



The business of climate change

What the Federal Government's climate change framework announcement means to your business and actions to consider

Ten months after the announcement of the deferral of the Carbon Pollution Reduction Scheme (CPRS) and following recent speculation around a possible carbon tax to support a cut in carbon emissions, on 24th February Prime Minister Julia Gillard provided an outline of the Government's plan to transition Australia towards a clean energy future.

The plan discussed by members of the Multi-Party Climate Change Committee (MPCCC) defines the architecture of a two-stage carbon price mechanism, commencing with a fixed price phase (three to five years), followed by a flexible price cap-and-trade emissions trading scheme. With a proposed start date of 1 July 2012, you may only have 16 months to develop and implement a comprehensive strategy that identifies opportunities and risks in the new business environment.

Whilst the plan has not been endorsed yet by all the MPCCC members and contains various elements of uncertainty, we believe this announcement is a trigger point for you to revisit and redefine your carbon strategy to ensure you are ready to respond to a carbon price and to participate in the policy setting debate.

What is still to be decided:

1. The fixed price and its escalation date
2. Assistance for emissions intensive trade exposed businesses, electricity generators, households
3. Whether a fuel excise rebate will be included for transport fuels
4. Whether some of the funds raised would be available for low emissions technology and innovation

Elements of the climate change framework

Under the climate change framework released by the Federal Government, a fixed carbon price will be imposed for a period of time (up to five years) before transitioning to a flexible cap-and-trade emissions trading scheme, subject to international developments, impact on business and budget and economic considerations.

What we know

Key design elements, as announced by the Government are summarised in the table below:

Design element	Government position
Start date	From July 1, 2012, subject to parliamentary approval this year
Fixed price period	From three to five years - price increases annually at a pre-determined rate
Coverage	All six Kyoto greenhouse gases to be included, over the following sectors: <ul style="list-style-type: none">▶ Stationary energy▶ Transport▶ Industrial processes▶ Fugitive emissions (other than from decommissioned coal mines)▶ Emissions from non-legacy waste The mechanism also permits phased coverage of sectors over time, and coverage of the electricity sector via an intensity-based allocation scheme.
Exclusions	Agriculture, although there will be an opportunity to generate credits under the Carbon Farming Scheme
International linkages	International emissions units for compliance during fixed price period to be precluded

What is still to be decided

Most importantly, the fixed price and its escalation rate are still undecided. And there is no indication of when these details will be announced.

Other elements yet to be decided include:

- ▶ Assistance for emissions intensive trade exposed businesses, electricity generators, households
- ▶ Compensation for the inclusion of transport fuel
- ▶ Support for low emissions technology and innovation

Early action will provide the underpinning analysis to enable business to assess the risks and opportunities from a carbon price.

What does this mean?

Further details are needed to fully understand the impacts for businesses and to adequately prepare for the 1 July 2012 start date. However, whilst there is still uncertainty regarding the operating conditions of the scheme, businesses can now implement appropriate strategic and tactical responses to deal with the potential implications, and seek to assess the risks and opportunities.

Early action will prepare businesses to engage effectively in all relevant forums during the consultation period for the scheme design.

However, without further information on the design details, businesses may be well-advised to hold off on some key strategic planning elements.

The table below provides a snapshot of what can be done by business now in response to what we know, versus what can wait:

What can be done now	
Scenario planning at a range of carbon prices <ul style="list-style-type: none"> ▶ Valuations ▶ Budgets ▶ Impact on planned projects 	Understanding the direct and flow-through impacts of a carbon price will allow early risk assessment, and enable businesses to capitalise early on developing opportunities.
Understand the direct impacts of your business	Your planning should identify not just your direct carbon emissions but also cost impacts including electricity pricing, transport costs and raw materials.
Review monitoring and reporting procedures	Review the frequency and quality of carbon emissions monitoring and reporting to ensure the business has the underpinning data for effective decision making.
Develop marginal abatement cost curves	Businesses can already begin to model the internal cost of reducing carbon emissions to establish a hierarchy of investment under a range of carbon price scenarios.
Understand your supply chain	The exposure to a carbon impost across a business' supply chain can be established. Contracts can be reviewed for the ability to pass on any of these costs, and 'pinch-points' in the supply chain identified.

What can be done now (cont.)

Risk and opportunity assessment	Understanding a business' areas of exposure to a carbon price, and where it has competitive advantage can influence its strategic direction.
Engagement with government, MPCCC and other forums	Continue and adjust your engagement with all stakeholders involved in the policy development, to shape the policies.

What can wait

Trading strategies	Establishing a function to manage carbon credits at least cost won't be needed until the scheme transitions to a cap and trade model. Until further details are known, it also worth taking a 'wait and see' approach to hedging with international carbon credits.
Fully costed impairment test	Impairment tests can be completed once there is certainty on the fixed price for carbon and how certain industry sectors will be supported in the transitional phase.
Auction strategy	There is no need for an auction clearing process at a fixed carbon price. Without trading, auction strategies can also be put on hold.

How Ernst & Young can help you

Starting to develop your response now will give you time to think through the complexity of your options. If you would like help considering these options and deciding on the best course to take, our multi disciplinary climate change team is ready to work with you.

As more detail of the scheme emerges, we will be preparing further guidance and insights on a sectoral basis.

In the meantime, if you have any questions do not hesitate to contact your local Ernst & Young contact or Oceania Climate Change and Sustainability Services Leader, Mathew Nelson on Tel: +61 3 9288 8121.

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