

Gearing Up: Business Readiness for Climate Change

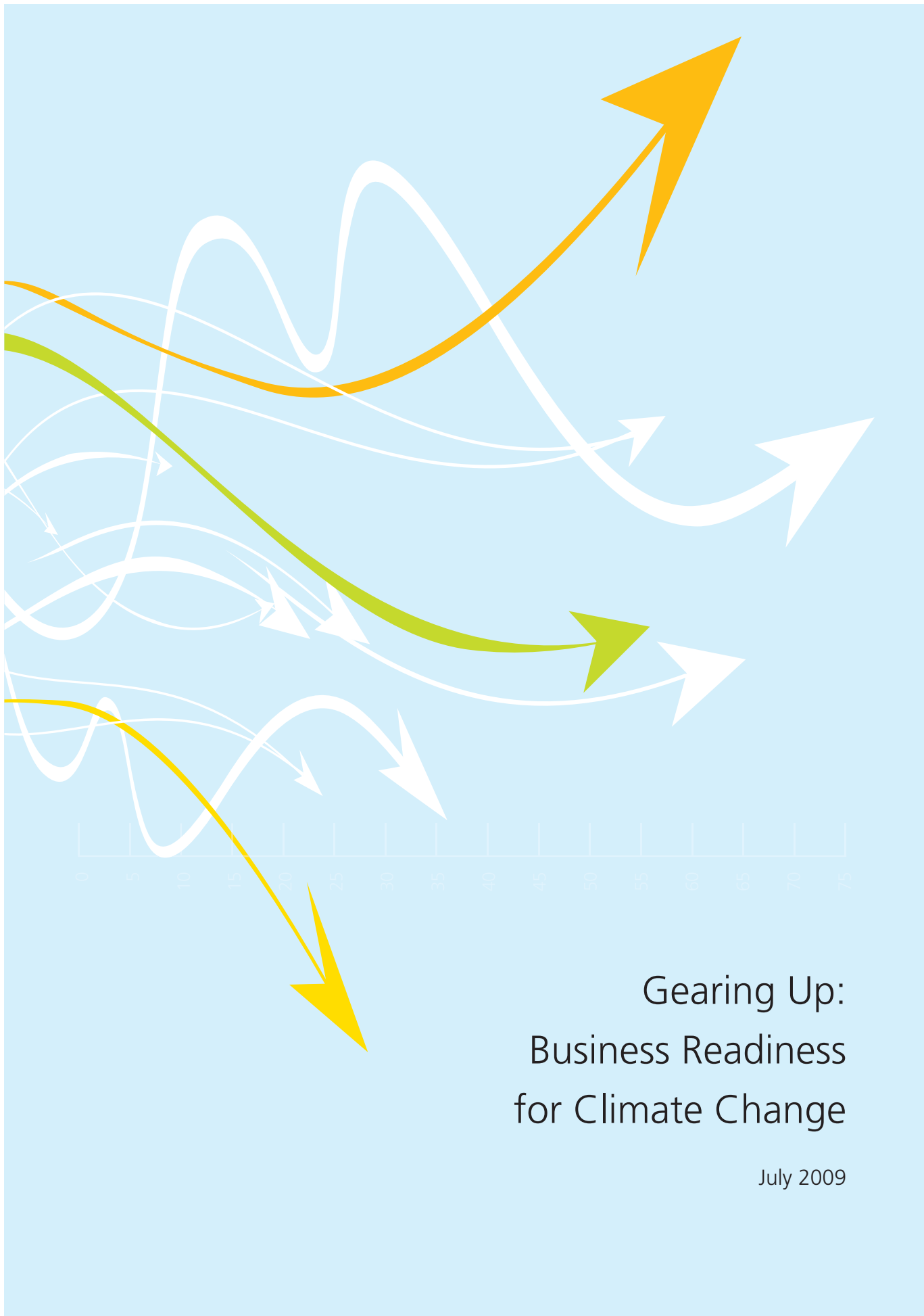
July 2009



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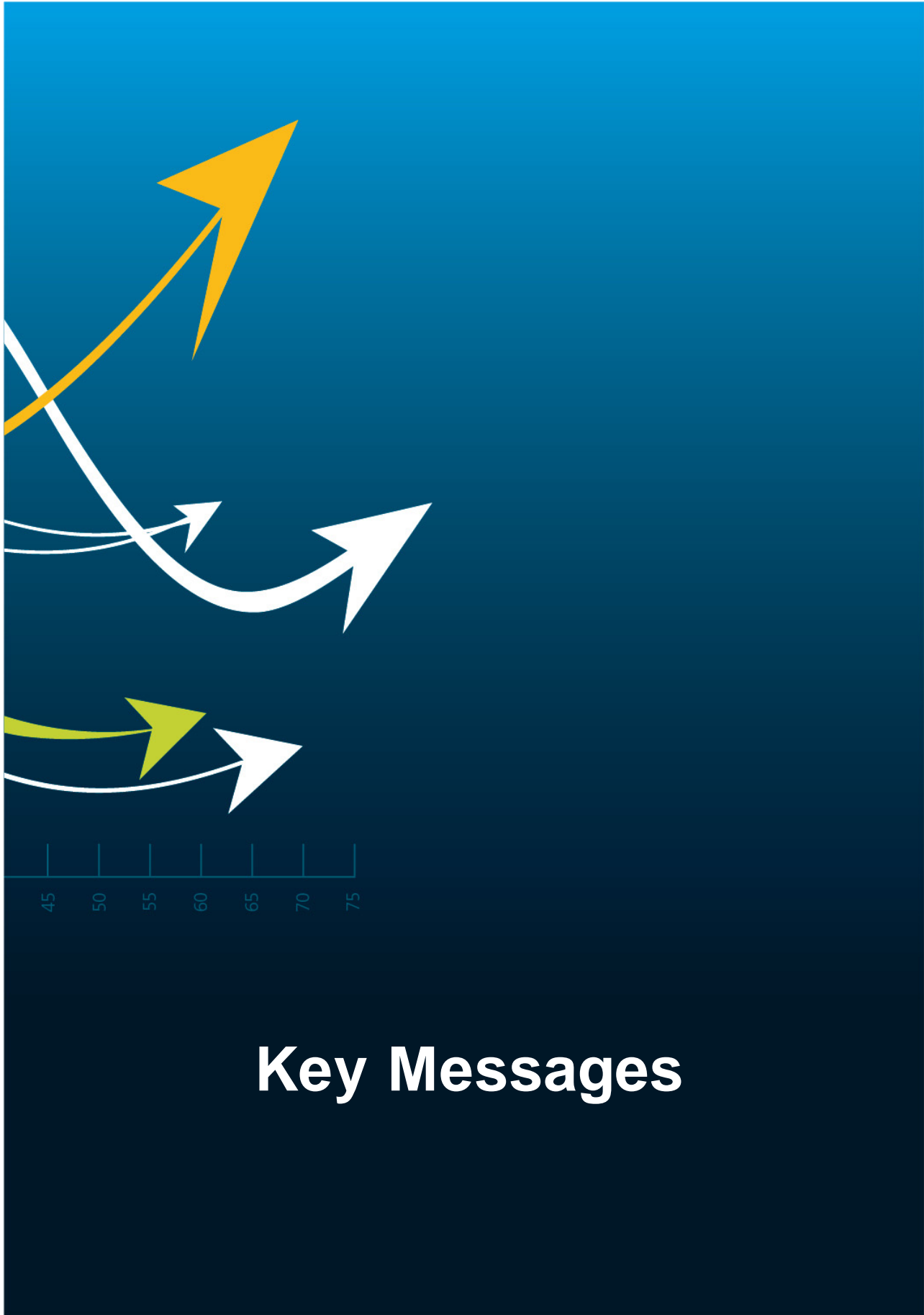
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Gearing Up: Business Readiness for Climate Change

July 2009





Key Messages





Key Messages

Australian businesses are beginning the long journey of adapting to emerging carbon constraints.



The Australian Industry Group is very active both in providing input into the development of climate policy and in informing and advising members about regulatory developments and steps that can be taken in measurement and management of their carbon footprints.

This survey of around 400 businesses in the manufacturing, construction and services sectors was undertaken to gauge where business is in the long journey of adapting to emerging carbon constraints; how well they are prepared for the introduction of a national emissions trading scheme; and the extent of regulatory burdens in this area.

The news is mixed.

There are plenty of very encouraging signs that businesses have begun to take active steps to measure and manage their carbon footprints.

Business also have strong plans to take these initial steps further over the coming few years.

In this context it is very clear that there will be strong demands by businesses as they seek to improve the skills of their own personnel and as they look to external expertise to assist with the management of their carbon footprints.

The survey also points to some significant problem areas.

Businesses are not yet well informed about the Commonwealth Government's proposed Carbon Pollution Reduction Scheme (CPRS). Some businesses have a very good understanding of the key elements of the proposal. However, this is far from widespread and there is a great deal more that needs to be done before we can assume business is adequately prepared for the scheme and its impacts.

Notwithstanding some promising initial comments by the Commonwealth Government, there is yet to be any streamlining of regulation over greenhouse gas emissions. Instead there has been a proliferation of measures. The responses in this survey point to a surge in regulation in this area in recent times and a strong expectation of more to come.

These findings accord with a recent report by the Productivity Commission in which it counted no less than 244 regulatory measures related to greenhouse gas emissions administered by 56 different agencies. This area is emerging as a major failure of policy in Australia.

Heather Ridout
Chief Executive
Australian Industry Group



KPMG welcomes the opportunity to support this important study.

It is clear from the study's findings that many businesses still have significant work to do to be fully prepared for the coming carbon-constrained economy, including the introduction of a national emissions trading scheme, the proposed Carbon Pollution Reduction Scheme (CPRS).

We are clearly heading into a new era that has the potential to transform the way we do business. While the CPRS is a key centrepiece of the Australian Government's climate change policy, significant complementary measures are already in place requiring businesses to adapt and respond now.

Global momentum is also clearly building with recent significant international developments. Australian businesses need to watch these developments closely and factor them into their long-term planning.

Businesses that are fully aware of the implications and successfully reposition their business to make the most of the opportunities have the potential to prosper in a carbon-constrained world. This applies to all businesses; from those required to purchase carbon pollution permits to businesses impacted through their supply chain, rising energy prices and changing demand for their products and services.

Five important areas require careful consideration and action: (1) business strategies need to be revisited and assessed; (2) potential financial and commercial ramifications need to be examined; (3) compliance, data management and regulatory obligations must be better understood; (4) appropriate emissions abatement and trading strategies need to be developed; and (5) overall business readiness must be accurately assessed and improved.

Remember that there are no convenient, off-the-shelf approaches to these issues – they have to be explored fully within the context of the unique circumstances of individual businesses. There is no time to delay.

