Business and the Carbon Pollution Reduction Scheme... 10 things you need to know

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An ANZ brief to assist our clients in addressing the implications of the public policy responses to climate change – the regulation of carbon as a pollutant.

"The Carbon Pollution Reduction Scheme... is a whole of economy reform on par with past economic reforms such as the reduction in tariffs or deregulation of the financial system"

Senator the Hon Penny Wong, Minister for Climate Change and Water

The Australian Government has released its Green Paper on the proposed design of an emissions trading scheme, the Carbon Pollution Reduction Scheme. The scheme's objective is to provide a mechanism to achieve Australia's greenhouse gas emissions goal of a 60% reduction by 2050.

The scheme will have significant impacts on the way business manages and reports its carbon liability. The Government has confirmed its intention to implement the scheme in 2010, supporting the view that any delay will result in increased abatement costs in the future. Companies now need to consider the implications for their business and begin to prepare themselves for the potential effects of the scheme.

We have outlined 10 key points for business to consider.

1. Regulating carbon emissions as pollution

The scheme places a price on the six greenhouse gases that contribute to global warming. This will apply across our economy, not simply at the point of control. This represents a fundamental shift in Australia's approach to environmental regulation and pollution reduction. While only heavy carbon emitters will be required to purchase permits, the price signals are designed to be felt across all sectors. This will affect every Australian business, regardless of whether the business is obliged to participate directly in the scheme.

2. Provides a market-based approach

The scheme defines carbon pollution as an economic issue and provides economic instruments in response, to encourage the lowest cost abatement opportunities across the economy. Similar approaches have been used successfully to control pollution elsewhere, such as sulphur dioxide emissions in the USA, emissions trading in the EU and, closer to home, salinity levels in the New South Wales Hunter River system.

3. Compensating mechanisms will minimise volatility

A range of mechanisms is proposed to minimise economic disruption in the scheme's introductory stages. These include an initial price cap to reduce volatility, discounted allocation of permits for exposed industries, tax offsets, phased introductions of sectors such as agriculture, direct assistance to electricity generators and the ability to bank and borrow permits. Business should pay close attention to the effects of these transitional arrangements as they evolve.

4. New liabilities and costs for business

The proposed scheme will introduce new costs to all companies regardless of whether or not they are large carbon emitters. Businesses will need to consider the most effective ways to reduce their exposure. For some companies this will involve purchasing permits, and for others the focus will be on resource efficiency. Opportunities to buy offsets will be limited.

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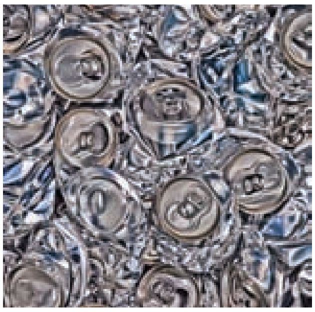
5. Direct impacts for companies in 'covered' sectors

Around 1,000 Australian companies operating in sectors covered by the scheme, including stationary energy, industrial processes, waste, fugitive emissions and transport, will be required to purchase the right to emit greenhouse gases. The point of obligation to acquire permits will vary depending on the sector and quantity of a company's emissions.

6. Every Australian business will be affected

The broad nature of the scheme ensures it will have implications for all Australian businesses, even if they are not directly liable or in a covered sector. Although companies outside of the covered sectors will not be required to purchase permits, they will be impacted by the scheme through price increases in a range of inputs from the covered sectors, such as electricity, gas, petrol and manufactured materials. Companies required to purchase permits will look to pass on these costs. Supply chain linkages and the potential impact of increased input costs should be analysed.



7. Energy efficiency presents a clear opportunity

For both directly and indirectly affected companies, energy efficiency initiatives will likely be the most cost-effective option. Energy efficiency will reduce carbon liabilities for directly affected companies, and reduce operating costs for indirectly affected companies. The Government is proposing a fund to provide capital for energy efficiency and low emissions technologies.

8. Assistance for trade-exposed companies

The government has proposed an initial allocation of free and discounted permits to the most emissions intensive trade exposed (EITE) industries, such as metals processors and other heavy industrials, potentially up to 90% of their permit requirement. This assistance will be based on a sector average of emissions intensity. This has the potential to reward efficient companies (who require fewer permits) as they will receive the same free permit allocation as less efficient companies (who require more permits). This will create a new incentive for energy efficiency in these industries.

9. Price impacts may affect future sales

The scheme contains a number of proposed measures to assist low and middle-income households to adjust to the flow-on price effects. Increased consumer awareness is likely to produce a trend in preference towards lower intensity products, and businesses can anticipate greater scrutiny over emission intensive goods and services. In addition, consumer confidence levels may be impacted by the introduction of the scheme, affecting consumer spending across all sectors.

10. Your opportunity to contribute

The Green Paper does not propose specific limits for greenhouse gas reductions or outline potential economic costs. It does provide an outline for discussion, and business now has an opportunity to participate in the consultation process before the Government releases its final decisions at the end of the year. Business should begin considering strategic responses to this very significant economic reform.

"The shift to a low carbon economy is already underway and business must get ready for it"

Mike Smith, Chief Executive, ANZ

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