

Opinion Piece for Age

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Most people across the community now accept that Australia should adopt an economy-wide framework for reducing our greenhouse gas emissions. While industry supports this objective, it has become clear that hopes of starting an emissions trading scheme in 2010 should be set aside for a more attainable and realistic start date of 2012.

Australia has been tracking to meet our Kyoto targets for some time. The reality is that the current global economic slowdown will tend to reduce the pace of growth of our emissions to well below those Kyoto targets. Delaying the start date will not affect our ability to satisfy our international obligations.

Two forces make a 1 July 2010 start date unfeasible. The first is the sheer scope of the administrative task facing industry to prepare for the scheme. The second is the extent of the impacts of the global economic crisis.

On the administrative burden, many in business have had serious reservations for some time but have adopted a “wait and see” approach. We have waited and we can see: the scheme needs to start a couple of years later.

If there were any doubts that the timetable imposed by a 1 July 2010 start date was onerous, the guidance paper recently released by the Government on assessing eligibility for emissions intensive trade exposed measures will have put them to rest. Businesses are now being asked to submit data that they don't currently have on the emissions intensity of “activities” that as yet are not clearly defined. This data needs to be submitted in just eight weeks time. This impossible timetable stands in stark contrast to Europe where a similar process is scheduled over an eighteen-month period.

The second force impelling a later start date is the impact of the global financial crisis. There are several impacts to bear in mind.

- Businesses are strapped for cash and with tightening credit markets, it is very difficult to see how extra liabilities and costs can be accommodated in newly-revised business plans;
- Critically this affects not just direct liabilities and higher energy and fuel bills but also applies to the significant investments in new plant and equipment that, in many cases, are required to reduce emissions;
- Further, for just about all businesses, navigating through the current financial crisis requires all managerial hands on deck. Managing the impacts of the CPRS at the same time is simply not doable.

In the past when confronted with the case for a delay, the Government has pointed to the requirement that business has for greater certainty to help companies plan for the future. A later start date would not materially

undermine business certainty if the legislation is passed this year. It is critical that business knows with certainty what the policy will look like. Certainty does not hinge on the policy taking effect straight away.

While Ai Group is seeking a delay, we are not rejecting the basic structure of the proposed CPRS itself. On the contrary we agree that a market-based approach that applies across as much of the economy as practicable has considerable merit. The advantage of a cap and trade approach as proposed in the CPRS is that the Government, with its obligations under international agreements to control the quantity of emissions, directly regulates the national cap while leaving the detail of emissions reduction to market forces.

From a business perspective the market-based approach carries two advantages. It means that the Government is not micro-managing all the investment, process and product mix decisions undertaken in the private sector. It also allows the market to search out abatement opportunities that are least cost. In plain language, it keeps the government interference to a manageable level and it means that emissions reduction is not any more expensive than is necessary.

The Government's approach has the fundamental elements in place to address the "diabolical dilemma" of carbon leakage. It is now well established that we need to ensure that economic activity is not exported from Australia along with jobs and emissions as a result of the CPRS. We need this both for environmental reasons and for the health of our domestic economy.

The Government's approach to this dilemma is two-fold. It proposes to significantly reduce the net liabilities of the most emissions-intensive activities by issuing permits to businesses undertaking these activities. It also proposes contributing to the costs of improving energy efficiency and emissions reduction as well as providing businesses with information about ways to reduce their carbon footprints.

While many businesses have significant and justified concerns about the settings that are currently proposed, Ai Group is confident the existing framework can be adjusted to meet these concerns. This will, for instance, require changes in the quantity of permits issued and the degree to which indirect emissions from sources other than electricity are included in measures of carbon intensity.

The necessary changes can be made without detracting from the integrity of the scheme. Unless they are adopted, Australia will risk imposing extra costs on a wide range of its trade exposed industries well before similar costs are imposed in other countries. This will hold back investment and jobs growth.

In short therefore, while the proposed CPRS requires modifications to ensure we do not impose unwarranted and incomparable costs on the Australian economy, these changes can be made within the proposed framework. The improved scheme should be enacted this year and get underway in 2012.