Jennifer Westacott
National Partner in Charge,
Sustainability, Climate Change & Water
KPMG



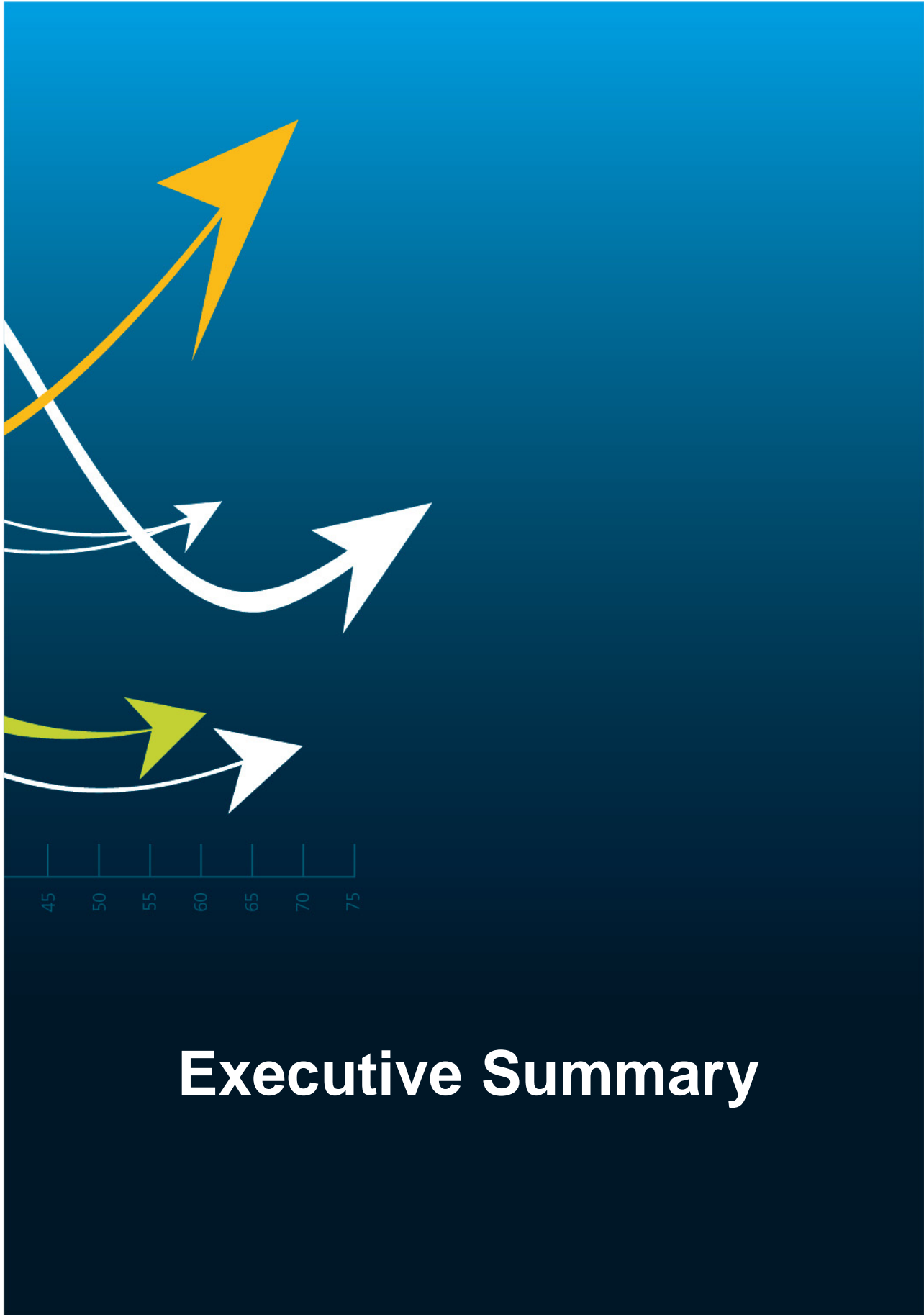
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Executive Summary



Executive summary

Background

In recent years we have seen increased community awareness about the threats of climate change and its association with the accumulation of greenhouse gases in the atmosphere.

Businesses have also become more aware of the threat of climate change and, both in response to regulatory measures and under their own steam, have begun to take action to measure and manage their carbon footprints.

At this important point in the emergence of carbon constraints, the survey provides a snapshot of current businesses positioning. The survey looks at:

- Steps businesses are taking to measure and manage their carbon footprints;
- Emerging skills needs;
- Burgeoning regulatory burdens in this area; and
- Businesses awareness of and preparation for the proposed Carbon Pollution Reduction Scheme.

About the Study

The survey was distributed to a random sample of companies from the manufacturing, services and construction sectors in February and March 2009, with a total of 392 CEOs responding.

The companies involved have a total turnover of around \$76.5 billion and employ approximately 205,000 people.

Manufacturers made up 51% of respondents; businesses in the services sector 41% and constructors the remaining 8%.

Businesses with fewer than 100 employees ("smaller" businesses) made up around 40.6% of respondents. Medium-sized businesses (between 100 and 500 employees) accounted for 39.5% of respondents, while larger businesses (more than 500 employees) comprised 14.3% of respondents.

Management of Carbon Footprint

Many Australian businesses are actively managing their carbon footprints. Businesses are active on a wide range of fronts in reducing emissions and energy use.

- Almost three-quarters of businesses currently measure or plan over the next three years to measure their carbon footprints (page 16);
- Around 38% of businesses have already taken steps to reduce their direct emissions, reduce their energy overheads; or to reduce their energy inputs per unit of production (page 17);
- Over two-thirds of businesses have begun assessing or plan to assess the abatement costs of alternative approaches to emissions reduction (page 16);
- Close to 70% of businesses have taken steps or plan over the next three years to change their operational practices as part of their management of their carbon footprints (page 18); and
- More than 60% of businesses have taken steps or plan over the next three years to invest in "cleaner" capital equipment as part of their management of their carbon footprints (page 20).

A significant minority of businesses, however, has no current plans to actively manage their carbon footprints.

- More than one-quarter of businesses have no plans to measure their carbon footprints over the next three years (page 16); and,
- Around 15% of businesses have no plans over the next three years to reduce their direct emissions, energy overheads or per unit energy use (page 17).

Larger businesses are overwhelmingly more active in managing their carbon footprint than other businesses. Likewise, medium-sized businesses are noticeably more likely than smaller businesses to actively manage their carbon footprints (page 17);

In overall terms, manufacturers are more likely than businesses in the services or construction sectors to be taking steps to measure and manage their carbon footprints (pages 16-17). In many individual areas, services businesses are more active (pages 17-20).

Readiness for the CPRS

Business knowledge of the CPRS is mixed (page 22).

- Only 15% of businesses surveyed were confident they had knowledge of all key elements of the CPRS;
- Almost one-third of businesses had no knowledge of the main elements of the proposed Scheme; and
- Smaller and medium-sized businesses are more than twice as likely as larger businesses to have no knowledge of its main elements.

A solid proportion of businesses are actively preparing for the CPRS (page 24).

- Close to one-quarter of businesses surveyed have undertaken a *formal* assessment of the impacts of the CPRS;
- Around one-third of respondents have assessed cost impacts and ways to reduce these impacts; and
- More than one-quarter of respondents have assessed opportunities arising from the CPRS.

In line with other findings on business preparedness (page 24):

- Manufacturers are the most active in taking steps to assess the impacts and costs of the CPRS;
- Businesses in the services sector are just as likely as manufacturers to have assessed opportunities; and
- Larger companies are around twice as likely as medium-sized companies and around four times as likely as smaller businesses to have formally assessed the CPRS.

The study suggests there is strong scope for policy action to improve business awareness of the CPRS and its impacts:

- Over 30% of businesses say they have no knowledge of the key elements of the Scheme (page 22); and
- Over 55% of all businesses are currently *not* taking steps to become better informed (page 23).



Early action in this area would have benefits in ensuring that businesses are better prepared for the direct and indirect impacts of the CPRS and by encouraging a wider range of businesses to look for ways to reduce emissions and improve the efficiency of their energy usage.

False Impressions and Misapprehensions

Policy action in assisting business to become better informed could also help in addressing a number of false impressions and misapprehensions.

For instance, a surprisingly large proportion (15%) of businesses expects to have *direct* liabilities under the scheme (page 24). Notwithstanding the nature of the sample (overweight in manufacturers and larger businesses), this appears likely to contain a few false positives. Of the 15% of respondents that expect to have a direct liability:

- One-quarter do not have NGERs reporting obligations;
- About one-third of companies expecting liabilities had not undertaken a formal assessment of the CPRS.

A surprising proportion (14%) of businesses expect to be eligible for an administrative allocation of permits (page 26).

- One-third of businesses anticipating allocations of free permits do not have NGERs reporting obligations;
- Around 44% of companies expecting free permits had not undertaken a formal assessment of the CPRS; and
- One-third of businesses expecting free permits do not expect to have direct liabilities under the CPRS (page 20).

Skills

Business demand for additional skills to assist in managing carbon footprints is on the rise (page 26):

- 60% of businesses intend to boost the capacity of their existing personnel to assist in these tasks; and
- Close to half intend to seek external advice.

The growing demand is evident across all sectors with stronger growth in demand for larger and then medium sized businesses.

Regulatory Burdens

The growing regulatory burden associated with greenhouse gas emissions and energy use is a clear concern of business.

- Almost four in 10 businesses surveyed, reported an increase in costs of complying with regulation in these areas over the past three years (page 28);
- Across businesses of all sizes, almost 70% of respondents expect to be allocating extra resources over the next three years to compliance with regulations in the areas of greenhouse gas emissions and energy use (page 29);
- More positively, businesses of all sizes, believe there is scope to reduce greenhouse gas and energy compliance costs with better coordination across governments and between government agencies.
- Close to half believe there is scope to reduce these burdens. This is around four times the proportion that sees no potential for reductions in regulatory burdens (page 30).

In Short

A solid core of Australian businesses is taking steps to measure and manage their carbon footprints.

Many more are planning to take these steps over the next few years.

A significant minority of businesses is not yet managing and has no current plans to manage their carbon footprint.

Business knowledge of the CPRS and its impacts is mixed.

Larger businesses and manufacturers are much more likely to have strong knowledge of the CPRS and its impacts.

Across the general business community, preparations are much less advanced.

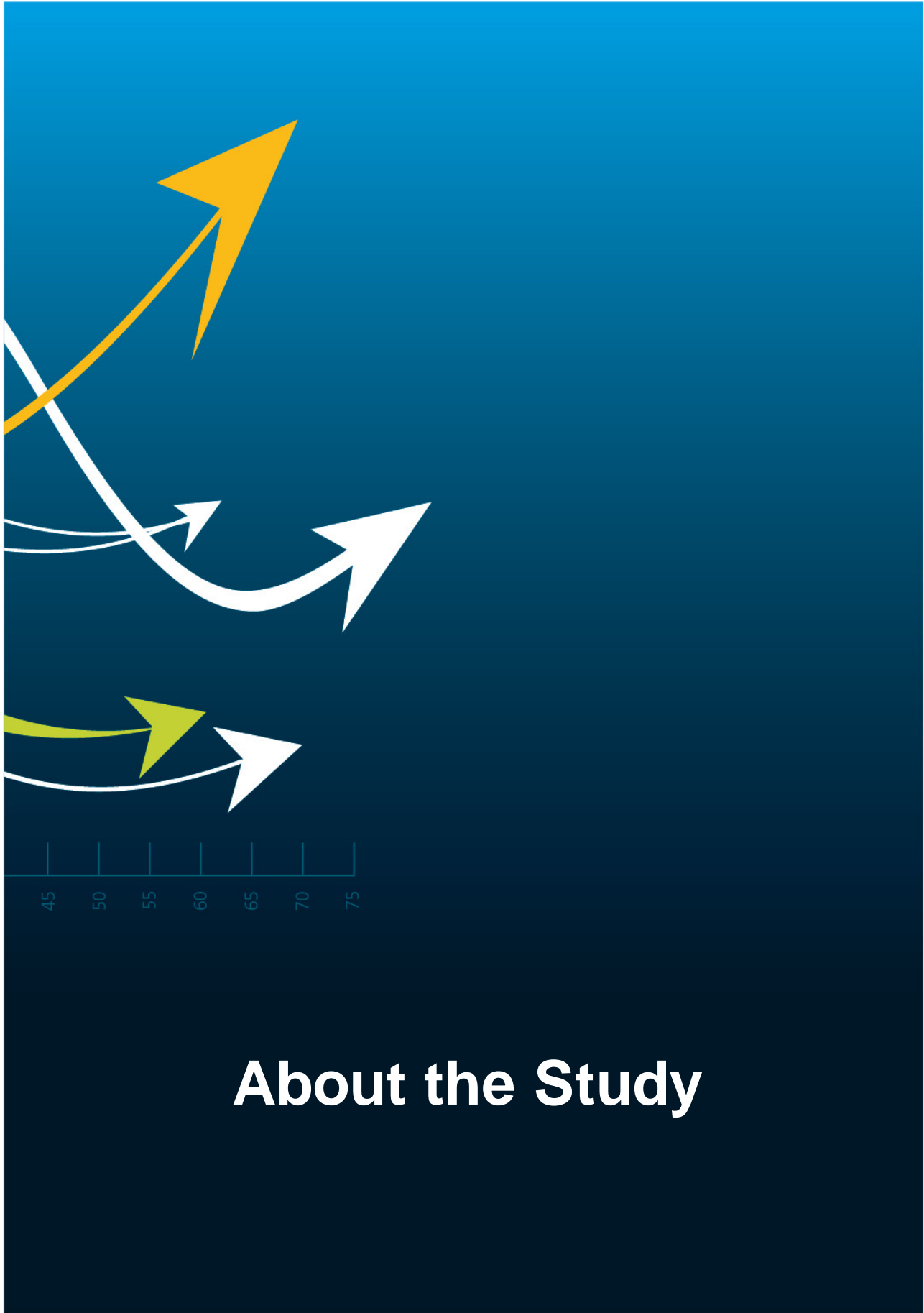
Many, particularly larger, businesses are planning to upgrade the skills of existing personnel and to call on external advice to assist in managing footprints over the next three years.

