Environment, Climate Change & Planning

August, 08

Business: What the Carbon Pollution Reduction Scheme means for you

The Australian Government has released a plan to tackle climate change by introducing a greenhouse gas emissions trading scheme. The scheme is expected to require Australia's top 1,000 greenhouse gas producers to purchase permits for their emissions.

But the impacts of the scheme will be much broader than the permit requirement – for business, government and the wider community.

The proposed scheme

Under the proposed Carbon Pollution Reduction Scheme, large emitters of greenhouse gases will be required to obtain a permit for every tonne of carbon dioxide equivalent they emit. The Government will set an annual cap on the number of permits that are available for acquisition. Permits will be available at quarterly public auctions, and then on a trading market (similar to the current water market). The price of each permit will be set by the market, rather than by the Government directly, so the price may fluctuate over time. Companies that value the permits most highly will be prepared to pay the most for them. For other companies, it will be cheaper to reduce emissions than to obtain permits.

Each year, the annual cap will be reduced, so that the number of available permits becomes less and less. This is intended to encourage companies to take steps to reduce their emissions rather than rely on the availability of permits.

The Scheme is expected to come into effect in 2010.

Scheme coverage

The requirement to obtain permits will generally apply to companies with facilities that have direct emissions of 25,000 tonnes of carbon dioxide equivalent per year, such as industrial plants that either produce greenhouse gases in their operations or burn large amounts of fuel (eg in furnaces or boilers), electricity generation plants that use hydrocarbon fuels (such as coal or gas), and large waste facilities.

To cover small emitters, such as commercial and private vehicle and gas users, the Scheme requires suppliers of fuel and gas to obtain permits.

The Government will wait until 2013 to decide whether and how to include agriculture in the Scheme.

Obligations for business

Unless you are required to obtain permits (eg as a producer of greenhouse gas emissions or as a producer / retailer of fuel or gas), you do not have direct obligations under the Scheme.

Implications of the Scheme on business

Electricity, gas and fuel producers / retailers will be required to obtain permits for their operations. Those permits (or the measures taken to reduce emissions rather than obtain permits) are likely to come at a high cost. It is expected that these costs will be passed on to customers by way of price increases.

Businesses should expect their basic costs for electricity, gas and fuel (petrol, LPG, diesel etc) to increase.

Since the operating costs of manufacturers, suppliers, and service providers will increase due to higher energy and transport costs, the prices of goods and services will also increase as the costs are passed on to consumers. The higher the energy intensity of the manufacturing process, and/or the longer the distance that an item must be transported, the larger the price increase.

Key business expenses affected by cost increases will include:

- water
- freight
- air travel
- building materials (particularly steel, aluminium and cement)
- paper
- waste disposal

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Government assistance

In order to reduce the initial cost impacts of the Scheme on consumers, the Government has proposed to provide the following assistance:

- free allocations of permits to "emissions-intensive trade-exposed industries" such as cement and aluminium producers, which will allow these industries to continue to operate without significantly increased operating costs (so prices will not need to increase to cover the costs of their emissions);
- support (possibly funding) to coal fired electricity generators, which will reduce the extent of any initial price increase for consumers sourcing electricity from these suppliers;
- fuel tax cuts on a cent for cent basis for the first 3 years of the Scheme's operation to offset initial price increases by fuel manufacturers and distributors (so that motorists will have 3 years to plan for a fuel price increase) ; and
- commitments to use "every cent" raised from the auction of permits to help Australian households and businesses to adjust to the Scheme and invest in clean energy options, through education, rebates benefits and other initiatives.

This Alert is intended as an alert only. It does not purport to be a comprehensive advice. Readers should seek professional advice before acting in relation to these matters.

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