

1 December 2007

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Climate Change Group  
Department of Prime Minister and Cabinet  
PO Box 6500  
CANBERRA ACT 2600

Dear Sir / Madam

**SUBMISSION ON ABATEMENT INCENTIVES PRIOR TO THE COMMENCEMENT OF THE AUSTRALIAN EMISSIONS TRADING SCHEME**

The Chamber of Commerce and Industry WA (CCI) is pleased to provide a submission on the early abatement incentives discussion paper released in September of this year.

**About CCI**

CCI is the leading business association in Western Australia. It is the second-largest organisation of its kind in Australia, with a membership of over 5,000 organisations in all sectors, including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services, and finance.

CCI asserts that greenhouse emissions reduction and adaptation to climate change must be embraced nationally and internationally across all sectors of government, business and the community within a framework of sustainable development.

To ensure the most effective means of addressing climate change, CCI contends that a complementary suite of policies must be developed that encourage:

- Abatement action to establish best-practice technology
- Commercialisation of emerging technologies that make significant reductions in emissions
- Innovations that harness opportunities for abatement
- Accurate modelling and monitoring of regional effects so efficient and effective adaptation can occur.

CCI's Climate Change Committee has examined the issues put forward in the early abatement incentives discussion paper and makes the following comments.

**Section 1 – Introduction**

CCI notes the premise of this discussion paper is to ensure that firms not only do not cease abatement during the period leading up to the commencement of the Australian ETS (AETS), but that they have incentives to create more abatement in this phase. Firms that have already

undertaken abatement should not be at a disadvantage. In addition, firms that qualify as trade-exposed emissions-intensive (TEEI), along with those that face a disproportionate loss in asset value through the ETS, are to receive compensation.

Based on the definitions and rules around early abatement put forward in the paper, CCI contends that the discussion paper is encouraging exactly the opposite scenario, namely that:

- firms now have fewer incentives to continue abatement or take up additional abatement
- firms that have undertaken abatement now have incentives to cease doing so
- firms that have undertaken abatement will now be at a disadvantage compared to those that have not.

## **Section 2 – Ensuring allocation rules maintain abatement incentives**

### No disadvantage arrangements

CCI accepts that a date must be set to distinguish between assets that can qualify for compensation in the AETS and those that cannot. Established through the Government's announcement of an AETS, the date of 3 June 2007 effectively draws a line in the sand for no-disadvantage arrangements on assets of firms that will participate in the first phase of the AETS. CCI agrees with the use of this date for asset eligibility.

CCI does not agree, however, with the discussion paper's implication (page 5) that abatement achieved before mandatory reporting will be difficult to measure with confidence.

Many of the firms that will be covered by the first phase of the AETS have been participating in GCP and other federal and international abatement programs whose data would be easily subjected to verification of abatement prior to 3 June 2007. Among these programs are Greenhouse Challenge Plus (GCP), the National Greenhouse Gas Initiative (NGGI), Energy Efficiency Opportunities (EEO), and the World Business Council on Sustainable Development's sector sustainability initiatives.

Participation in these and other similar programs requires the development and maintenance of comprehensive records, and for this reason CCI recommends they be considered as additional sources of data not only for the purpose of ensuring permit allocations are appropriate and equitable, but also to verify emissions abatement from projects undertaken before 3 June 2007.

The suggestion that abatement projects undertaken before 3 June 2007 will not be easily verified has serious implications for many firms.

### Assets eligible for compensation

CCI supports the use of the National Electricity Market (NEM) definition for "committed asset", as provided in Appendix A of the discussion paper. CCI notes that the principle behind this definition is that assets in existence at 3 June 2007 can be defined as those to which firms are irreversibly committed.

### Section 3 – Positive incentives to undertake additional abatement

#### Standards for abatement recognised by the scheme

CCI supports the commitment to developing robust and transparent standards for accrediting credits and offsets for use in the AETS. Additionality, calculability, verifiability, permanence, and monitoring are all reasonable criteria for approving offsets, both for early action credits and offset credits.

CCI also supports the premise that the principles applied to early recognition should also apply to future recognition, in order that the AETS be linkable to other schemes because international fungibility will be critical to the success of the AETS and the drive to cut emissions globally.

#### Eligible activities

As mentioned above, however, CCI believes the approach to rewarding firms for abatement already undertaken and encouraging additional abatement before the AETS commences will in fact punish those who acted early and reward late-comers.

The way in which the asset eligibility deadline has been applied to abatement projects is seriously flawed. Firstly, it is inconsistent with the way it is applied to assets. Assets in existence at 3 June 2007 can be defined as those to which firms are irreversibly committed, and therefore those for which they may be able to receive some compensation. However, abatement projects in existence at 3 June 2007 appear to be excluded from consideration for early action credits altogether, although wording around this in the discussion paper is also inconsistent.

At the bottom of page 9, we learn “it is proposed that the emissions trading scheme recognise abatement from eligible projects that occurs after 3 June 2007”. Then it says, “[a]batement could only be recognised for projects that commenced after 3 June 2007 that satisfied additional eligibility criteria.”

The inconsistency here lies in whether it is all *projects* in existence before 3 June 2007 that would be ineligible for early action credits, or all *abatement* prior to that date.

At the Perth consultation session on 31 October 2007, representatives from the Department of Prime Minister and Cabinet confirmed that in fact the date applies to *projects* rather than *abatement*. Two reasons were cited for making ineligible abatement from all projects in existence prior to 3 June 2007. The first was that verification of projects older than that date was considered simply too difficult. As we point out in the section above, there are many abatement schemes, including federal schemes, whose documentation could easily be used to verify whether abatement has been real and additional.