Early policy steps are called for to build business awareness and readiness. This would improve resilience during the early period of the CPRS and expose more businesses to opportunities to reduce emissions and energy use.

There is a disturbing proliferation of regulatory measures operating across Australian jurisdictions. This is also an area more than ripe for policy action.







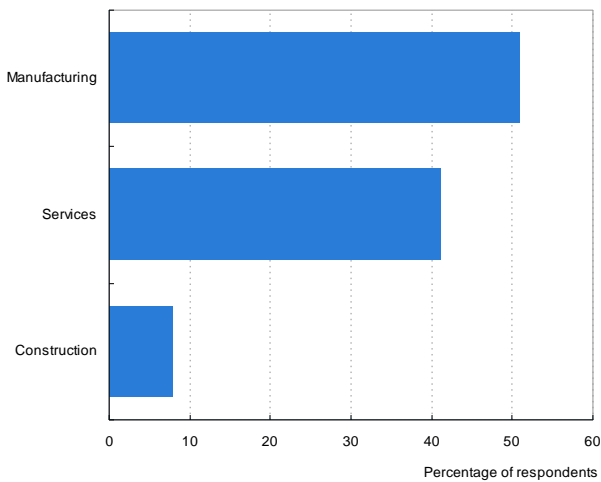
About the Study



Details of companies in the study

The study includes a diverse range of sectors and companies...

Chart 1: Companies by sector participating in the study



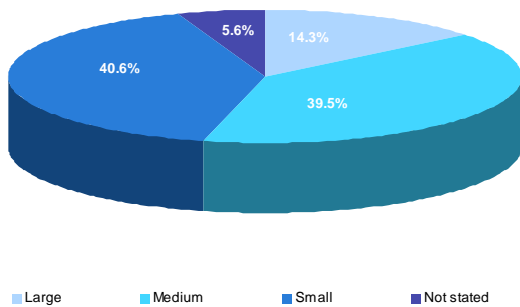
Companies by sector

- Data was collected from around 400 companies with total employment of around 205,000 people and total turnover of \$76.5 billion.
- Participants in the survey included businesses in the manufacturing, construction and services sectors.
- The highest proportion of respondents was from the manufacturing sector (51%), followed by the services (41%) and construction (8%) sectors.
- The findings for the services sector incorporate responses from the emissions-intensive sub-sector of transport & storage services.

Companies by size

- The survey generated a relatively even response rate across smaller and medium firms, with larger firms making up a smaller proportion of responses.
- The largest proportion of CEOs surveyed was from small-sized firms with fewer than 100 employees. These businesses represented 40.6% of respondents.
- Medium-sized firms employing between 100 and 500 employees accounted for 39.5% of respondents, while larger firms of 500 or more employees represented 14.3%.
- Just fewer than 6% of respondents did not indicate the number of people employed.

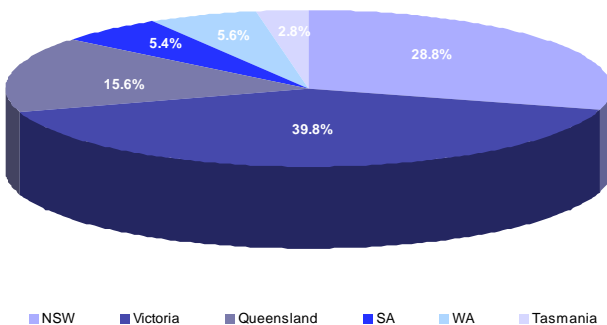
Chart 2: Companies in the study by size

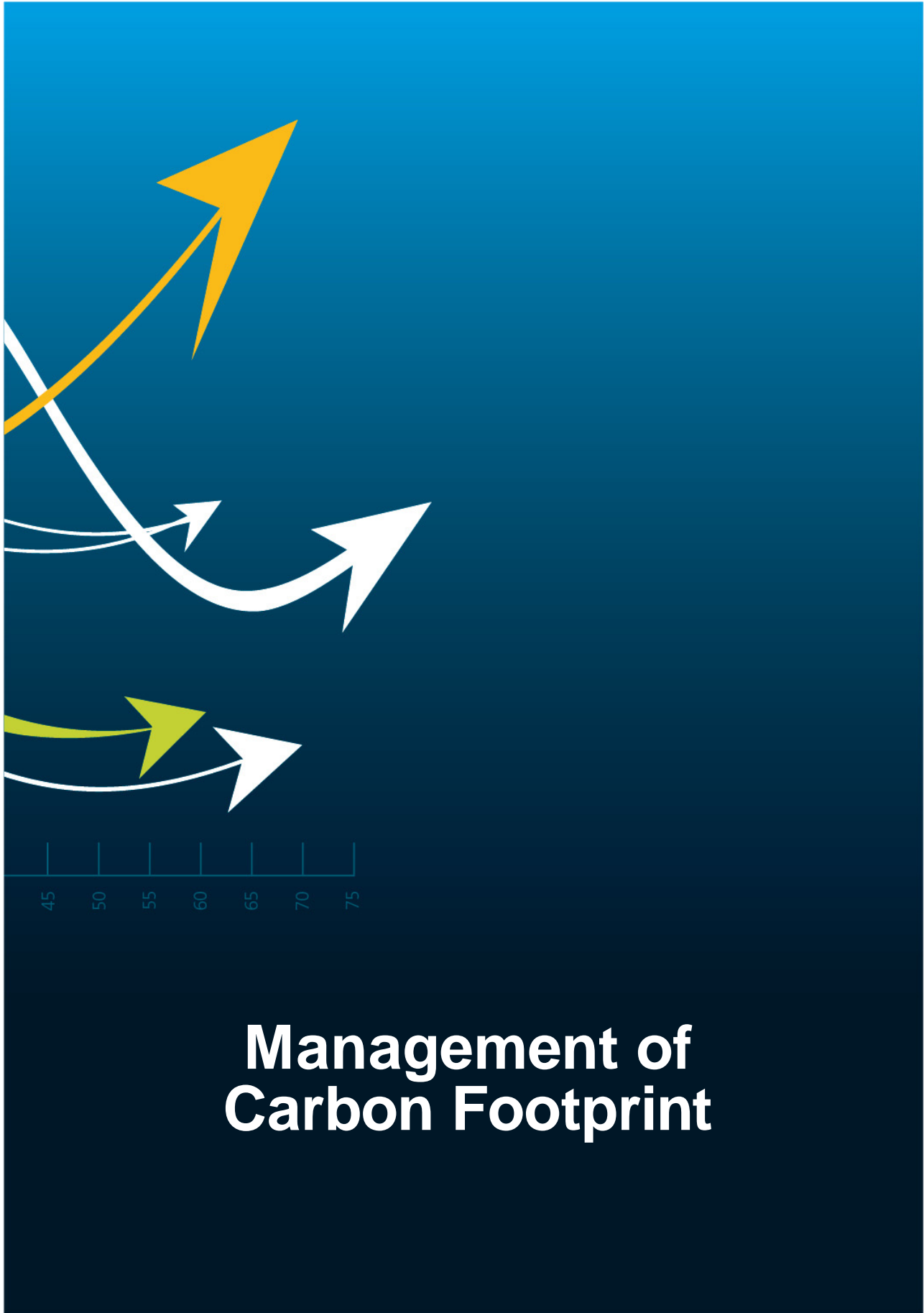


Companies by state

- Information was collected from each of the six states.
- The highest proportion of respondents came from Victoria (39.8%), followed by New South Wales (28.8%) and Queensland (15.6%).
- Western Australia provided 5.6% of the respondents followed by South Australia and Tasmania at 5.4% and 2.8% respectively.

Chart 3: Companies in the study by state





Management of Carbon Footprint



Measurement of carbon footprint and abatement costs

“You can’t manage what you don’t measure”

Chart 4: Measurement of carbon footprint and abatement costs

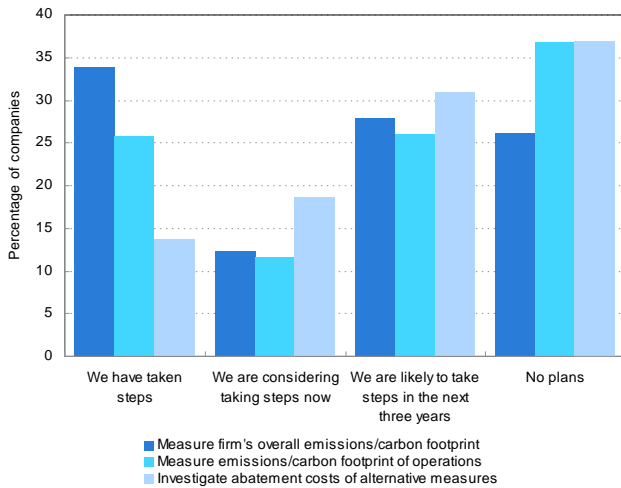


Chart 5: Measurement by sector

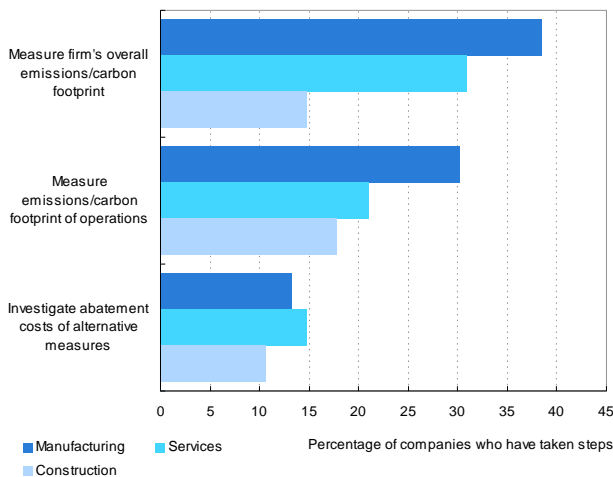
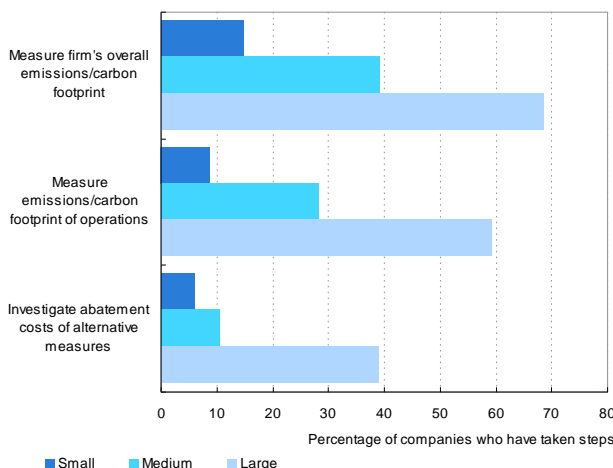


Chart 6: Measurement by size



Overall findings

- Almost three quarters of businesses (74%) are currently measuring their firm’s overall carbon footprint or plan to do so over the next three years.
- Almost two-thirds already have or plan over the next three years to undertake disaggregated measurement of individual operations within their business.
- A similar proportion currently assesses the costs of alternative abatement opportunities or plan to do so over the next three years.
- Around one-quarter (26%) are measuring the carbon footprint of individual operations within their firm. Only 14% of respondents have assessed costs of alternative abatement measures.
- Of measurement steps already in train, assessment of overall carbon footprint is the most common with over one-third (34%) of businesses acting in this area. Just over a quarter of businesses (26%) are currently taking steps to gauge the emissions profile of individual operations. Fewer companies (13%) are currently taking steps to assess the costs of alternative abatement measures.
- At the other end of the spectrum, just over one-quarter of companies have no plans to measure their overall carbon footprint in the next three years. A higher proportion (37%) have no intention of undertaking disaggregated measurement of their footprint and a similar number have no plans to assess the costs of alternative abatement opportunities.

Measurement of carbon footprint by sector

- Manufacturing businesses are the most likely to have measured their carbon footprint with 39% of firms stating they currently assess their overall footprint and 30% measuring at a more disaggregated level.
- In contrast, services companies are marginally more likely than businesses in the other sectors to be assessing the costs of alternative abatement options.

