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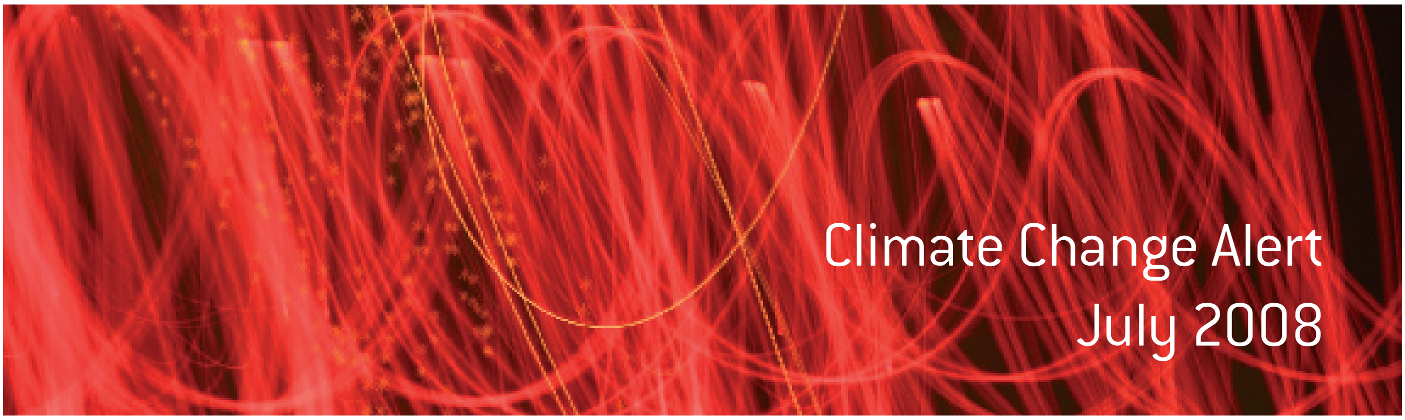

The Government's Green Paper - How Will It Affect My Business?

The Government's Green Paper on the design of a national emissions trading scheme was released on 16 July 2008, following hot on the heels of Professor Garnaut's Draft Report on climate change and the commencement of the National Greenhouse and Energy Reporting Act (NGER Act).

The Government's emissions trading scheme will take effect on 1 July 2010 and will be known as the Carbon Pollution Reduction Scheme (CPRS).

> Businesses should familiarise themselves with the Green Paper, and begin preparing now for the implementation of the CPRS in 2010.

> As a first step, businesses should consider whether, as of 1 July 2008, they are required to report their greenhouse gas emissions under the NGER Act.

> Businesses should consider making submissions to the Government before the preferred positions in the Green Paper are incorporated into legislation in late 2008.

Why an Emissions Trading Scheme?

The Federal Government has committed to reducing Australia's greenhouse gas emissions by 60 per cent below 2000 levels by the year 2050. This is part of the Government's overall climate change strategy to:

- reduce Australia's greenhouse gas emissions
- adapt to a climate change situation that we cannot avoid
- help to shape a global solution.

The main way in which the Government will achieve this is via their CPRS, which will be implemented on 1 July 2010.

Who will the CPRS affect?

All businesses in "covered sectors" of the economy which emit more than 25,000 tonnes of greenhouse gases annually will be required to participate in the CPRS.

However, in some instances, scheme obligations will be imposed on upstream suppliers rather than directly on emitters.

This equates to around 1000 Australian companies (**liable companies**). These liable companies are responsible for approximately 75 percent of Australia's emissions. Most liable companies will already be participating in the NGER System which commenced on 1 July 2008.

The vast majority of Australia's businesses will not yet face new regulatory obligations as a result of the CPRS, however the number of businesses caught by the CPRS will increase over years to come as the greenhouse gas thresholds are reduced.

In addition, most, if not all businesses will be affected by the introduction of the CPRS in some way. The cost of doing business will almost certainly increase as electricity, fuel and other business inputs become more expensive.

