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Climate Change Group
Department of the Prime Minister and Cabinet
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CANBERRA ACT 2600

Submission points on “Abatement incentives prior to the commencement of an Australian Emissions Trading Scheme (AETS)”

Background

Adelaide Brighton Limited welcomes the opportunity to comment on the discussion paper of the Climate Change Group on “Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme”.

Adelaide Brighton Limited (ABL) is a vertically integrated lime, cement and concrete products company, operating in all mainland states and territories of Australia providing quality products to the Australian market. The company directly employs 1 300 people and had a turnover of \$791m in 2006.

Cement and lime manufacturing contribute significantly to state greenhouse gas emission (GHG) inventories. The energy intensity production centres of the operations in Western Australia and South Australia contribute 3% to each state GHG inventory.

In the past the company has competed in international markets in the USA, Asia and the Middle East with bulk cement. Demand over the last 6 years has centred in Australia and ABL’s cement sales have competed with imported product pricing despite growing modern capacity in Asia.

Since 1990 ABL has, when market conditions are opportune, invested in eco-efficient projects resulting in significant early actions toward reducing the company’s greenhouse signature.

In 1997 the company with the other member's of the Cement Industry Federation (CIF) established an industry wide commitment to voluntarily reporting our annual inventory and abatement project achievements to the Greenhouse Challenge Program (GCP).

To support GHG reporting, a verifiable, transparent management system was developed by the industry to enable all cement production to uniformly calculate its GHG inventory.

In 2001 the CIF used independent auditor PriceWaterhouseCoopers to review the member company's GCP reporting and advise where improvements could be made. This was followed by the GCP officially verifying the cement industry in 2002.

ABL cement and lime operations were certified to ISO 14001 Environmental Management System in 1996 at Birkenhead and Angaston Works, including the obligation of GCP. Consequently recertification audits and surveillance audits to meet this international standard have included reviews of the GCP management and reporting.

The World Business Council for Sustainable Development (WBCSD) introduced a Cement Sustainability Initiative in 2000. The Australian Industry has contributed to developing an international cement industry sustainability program and guidelines for operations based on the accounting processes being used for GCP. In 2005 an updated international protocol for GHG accounting compliant with World Reporting Initiative (WRI) and International Standards Organisation (ISO) structures was agreed with the industry. This protocol has been adopted by ABL.

Clearly ABL has supported early action in all areas of GHG reduction, measurement and disclosure. In the 2006 Annual Report the emissions and efficiency of GHG from cement and lime production were reported and we discuss our GHG signature regularly with investors, the community and our employees.

1 Introduction

Two key areas of concern for the government during the time prior to the start of an AETS,

- Firms may cease abatement to influence the "baseline" for permit allocation during the "lead up" to an ETS, therefore permit allocations need to support actions being maintained before an ETS starts, giving assurance that early action will not be disadvantaged. A price for carbon should be available for projects that can be implemented earlier using the Greenhouse Friendly program (GhF).
- Government wants to encourage greater levels of abatement prior to ETS start, advance credit for new activities that deliver additional abatement but will require investment. Incentives will continue during the development of a scheme.

ABL supports the approach to a period prior to the start of AETS that encourages open calculation of GHG by as many industrial activities as possible, the continued reduction initiatives of GHG, and the implementation of new opportunities. We believe this will give a firm start to an AETS, encourage and appreciate innovative initiatives that are beyond business as usual, continue to reduce GHG, and establish involvement with the AETS program.

2 Ensuring Allocation Rules Maintain Abatement Incentives

- Significant abatement has occurred already
- Further abatement may be delayed to increase free permit issue
- TEEI will be allocated free permits to avoid prejudicing competitiveness until international competition face comparable carbon constraints to Australia

No disadvantage – “Firms that undertake abatement between now and the start of the ETS will not be disadvantaged.” Prime Minister

Measurement of Early Action abatement

- Abatement achieved before mandatory reporting is recognised as difficult to measure with confidence.
- Implementation of National GHG and Energy Reporting (NGER) will occur mid 2008, and the Regulator of the ETS will be appointed in 2009
- Verification process will be developed for assessment of abatement in 2007/08 inline with the implementation of the national reporting system
- Regulator will have access to a range of data to “sensitivity check” baseline and abatement claims prior to 2011.
- Permit allocations will be influenced by many factors in calculations and methodologies as well as TEEI considerations.