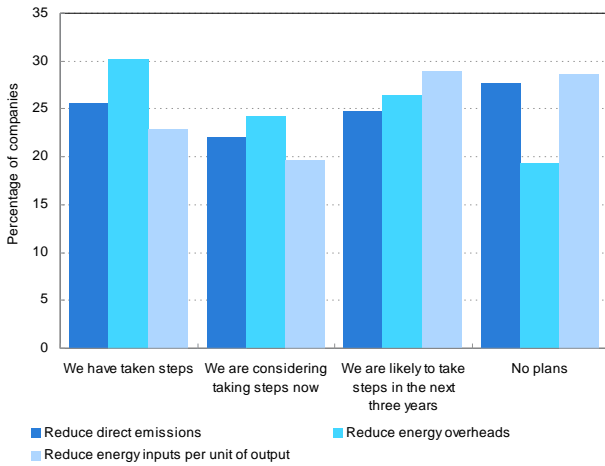
Measurement of carbon footprint by size

- Larger businesses are much more likely to measure their footprints and their abatement opportunities than medium-sized or smaller businesses.
- Over two-thirds of larger respondents indicated they presently measure their carbon footprint (68%) while a significant majority measure emissions associated with individual operations (59%). Just fewer than 40% indicated they have investigated the abatement costs of alternative measures.
- By contrast, only 15% of smaller firms presently measure the size of their overall carbon footprint compared with 29% of medium-sized companies. Disaggregated assessment of carbon footprints is less prevalent in small and medium-sized businesses, as are assessments of abatement costs.

Reductions in direct emissions and energy use

Most are currently taking, or plan to take, steps to reduce emissions and energy use...

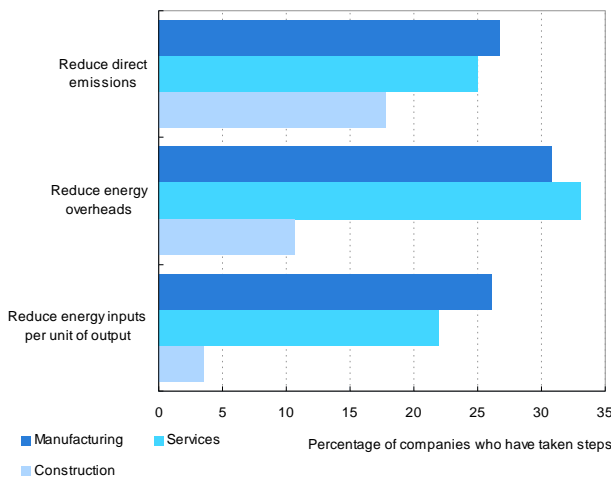
Chart 7: Reductions in emissions and energy use



Overall findings

- Roughly one-quarter of respondents indicated they have taken steps to reduce their direct emissions; to reduce energy overheads; to reduce energy use per unit of output.
- Around 38% of all businesses surveyed have taken steps to achieve reductions in at least one of these areas.
- A further proportion (roughly one half) of respondents is planning to take such steps over the next three years. Slightly less than half of these are considering more immediate action.
- Of businesses without plans to take steps in these areas, around 28% have no plans to reduce direct emissions; 19% have no plans to reduce energy overheads; and around 29% have no plans to reduce per unit energy use.
- Around 15% of businesses have no plans to take steps in any of these areas over the next three years.

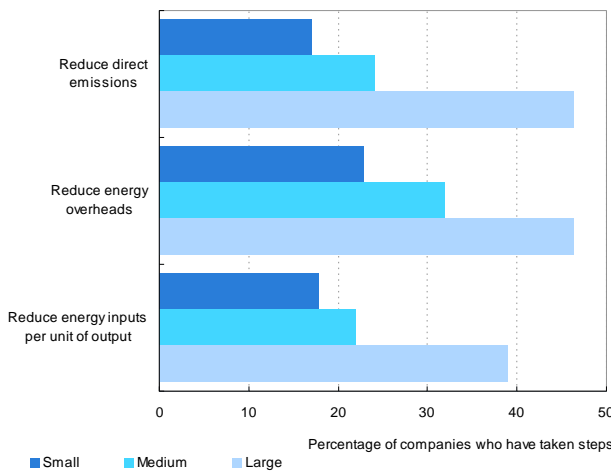
Chart 8: Reductions by sector



Reductions by sector

- Manufacturers (27%) are more likely to have taken steps to reduce direct emissions than either service (25%) or construction firms (17%).
- Service businesses (33%) are fractionally more likely than manufacturers (31%) and significantly more likely than constructors (11%) to have taken steps to reduce energy overheads.
- Manufacturers (26%) are more likely to have taken steps to reduce per unit energy use than services (22%) or construction firms (3%).

Chart 9: Reductions by size



Reductions by size

- Larger businesses (46%) are considerably more likely than smaller (17%) and medium-sized firms (24%) to have taken steps to reduce direct emissions.
- A similar proportion (46%) of large businesses surveyed have taken steps to reduce energy overheads with smaller (23%) and medium-sized (32%) businesses more likely to have taken steps in this area than in reducing direct emissions.
- In reducing per unit energy use, larger businesses are distinctly more active than either medium-sized or smaller businesses.
- Only 2% of larger businesses have not taken steps or do not plan over the next three years to take steps to reduce their direct emissions, energy overheads or energy use per unit of output.
- One-quarter of smaller firms and 10% of medium-sized businesses have no plans to take steps in any of these areas over the next three years.

Changes in products, operations and transport

A wide range of business areas are involved in carbon footprint management...

Chart 10: Changes in products, operations and transport

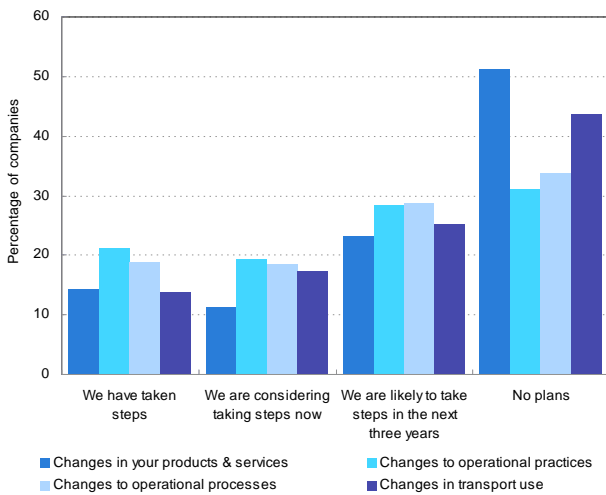


Chart 11: Changes by sector

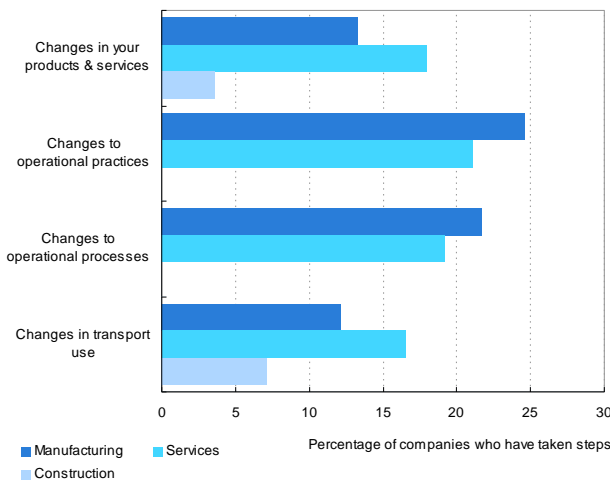
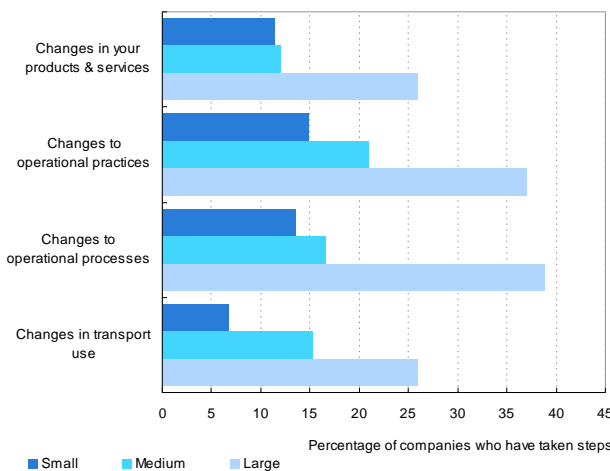


Chart 12: Changes by size



Overall findings

- Around one in five businesses have already made changes to their operational practices (21%) and operational processes (19%) to help manage their carbon footprint.
- Smaller proportions of firms have changed their product or service offerings (14%) and transport use (14%).
- Around 6% of businesses have implemented changes in all four of these areas.
- A further proportion of businesses (between one-third and one-half) are either considering taking steps or expecting to take steps over the next three years.
- One in four CEOs indicated they had no plans to implement changes in any of the four areas.
- More than half of the respondents (51%) stated they have no plans to make changes to their products & services, while 44% have no current intention to review their transport use.
- Businesses are more likely to have taken steps or have plans over the next three years to adjust operational processes or practices in better managing their carbon footprints with less than one-third of respondents having no such plans.

Changes by sector

- Businesses in the services sector are more likely than manufacturers and constructors to have made changes in their product and service offerings and their transport use as part of their management of their carbon footprint.
- Manufacturers on the other hand are more likely to have changed their operational practices or processes than businesses in other sectors.
- Some 9% of services firms have implemented changes in all four areas compared with manufacturers (5%) and constructors (0%).
- One-half of construction firms indicated they have no plans to implement changes in any of the four areas, compared with 23% of manufacturers and 22% of services firms.

Changes by size

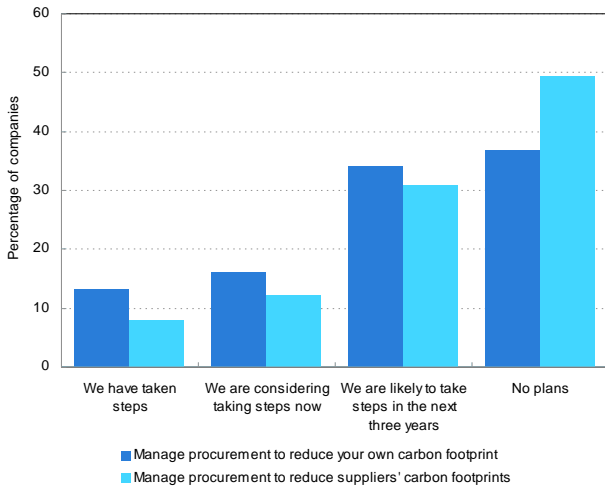
- In all four areas, larger businesses are distinctly more likely to have taken steps than medium-sized or smaller firms.
- Smaller firms are much more likely to have no plans to implement changes in any of the four areas (38%) than either medium-sized (18%) or larger firms (7%).



Managing procurement to reduce carbon footprint

Many businesses are managing procurement to reduce their own and their suppliers' carbon footprints...

Chart 13: Managing procurement to reduce footprint



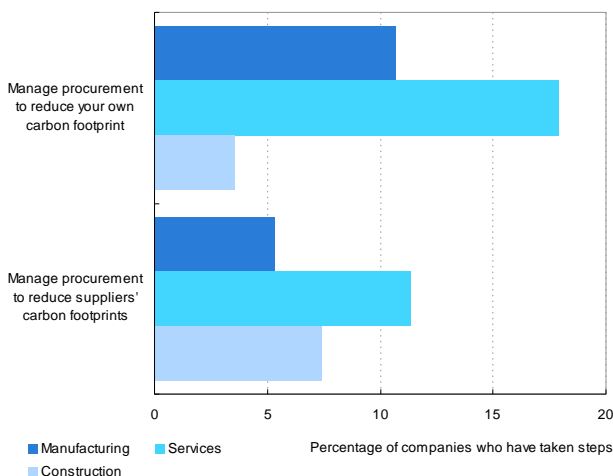
Overall findings

- 13% of respondents indicated they are managing procurement as a means of reducing their carbon footprint and 8% are taking actions to manage the carbon emissions of their suppliers.
- A further 50% of all companies anticipate taking steps in the next three years to manage procurement to reduce their own carbon footprint and a further 43% anticipate managing procurement to reduce emissions of their suppliers.
- Almost half of all firms surveyed (49%) have no plans to reduce the carbon footprints of their suppliers by managing their procurements, while 37% do not plan to reduce their own carbon footprint through procurement.

Managing procurement by sector

- The management of procurement as a means of reducing carbon footprints is more favoured by service businesses than by manufacturers or constructors.
- Just fewer than one in five firms in the services sector manage procurement to reduce the size of their carbon footprint, compared with 11% of manufacturers and only 4% of construction firms.
- Similarly, 11% of services firms manage procurement to reduce the size of their suppliers' carbon footprints, a higher proportion than in the construction (7%) and manufacturing sectors (5%).

