

Business
Council of
Australia



Business Council of Australia

Submission to the

Department of Climate Change and Energy Efficiency

on the

**Proposed Architecture and Implementation
Arrangements for a Carbon Pricing Mechanism**

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EXECUTIVE SUMMARY

The Business Council of Australia (BCA) makes this submission giving consideration to Australia's long-term economic prosperity. It is the strength of Australia's economy and viability of its businesses long-term that will ensure we are best able to respond to economic, social and environmental challenges including climate change.

The government is currently developing the details related to its proposed hybrid model to put a price on greenhouse gas emissions. The government has indicated its preference to incorporate major design elements of the previous Carbon Pollution Reduction Scheme (CPRS) as the basis for the hybrid model.

The BCA is of the view that the CPRS in its final form at the end of 2009 is not an appropriate scheme to come into operation in 2012 to give effect to the government's hybrid model. The four key concerns that must now be taken into consideration are:

- There has been limited progress in international negotiations. It is still unclear what legal instrument will be put in place – and when it will be put in place – and what binding actions major emitting nations as diverse as the USA, China, India, Russia and Brazil will take. The USA, Japan, and most recently Canada, have either deferred or rejected policies to price greenhouse gas emissions.
- The Australian economy has experienced a significant downturn that is still impacting on many industries. The introduction of any policy to price greenhouse gas emissions will mean additional costs that will flow through to all businesses and the consumer. This will happen at a time when the Australian economy is experiencing an uneven pattern of growth. While there is a strong labour market showing signs of emerging skills shortages and capacity constraints, there continues to be weakness in retail spending and softness in parts of the manufacturing and services sectors.
- The absence of detail on international linking in the government's hybrid model has raised substantial questions as to the cost of this model to business and the community. The decision that there is no international linkage in the fixed price period means there is no clarity on the upper limit on the price of permits. The absence of detail on the scope of international linking in the longer term means business is

unable to plan for long-term costs. International linkage is a critical element to ensuring Australia achieves an emissions reduction target at least cost.

- Finally, in the absence of any detail, the question must be asked as to what emissions reduction will occur in the fixed price period of the hybrid model and what will be the real cost to the economy during this period unless there are substantial changes to the policy.

This does not mean no emissions reduction policy should be introduced, rather, that the introduction of such a policy must be done in a manner that does not further exacerbate the negative impact of current economic conditions or put Australia at a disadvantage to the rest of the world.

Treatment of the electricity sector

There is a need to ensure the smooth transition of the electricity sector to low-emissions technology and to do this at least cost. There is also a need to recognise that coal-based generation will be part of the mix for the foreseeable future, both here and internationally.

Estimates of the investment in electricity sector generation and transmission to meet future demand and move to lower emissions technology range from \$72 billion to \$82 billion over the next twenty years. This estimate does not include the costs associated with new distribution networks, greater use of gas and related infrastructure.

Therefore, there are three challenges to address: how to provide coal-based generators with the capacity to supply electricity through the transition period; how to ensure a least-cost transition, and how to provide the right policies for investment in lower-emissions technologies in the sector.

To meet these challenges policy arrangements in the electricity sector should include:

- the option for generators to tender for the closure of emission intensive plants so as to support emissions reduction;
- direct assistance to significantly impacted generators to avert financial distress and consequential negative impacts for energy security and capital provider (equity and debt) sentiment;

- winding up of policies and programs that are inflating the costs of achieving emissions reduction in the sector including the renewable energy target; and,
- ensuring Australia's carbon pricing policy and regulatory frameworks do not add a risk premium and increase the cost of capital or make Australia a less attractive investment destination.

Trade exposed industries

Given the uneven recovery and growth in different sectors of the domestic economy there is a need to consider all affected trade-exposed industries and not just those which have emissions above a stipulated emissions threshold as proposed in the CPRS.

The cost impost on trade-exposed industries of any policy to price greenhouse gas emissions should be fully offset to ensure Australia's policy to price greenhouse gas emissions is trade and investment neutral. The BCA recommends that all trade-exposed industries be eligible for a 100 per cent allocation of their permits to offset the cost impost, that the decay rate not be introduced until at least 80 per cent of relevant competitors in the industry have introduced comparable effective greenhouse gas costs on the industry, and all Scope 1 and 2 emissions as well as Scope 3 emissions relating to non-trade exposed inputs be covered in the permit allocation.