ABL has demonstrated its ability to measure GHG through GCP verification regular audits for surveillance and certification to ISO 14001.

Additional data to support performance, NNGI (includes cement and lime production data using the ANZSIC codes) voluntarily reporting to AP6, EEO, WBCSD CSI.

3 Positive Incentives to Uptake Additional Abatement

- Provide incentives to encourage firms to maintain their abatement efforts, and recognise “additionality” i.e. going beyond business as usual.
- Incurring fiscal costs and represents value for money either through permits not required being invested in abatement or through credits created being auctioned and invested to support abatement project
- Government is inclined to provide incentives for firms to continue to undertake abatement in the lead up to 2011 if the abatement fits with AETS scope.

3.1 To encourage abatement standards are to set by Government:

- Set robust and transparent standards to accredit offsets
- Additionality will be key to recognising abatement
- Environmental integrity – permanent (non reversible), measurable, verifiable
- International recognition of quality and quantity
- Credits to only recognise emissions that have been abated

ABL supports the criteria outlined in 3.1 for recognising emissions abatement and believe these criteria support international standards.

3.2 Eligible Activities

Proposed eligibility criteria

- No restrictions on activities that can earn credit prior to 2011 provided they are additional, actually occurred, permanent and verifiable
- Early action and offset credits from eligible projects abatement after 3/6/07 to 2011
- Projects need to be established after 3/6/07
- GhF abatement approval will not necessarily transfer to AETS if the abatement doesn't fit with the AETS scope

ABL is unclear as to why the paper has at this point introduced "projects commenced after 3/6/07" this should constrain recognition only to "emissions abated after 3/6/07". ABL is concerned that during the period prior to an AETS there is significant benefit to the scheme with disclosure, reporting and the involvement of business in measuring GHG performance to prepare the inventory for a well established GHG market.

ABL also seeks clarification on the words "commenced" and "established" in relation to projects. Projects receiving the government R&D tax benefit, we would expect, are not "commenced" or "established".

3.3 Administrative Arrangements

To provide integrity and credibility to the AETS

- Approval of abatement by GhF rules and processes to be a starting point
- Streamline processes of approval for early action credit and offset credits – this has not yet been done but GhF is under intensive review
- National Register for offset and early action credit to support AETS
- Regulator for the AETS to be established by 2009 and will develop the standards for and AETS that will
- Transfer early action and offset credits
- Include international developments, methodologies in AETS

The criteria described for early action abatement recognition are more arduous than will be applied under an AETS where abatement will be undertaken to reward the company for the benefits of both the payback from efficiency gains and the price of carbon. Projects with small gains will be captured in the AETS through movement in the inventory which will have to be verified and therefore will add a cost to production with or without a GHG benefit.

ABL supports streamlining protocol for early action and offset projects to encourage disclosure and abatement during the lead up time to an ETS and use of the NGER system.

3.4 National registration for offset and early action credits

ABL recognises a need for a credit register to monitor offset and early action credits and asks if this is the start of a larger carbon register of scheme inventory.

3.5 Developing offset standards for the emissions trading scheme

GhF is the appropriate starting point for verifying offset credits, however additionality criteria used in the lead up to and AETS would presumably be dropped with the onset of a full AETS.

3.6 Transitioning early action and offset credits into an AETS

Early action credits being used in the first year of the AETS may distort the market especially as there is no estimate at present of how many credits maybe issued. Managing early action credits into the system should, for example be taken as part of a 5 year establishment program. The cap setting rules can then be established as a long term protocol.

ABL believes the criteria to satisfy GhF and the cost of verification of credits in the AETS will set significant constraint on how many early action credits are registered.

3.7 International activities and abatement recognition by other domestic mandatory schemes

ABL supports international emissions trading scheme standards to transition AETS towards an international market and therefore expand the range of lowest cost abatement.

3.8 Voluntary market access to offset accreditation for use in ETS

ABL agrees this as a means of including sectors that are otherwise not covered by the AETS and assists in preparing all sectors for AETS, so long as the same rigorous standard of verification is required.

If you require any further clarification on these points we would be happy to discuss them further, please contact me.

Yours sincerely



Ros DeGaris
Group Sustainability Manager