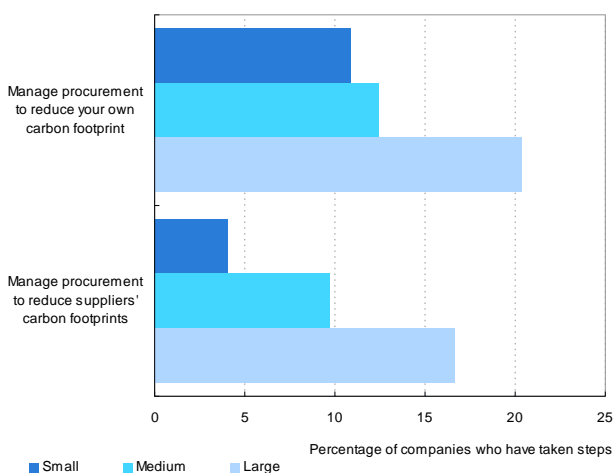
Chart 14: Managing procurement by sector



Managing procurement by size

- One-fifth of larger firms manage procurement to reduce their emissions footprint, compared with 12% of medium-sized firms and 11% of smaller firms.
- The management of procurement to reduce the size of supplier footprints is also more prevalent amongst larger businesses (17%) than among medium-sized (10%) or smaller firms (4%).

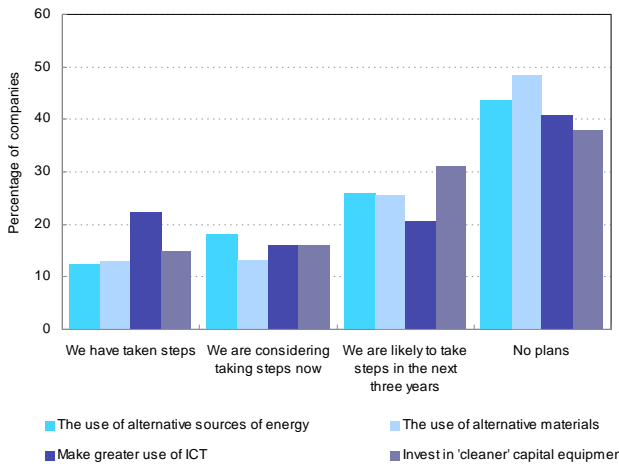
Chart 15: Managing procurement by size



Other measures for managing carbon footprint

Many businesses are factoring greenhouse emissions into their capital investment decisions as well as their use of materials, energy and ICT...

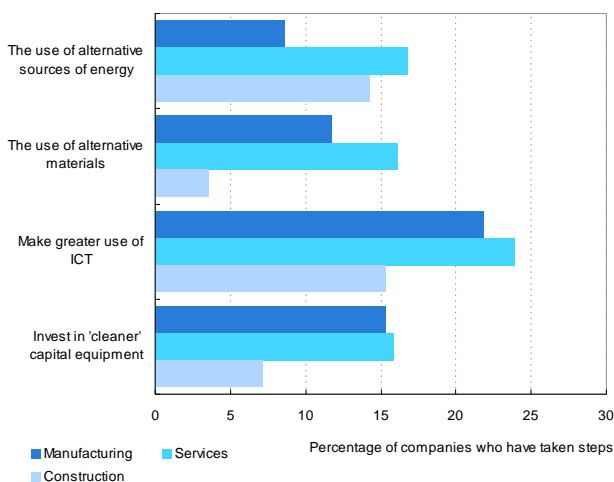
Chart 16: Other measures for managing footprint



Overall findings

- Of a range of other steps businesses have already taken to reduce their carbon footprint, a greater use of ICT (22%) ranks highly. Businesses have also reduced emissions by investing in "cleaner" capital equipment (15%); by switching to alternative materials (13%); and by using alternative sources of energy (12%).
- In addition to the 15% that had already taken steps, a further 47% of businesses plan to invest in clean capital equipment either now or some time over the next three years.
- Around half of average businesses were more likely to have no plans over the next three years to use alternative materials as a means of reducing their carbon; small proportions have no plans to explore alternative sources of energy (44%); greater use of ICT (41%) or 'cleaner' capital equipment (38%).
- 20% of CEOs surveyed had no plans to implement changes in any of these four areas.

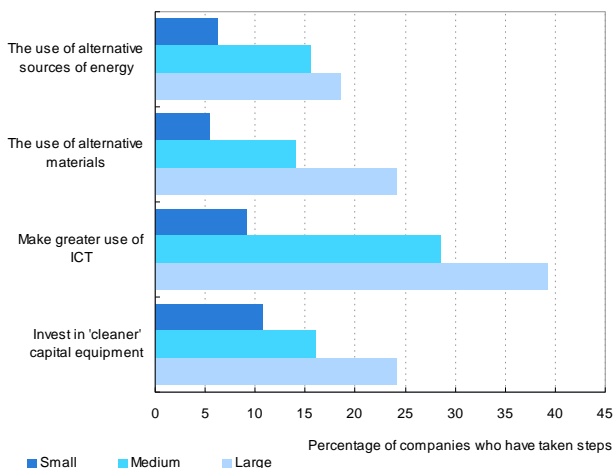
Chart 17: Other measures by sector



Other measures by sector

- Services companies are more likely than manufacturers and constructors to have taken steps in using alternative sources of energy; alternative materials; in the greater use of ICT and in investing in "cleaner" capital equipment as part of their management of their carbon footprint.
- Other than in the area of alternative energy sources, manufacturers are more likely than constructors to have taken these steps. Constructors are distinctly more likely to have taken steps in the use of alternative energy sources than manufacturers.
- One-quarter of construction firms have no plans in any of these four areas compared with 23% of manufacturers and 16% of services firms.

Chart 18: Other measures by size

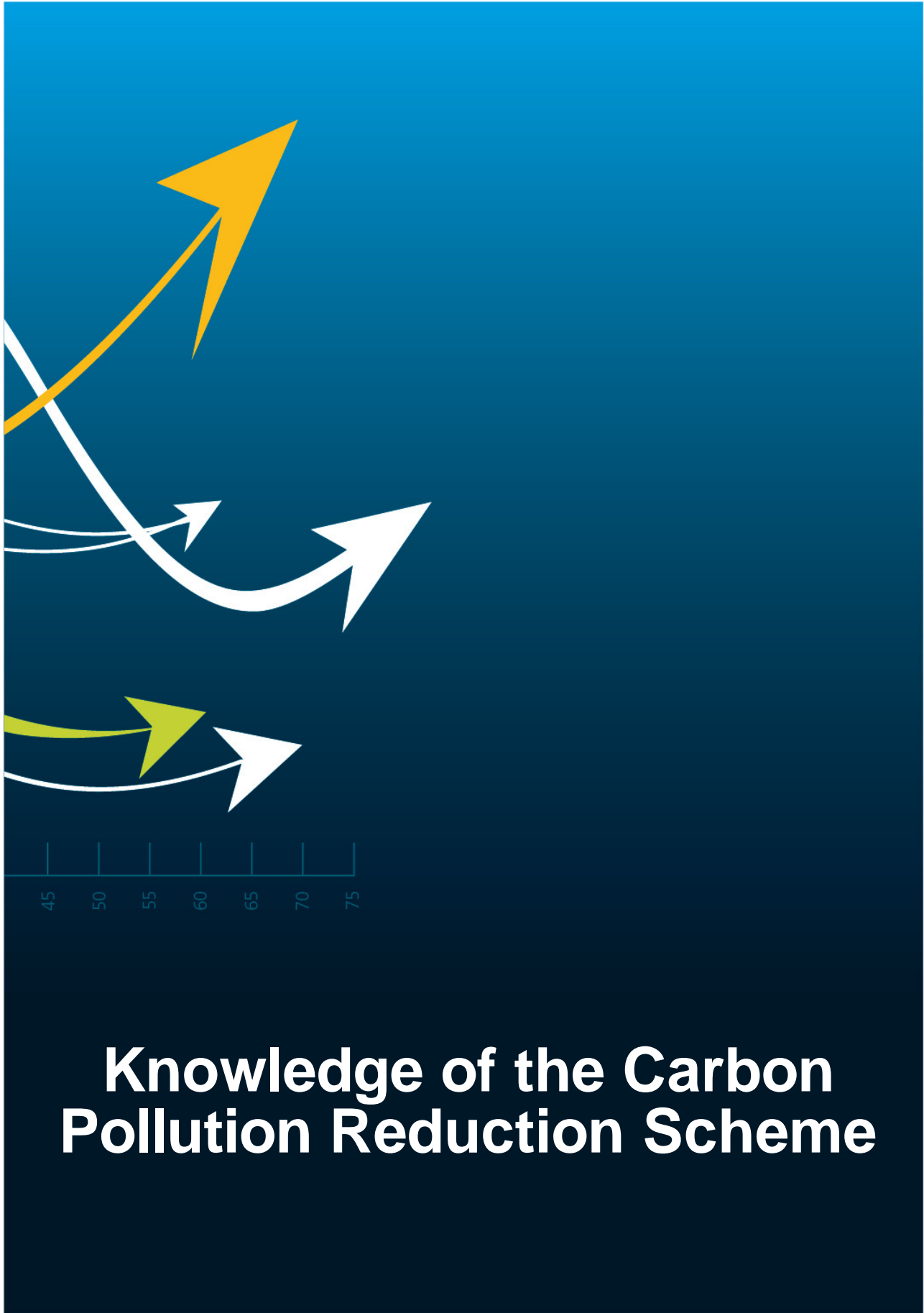


Other measures by size

- A higher proportion of larger firms have taken steps in each of these four areas than is the case with smaller and medium-sized firms.
- The greater use of ICT in managing carbon footprints has been more clearly a leading strategy to date for larger and medium-sized businesses than for smaller businesses.

In contrast, for smaller businesses, strategies to manage carbon footprints to date are more likely to involve investment in capital equipment than a greater use of ICT.





Knowledge of the Carbon Pollution Reduction Scheme



Knowledge of the key elements of the CPRS

Few companies have a strong knowledge of the Carbon Pollution Reduction Scheme...

Chart 19: Understanding of key elements of CPRS

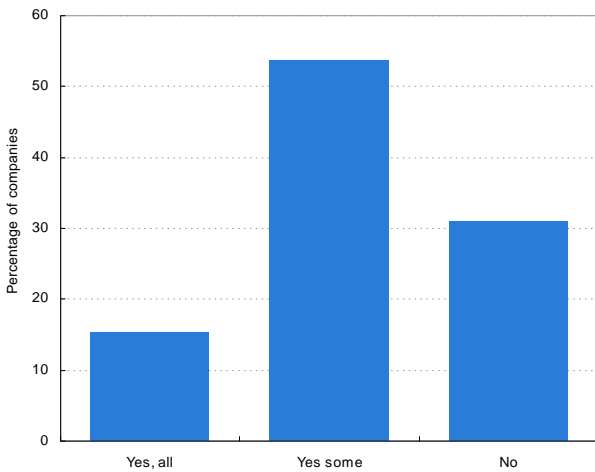


Chart 20: Understanding by sector

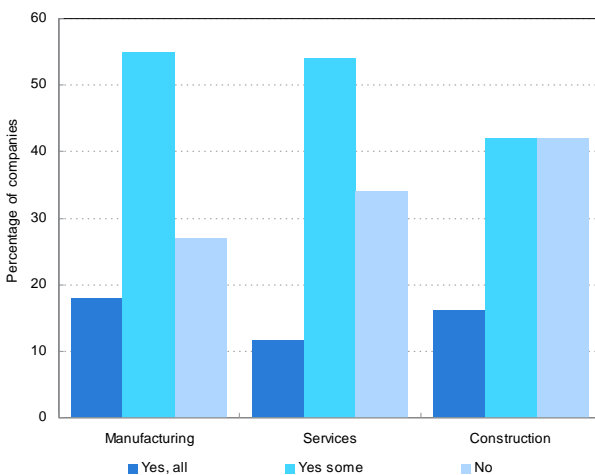
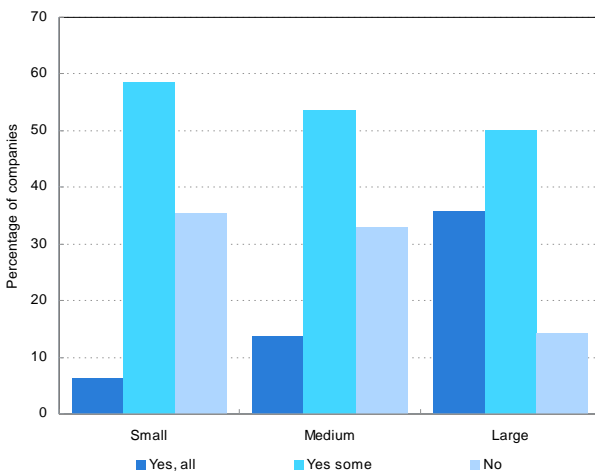


Chart 21: Understanding by size



The CPRS is made up of a number of measures. The central policy is an Emissions Trading Scheme (ETS).