The Productivity Commission should undertake regular reviews to determine progress of Australia's competitors in putting an effective price on greenhouse gas emissions and to determine the rate at which the offset is reduced and removed over time.

The policy should start in the fixed-price period with a low carbon price (\$10.00) with a modestly increasing trajectory to reduce the need for compensation to households and business, and in recognition of the limited opportunities for domestic emissions reduction in the early years and in the absence of international linkage.

Starting with a low cost and modest trajectory is warranted given there are already costs in the economy as a result of a number of state and federal policies which impose either explicit or implicit emissions-related costs. Examples include solar feed-in tariffs, the renewable energy target and proposed energy efficiency schemes.

These state and federal policies and programs should be wound up with the commencement of this carbon pricing policy so as to better enable a least cost approach to emissions reduction.

It should be recognised that taking such an approach will not, of itself, reduce the incentives for businesses to plan for and invest in emissions reduction efforts. **It is the existence of a stable and long-term policy framework and technological developments which will provide businesses with the incentives and capacity to plan and invest for a long-term transition to a lower-emissions economy**

INTRODUCTION

The BCA represents the chief executives of more than 100 of Australia's leading companies. The BCA develops and advocates, on behalf of its members, public policy reform that positions Australia as a strong and vibrant economy and society. The businesses that the BCA members represent are some of Australia's largest employers and represent a substantial share of Australia's domestic and export activity. Therefore, they have a significant interest in the scope and direction of economic reform.

The BCA's vision is for Australia to be the best place in the world in which to live, learn, work and do business, with the overriding objective to enhance prosperity in Australia.

Such an objective is not at odds with effective environmental management. It will require the introduction of policies which lead to environmental costs and risks being taken into account and addressed in the most efficient manner. In the case of greenhouse gas emissions and the risks associated with climate change, this can best be done through a multifaceted approach using a market-based mechanism such as an emissions trading scheme, as well as research and development of new technologies and improving Australia's adaptation capabilities.

The introduction of such policies in the absence of a global response that includes Australia's competitor countries and in the current economic climate must be in a manner that does not disadvantage Australia's competitiveness or put employment at risk, but ensures a smooth, long-term transition to a low-emissions economy.

THE CHANGED CONTEXT SINCE 2009

This submission addresses a number of matters related to the proposed hybrid model and possible architecture to price greenhouse gas emissions. It considers matters related to the transition of the electricity sector and treatment of Australia's trade-exposed industries so as to maintain competitiveness in the absence of binding international agreements which include all major emitters.

In particular, this submission details the BCA's concern that the CPRS as designed in 2008–2009 does not reflect the global and national realities in which Australia will be operating in the foreseeable future.

The BCA is of the view that the CPRS in its final form at the end of 2009 is not an appropriate scheme to come into operation in 2012.

- While the Australian Government in its international negotiations has sought an agreement which includes binding commitments from all major emitting nations, progress has been much more limited than anticipated in 2008–2009. It is still unclear what legal instrument will be put in place – and when it will be put in place – and what binding actions major emitting nations as diverse as the USA, China, India, Russia and Brazil will take. The USA, Japan, and most recently Canada, have either deferred or rejected policies to price greenhouse gas emissions.
- The Australian economy has experienced a significant downturn that is still impacting on many industries. The introduction of any policy to price greenhouse gas emissions will mean additional costs that will flow through to all businesses and the consumer. This will happen at a time when the Australian economy is experiencing an uneven pattern of growth. While there is a strong labour market showing signs of emerging skills shortages and capacity constraints, there continues to be weakness in retail spending and softness in parts of the manufacturing and services sectors.

This does not mean no emissions reduction policy should be introduced, rather, that the introduction of such a policy must be done in a manner that does not further exacerbate the negative impact of current economic conditions nor put Australia at a disadvantage to the rest of the world.

BCA CRITERIA FOR ASSESSING THE PROPOSAL

The introduction of policies in Australia to address the risks of climate change should be seen as a process that provides for the gradual and long-term adjustment of the economy to accommodate higher energy costs while maintaining its competitive advantage and to enable industry to innovate and introduce technologies as they become available to reduce emissions.

