

Business SA, as the state's leading business organisation, represents many thousands of businesses across all industry sectors ranging in size from micro-business to multi-national companies. Business SA is therefore well placed, and pleased, to represent the South Australian business community in responding to the Department of the Prime Minister and Cabinet's discussion paper: "Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme (AETS)".

Business SA commends the recognition of the contribution of energy intensive, trade-exposed industries to Australia's economy and the disadvantage they will specifically incur with the introduction of the AETS.

The concept and definition of 'trade exposed businesses' should be revised with a rigorous test procedure for the determination of trade exposed businesses. Consultation with interested and affected parties should be mandatory.

Business SA believes that abatement incentives put in place prior to the commencement of the AETS, should focus on the following principles:

- A low cost national system, consolidating all existing markets and schemes, with minimal market interference.
- A transparent and equitable scheme allowing businesses to transition to lowest GHG emissions while remaining economically viable.
- Long-term planning and certainty to all industries, and confidence in property rights of permits.
- Recognition of off-sets and abatement action of early and voluntary actions.
- Allocation processes based on good quality emissions data.

After consultation with its members, Business SA is pleased to provide a submission on the discussion paper.

**Issues for stakeholder consideration**

*It is proposed that the emissions trading scheme regulator use verified emissions data from the first mandatory reporting period under the National Greenhouse and Energy Reporting System as an input into permit allocations.*

*It is proposed that the regulator supplement this with verified abatement data from the previous year and draw on other relevant sources of data where this would assist in ensuring firms receive an appropriate allocation of permits.*

*Firms are encouraged to report abatement through the National Greenhouse and Energy Reporting System along with other corporate emissions and energy data, and to keep high quality records of abatement activity in the mean time.*

*Stakeholder advice is sought on relevant sources of data outside of NGERS that could be used for this purpose (eg, information from environmental approval processes or greenhouse or energy use programmes such as Energy Efficiency Opportunities).*

The AETS should replace all other regulatory schemes and programs and be administered by the Commonwealth. This will ensure the scheme is fully national in scope and lowers the administrative costs and reporting and compliance burden on industry.

Business SA approves the use of data from the National Greenhouse and Energy Reporting System (NGERS) and encourages its use for other Commonwealth greenhouse or energy programmes such as Energy Efficiency Opportunities (EEO). This will require significant development to meet the standard of an AETS.

We await further details about the proposals for compensation for trade-exposed and emissions intensive companies which we understand will not be available until 2008. The absence of this information will continue to inhibit companies from taking greater responsibility to implement sustainable business practices.

**Issues for stakeholder consideration**

*Stakeholder feedback is being sought in relation to the definition of an asset "in existence" at the cut-off date.*

*Feedback is sought in relation to the guidance afforded by the use of the National Electricity Market (NEM) definition and criteria for the electricity generation sector, and any necessary amendments to the criteria that may be necessary to give a similar outcome for other industries.*

Business SA supports limiting eligibility to projects to plants that were in existence before 3 June 2007, as assets built since should be designed for greatest GHG efficiency

Business SA also seeks further clarification as to whether companies must meet all NEM criteria in order to qualify for 'in existence' status, or whether there is a minimum number of criterion to meet.

**Issues for stakeholder consideration**

*It is proposed that credits only be provided for activities that represent abatement that has actually occurred, is additional, permanent, measurable, and verifiable.*

Business SA supports this proposal, however we are concerned that industry may cease abatement activities to influence the baseline for permit allocation during the lead up to an implemented AETS. We strongly recommend that the architects of this programme ensure the allocation process recognises the maintenance of abatement activities before the AETS starts, as to do otherwise would create a disincentive for early action.

Business SA also recommends the exploration of a range of possible forms of compensation for companies that may bring a better outcome than granting emission permits based on pre-AETS emissions.

One way would be to allocate long-term permits to sustainable companies while delegating short-term permits to those with less than desirable practices. This creates certainty, and provides incentives for businesses to incorporate clean technology and practices into their workplaces.

Other possible incentives could include the use of early action credits to:

- Enhance trade-exposed industries emission permits to be transition permits that would require a marginal reduction in emissions. This could be achieved through the purchase of lower emission electricity, before the transition permits could be (such as requiring that a prescribed CO<sub>2</sub>-e reduction is achieved by purchasing gas-based electricity or GreenPower accredited renewable electricity or Renewable Electricity Certificates (RECs), compared with 'business as usual'.)
- Access to grant funding that would assist trade-exposed industries implement improvements to infrastructure for energy recovery, energy efficiency or access to renewable energy.

