

QUARTERLY NEWSLETTER

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SUSTAINABILITY ISSUE:

From the Teamp. 1
Australia's Future Carbon Mechanism Explained.....p. 2

Building Better Businessp. 4

FROM THE TEAM

THE WAR OF WORDS: THE CARBON TAX



Living in Australia in the past 3 months you would have heard more than you can bear about the carbon tax, we're sure. The war of words and the political warfare around this subject have monopolised our news and airwaves. But do we know what the debate is actually about?...

Well, the carbon tax is designed to be a tool to help manage the cost and consequences of carbon pollution by making the polluter pay for the pollution directly rather than having the community as a whole pay indirectly at a later date. Leaving aside the complexity of climate change and the associated 'knowns'

and 'unknowns' of the impacts of the proposed policy, it is expected that there will be cost impacts for all Australians.

What is known is that there are approximately 500 large businesses that will be directly impacted by the tax, should it go through Parliament. The NGER reporting already

being undertaken by large businesses will form the basis for carbon permits and expected reduction targets. The costs will then be associated with the amount of emissions being produced.

So what does this all mean for small and medium size businesses?

Well, it is unlikely that the introduction of the carbon tax will impact directly on the SMEs, however the costs of energy are almost certainly going to increase.

It would, therefore, make perfect business sense for businesses big and small to establish or review the

energy usage requirements in order to understand the likely impacts of the carbon tax on the operation.

For those business that are unlikely to be directly impacted by the tax, it is important to review your energy usage to establish a baseline and to investigate means of reducing dependence on carbon emitting technologies. This can be done by conducting energy surveys to establish the energy use. Methodologies can then be put in place to reduce the energy usage to meet targets set by the business. This will not only assist the environment but also positively impact the bottom line.

Risk Strategies' Sustainability Team headed up by Mike Juleff has extensive experience with assisting organisations of all sizes in managing their energy spend. We would be happy to assist with any questions you might have regarding energy use, potential impacts of the carbon tax on your business or any other aspects of running a sustainable business.



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SUSTAINABLE BUSINESS

Australia's Future Carbon Mechanism Explained



On Sunday 10th July 2011 the Australian Government released its plan to Australia for a clean energy economy.

The *Securing a Clean Energy Future – the Australian Government's Climate Change Plan* (the Plan) outlines key initiatives in the areas of carbon pricing, renewable energy, energy efficiency and land management opportunities (Carbon farming) to move Australia to a clean energy future.

Key elements of the plan

- Commencement date of the 1st July 2012.
- Fixed carbon price (per tonne of carbon equivalent, t CO₂ -e) for the first 3 years - starting at \$23 (Year 1), rising at 2.5 per cent a year in real terms. That is \$24.15 (Year 2) and \$25.40 (Year 3).
- Thereafter, from 1 July 2015, the carbon price will be set by the market, determined through an emission trading scheme with a transitional price cap and floor applied.
- Industry assistance will be provided to a number of different sectors through both direct and indirect mechanism to support jobs and competitiveness.
- All the revenue raised from the sale of carbon permits will be used to promote energy efficiency, energy saving, encourage investment in clean energy and ease Australia into the transition to a clean energy future.

During the fixed price phase

Greenhouse gases to be covered include: Carbon Dioxide; Methane; Nitrous Oxide and Perfluorocarbons.

Scope 1 are direct emitters. The criteria for Scope 1 is being an emitter of > 25,000 t CO₂ -e/year (> 10,000 t CO₂ -e/year for some landfill sites). Retailers of natural gas or direct suppliers would be considered Scope 1 emitters.

Criteria for inclusion is the controlling entity, meaning the entire business rather than specific facilities and sites.

Compliance basis for all sectors are based upon the annual 30 June year-end reporting.

Sectors and sources covered include stationary energy; industrial process; transport fuel use in rail, domestic shipping and aviation, off road uses and non-transport uses of fuel. Note: *heavy* on-road is intended to be included from 1st July 2014.

The domestic unit for compliance with the carbon pricing mechanism will be the 'carbon permit'. Each carbon permit will correspond to one tonne of greenhouse gas emissions.

The creation of equitable interests in carbon permits will be allowed, as will taking security over them. In addition, carbon permits will:

- be personal property;
- be regulated as financial products;
- be transferable (other than those issued under the fixed price or any price ceiling arrangements);
- have a unique identification number and will be marked with the first year in which they can be validly surrendered ('vintage year');
- not have an expiry date; and
- be represented by an electronic entry in Australia's National Registry of Emissions Units.