Given the scale of the required economic transition, a multifaceted approach in Australia is essential, which has at its base a market-based mechanism for emissions reduction and will include additional supporting policies, investments and initiatives to ensure the research and development necessary to identify technology solutions, including low-emissions technologies and to build Australia's adaptation capabilities.

In considering the government's proposed hybrid model and scheme architecture to price greenhouse gas emissions, the BCA has considered whether proposals:

- enable emissions reduction at least cost to the economy
- use market-based mechanisms, where possible
- maintain the reliability and viability of our domestic electricity industry through the transition to lower emissions technologies
- maintain the competitiveness of our trade-exposed industries in the absence of a global carbon price.

Maintaining the competitiveness of Australia's trade-exposed industries is critical in the absence of policies putting an equivalent price on industries and products in our competitor countries. This requires policies that are trade and investment neutral.

The BCA recognises that under a global price there will be a change in the relative advantage some Australian exports have, however, it is not possible to predict what this will be so what is essential is to maintain a 'level playing field' in the intervening period so that those businesses that will be viable under a global price are not disadvantaged in the interim.

OUR UNDERSTANDING OF THE GOVERNMENT'S PROPOSAL

The BCA's understanding of the proposed architecture is as follows:

- The Australian Government is planning to introduce legislation later this year to put a price on greenhouse gas emissions with the intention that the policy be in operation as early as 1 July 2012.
- The hybrid model proposed is one of an accelerating fixed-price trading scheme for 3 or 4 or 5 years to be followed by a transition to a flexible price cap and trade emission trading scheme once a set of yet-to-be determined triggers are met. Emissions reduction targets are not to be set until the expiration of the fixed-price period. The fixed-price period could be extended by a review 12 months before the expiration of the initial fixed-price period. Should the fixed-price period be extended there may be a change to the level of the fixed price and the escalation rate. In considering changes to the fixed-price factors to be looked at would include the level of international

carbon prices, and the impact of the price on the economy and reductions of greenhouse gas emissions.

- Matters to be considered in deciding whether to move to a flexible price cap and trade scheme are:
 1. the state of the international carbon market including the availability, integrity and price of international units;
 2. developments in carbon pricing in key competitor economies, including carbon price forms and levels;
 3. Australia's internationally agreed targets and progress towards meeting them, including whether they have been incorporated into a binding legal agreement;
 4. the fiscal implications of any on-budget purchases of internationally accepted emissions units that may be required for Australia to comply with any internationally agreed emissions target;
 5. potential impacts on the Australian economy including impacts on households, workers, regions and communities, and the competitiveness of Australian industry; and,
 6. the implications for investment certainty in clean technologies, energy efficiency and carbon markets.
- During the fixed-price period, those covered by the hybrid model will not be able to use international emissions units for the purpose of compliance under the hybrid model, and the level of access to and types of international emissions units available under the flexible price scheme will not be determined until a later date.
- The government intends to use the architecture of the CPRS (as it was at November 2009) as the basis for the implementation of its hybrid model.

AN ASSESSMENT OF THE PROPOSAL

1 ASSESSMENT OF THE HYBRID MODEL

The hybrid model is at risk of increasing the costs of implementing a greenhouse gas emissions reduction policy as well as increasing the level of uncertainty for business relative to previous models. Factors contributing to this situation include:

- During the fixed price period it is proposed that there be no international linkage. Companies will not be able to access international greenhouse gas emissions reduction opportunities. Domestic emissions reduction may in many instances not be available or have a higher cost than emissions reductions overseas.
- It appears there will also be limits (as yet unstated) to international linkage even under a flexible emissions trading scheme. The ambiguity on this issue leaves business unable to plan for the longer term costs of this policy. Should limits be placed on international linkage over the longer term it can be expected that the cost of the policy will be higher than would have been the case otherwise.
- The hybrid model has reduced the coverage of the policy from a broad economy approach to one where emissions from selected sectors are excluded, ie. agriculture.
- Emissions reduction targets for this hybrid model will not be finalised until the conclusion of the yet to be determined fixed price period and will be set by way of regulation. The absence of government confirmation of its previously stated target of a 5 per cent reduction on 2000 greenhouse gas emission levels in 2020 leads to both regulatory and investment uncertainty.
- Under the hybrid model it is not clear how the government intends to achieve its previously announced emissions reduction target of 5 per cent below 2000 levels in 2020. Such a target requires approximately 160 million tonnes of greenhouse gas emissions reduction in 2020. Previous Treasury modelling has assumed over 30 per cent of this target would have to be met through access to international permits. Under the hybrid model this option has been removed for the fixed-price period and there may be a limit on the access to international offsets even when there is a transition to a flexible cap-and-trade scheme.
- Finally, in the absence of any detail, the question must be asked as to what emissions reduction will occur in the fixed-price period of the hybrid model and what will be the real cost to the economy unless there are substantial changes to the policy.