**Issues for stakeholder consideration**

*It is proposed that there be no restriction on the types of activities that can earn credits prior to 2011 for use in the emissions trading scheme, provided they represent abatement that is additional, has actually occurred, and is permanent, measurable, and verifiable.*

*It is proposed that early action credits be generated from eligible projects for abatement after 3 June 2007 until the commencement of the scheme due in 2011.*

*Similarly, it is proposed that offset credits for use in the emissions trading scheme can be generated from eligible projects for abatement after 3 June 2007.*

*To be eligible, it is proposed that projects would need to be established after 3 June 2007.*

*Abatement projects could only be approved following final decisions as to eligibility of activities for offsets or early action credits for use in a future emissions trading scheme.*

Business SA is disappointed that abatement can only be recognised for eligible projects which commence after 3 June 2007: Failing to encourage those who have taken early action, is contrary to the key objective of the discussion paper. Open discussion, and engaging GHG calculations, reduction and disclosure will be essential for a better understanding of and by the emissions trading market.

Business SA has previously advocated for an AETS that moves steadily, and in an organised manner, to a broad coverage base that includes all significant emitting sectors and encourages consumer choices. Despite this, we understand that some sectors have been excluded from participating in the AETS (due to the inability to measure their output) and are concerned that these sectors will have an opportunity to participate in the potentially lucrative carbon market without the need to control their GHG activities. Trading carbon benefits from uncovered sectors into covered sectors can create the same types of issues that the former Howard Government condemned in the Kyoto Protocol whereby China and India could trade their credits without facing carbon constraints of their own during the first commitment period.

In rewarding early abatement, the AETS should include incentives for the agricultural production, forestry and land use sectors to withhold sufficient carbon credits to meet their own future liabilities.

**Issues for stakeholder consideration**

*It is proposed that the Australian Government's Greenhouse Friendly programme provide the initial administrative mechanism for approving offsets and early action credits for use in the emissions trading scheme.*

*It is proposed that the existing Greenhouse Friendly protocol for new forest offsets be used to assess eligibility following any Government decision, but be reviewed in 2008.*

Feedback from Business SA members, which is consistent with the conclusions of various studies, suggests the Greenhouse Friendly program has not been embraced by industry (nor the consumer) because of inappropriate implementation, assessment and assurance procedures.<sup>1</sup>

The limited effectiveness of the Greenhouse Friendly programme is a concern to Business SA members as it will set-up more arduous criteria for early action credits than an ETS. We recommend the programme's processes are reviewed, with industry feedback, before incorporating it into the AETS.

Business SA supports the proposal that an independent authority oversee the administrative mechanism for approving offsets and early action credits, and that the mechanism be comparable with similar standards in the United Nations Framework Convention on Climate Change.

The criteria for Greenhouse Friendly verification includes more arduous requirements than an emissions trading scheme, hence for Greenhouse Friendly to be the standard for approving GHG projects and inventory the criteria would need to be reviewed.

**Issues for stakeholder consideration**

*It is proposed that streamlined protocols be developed for eligible early action and offset projects. Stakeholder feedback is sought on priority project activities for protocol development.*

The protocols should be focused on delivering a transparent and equitable scheme which allows businesses to transition to lowest GHG emissions while remaining economically viable. The architects of the protocols must take into account, the administrative and operational costs of introducing any mandatory schemes to businesses.

<sup>1</sup> Taplin, R. 'Australian Experience with Greenhouse NPIs', in Jacob K., Binder M., and Wieczorek A. (eds.). 2004. *Governance for Industrial Transformation*. Proceedings of the 2003 Berlin Conference on the Human Dimensions of Global Environmental Change, Environmental Policy Research Centre: Berlin. pp. 491 - 501.

Business SA does not understand why credible international offsets purchased before 3 June 2007 would not be eligible under the Early Action scheme. If the scheme seeks to express encouragement for companies and their initiative in addressing their carbon output, the scheme should also recognise pre- 2007 international offsets.

**Issues for stakeholder consideration**

*The Government proposes to develop as soon as practical a national offset register to track early action credits and offsets that could be recognised under the emissions trading scheme.*

Business SA supports this proposal.

**Issues for stakeholder consideration**

*It is proposed that the scheme regulator exchange early action credits for emissions permits dated for use in the first year of the scheme.*

*It is proposed that there be no limits on the number of early action credits that would be recognised.*

*It is proposed that early abatement be taken into consideration when setting the emissions caps in the initial phase of the scheme.*

Business SA supports the proposal that there be no limits on the number of early action credits, but not for the reasons proposed by the discussion paper. Business SA believes the difficult processes of verification required by Greenhouse Friendly, and the requirement for additionally will ensure only a few companies will receive early action credits therefore capping will be unnecessary. The scheme outline currently foresees a 5 year transition period into a trading process, however the need to extinguish early action credits in the first year is severe and may add a constraint in efficiently managing the scheme.