Most abatement undertaken by Australian industry prior to 3 June 2007 has by definition been additional – that is, beyond business as usual. Firms that have elected to abate emissions early have done so for a combination of reasons, not only to learn about and prepare for participation in an ETS, but also to demonstrate good environmental and business practice to their shareholders and the community at large.

CCI understands that abatement prior to 3 June 2007 should be ineligible but to make ineligible *any abatement after 3 June 2007 from projects that existed before that date* is unjust and difficult to

understand. Many thousands of tonnes of abatement would be discontinued by firms for which those projects still represent costs (albeit worthy R&D expenditures) if they cannot secure at least partial credit for them.

The second reason cited for making ineligible abatement from all projects in existence prior to 3 June 2007 was that the market could be flooded with credits. Given the stringent verification methods proposed, this is a highly unlikely prospect, and DPMC has not provided any evidence to the contrary.

Attendees at the Perth session also understood there will be obligations around whether abatement projects are considered business-as-usual (BAU). According to DPMC, a company would need to demonstrate that an abatement project was not already in the pipeline before 3 June 2007 to secure early action credit status. If it was, this could be interpreted as proof that the project was deemed BAU and not requiring the assistance of an ETS or early abatement incentives.

CCI considers this interpretation of BAU counter-productive and extremely difficult to understand. That a company may have considered, prior to 3 June 2007, implementing an abatement project has absolutely no bearing on the project's commercial viability, nor does it prove that there was no "explicit additional driver or incentive" (p. 3) for it. As with the proposals discussed above, this additional hurdle will make even fewer abatement projects eligible for early action credit and will lead to their discontinuation, thereby raising emissions.

More clarity is also needed on the subject of abatement projects that companies approve after 3 June 2007 for reasons of good corporate social practice, even though the projects may also make a profit or improve efficiency. At the Perth consultation session, DPMC suggested that eligibility for projects initiated after 3 June 2007 will be assessed on whether they meet certain company- or industry-oriented hurdles of "common practice". Without knowing the details of this aspect of eligibility, it is difficult to comment specifically, but CCI would caution strongly against associating industry benchmarking with early abatement eligibility.

Overall, the proposal for early abatement recognition directly conflicts with then Prime Minister Howard's statement that "the Government is keen to ensure incentives to achieve abatement are maximised in the lead up to emissions trading". As mentioned, companies that acted early – some as soon as the early 1990s – now find themselves in the unenviable position of having to shut down worthy abatement projects because they will not receive any recognition for them, not even abatement logged after 3 June 2007.

One example is a significant sequestration project of 1000 hectares in Western Australia funded by overseas interests and paying farmers in the Wheatbelt region an annuity almost equivalent to the net farming return. It is unclear as to what will happen to these trees if they have no value under the scheme. There will also be negative implications for projects if the date is similarly applied to internationally fungible schemes.

We contend that the result will be a significant waste of time and money for industry and participants from other sectors, along with increased emissions for Australia. Meanwhile, those companies that chose to delay can now commence similar abatement projects whose eligibility is made legitimate simply because they came into existence at a later date, i.e., after 3 June 2007.

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CCI therefore strongly recommends setting a date that would enable projects in existence well before 2007 – for example, in 2000 – to apply for recognition.

#### Administrative arrangements

CCI supports the application of Greenhouse Friendly as one administrative mechanism for approving offsets and early action credits but recommends it not be the only such mechanism.

Securing accreditation through Greenhouse Friendly is a very time-consuming and expensive process. Many worthy abatement projects won't be able to justify the cost of Greenhouse Friendly and will necessarily be discontinued, further exacerbating the increase in emissions between now and ETS commencement. CCI recommends that additional verification schemes should be considered for accrediting early abatement and offset credits and as previously stated there are several federal schemes whose criteria could easily be amended to provide robust accreditation and verification for AETS credits.

CCI agrees that priority should be given to developing protocols for activities that will be eligible for early action credits, using methods developed domestically or overseas.

#### National register for offsets and early action credit

CCI supports the creation of a national register to track credits and offsets recognised under the AETS.

#### Developing offset standards for the ETS

CCI agrees with the use of Greenhouse Friendly as the initial protocol for offset arrangements but recommends others be introduced quickly, in order to minimise costs to companies and maximise the inclusion of worthy offset projects in the AETS.

CCI also encourages Australia to develop methodologies for activities not yet internationally recognised.

#### Transitioning early action credits into the ETS

CCI agrees that early action credits and offset credits will not constitute a large proportion of total permits required in the initial phases of the AETS and that there therefore be no limit on the number of credits recognised in the scheme.

CCI also argues that abatement from projects initiated prior to 3 June 2007 would not add significantly to the total quantum of early action credits and that, for this and the reasons previously outlined, such abatement be added to the volume of eligible early action credits.

### **In closing**

Although CCI agrees with the need for robust and verifiable methodologies for recognising early action and offset credits in the AETS, we are extremely disappointed with the overall treatment of early abatement incentives put forth in the discussion paper. We consider the proposal means that all the responsible companies who have reduced emissions at a cost or for limited returns will be ignored whilst incentives are handed out to those who held back from even dealing with the low-hanging fruit until now.

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CCI recommends that Government continue to consult WA industry closely on these matters, in conjunction with proposals yet to be released, especially those concerning rules for setting the cap trajectory and permit allocation.

CCI's Director Industry Policy would be pleased to provide further information concerning this submission and can be contacted on (08) 9365 7560 or at [Trevor.lovell@cciwa.com](mailto:Trevor.lovell@cciwa.com).

Yours sincerely



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