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

By email: emissionstrading@pmc.gov.au

Dear Sir/ Madam

Subject: Abatement incentives prior to the commencement of the Australian Emissions Trading Scheme

CPA Australia appreciates the opportunity to provide comments on the discussion paper on Abatement incentives prior to the commencement of the Australian Emissions Trading Scheme (AETS).

As Australia's pre-eminent professional association, representing the diverse interests of more than 112,000 finance, accounting and business advisers, we are committed to working with governments, relevant government agencies and others to ensure current and future economic and social policies foster an environment that facilitates sustainable economic growth.

CPA Australia supports the necessity for Government policies that provide incentives to encourage 'additional' abatement of greenhouse gases. CPA Australia is of the view that such incentives should not be limited to the emissions trading scheme as outlined in the discussion paper, but also other policy options, including tax and fiscal incentives.

Some of our comments, queries and questions in this submission reflect the current lack of knowledge the business community have on how the proposed AETS will work. Unless addressed quickly, this will lead to uncertainty, which may result in behaviour that is contrary to the policy intent. For example, deliberately increasing emissions to maximise permits, or undertaking costly abatement activity that does not give early action credits. Given the Government's election commitment to commence the AETS no later than 2010, the need for clear guidance on how the AETS will work has taken on greater urgency.

Key concepts and definitions

While we understand that the classification of an activity as 'additional abatement' or 'business as usual abatement' will turn on the facts of the activity, it would be helpful to business if the definitions of these key concepts incorporated examples.

It is unclear whether the definition of 'covered sectors' incorporates all business (except those in the 'uncovered sector'), no matter if they are required to participate in the AETS or not. If the definition includes all such businesses, can the Government confirm that businesses outside the 'agricultural production, forestry and land use' sectors that will not be participants in the AETS can not generate (and therefore sell) offset credits?

Given that the discussion paper states that the Government would eventually like to see the agricultural and forestry sectors in the 'covered sectors', is it correct to assume that no Australian entity will be able to generate offset credits once all sectors are covered?

We also seek clarification as to what happens when an entity operates in both the covered and uncovered sectors.

The definition of 'early action credits' needs to be clearer in relation to what happens when Australia transitions to the AETS. That is, the definition should state that when the AETS begins, any early action credits a business holds at that time, will be exchanged for 'emissions permits'. It would also be helpful if the definition stated whether or not such early action credits that have been exchanged for 'emissions permits' are treated the same as other emission permits. In other words, can such permits be banked for use in future years beyond the initial trading year? The definition should also be clear that early action credits can be traded prior to the commencement of the AETS.

The definition of 'emission permits' could be improved by making it clear when an 'emission fee' will be imposed.

The potential demand for offset credits will be heavier than emission permits because offset credits will be able to be purchased on both the voluntary market and the AETS. With limited supply of offset credits, this may increase the price for such credits, possibly discouraging AETS participants from purchasing such offset credits, particularly if the price for offset credits exceeds the price for permits or the emission fee.

Free permit allocation under the AETS

The discussion paper does not discuss how a Trade-Exposed, Emissions-Intensive (TEEI) business is determined nor does it state how a business that suffers a disproportionate loss in asset values because of the AETS is to be determined. If this issue is to be addressed in a separate discussion paper, this should be stated.

Quality of data to determine allocation of permits

An issue emerging from an earlier commencement of the AETS, is whether the regulator will have sufficient quality information with which to make an informed decision on the allocation of emission permits. If the AETS is to commence in 2010, the regulator will only have one year's worth of data under the *National Greenhouse and Energy Reporting System Act 2007* from which to make a decision on permit allocation unless the scheme regulator can look at verified emissions and abatement data from prior to the 2008-09 year. CPA Australia recommends that given the proposed shorter time frame until the commencement of the AETS and the need for the regulator to have access to as much verifiable data as possible to make decisions on permit allocations, then the regulator should be able to use verified emissions data from 2007-08 and earlier years.

In the first issue in the 'Issues for Stakeholders' on page 6 of the discussion paper, it states:

It is proposed that the emissions trading scheme regulator use ***verified*** (emphasis added) *emissions data from the first mandatory reporting period under the National Greenhouse and Energy Reporting System (NGERS) as input into permit allocation.*

CPA Australia agrees with this statement, however we draw the Government's attention to our comments on this issue in our recent submission to the discussion paper on the regulations for the National Greenhouse and Energy Reporting System:

'CPA Australia notes that section 73 of the National Greenhouse and Energy Reporting System Act 2007 provides for the Greenhouse and Energy Data Officer (GEDO) to compel registered entities to engage an auditor (of their choice or directed by the GEDO), in the event the GEDO has reasonable grounds to suspect that a registered entity has contravened, is contravening, or is proposing to contravene, the Act or the regulations. We are strongly of the view that the principle be that all emissions information reported under the Act (whether mandatory or voluntary) should be subjected to assurance by a qualified and independent party.'