2 ASSESSMENT OF THE TREATMENT OF THE ELECTRICITY SECTOR

Currently there are no details as to the treatment of the electricity sector, which means it is not possible to assess whether the reliability and viability of Australia's domestic electricity industry will be maintained. In the absence of details, it is important to restate what should be achieved with any policy implemented.

There is a need to ensure the smooth transition of the electricity sector to low-emissions technology and to do this at least cost. There is also a need to recognise that coal-based generation will be part of the mix for the foreseeable future, both here and internationally.

Estimates of the investment in the electricity sector generation and transmission to meet future demand and move to lower emissions technology range from \$72 billion to \$82 billion over the next twenty years. This estimate does not include the costs associated with new distribution networks, greater use of gas and related infrastructure.

What is essential is to not only attract this investment but also attract it at least cost. Investment of this scale will require international as well as domestic investors, all of whom have international investment options. The carbon pricing policy and regulatory frameworks in Australia need to be designed in a way that does not add a risk premium and increase the cost of capital or make Australia a less attractive investment destination.

Therefore, there are three challenges to address: how to provide coal-based generators with the capacity to supply electricity through the transition period; how to ensure a least cost transition, and how to provide the right policies to for investment in lower-emissions technologies in the sector.

To meet these challenges policy arrangements in the electricity sector should include:

- the option for generators to tender for the closure of emission intensive plants so as to support emissions reduction;
- direct assistance to significantly impacted generators to avert financial distress and consequential negative impacts for energy security and capital provider (equity and debt) sentiment;
- winding up of policies and programs that are inflating the costs of achieving emissions reduction in the sector including the renewable energy target; and,
- ensuring Australia's carbon pricing policy and regulatory frameworks do not add a risk premium and increase the cost of capital or make Australia a less attractive investment destination.

3 ASSESSMENT OF TREATMENT OF TRADE-EXPOSED INDUSTRIES SO AS TO ADDRESS COMPETITIVENESS RISKS

The government has proposed that the approach to trade-exposed industries in the previous CPRS is an appropriate way to address competitiveness risks going forward.

While the November 2009 CPRS included a number of further changes to earlier versions of the CPRS, those changes are not adequate in light of the limited progress in international negotiations. Many trade-exposed companies are left to incur costs which over the longer term would become substantial, either because they do not meet the emissions intensity threshold or because their permit costs are not fully offset.

Given the uneven pattern of growth in the domestic economy there is a need to consider all affected trade-exposed industries and not just those which have emissions above a stipulated emissions threshold as proposed in the CPRS.

The cost impost on trade-exposed industries of any policy to price greenhouse gas emissions should be fully offset to ensure Australia's policy to price greenhouse gas emissions is trade and investment neutral. The BCA recommends that all trade-exposed industries be eligible for a 100 per cent allocation of their permits to offset the cost impost; that the decay rate not be introduced until at least 80 per cent of relevant competitors in the industry have introduced comparable effective greenhouse gas costs on the industry; and all Scope 1 and 2 emissions as well as Scope 3 emissions relating to non-trade exposed inputs be covered in the permit allocation.

The Productivity Commission should undertake regular reviews to determine progress of Australia's competitors in putting an effective price on greenhouse gas emissions and to determine the rate at which the offset is reduced and removed over time.

The policy should start in the fixed-price period with a low carbon price (\$10.00) with a modestly increasing trajectory to reduce the need for compensation to households and business, and in recognition of the limited opportunities for domestic emissions reduction in the early years and in the absence of international linkage.

It should be recognised that taking such an approach will not, of itself, reduce the incentives for businesses to plan for and invest in emissions reduction efforts. It is the existence of a stable and long-term policy framework and technological developments

which will provide businesses with the incentives and capacity to plan and invest for a long-term transition to a lower-emissions economy.

