



# CASE STUDY

## Charging ahead into green lifestyles Republic of Korea's green credit card

### Key point

- **Linking low-carbon lifestyles with a mainstream incentive system, such as credit cards, engages consumers towards more sustainable consumption patterns, in turn greening the supply chain.**

### There was a need...

The Korean Ministry of Environment introduced a green credit card scheme in July 2011 to encourage consumers to adopt more sustainable lifestyle patterns by providing tangible economic rewards. Points are accumulated as rewards for saving on utility use (tap water, electricity and gas heating), using public transport or purchasing eco-friendly products. Accumulated points can be used like cash to purchase products and services at a variety of places, such as hotels, restaurants and theatres. Points can also be used to buy eco-friendly products, such as hybrid cars or energy-efficient light bulbs. The scheme is envisaged to contribute towards reducing about 3 per cent of the annual CO<sub>2</sub> emissions from the residential sector by 2014 when the number of cardholders is expected to exceed 3 million.<sup>1</sup>

### What was done?

#### **Carbon points generated from saving energy in residential and commercial building sectors**

A carbon point scheme, based on the amount of saved electricity, gas and tap water in the building sector, was incorporated into the green credit card scheme. The carbon point scheme was initially introduced by the Ministry of Environment in 2008 and operated by municipal governments, with technical support from the Korea Environment Corporation. Both the Ministry of Environment and the municipal governments are responsible for mobilizing the financial resources that are granted as carbon points. Households can acquire points if their monthly utilities usage is less than their average use in the two years prior to the application date.

#### **Green purchasing points**

Green points can be obtained whenever people purchase green products, certified with eco-labels, such as Korea Eco-Label and Carbon Label, via the green credit card. The Ministry of Environment signed a memorandum of understanding with 49 private companies (18 manufacturers,<sup>2</sup> 8 distributors and retailers, 2 franchised coffee shops and 16 affiliated shops) in January 2012.<sup>3</sup> Points are also acquired when people bring their own cups to the coffee shop and return used cellular phones to providers. Manufacturers and distributors engaging in this scheme are partly responsible for providing the financial resources that flow into the green purchasing points.

#### **Public transport point**

Paying public transport fares with a credit card is common in the Republic of Korea and is widely accepted by different modes of public transport (bus, express bus, mini bus, subway and taxis). Fare discounts are provided when people transfer from one mode of public transport to another. The credit card companies provide points to passengers engaging in this scheme. Thus green points can amplify the "pull-factor" for using public transport.

<sup>1</sup> Republic of Korea, *Green Growth in Daily Lives* (Seoul, Presidential Committee on Green Growth, 2011).

<sup>2</sup> Including Hyundai automobile company and LG electronic appliances.

<sup>3</sup> Korea Environmental Industry & Technology Institute, *Green Consumption* (Seoul, 2011). Available from [www.greencard.or.kr/gc/benefit/consu\\_mption.do](http://www.greencard.or.kr/gc/benefit/consu_mption.do) (accessed 30 January 2012).

### **Institutional arrangement<sup>4</sup>**

- The Ministry of Environment is in charge of setting up an overarching system and coordinating partner organizations (local governments, the Korea Environmental Industry and Technology Institute (KEITI) and credit card companies).
- Local governments are in charge of operating the carbon point scheme and coordinating utilities companies with financial support from the Ministry of Environment. For instance, carbon points are issued according to the amount of energy that is reduced from a baseline assessment. Data for energy, water and gas use is collected to set the baseline in cooperation with the utilities companies, such as Korea Electric Power Corporation and the Korea Gas Safety Corporation. The Korea Environment Corporation collects data from utility companies, calculates the amount of reduced consumption and reports it to the local government, which then authorizes the payment of points.
- The Korea Environmental Industry and Technology Institute is in charge of managing the green purchasing points, namely identifying eco-friendly manufacturers, establishing a partnership with them and managing the eco-labelling scheme.

### **Strengths of the scheme**

- Green credit card points can be more widely used due to use of the network built up by credit card companies in comparison to the stand-alone incentive schemes, such as carbon points, that local governments manage. Featuring minimal implementing costs, this can be a cost-effective policy measure to induce behaviour changes towards low-carbon and greener lifestyles.
- It is easy and convenient for people to manage points generated from different sectors (building, transport, purchasing) via one handy credit card.
- By motivating consumers towards greener lifestyles, the whole supply chains for products and services becomes greener to meet the new demand for eco-friendly products.
- Encouraged by the additional economic incentives, more people rely on public transportation.
- The incentives lead to reduced CO<sub>2</sub> emissions in the building sector.

### **Weaknesses of the scheme**

- The more people purchase or move about, the more rewards they receive – but this does not provide any incentive for consuming less or reducing travel.
- Carbon points are issued based on the relative amount of saved energy from a baseline assessment, without the consideration of the absolute amount of energy use. Thus the green credit card scheme may need to be combined with other policy measures to increase effectiveness.

### **Lessons learned**

Low-carbon behaviours need to be visible. Users of the green credit card scheme can easily track the amount of their CO<sub>2</sub> emission reduction, energy savings and economic rewards related to lifestyle changes they make through:

- The eco mileage scheme, one of the carbon point schemes run by the Seoul municipal authority, which provides information through its website (<http://ecomileage.seoul.go.kr/>). Card users can access real-time data on the volume of energy consumption from their house from the site. By inputting basic information, such as name and address, into the Eco-Mileage Programme website, the amount of energy, gas and water consumption is automatically presented.
- Receipts with the detailed information encourage green purchasing by informing consumers how many points each purchase provides.

<sup>4</sup> Republic of Korea, *Launching Green Credit Card* (Seoul, Ministry of Environment, 2011).

## Considerations for replicating

**The private sector must be engaged.** To be successful, points should be easily convertible into real monetary value at a variety of places. Otherwise, consumers will not be motivated enough to change their behaviour to acquire the points. It is important for governments to set up a network consisting of credit card companies, manufacturers, distributors and retailers that can expand the scope of the scheme and maximize the net impacts. Participating businesses are expected to commit a certain portion of their profit to finance the point scheme, which can be a financial burden for them. In the case of the Republic of Korea, policies supplemented the green credit card scheme, such as the one providing subsidies to stores specializing in green products.

**Existing incentive schemes must be integrated.** The green credit card scheme is expected to be an integrated single platform in which people manage the points generated from their efforts to mitigate greenhouse gas emissions in their daily lives. The Ministry of Knowledge and Economy offers a similar incentive programme called Carbon Cashbag, which provides points in addition to the existing points system run by a private company when people purchase eco-friendly products bearing the Carbon Cashbag labels. Without careful coordination of similar initiatives, the strength of the scheme would be offset and financial resources would be wasted due to an inefficiency-inducing overlap of services, provided by different ministries.

**Simple design and effective communication – an incentive scheme has to be easy to understand and simple to follow.** The credit card scheme should be easily understandable and retractable for ordinary users. The rewards need to be clearly communicated to consumers to minimize potential confusion with any existing incentive scheme. Timely updates, accurate and reliable information provided on the respective websites is also critical. For instance, a dedicated website for the green credit card ([www.greencard.or.kr](http://www.greencard.or.kr)) is currently being operated to publicize the benefits as well as to provide guidelines on how to register.