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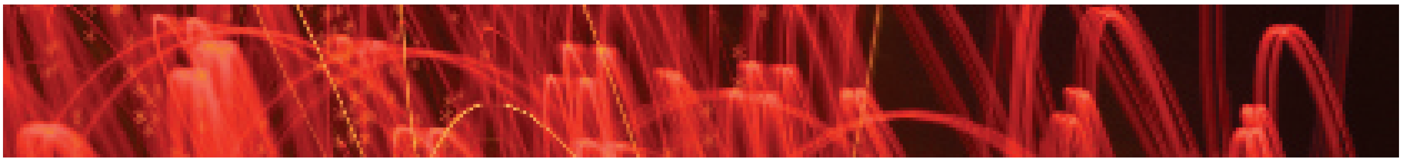

What are the covered sectors?

> **Stationary energy**: emissions from fuel combustion for electricity generation and for energy production in the petroleum refining, manufacturing, construction and commercial industries.

> **Transport**: emissions from the direct combustion of fuels for road and rail transport, domestic aviation and shipping. Initially, the obligation to acquire permits will apply to upstream fuel suppliers rather than direct fuel users however the cost of these permits will be passed onto consumers.

> **Fugitive emissions**: emissions released in the production, processing, transport, storage and distribution of coal, oil and gas.

> **Industrial processes**: emissions from chemical reactions associated with manufacturing processes, mineral processing, and chemicals and metal production.

> **Synthetic greenhouse gases**: emissions from the use of equipment containing synthetic greenhouse gases (GHGs). Bulk importers of synthetic GHGs, large importers of equipment containing synthetic GHGs and domestic synthetic GHG manufacturers will be required to acquire permits.

> **Waste**: emissions from solid waste sent to landfill and the treatment of domestic, commercial and industrial wastewater.

> **Forestry**: included on an 'opt-in' basis. Unlike other sectors of the economy, forests are likely to store more carbon than they emit which means forest landholders will have an incentive to voluntarily include their forests in the scheme.

Agriculture will be excluded from the scheme until at least 2015, which will give the industry time to develop reliable and cost-effective methods of emissions estimation and reporting.

How will the CPRS work?

The CPRS will be a cap and trade scheme. The Government's view is that a cap and trade scheme will ensure that Australia's carbon pollution is reduced at the lowest possible cost, on the basis that it will offer business strong economic incentives to reduce their GHG emissions.

> The Government will set a total carbon cap for the Australian economy, and issue permits up to the total cap each year (this cap has not yet been set, but is expected to be released in October 2008 - carbon caps will be set for five year periods in advance).

> Each year, liable companies will be required to acquire and surrender a "carbon pollution permit" for every tonne of greenhouse gas they emit.

> The quantity of emissions produced by organisations must be monitored and audited.

> The price of permits will be determined by the market, but the Government proposes to set a cap on the price that businesses will be required to pay for permits during the period 1 July 2010-30 June 2015.

> For some firms, it will be cheaper to reduce emissions than buy permits. Firms that value carbon permits most highly will be prepared to pay the most for them.

> Most permits will be auctioned, but around 30% will be given to businesses undertaking emissions-intensive trade-exposed (EITE) activities.

> The CPRS will be designed to link with other schemes overseas. Liable companies will be able to surrender internationally recognised Kyoto offset credits to achieve their domestic compliance obligations however, there will initially be a limit on the number of such credits that can be surrendered.

What greenhouse gases will I need a permit for?

The greenhouse gases covered by the CPRS are carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons.

The global warming potential of each of these gases is different. For example, the global warming effect of 1 tonne of methane is 21 times "stronger" than 1 tonne of carbon dioxide.

For the purposes of the CPRS, all greenhouse gases will be converted to a "carbon dioxide equivalent" to enable the consistent issuing of permits.

Will my business qualify for free permits?