The ETS is supported by an existing reporting regime – the National Greenhouse and Energy Reporting Scheme (NGERS) which requires a large number of businesses (including those with liabilities under the CPRS) to measure and report annually on their carbon footprint.

The CPRS also includes measures to partially offset liabilities for the most emissions intensive trade exposed (EITE) industries by the allocation of some permits without cost; a substantial fund to assist businesses reduce their carbon footprint (the Climate Change Action Fund); compensation for severely affected electricity generators; a fuel tax offset provision and compensation for households.

Companies were asked to identify the extent to which they understood the key elements of the CPRS.

Overall findings

- Only 15% of businesses were confident they had knowledge of all the key elements of the CPRS.
- More than twice this proportion (31%) said they had no knowledge of the key elements of the CPRS.
- The remaining 54% of firms indicated they had some knowledge of the key elements of the CPRS.

Understanding by sector

- Knowledge of the CPRS was highest among manufacturers. Around 18% of manufacturers thought they understood all the key elements, while 55% believed they understood some of these elements. Manufacturers (27%) were less likely than service companies (34%) or construction businesses (42%) to have no knowledge of the key elements.
- The services sector contains a low proportion of companies who believed they understood all elements (12%), but a high proportion who thought they understood some of the key elements of the CPRS (54%).
- In construction, 16% believed they understood all and 42% some, of the key elements of the CPRS.

Understanding by size

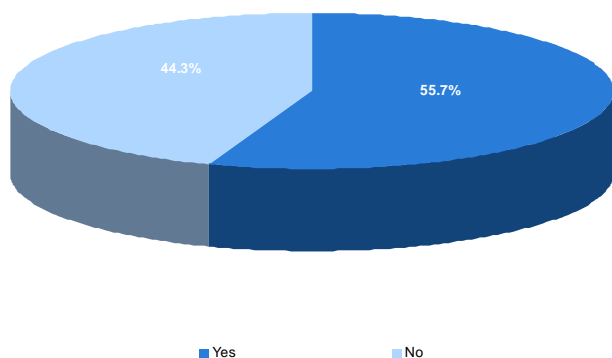
- Knowledge of all the key elements of the CPRS was greatest for larger companies (36%) and lowest for smaller firms (6%). Larger businesses made up well over half of all the companies who considered they had knowledge of all the key elements whereas smaller businesses made up less than one-quarter of this total.
- Of the 31% of respondents who stated they had no knowledge of the key elements of the CPRS, 46% were small businesses; 42% were medium-sized businesses; and just 7% were large businesses.



Taking steps to become better informed about the CPRS

Over 44% of companies are taking steps to become better informed...

Chart 22: Steps taken to be better informed



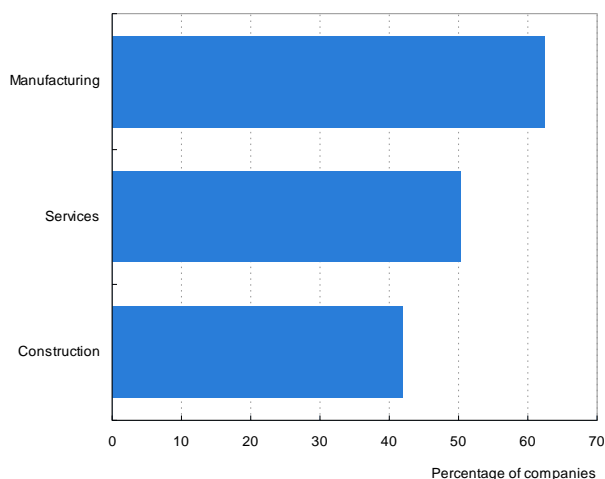
While a large majority of businesses indicate they have no or only a partial knowledge of the key elements of the CPRS, less than half of all respondents (44.3%) were taking active steps to better inform themselves of the proposed measures.

As discussed in the following section this is comfortably more than twice the proportion of businesses who have an expectation of direct liabilities under the CPRS.

Overall findings

- Of the businesses taking steps to inform themselves of the CPRS, about 42% were large businesses (greater than 500 employees), 27% were medium-sized businesses with the remaining 31% being small businesses.
- Of the companies who had stated that they had no knowledge of the key elements of the CPRS, less than 10% were taking steps to become better informed about the Scheme.

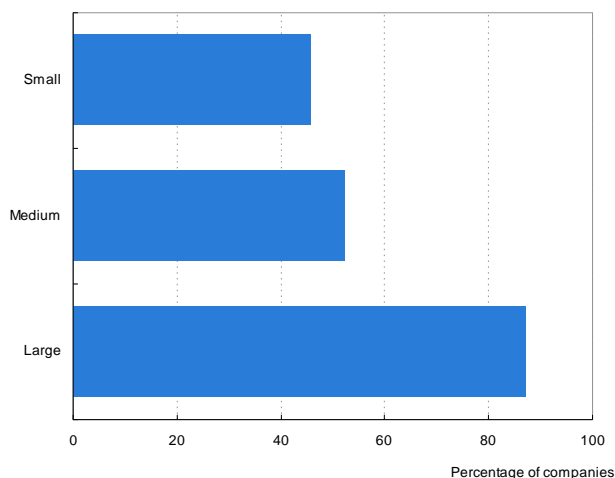
Chart 23: Steps taken by sector



Steps taken by sector

- Companies in the manufacturing sector are the most active in seeking to become better informed about the CPRS and its implications. 62% of manufacturing businesses are actively pursuing this path, compared to 50% of service companies and 42% of construction companies.
- Among manufacturers who are taking steps to gain more information on the CPRS, around half (51%) were small companies. Only 27% were large companies, reflecting the fact that many have already taken measures to become informed about the CPRS.
- In contrast, firms of all size ranges were roughly equally active in improving their understanding of the CPRS in both the services and construction sectors.

Chart 24: Steps taken by size



Steps taken by size

- Large firms overall were more active in seeking to become better informed about the CPRS (although as noted above, this wasn't true for all sectors). In total, 87% of large companies were pursuing this path.
- Among medium-sized and small companies, the percentages actively taking steps to become better informed were 52% and 46% respectively.

Preparedness for the Carbon Pollution Reduction Scheme

Many companies have taken steps to prepare for the CPRS...

Chart 25: Preparations for the CPRS

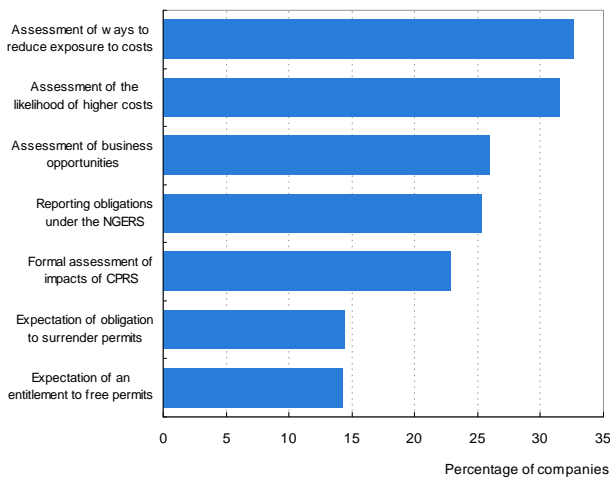


Chart 26: Preparations by sector

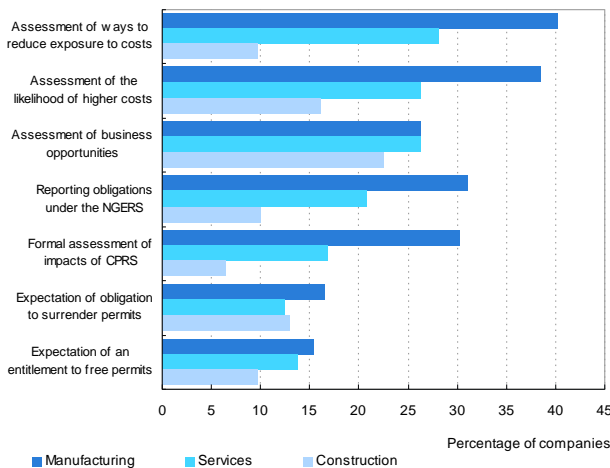
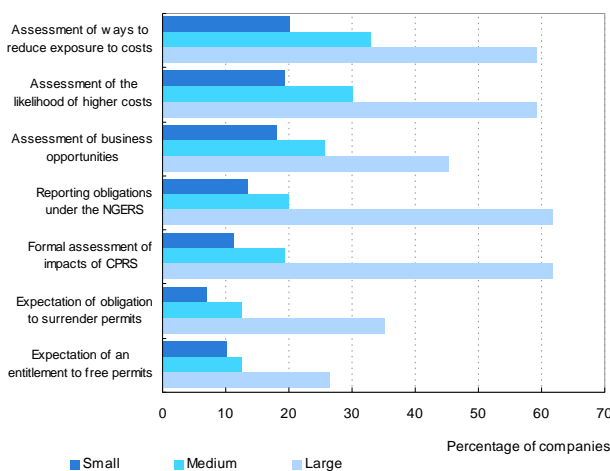


Chart 27: Preparations by size



The introduction of the CPRS will impose obligations to surrender permits on about 1,000 businesses. While this represents a small proportion of all Australian businesses, every business will experience the impacts of the CPRS as costs flow through the economy and as broader changes in patterns of production and consumption emerge as a result of these costs.

We asked businesses whether they had undertaken formal or other assessments of impacts and whether they had obligations under the NGERs reporting scheme (which will assist their preparedness). We also asked businesses if they expected to have direct liabilities under the scheme and whether they expected to receive an administrative allocation of permits.

Overall findings

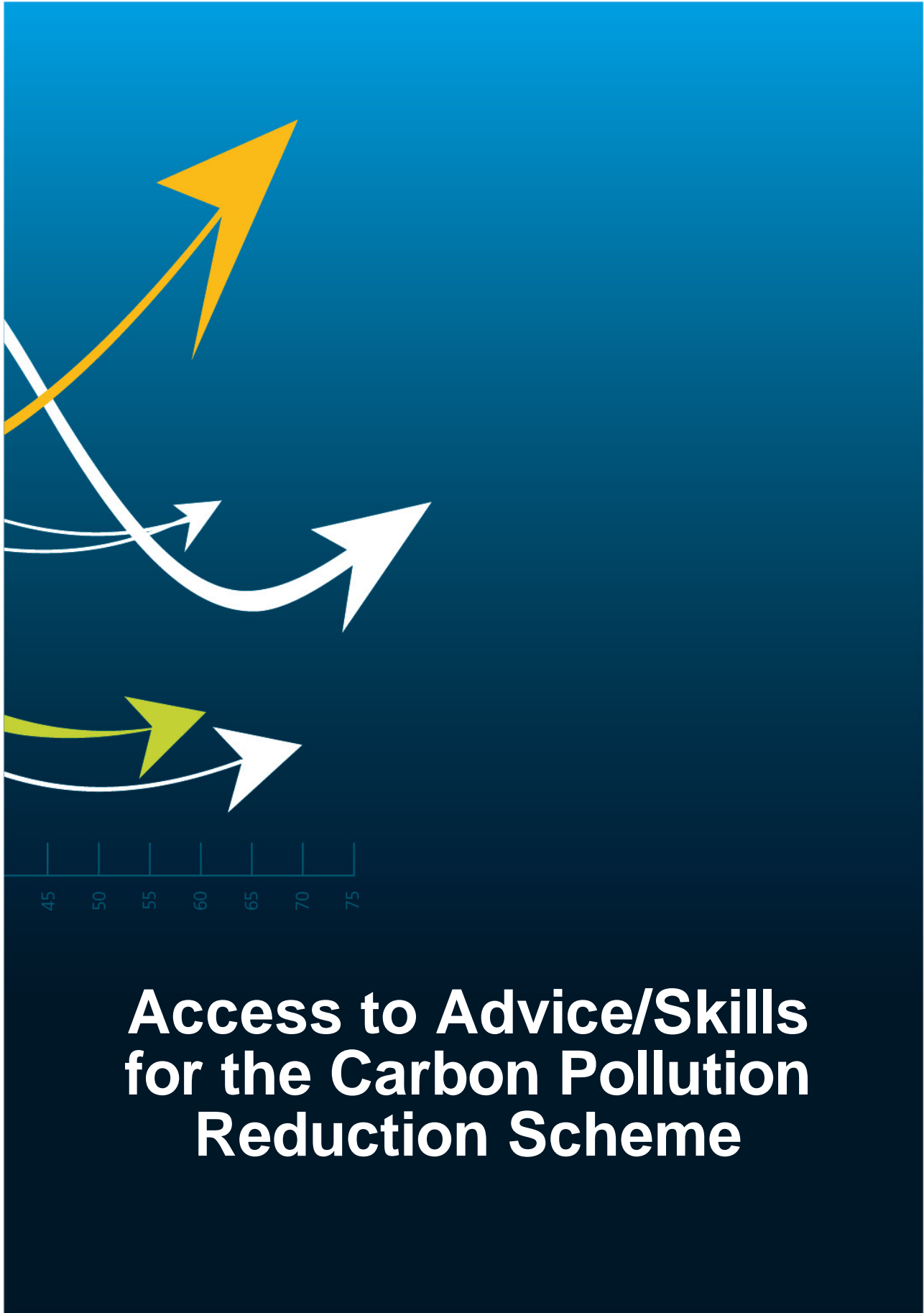
- Close to one-quarter (23%) of companies have undertaken a formal assessment of the impacts of the CPRS.
- Around one-third of respondents have assessed cost impacts (32%) and ways to reduce cost impacts (33%). Over one-quarter of respondents (26%) have assessed opportunities arising from the CPRS.
- One-quarter of respondents have a NGERs reporting obligation.
- About 15% of businesses expect to have a liability to surrender permits under the CPRS. A similar proportion of companies surveyed expect to receive an allocation of free permits under the CPRS. A number of factors suggest these expectations may not be well-founded:
 - One-quarter of businesses expecting liabilities and one-third of businesses anticipate allocations of free permits did not have a NGERs reporting obligation;
 - Around 44% of companies expecting free permits and 34% of companies expecting liabilities hold these views without the benefit of a formal assessment of the CPRS impacts; and
 - One-third of businesses expecting free permits do not expect to have direct liabilities under the Scheme.

