year, the use of non-renewable energy resources shall be reduced by a rate defined in comparison to the previous yearly use. While the provisional target may not limit the energy demand of the society, the Act imposes sanctions on over-consumers in the form of progressive consumption charges.

The Parliament defines a provisional target for the next ten-year-period in accordance with national and international commitments and opportunities. The yearly rate of reduction is published by 15 January each year defining the total amount of energy quota in PJ (petajoules) for that year.

All available quotas shall be distributed among different consumers in the society, therefore the government defines **consumer groups**. Except for the general population, the consumer groups (agriculture, transport (except individual transport), industry, public bodies, etc.) would allocate quotas based on their own commonly agreed principles before 31 January each year. At the same time, each adult over 18 shall be granted equal consumer rights, while quotas for children would be determined on the basis of the household structure (the first child in the same household would receive 100% of the quota, the second, 75%, while the entitlement granted in the case of the third child and all further children would receive 50% of the total entitlement). In the case of people constrained in their decision-making abilities, it is the appointed guardian who shall bear the consumption entitlement. The quota can only be used in harmony with the needs of the entitled person.

The yearly quota (consumption entitlement, consumer rights) shall be defined in megajoules (MJ). The consumption entitlement shall cover the sum of the consumption of households in terms of primary heating energy (gas, coal), electricity, as well as fuel used for individual transportation. The quota managing authority records the consumption entitlement for all consumers on an individual **energy allocation card** with a personalised PIN code by 31 January of the each year. The energy allocation card is a running account which indicates the available amount of non-renewable energy for that year, where the energy providers register the consumed energy quantity at each payment, when energy is purchased (monthly energy bills, buying fuel at petrol stations). This does not affect the payment obligations between the contractual partners. The card shall allow for checking the balance at all times, and thus for monitoring the yearly consumption. Opportunities and limitations for buying fuel abroad as well as energy and fuel allocations for foreign individuals shall be governed by specific regulation.

The Act shall establish a quota managing organization for the allocation and monitoring of quotas. The **quota managing organization** keeps parallel accounts for all consumers. Parallel accounting is designed to insure data security, to allow for the replacement of lost cards and the day-to-day traceability of all the accounts. The quota manager shall observe confidentiality regulations regarding the personal data managed, and shall not divulge individual consumption data. The quota manager shall send notification about the balance at the end of the year showing the level of over- or under-consumption.

If a deficit occurs in the accounts settled due to over-consumption of energy, the consumer shall purchase the missing consumer rights through the quota manager organization. If there is a surplus on the accounts due to under-consumption, this surplus is credited on the account by the quota manager in the form of **quota money**.

Consumers obliged to purchase quotas pay in the national currency for the extra consumer rights, which shall serve as the collateral for quota money, managed by the quota manager based on specific legislation. The trade in consumption rights shall be managed through the quota manager, and shall be conducted between all consumer groups, i.e. not limited to the population. In this way, the quota manager trades in the consumption entitlements of **over-consumers and under-consumers.**

The quota money shall be adjusted to the prevailing energy prices to ensure that the fluctuations of the latter shall not put the actors on the quota market at a disadvantage. Still, the (currency) rate of the quota shall be determined by the quota manager, according to whether the whole society has met the nationally defined consumption reduction target.

If there is over-consumption of the non-renewable energy consumption compared to the target originally defined, the over-consumers shall pay a premium over the current quota price. A premium, equivalent to the rate of consumption shall be established progressively: the greater the degree of excess, the higher the premium. The premium may only be imposed for the excess consumption over the total allowed consumption defined at the national level. Over-consumers shall pay a premium proportionate to the excess consumption, with higher excesses implying progressively greater costs. The premium rate should be set flexibly, taking account of any objective circumstances.

The **operating costs** of the system as a whole, including costs of the quota manager shall be covered by 0.5% of the amount of the purchase transactions.

Pillar 2: The Market for Environmental Goods and Services

The market for environmental goods and services is an **open market** operating according to environmental and ethical rules including sustainability and market considerations. (The government decree stipulates the conditions on the basis of the principle that it is always the goods and services realized through the lowest material and energy consumption which can be marketed from among all the goods and services.) The principle underlying the **ethical rules** is that the economic activities on the market serve the common good by realizing an existing product, process or service with least negative social and environmental externalities.

The **environmental aspects** entail that products and services are provided with the least environmental pressure (energy and material use, transport needs, waste and pollution, etc.) using the best available technologies. Among the **social aspects**, priority shall be given to a high rate of human labour used, especially in cases where disadvantaged people are involved in the process.

Compliance with these conditions shall be verified by the product certification council, issuing a **trade mark** for products on the market. The market of environmental goods and services is open to any market actor who fulfils the conditions imposed on the market and acquires the trade mark.

The currency of the market is the **quota money**. The quota money has **no interest** and is substitute money existing in the form of electronic signs. The national currency shall provide the collateral for the quota money through the purchase of quota for national currency by those, who over-consume. Besides, the quota money can be converted to national currency with a 20% commission. Moreover, it is allowed to pay taxes and social contributions in quota money. In each transaction, where the quota money is used, the customer pays via the electronic card.

Pillar 3. The Revolving Fund

The Act establishes a Revolving Fund, which is designed to allow for providing loans to individual consumers and market actors offering environmentally friendly products and services. Therefore, the Fund serves the transformation of production and consumption patterns towards less material and energy use, stimulates the market for environmental goods and services and drives innovation, allows socially disadvantaged people to realise low energy, energy efficient investments, as well as promotes the introduction of renewable energy sources on the market.

The Fund provides **interest-free loans** for anyone whose investments aim to increase energy and material efficiency and whose goods and services meet the rules of the market for environmental goods and services. The basic accounting instrument of the Fund is quota money. The repayment rate is based on the pace of income generation from the investment of the producers. If the investment financed by the Revolving Fund is aimed at increasing energy efficiency or switch to renewable resources, the repayment of the loan is done through the realised savings of the yearly used energy use rights.

Operational costs of the Fund are covered by a transaction charge amounting to 0.5% of credit transactions, to be paid back by the debtors from their savings, as part of the loan. The assets of the Fund are provided by the state from public funds as collateral for the quota money.

Pillar +1: Support Service

In order to support the rational decisions of citizens and market actors in general, the Act establishes a Support Service, which operates on a not-for-profit basis. The financial basis for the functioning of the Service is based on the payments of the clients using the Revolving Fund, who pay 1.5% of the total credit amount over and beyond the 0.5% transaction fee charged.

The Support Service provides advice on lifestyle, planning, social and environmental issues related to the operation of the quota scheme. The knowledge, qualifications of the staff, the operations of the service and establishing the service are governed by specific regulation.