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Australia's Emissions Trading Scheme is a Long Way from Finished

The proposed emissions trading scheme – the Carbon Pollution Reduction Scheme (CPRS) – will have far reaching consequences for Australian manufacturing and investment.

But it is clear that the devil is in the detail and it's the details that are making the CPRS hard going for the Government.

The major issue the Government will have to get right is the support regime for businesses that are trade exposed and emissions intensive. The pulp and paper industry is a very good example.

The CPRS Green Paper proposes a compensation regime for those businesses that have to purchase permits but who are emissions intensive and trade exposed.

Surprisingly, the Government proposes using emissions intensity as its primary filter for compensation.

It is also proposing the use of a revenue denominator to assess levels of emissions to determine whether a business will be compensated.

In our view, both the filter and the denominator are wrong.

The effect of the emphasis on emissions intensity – especially for trade exposed sectors like pulp and paper manufacturing – is to make them cost uncompetitive relative to their international competitors. This could drive them, their investment and the jobs they provide off shore. Not to mention their emissions.

Emissions intensity was always the wrong starting point. Trade exposure should be the initial filter for a compensation regime. The rationale is simple. Only if a business is trade exposed does it need any compensation for the 'cost of carbon' it bears relative to others internationally.

Significant parts of the pulp and paper industry fall below the threshold levels for compensation because when measured against the proposed revenue denominator they are not sufficiently emissions intensive.

In manufacturing – where trade exposure and jobs are greatest – revenue will be higher and margins will be lower.

That's why a 'value adding' measure should be used as the compensation denominator. Under this approach, the sector's emissions intensity is significantly greater.



Pulp and Paper Sector Takes Sophisticated Approach to Lobbying

The careful lobbying approach of the pulp and paper sector and its stakeholders has resulted in the government listening to and concerned about the position of the sector.

Pointing out the high regional income and employment multipliers provided by the industry has been helpful. But there may come a time when the effort has to be stepped up and focus on the real personal impacts.

The sector's approach has been in stark contrast to the ranting of some very big emitters who do not want the extra costs but who equally have no real trade exposure, employ relatively few people and would not suffer a loss of business.

Ultimate Shape of CPRS Unclear

Given the impact on industries like pulp and paper and the regional communities they support and the fierce lobbying underway across the economy we can reasonably anticipate the CPRS will commence slowly, especially between 2010 and 2012.

Options include either fixed price permits (with a very low starting price) or larger quantities of free permits.

There has been interest expressed in alternative emissions trading models from some very influential quarters and there are rumblings about other policy measures that might be more effective in reducing emissions without the same levels of pain.

International negotiations continue in Poland in December. They will consider more refinement to the global carbon accounting rules. That's why the White Paper detailing the legislation will come out after the global meeting.

Of course, that's just at a policy level. Ultimately, politics will drive this issue and the Government will have to get legislation through the Senate. That's not looking an easy task.

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