The Government proposes to provide free permits to businesses undertaking EITE

activities. An activity is “trade-exposed” if the product it produces is exported or competes against imported products.

> Activities that have an emissions intensity above 2,000 tonnes per $1 million of revenue will qualify to receive 90% of their permits for free.

> For emissions intensities between 1,500 and 2,000 tonnes per $1 million revenue, the assistance level will be 60%.

The Government proposes to provide assistance on the basis of industry average emission intensities rather than the instensity of a particular firm or facility.

Other support for business

The Government will establish a Climate Change Action Fund to assist business to transition to a cleaner economy. Funding will be provided for a range of activities including capital investment in innovative and new low emissions processes, industry energy efficiency projects and the dissemination of best practice among small and medium sized enterprises.

The Government will also cut fuel taxes cent-for-cent for heavy vehicle road users, to offset the initial price impact associated with the introduction of the scheme (this measure is to be reviewed after one year). An equivalent rebate will be provided to businesses in the agricultural and fishing industries for three years.

Key differences between the Garnaut Report and the Green Paper

Waste Industry

Garnaut Report
Recommended that waste be included in the scheme as soon as practicable subject to reliable and cost-effective emissions estimation methodologies being developed.

Green Paper
Emissions from the waste sector are to be covered from scheme commencement. The precise scope of coverage, thresholds and other details are still to be determined. It has been flagged that the GHG threshold for this sector may be less than the standard threshold of 25,000 tonnes of annual GHG emissions.

Renewable energy

In 2001 the Australian Government introduced a Mandatory Renewable Energy Target (MRET) scheme which places an obligation on energy retailers to purchase a proportion of their energy from renewable sources. In 2007 the Government committed to ensuring that 20 per cent of Australia’s electricity supply comes from renewable energy sources (such as wind and solar) by 2020.

Garnaut Report
The interaction between the MRET scheme and the CPRS is to be considered in Garnaut’s Final Report, due on 30 September 2008. In the meantime, Garnaut recommends continuing the MRET as a positive lead in measure to an emissions trading scheme.

Green Paper
The COAG Working Group on Climate Change and Water has released a consultation paper on the key design issues of an expanded MRET scheme (20% by 2020). However, the Green Paper suggests that the Government will be reviewing the MRET scheme to assess whether it is genuinely complementary to the CPRS.

It remains to be seen whether the Government will continue with the introduction of an expanded MRET scheme in the face of opposition from traditional energy generators.

Agriculture

Garnaut Report
No date set for the inclusion of agriculture. Inclusion should be subject to progress on the measurement of emissions and the manner in which scheme obligations should be imposed (ie. directly on farm businesses, upstream suppliers or downstream processers).

Green Paper
The agribusiness sector will not be required to participate in the CPRS until at least 2015. The precise date of inclusion will be decided in 2013.

Forestry

Garnaut Report
Suggests that reforestation be eligible to generate offset credits.

Green Paper
To be covered by the scheme on a voluntary basis from scheme start. Rather than eligibility to create offsets, increases in forest carbon would be credited to businesses under the CPRS. In accordance with Kyoto Protocol rules, only forests established after 1990 will be eligible to receive credits.

Price Caps

Garnaut Report
Did not support a price cap, unless it was only set for the transition period to the end of 2012. The main disadvantage of a price cap is that it reduces the environmental integrity of the scheme by undermining its ability to price the real costs of greenhouse pollution.

Green Paper
Recommends that a cap be placed on the price of carbon from 2010 to 2015.

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The aim of this cap is to set a maximum cost of compliance for liable companies. The price cap would be set high enough above the expected permit price to ensure low probability of its use, and is essentially a commitment from the Government to business that they will not be forced to comply at any cost.

The next step

The Federal Government has called for submissions on the Green Paper by 10 September 2008. A White Paper setting out final government policy will be released in December 2008 along with an exposure draft of the proposed legislation.

If you would like assistance drafting your submission, or on any other aspect of the Green Paper, please contact one of the people below.

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