Preparations by sector

- Manufacturers are the most active in taking steps to assess the impacts and costs of the CPRS. This was followed by the service sector with construction companies less likely to have considered the implications.
- Service companies (26%) are just as likely as manufacturers to have assessed opportunities.
- The proportion of service companies expecting to have direct liabilities (12%) and entitlements to free permits (14%) seems high. Of service businesses expecting a liability, 40% have not undertaken a formal assessment. 60% of service businesses expecting free permits have not undertaken a formal assessment of the CPRS.

Preparations by size

- Overwhelmingly, large companies are most active in assessing the implications of a CPRS (around 60%). Large firms are around twice as likely as medium-sized companies and around three times as likely as small businesses to have assessed the CPRS.
- The proportions of small and medium-sized companies with expectations of permit liabilities and entitlements to free permits seem high.



Access to Advice/Skills for the Carbon Pollution Reduction Scheme



Skills and capabilities for dealing with the impacts of the CPRS

A significant proportion of businesses intend to boost their own capabilities or use external assistance to help manage the impacts of the CPRS...

Chart 28: Skills and capabilities for the CPRS

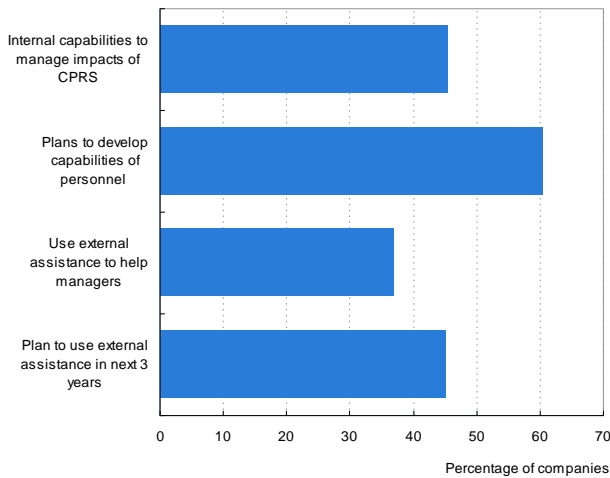


Chart 29: Skills and capabilities by sector

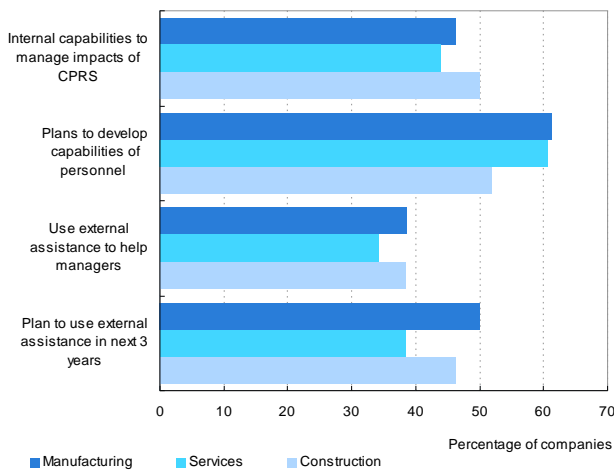
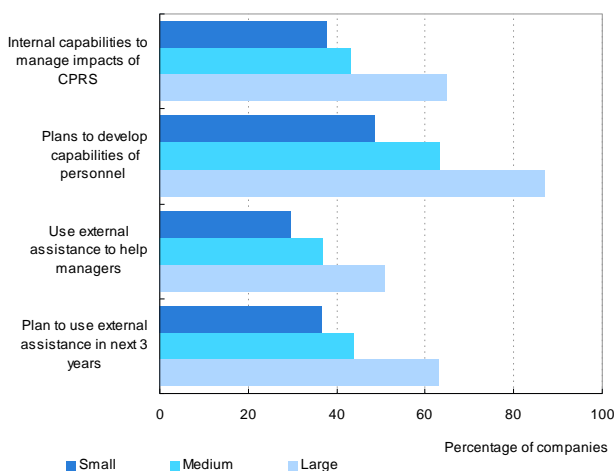


Chart 30: Skills and capabilities by size



We asked CEOs to assess whether their business possesses internal capabilities to manage the impacts of the CPRS and whether they planned to develop such capabilities in the future. We also asked CEOs whether they use or planned to use external assistance to assist in these tasks.

Overall findings

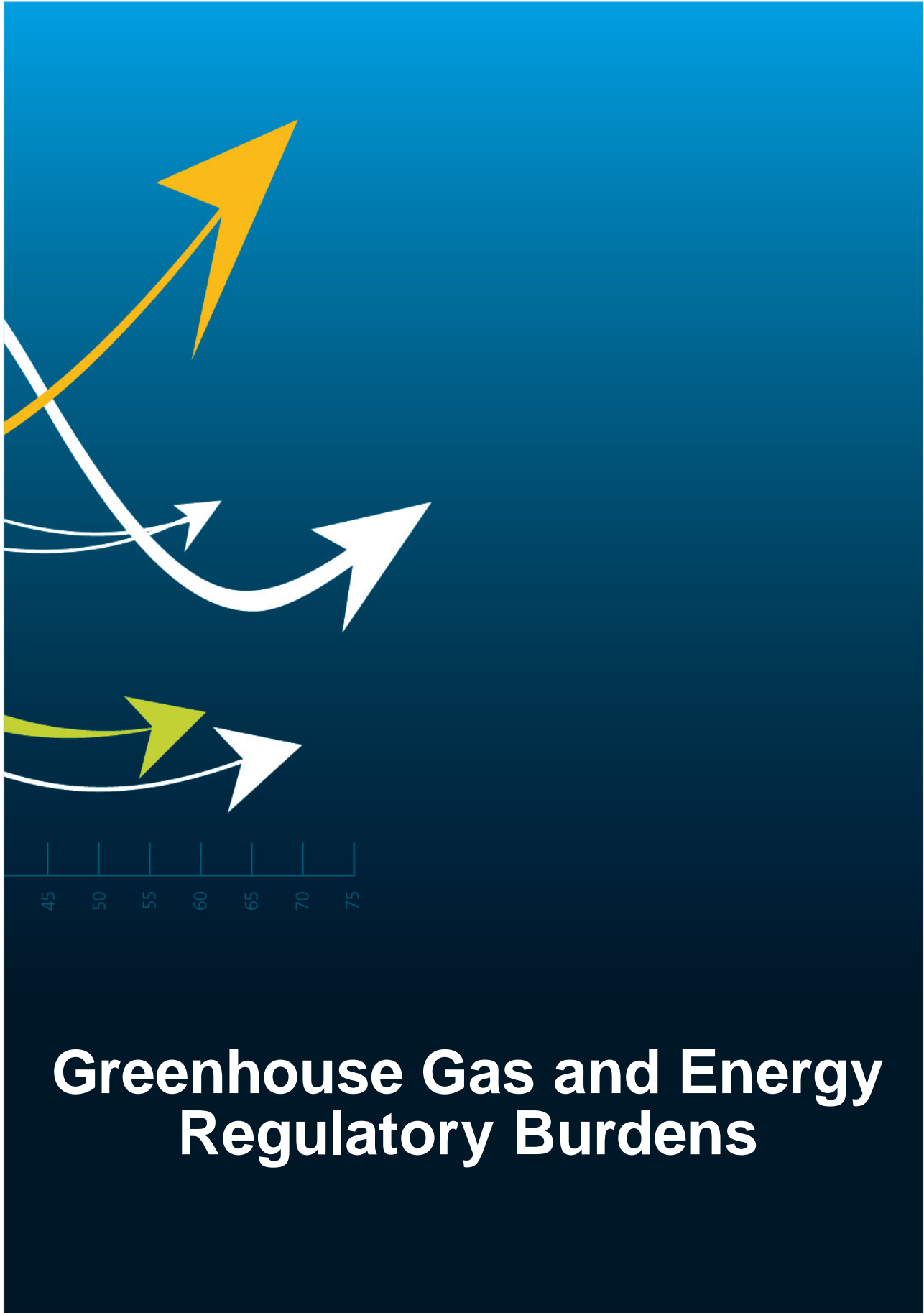
- Just less than half of the respondents (45%) believe they currently possess internal capabilities to manage the direct and indirect impacts of the CPRS.
- A majority of firms (60%) intend to boost the capacity of their personnel to manage the impacts of the Scheme.
- Around 38% of the CEOs with internal capabilities to assist managing the impacts of the CPRS plan to further develop the capabilities of their personnel in these areas.
- About one-third of businesses call on external advice to assist in managing the CPRS and around 45% plan to use external assistance during the next three years.
- A significant proportion of firms (29%) have utilised external advice for assistance in dealing with the CPRS and plan to use similar sources over the next three years.
- One in five companies does not currently possess internal capabilities to manage the impacts of the CPRS and have no plans to acquire or develop these in the near future.

Skills and capabilities by sector

- The survey did not reveal significant differences between sectors in relation to existing or planned internal capabilities. Businesses are likely to rate their internal capabilities relative to their needs.
- Businesses in the services sector were somewhat less likely than constructors or manufacturers to have already sought advice (or have plans to seek advice) from external sources.

Skills and capabilities by size

- A higher proportion of large firms have internal capabilities to assist in managing the impacts of the CPRS (65%) than small and medium-sized firms (38% and 43% respectively).
- Large firms also revealed a greater intention to develop the capabilities of their personnel. Only 13% of large firms have no plans to develop the capabilities of their employees to manage the impacts of the CPRS, compared with 37% of medium-sized firms and 51% of small businesses.
- External assistance is also used to a greater extent by large firms (51%), than medium-sized (37%) and small companies (30%).
- Almost two-thirds (63%) of large respondents plan, over the next three years, to use external assistance to help manage the impacts of the CPRS. This is again a much higher proportion than for small (37%) and medium-sized firms (44%).