DETAILED RESPONSE TO SPECIFIC ELEMENTS OF THE NOVEMBER 2009 CARBON POLLUTION REDUCTION SCHEME

The following table takes as its basis the CPRS EITE arrangements provided to the BCA as a member of the government's Business Roundtable on Climate Change and includes BCA comments and recommended changes should the government decide to reintroduce the previous CPRS as part of its hybrid model.

Matters related to trade-exposed industries to be addressed in the previous CPRS

CPRS EITE design element	DCCEE summary paper April 2011 (reflecting November 2009 agreement with the Coalition)	BCA comments and recommendations
Activity definition approach to EITE assistance	Assistance to be provided on an activity basis to ensure that assistance was targeted at the emissions and energy intensive transformation taking place, ensuring that structural differences in operations do not confer advantage on some producers.	Activity definition should be broadened to include all emissions from an integrated facility. Activity definitions need to be resolved for a number of industry processes including cement making.
Form of assistance	Allocation of free permits to occur at the start of each compliance period, linked to expected production each year, and contingent on continued production in each year.	There is a need to ensure the application of Section 4.17 Allocations of assistance to entities in the Explanatory Memoranda 2010 CPRS legislation, i.e. conducting emissions-intensive trade-exposed activities will be directly linked to the level of production of individual entities conducting an activity. In any given year, the number of free Australian emissions units to be issued to an entity will be determined using the previous financial year's production of the activity by that entity adjusted for any over-allocation or under-allocation in the previous year.
Scope of assistance	EITE assistance was to be provided in relation to: <ul style="list-style-type: none"> • direct emissions covered by the scheme (Scope 1) • scheme related cost increase for electricity and steam use (Scope 2) • scheme related cost increase for upstream emissions from natural gas and its components (e.g. methane and ethane) used as feedstock and sequestered in the EITE outputs of the activity (Natural gas Scope 3). 	Assistance to be provided for all Scope 1 and 2 emissions and those Scope 3 emissions related to all non trade-exposed inputs. In essence, assistance should be provided to trade-exposed industries for the higher costs of inputs where the increased costs of non trade-exposed inputs are passed through.
Eligibility for assistance	Eligibility was based on emissions per million dollars of revenue or per million dollars of value added for a given activity (see rates of assistance for different tiers of eligibility below). Time period for assessment: <ul style="list-style-type: none"> • <i>Emissions data</i>: 2006–07 to 2007–08. • <i>Revenue/value added data</i>: 2004–05 to the first half of 2008–09. Trade exposure assessed via quantitative or qualitative test: <ul style="list-style-type: none"> • <i>Quantitative test</i>: trade share (ratio of value of imports and exports to value of domestic production) greater than 10 per cent in any one of the years 2004–05, 2005–06, 2006–07 or 2007–08. • <i>Qualitative test</i>: demonstrated lack of capacity to pass through costs due to the potential for international competition. 	The CPRS requires both a test of trade exposure and a test of emissions intensity. There is substantial concern that a number of trade-exposed industries with substantial emissions (but not emissions-intensive under this definition) will be impacted by the cost pass through but unable to pass these through. Use of a trade exposure test only would address this issue. Alternatively implement programs to address the impacts on those with a major trade exposure issue. Review the ratio of value add and adjust to 2.5:1 if an emissions intensity test continues to be used. Such a ration would then reflect DCCEEE did not use all costs in all industries when they sought to use a value added definition.
Allocative baselines	Based on historic industry average level of emissions per unit of production for all entities conducting activity.	Accept

Matters related to trade-exposed industries to be addressed in the previous CPRS cont'd