In other words, unless the GEDO has reason to require the audit of emissions data, the emissions data reported under the NGERS will not be independently verified. Unless this issue is addressed, then the amount of verified information collected under the NGERS that the regulator has available to make a decision on permit allocations will be very limited (as much of the information collected will be unverified).

The second issue for stakeholder consideration relates to using verified abatement data from the years preceding the NGERS. We submit that it would enable the regulator to make more appropriate permit allocations if the regulator can access verified emissions data from 2007/08 and earlier years.

Guidance on what other relevant sources of data the regulator could consider acceptable would be of assistance. For example, would emissions data independently verified and reported in the annual report of a company be acceptable?

Assets in existence

In relation to the definition of 'assets in existence' as at 3 June 2007, CPA Australia recommends that the Government take a flexible approach to its interpretation of 'in existence'. We also recommend that the Government consider using the tax law definition of when a depreciating asset starts to decline in value (see section 40-60 of the *Income Tax Assessment Act 1997*) with the National Energy Market definition of 'committed asset' as the definition of an 'asset in existence'. If an asset meets the tax law definition of when a depreciating asset starts to decline in value, then the asset should be taken to be in existence.. One advantage of using the existing tax law to define 'asset in existence' is that there is a body of case law that businesses and the regulator can rely upon to assist them determine what assets were in existence as at 3 June 2007.

Standards for emissions data

CPA Australia strongly supports the Government's commitment to the development of robust and transparent standards for emissions data, including accrediting offsets for use in the emissions trading scheme. However, we would like to draw the Government's attention to the following comments we made on this issue in our recent submission to the discussion paper on the regulations for the National Greenhouse and Energy Reporting System:

We note the discussion paper states that there is widespread support for the use of definitions based on the Greenhouse Gas Protocol ***and*** *the Standard for Greenhouse gases – Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removal (ISO 14064-1) .We strongly counsel against adopting more than one source for standards. This is not consistent with the development of robust requirements and could lead to arbitrage opportunities for regulated entities. For example, they may choose a definition of Scope 2 emissions which may result in reporting less emissions than the alternative. Comparability of information is paramount in a well functioning market. Adopting more than one common source of emission definition violates this principle.*

Permanent abatement

CPA Australia recommends that the Government give guidance on what constitutes 'permanent abatement'. For instance, does a carbon sink forest constitute 'permanent abatement' given that it will have a limited life?

Abatement once trading commences

Can the Government clarify whether approved additional abatement projects undertaken prior to the commencement of the AETS will only generate credits until the commencement of the AETS, even though the additional abatement may continue past the commencement of the AETS? If this is the case, it may discourage investment in additional abatement as the investors may not enjoy all the abatement credits that the project would generate.

Limited number of early action credits

We are unclear as to why the Government will only recognise early action credits and offset credits emerging from projects that commenced after 3 June 2007. There are a number of additional abatement projects that have been approved by the Australian Greenhouse Office for *Greenhouse Friendly* prior to this date. We believe the Government should encourage as much early action as possible, therefore offset credits emerging from these pre 3 June 2007 projects should be recognised as offset credits for the AETS.

Having stated this, CPA Australia is concerned that adopting the *Greenhouse Friendly* process for assessing and approving projects post 3 June 2007 may be too rigorous and therefore discourage developers of abatement projects. CPA Australia is therefore interested and ready to participate in the proposed review of the *Greenhouse Friendly* process for assessing and approving projects.

Eligible offsets

The Task Group indicated that eligible offsets should not be restricted to activities included in current international standards. Where abatement occurs from activities where there is no international standard and the Government sets a standard in such absence, will this impact on the international linkages of the AETS?

Transitioning early action credits into the emission trading scheme

We note that the regulator will exchange early action credits for the same number of emission permits dated for use in the first year of the AETS. We take this to mean that the exchanged emission permit will have the same value as the early action credit; is this correct? Does 'for use in the first year of the scheme' mean that that the early action credits that have been exchanged for emission permits will expire in the first year of the AETS or can those emission permits be banked? It would add unnecessary complexity to the AETS if there are different classes of emission permits with different rights and obligations attached.

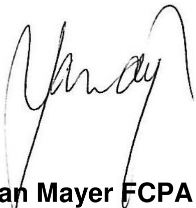
International activities

Where a company or a group operates in multiple jurisdictions and is subject to emission trading schemes in more than one jurisdiction the following questions arise

- will the AETS recognise additional abatement activity undertaken in another jurisdiction?
- How will the regulator ensure against double counting of abatement in this situation?
- When will the market get a decision on whether investments in international offsets, including CDM offsets should be included in the AETS?

CPA Australia thanks the Climate Change Group for the opportunity to comment. If you have any enquiries or wish to discuss any aspects of our submission, please contact Mr Gavan Ord, CPA Australia's Business Policy Adviser on 03 9606 9695.

Yours sincerely



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