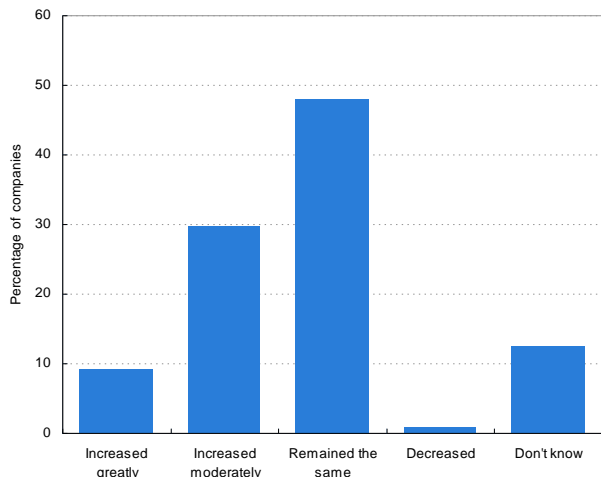
Greenhouse Gas and Energy Regulatory Burdens



For many businesses, the costs of complying with regulations covering greenhouse gas emissions and energy have risen over recent years

The past three years have seen compliance costs increase for almost 40% of businesses...

Chart 31: Change in compliance over the past three years



Over recent years federal and state governments have been increasing regulation of greenhouse gas emissions and energy.

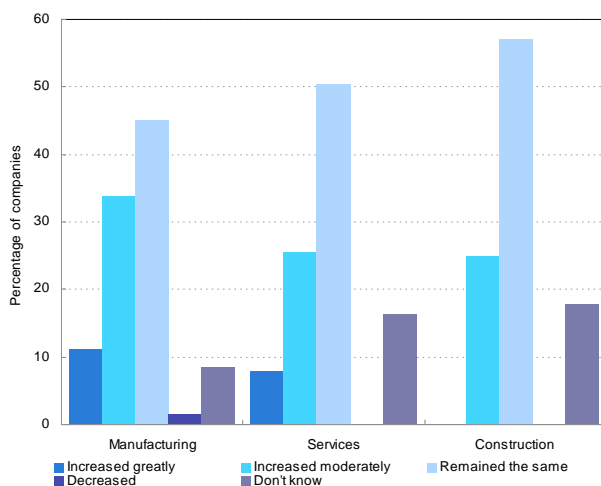
Overall finding

- Almost four in every 10 businesses have reported increases in the costs of complying with regulation covering greenhouse gas emissions and energy over the past three years.
- Despite commitments in recent years by successive governments – state and federal - to reduce the burden of regulation, only 1% of businesses report reduced compliance costs related to greenhouse gas emissions and energy since 2005.

Change in compliance by sector

- 44% of manufacturers reported higher compliance costs due to regulation of energy and greenhouse gas emissions over the past three years.
- Of these, almost one-third have seen compliance costs rise moderately.
- Around one in three businesses in the services sector and one in four construction businesses reported increases in energy and greenhouse gas compliance costs.

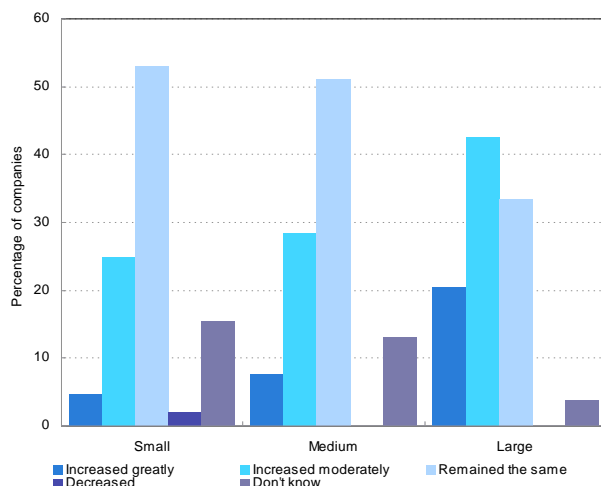
Chart 32: Change in compliance by sector



Change in compliance by size

- 62% of large businesses reported increased costs of compliance with regulation of energy and greenhouse gas emissions since 2005.
- Over one third (35%) of medium-sized businesses and over one quarter (27%) of small business have experienced higher compliance costs in these areas.

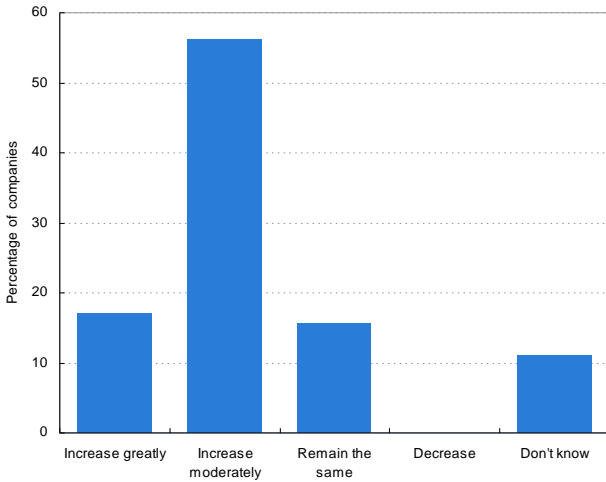
Chart 33: Change in compliance by size



Extra resources required to comply with regulation of greenhouse gas emissions and energy

Over 70% of businesses expect the burden of regulation covering greenhouse gas emissions and energy to rise over the next three years...

Chart 34: Expected change in regulatory burden



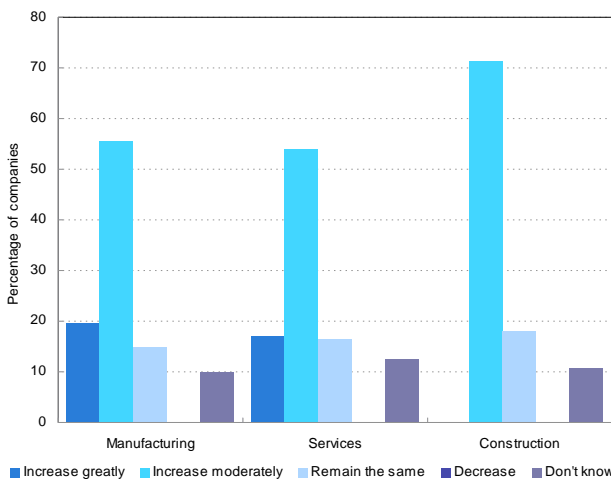
Among the objectives of the proposed CPRS are the creation of a national approach to the regulation of greenhouse gas emissions, and creating the opportunity for federal and state governments to strip away existing regulatory measures.

Business is clearly sceptical that these objectives will be realised.

Overall finding

- 72% of businesses expect to experience an increase in regulatory burdens in relation to greenhouse gas emissions and energy over the next three years.
- Just under one-quarter of these (17% of all respondents) expect regulatory burdens in these areas to increase greatly.
- Only 16% of respondents do not expect to experience higher burdens in these areas of regulation in the next three years.

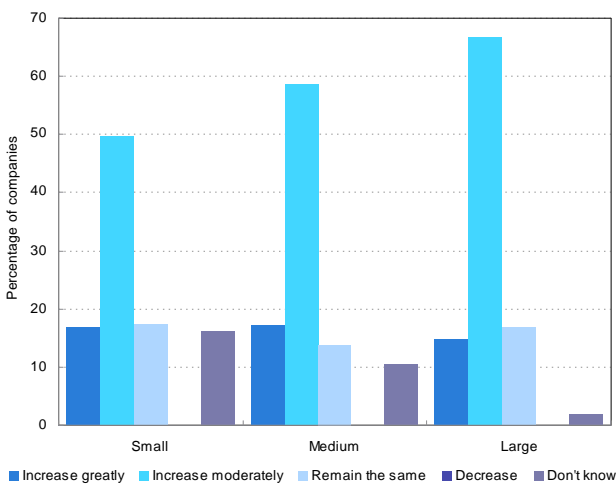
Chart 35: Expected change in regulatory burden by sector



Expected change in regulatory burden by sector

- Businesses in all sectors expect the burden of regulation of greenhouse gas emission and energy to rise.
- Manufacturers (74%) are marginally more likely to expect an increase in regulatory burdens than businesses in the services (70%) and construction sectors (71%).

Chart 36: Expected change in regulatory burden by size



Expected change in regulatory burden by size

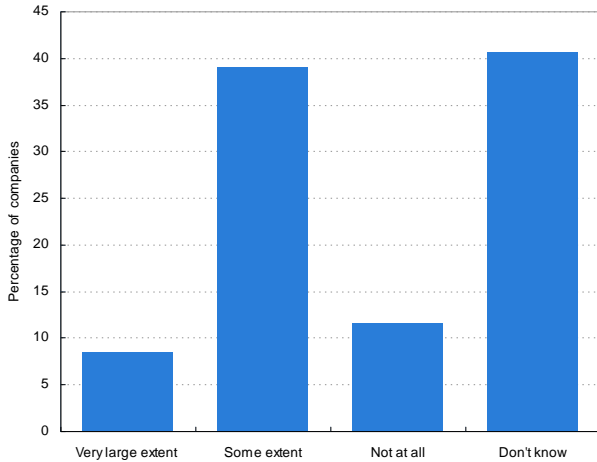
- While large businesses (80%) are most likely to expect an increase in greenhouse gas and energy regulation, three-quarters of medium-sized businesses and two-thirds of small businesses also expect their regulatory burdens to rise over the next three years.



Strong potential to reduce compliance costs with better coordination

Businesses in all sectors and of all sizes see scope to reduce compliance costs with better regulation...

Chart 37: Potential to reduce compliance costs through rationalisation



Businesses were asked whether they thought that better coordination between agencies and different levels of government could result in reduced compliance costs.

Overall finding

- 47% of businesses identified scope to reduce costs of complying with greenhouse gas emissions and energy regulation through better coordination between governments and government agencies.
- Only 12% of businesses are not confident of this potential, while 41% are unsure.

Potential to reduce compliance costs by sector

- Businesses in all sectors reported similar potential for efficiencies from more coordination in regulation over greenhouse gas emissions and energy.

Potential to reduce compliance costs by size

- A higher proportion of large businesses (59%) considers there to be potential to reduce compliance cost by greater coordination. This compares with one-half of medium-sized businesses and about 40% of small businesses.
- The higher proportion of large businesses seems likely to reflect the fact that large businesses are more likely to have operations in more than one state and would benefit by removing the duplication when different governments have different regulatory arrangements.

Chart 38: Potential to reduce compliance costs by sector

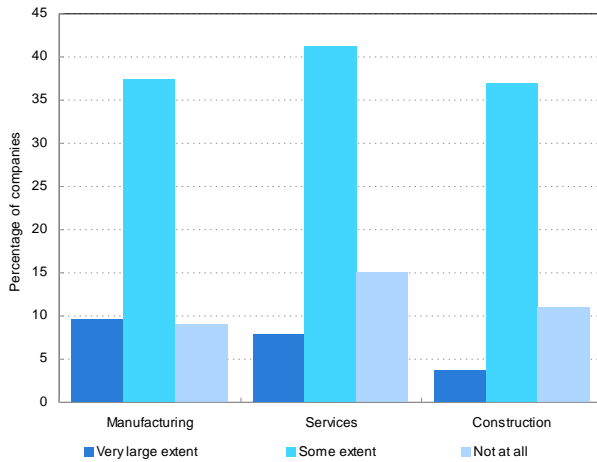
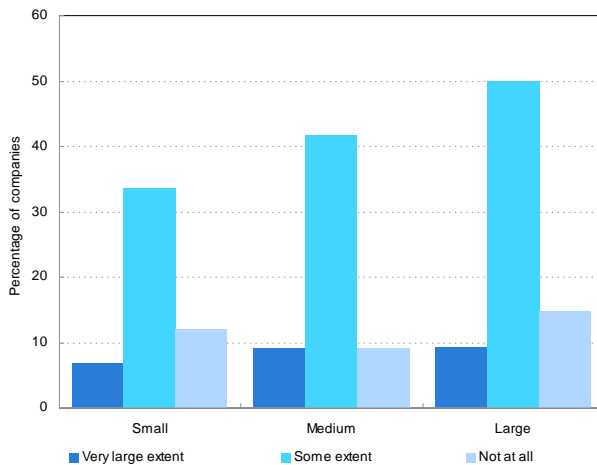


Chart 39: Potential to reduce compliance costs by size



Ai Group is working closely with industry in the identification of opportunities for efficiency improvements and the implementation of sustainable business practices that achieve a positive impact on the bottom line. Ai Group provides comprehensive and practical information, assistance and advice to member companies to reduce energy and water use and waste generation. We encourage you to contact our Energy and Sustainable Business Help Desk on phone 1300 733 752 or email sustainablebusiness@aigroup.asn.au to discuss opportunities where we can assist you.



KPMG is one of the world's leading professional services firms. Our industry focused approach coupled with the deep technical skills and experience of our dedicated Sustainability, Climate Change and Water group means our services are designed to help organisations create value and achieve a competitive advantage in a carbon-constrained world.

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