CPRS design element	DCCEE summary paper April 2011 (reflecting November 2009 agreement with the Coalition)	BCA comments and recommendations
Electricity Allocation Factor	Set at 1 permit per MWh nationwide, may be adjusted in respect of existing large electricity supply contracts (see 'other arrangements' below).	As a first principle allocate permits for all Scope 1, 2 and 3 (as above). Include an additional element, i.e. for any large users of electricity under long-term contract in situations where the cost pass through will be higher than the market-based 1.0., the EITE permit allocations (electricity allocation factor) must be based on the actual electricity intensity.
Initial rates of assistance for eligible activities	<p>Initial rates of assistance:</p> <ul style="list-style-type: none"> • 94.5 per cent of the industry average baselines, for activities with emissions intensity of at least 2000t CO₂-e/\$m revenue or 6000t CO₂-e/\$m value-added.; • 66 per cent of industry average baselines, for activities with emissions intensity between 1000t CO₂-e/\$m and 1999t CO₂-e/\$m revenue or between 3000t and 5999t CO₂-e/\$m value-added. <p>These are inclusive of the Global Recession Buffer. <i>Note: the November 2009 agreement states: "The Government's 'global recession buffer' will be integrated into base assistance rates and will not be removed after 5 years."</i></p>	<p>The CPRS requires both a test of trade exposure and a test of emissions intensity. There is substantial concern that a number of trade-exposed industries with substantial emissions (but not emissions-intensive under this definition) will be impacted by the cost pass through but unable to pass these through. Use of a trade exposure test only would address this issue. To ensure this policy is trade and investment neutral the cost of the policy should be fully offset. This would require a 100 per cent allocation of permits on the basis of industry average baselines for all scope 1 and 2 emissions and those scope 3 emissions related to all non trade-exposed inputs.</p> <p>Taking such an approach removes the necessity for two tiers of assistance and moves all trade exposed industries onto the same rate of assistance.</p> <p>Should a combined trade exposure and emissions intensity definition be retained compensation should be 100 per cent on the basis of industry average baselines.</p>
Change to assistance rates over time	'Carbon productivity contribution (CPC)' – Initial rates of assistance were to be reduced by 1.3 per cent per annum.	The level of compensation should be maintained at 100 per cent until reviews by the Productivity Commission or other independent authority at the activity level indicate 80 per cent test has been met (see Review of Assistance below)
Quantum of assistance to EITE sector	Estimated that EITE industries would be allocated around 28 per cent of permits in 2011–12.	The principle should be to address the cost impost and related competitiveness impacts and maintain a level playing field in the absence of meeting the test described under the "Review of Assistance". There should not be an allocation of percentages of permit revenue.
New entrants	<p>New entities conducting an existing EITE activity receive the same assistance as existing entities conducting the activity.</p> <p>Activities new to Australia were able to apply for EITE eligibility with the assessment of eligibility and baselines made on the basis of international best practice.</p> <p>Allocations to existing entities would not be adjusted for allocations to new entrants.</p> <p><i>Note: the CPRS Explanatory Memorandum also states: "With regard to new entrants and significant expansions, the Authority will be afforded the discretion to determine an allocation for the expected production in a given year."</i></p>	<p>In principle accept the arrangement described with the following addition.</p> <p>There is a need to recognise the potential requirement to adjust baselines for some activities. This element needs to be expanded to include a provision that where a new facility in an existing EITE category had expected emission intensity 20 per cent greater than the industry average because of particular resource feestock characteristics, a higher baseline could be set.</p>

Matters related to trade-exposed industries to be addressed in the previous CPRS cont'd

CPRS design element	DCCEE summary paper April 2011 (reflecting November 2009 agreement with the Coalition)	BCA comments and recommendations
Review of assistance	<p>Reviewed by an independent body at each five year review point, or at request of the minister. The independent review was to consider:</p> <ul style="list-style-type: none"> • the inclusion of additional activities in light of commodity price changes and expansions in coverage of the CPRS • the consistency of the EITE program with the overall rationale for the scheme • the existence of broadly comparable carbon constraints applying internationally • whether the CPC should change for a specific industry based on an assessment of whether a substantial proportion of relevant producers in competitor markets face lower carbon constraints than Australian producers. Specifically, if less than 70 per cent of relevant competitors in an industry have introduced comparable carbon constraints, this will be taken as prima facie evidence that the CPC should not fall below 90 and 60 per cent. <p>The government was to provide a minimum of five years notice of any material changes for any general modifications arising out of that review, unless required for compliance with Australia's international trade obligations.</p>	<p>Maintain first three dot points of review mechanism and notice period.</p> <p>No decay rate until test below is met.</p> <p>Test should be at the industry level. Once the 80 per cent threshold is identified, the decay rate should be set to reflect the level of effective greenhouse gas emissions cost on the industry in the competitor country relative to the cost in Australia for that industry.</p> <p>Further additions to the review mechanism therefore:</p> <p>The Productivity Commission or other independent body will advise on whether to introduce a decay rate based on an assessment of whether a substantial proportion of relevant producers of specified products in competitor markets face lower carbon constraints than Australian producers. These reviews will be conducted on an industry-by-industry basis:</p> <ul style="list-style-type: none"> • In assessing comparability of carbon constraints facing producers of specified products in Australia and other countries, the review will take account of assistance policies relevant to those producers and products. • Evidence that the carbon constraints facing a substantial proportion of producers of the products in competitor markets were lower than the carbon constraints facing producers of the same and similar products in Australia would be evidence that it was appropriate to maintain current arrangements. • If less than 80 per cent of relevant competitors in an industry have introduced comparable carbon constraints on the competing products, this will be taken as prima facie evidence that the arrangements be maintained. • If less than 80 per cent of relevant competitor product in an industry includes a comparable carbon constraints on the competing product, this will be taken as prima facie evidence that the arrangements be maintained. • The Productivity Commission or other independent body will also take into account other evidence including the extent to which Australian industries meet world best practice in emissions efficiency and the degree of exposure to trade competition. <p>These reviews will consider both explicit carbon prices and other regulatory measures to provide evidence of a demonstrable effective carbon price on the competitor products.</p> <p>Subject to the outcomes of the review, a five-year notice period would be given for the varying of the arrangements for that activity.</p>