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Most liable entities will be required to discharge their emissions obligations in two parts:

- a 'progressive' surrender obligation of 75 per cent of their emissions obligation by 15 June of the relevant compliance year; and
- a 'true up' (surrender) for the remainder of the obligation by 1 February following the compliance year.

This approach is similar to payment arrangements used for corporate taxes and allows time for entities to finalise annual emissions reports before making a final surrender of carbon permits.

Emissions obligations that are not met through the surrender of eligible emissions units will need to be met by paying an emissions charge.

During the fixed price period, the emissions charge for the progressive surrender obligation and 'true up' (surrender) will be 1.3 times the fixed price for permits (that is, \$29.90 for 2012-13, \$31.40 for 2013-14 and \$33.00 for 2014-15).

The emissions charge for any shortfall for a compliance year in the flexible price period will be double the average price of permits for that year.

The emissions charge will apply for each tonne of greenhouse gas emissions (carbon dioxide equivalent) for which an eligible emissions unit has not been surrendered.

Governance

Climate Change Authority – Establishment of the Climate Change Authority to advise on pollution caps and progress towards meeting targets and undertake reviews of the carbon pricing mechanism.

Clean Energy Regulator – Establishment of the Clean Energy Regulator to administer the carbon pricing mechanism.

Productivity Commission – The Productivity Commission will undertake reviews relating to industry assistance, fuel tax arrangements and carbon pollution reduction activities internationally.

Risk Management

Whatever the future holds it also makes good business sense to reduce your carbon emissions, the total of which is described as your **carbon footprint**.

- Ensure that the protection of the environment is an integral part of your organisation's operations, services and products.
- Integrate "climate friendly" criteria into decision making.
- Focus on reducing your carbon footprint, most things we do uses some form of carbon, either in products themselves or in the energy and materials it takes to make them.
- Improve efficiency, by doing more with less. Integrate the 3Rs approach into your business —reduce, reuse and recycle. Note: this does not mean going without.

Building Better Business



The Federal Government's Climate Commission recently released its report – The Critical Decade – amidst a deal of positive critical acclaim as well as a deal of negative comment, particularly from climate sceptics. Unfortunately, this is the latest in a long line of documents over at least the last 20 years effectively telling us we have a problem but increasingly highlighting the need for greater urgency in limiting carbon emissions.

In essence the report outlines that climate change is real and that the planet is running out of time to prevent inordinate and possibly catastrophic change. In this case and most relevant, it particularly outlines future scenarios from an Australian perspective. According to the report the climate change is real, and is resulting from the Earth's surface rapid warming which in turn is directly associated with man made emissions to which Australia is one of the lead per capita contributors. In real terms therefore, business and the community need

to anticipate such things as more extreme weather events and further impacts on the natural ecosystems. In other words, we are going to have to produce more from less.

Whether you agree that the planet is warming unacceptably or not, if you are running a business today, there are some decisions that we would contend you should be making earlier rather than later.

While this might seem simplistic, the truth is that those businesses that have adopted this approach have already been shown to stand out from their competition. Those organisations in the Dow Jones Sustainability Index for example have clearly indicated lead performance (and therefore a much greater reception from the Market) than those who chose not to adopt this path.

So, what can you do now?

Importantly, the first thing is to understand that you cannot simply plan to minimise your current environmental impacts. Efficiency gains alone aren't going to be enough. If you want to get the greatest market advantage out of any initiative, we would suggest you undertake a fundamental review of where you want your business to be, based on a sustainable business growth approach.

Initially this will mean understanding what sustainability means for you and your business. Originally, the 1987 GH Brundtland definition said "...development (i.e. economic, environmental and social development) that meets the needs of the present without compromising the ability of future generations to meet their own needs..."

So, any approach has to:

- acknowledge that the business of the future is unlikely to be the same as current;
- acknowledge that the future business has to be built on the back of the current business;
- acknowledge that the future business has to deliver improved environmental, financial and societal outcomes;
- have real, measurable and deliverable objectives that can drive the business towards those outcomes; and
- acknowledge that now is the time to start.

So whether you're a climate sceptic or a believer, from a business perspective the real question is "How can I do better business?"

The facts are that the climate is changing. Water, wastes and energy prices are increasing at a rate markedly disproportionate to inflation. Access to resources and services is becoming more difficult and may be limited in the future. A low non-renewable energy, low carbon, low water use, low waste approach will not only lower a business' footprint, but make it more competitive in the future. A sustainable business growth approach can do this for your business. In line with the Climate Report, you just might best think of this as being sufficiently business critical to act now.

If you would like to discuss any of the articles in this newsletter, the impacts of the carbon tax on your business or sustainable business, please contact our team at Risk Strategies.

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