CPRS design element	DCCEE summary paper April 2011 (reflecting November 2009 agreement with the Coalition)	BCA comments and recommendations
Other arrangements	<p><u>Coal mining</u> Coal mining was to be treated outside the EITE assistance policy, with a separate assistance package.</p> <p><u>Recycling</u> In situations where a given output was produced from eligible EITE activities using either primary materials or recovered or recycled materials as inputs, the same rate of EITE assistance was to be applied to both activities.</p> <p><u>Supplementary allocation for producers of LNG</u> LNG projects were to receive an effective assistance rate of 50 per cent in relation to their LNG production.</p> <p><u>Large electricity users</u> For entities consuming greater than 2000GWh per annum, contractual arrangements entered into before 3 June 2007 that were still in force (without having been renegotiated or reviewed) at 1 October 2010 were to be considered by the regulator to determine an entity-specific electricity allocation factor in determining allocations of EITE assistance.</p> <p><u>Cap on an entity's EITE entity allocation</u> EITE allocations were to be capped at 100 per cent of an EITE entity's direct and indirect electricity and steam emission costs to reduce the likelihood that windfall gains will be provided.</p> <ul style="list-style-type: none"> • <u>Food processing (also included in Nov agreement but not in DCCEE summary)</u> <i>A five-year, \$150 million stream of assistance for the food processing sector will be established within the Climate Change Action Fund. This stream will be dedicated to funding emissions reduction measures within the primary food processing industry, with initial priority given to dairy processing, meat processing and malt production facilities.</i> 	<p><u>Coal</u> As a first principle coal should be treated as any other trade-exposed industry. In the absence of such an approach, fugitive emissions should be precluded from the policy as is the case with the EU scheme.</p> <p><u>Recycling</u> Accept.</p> <p><u>LNG</u> Should be treated as all other trade exposed industries as proposed in this table including trade exposure test, activity definition, scope 1,2 and 3 emissions, allocation of free permits to cover 100% of liability under the policy.</p> <p><u>Large electricity users</u> See reference under the Electricity Assistance Factor above.</p> <p><u>Cap on an entity's EITE entity allocation</u> Clause 911 of the CPRS regulations proposes a rolling annual cap. Such a cap is at risk of reducing the capacity of businesses to invest to reduce emissions. The cap should be removed.</p>

4 OTHER MATTERS

- It will be important to resolve how those covered by an emissions pricing policy will have access to abatement opportunities in the domestic market. The carbon farming initiative potentially provides such an opportunity.

- Matters such as international linkage, banking and borrowing, and payment scheduling should be designed to ensure the implementation of the policy in a manner that is at least cost and provides business with the tools to plan for and manage the risks.
- One of the unresolved matters in the previous CPRS negotiations was the final treatment of permits purchased by the upstream oil and gas industry for taxation purposes. Deductibility for both corporate and petroleum resource rent tax purposes should be agreed.
- All other state and federal policies and programs that already place an implicit or explicit price on emissions should be wound up with the commencement of this carbon pricing policy.

CONTACT

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