

Sustainable Business Update

Issue 3, March 2007 - Climate Change

Sustainable Business Practices is pleased to present a review of recent activities from government, business and research centres on issues relating to business sustainability.

Emissions trading – some recent developments

First, a little history. On 6 April 2006, the Australian Business Roundtable on Climate Change launched the report "The Business Case for Early Action", calling for a "long, loud and legal framework to establish a price signal for carbon".ⁱ At the time of the launch of the report, the response from business and government was, to say the least, mixed. Less than 12 months later the difference could not be more marked.

The States' based National Emissions Trading Scheme outline was released in August 2006 and submissions in response have generally supported emissions trading as an efficient way of pricing carbon and signalling the need to reduce emissions.

On 13 November 2006 the Business Council of Australia supported the introduction of a global emissions trading scheme and at the same event the Prime Minister announced the formation of the Task Group on Emissions Trading, a group of 12 business and Federal Public Service leaders which will report back by 31 May 2007.

The most recent support for emissions trading comes from the Energy Supply Association of Australia which has warned that uncertainty about emissions policy could undermine planning for tens of billions of dollars in investment in power stations, and "... concluded that an economy-wide emissions trading scheme was the most efficient way to deliver a price signal for greenhouse emissions needed for investor certainty".

ESAA CEO Brad Page said "A greenhouse gas emissions price signal – along with a target for 2050 – is required to promote investor confidence".ⁱⁱ

The energy suppliers have insisted that transport, agriculture and other industries be brought into a future emissions trading scheme, not just stationary energy as proposed by the States' National Emissions Trading Scheme.

The Prime Minister's Task Group on Emissions Trading released an issues paper on 7 February and submissions to the Task Group are due by 7 March. The issues paper is at www.pmc.gov.au/emissionstrading

The terms of reference for the Task Group include preservation of Australia's competitive advantage from reserves of fossil fuels and uranium, the nature and design of a workable global emissions trading system and steps that might be taken, in Australia, consistent with the goal of establishing an emissions trading system.

The Australian Government maintains its commitment to meet Australia's Kyoto target of limiting emissions to 108% of 1990 levels annually over the period 2008-12.

The issues paper for the Prime Minister's Task Group also notes that "without further action, ongoing strong economic growth is expected to result in emissions rising to 127% of 1990 levels by 2020."

Contrasting this "business as usual" increase with the global scientific consensus that a reduction of some 60% below 2000 emission levels is necessary if we are to avoid a further temperature increase of more than 2 degrees C, the level at which we are likely to see "dangerous" effects of climate change, demonstrates the scale of the task ahead of us.

Given that energy demand is predicted to double by 2050, technology supplying this additional energy will need to be emissions free to keep emissions at today's level. Generating capacity for current supply will also need to have significant reduction in emissions.

There is a diversity of views as to whether a globally integrated emissions trading scheme needs to be implemented in order to achieve the necessary cuts in emissions.

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There are a number of variants of a global scheme that can be introduced. The Task Group Issues Paper acknowledges, in relation to the possibility of a single global trading scheme operating at the enterprise level that, "it is unlikely, however, that a comprehensive international agreement to support such a scheme will emerge in the near future".ⁱⁱⁱ

Warwick McKibbin and Peter Wilcoxon^{iv} have proposed a hybrid model for tradable emissions permits, combination of long term (perpetual) emissions certificates issued (the amount might equal 1990 emissions) with additional emissions issued on an annual basis.

The annual permits would be unlimited in number with the incentive to invest in abatement/emissions reductions coming from the ability to fund investment in new technology and processes at less than the cost of a emissions certificate.

The McKibbin/Wilcoxon model proposes systems operating only within individual jurisdictions with no trading of certificates between jurisdictions. The definition of a jurisdiction is rather wide, e.g. the EU is a jurisdiction and there would be no Clean Development Mechanism or Joint Implementation as per the Kyoto Protocol.

Centennial Coal – the Anvil Hill case

We first reported on this case in our December update. The NSW Land and Environment Court held that emissions from the burning of exported coal must be included in the environmental impact statement, not just emissions from mining.

It has now been reported that the NSW Department of Planning has required Centennial Coal to price

emissions from burning coal at A\$109, (US\$85) per tonne, the projected price from the Stern Review.^v The suggested price is well outside the range of current CO₂e prices in any of the regulated or voluntary markets.

IPCC Fourth Assessment Report

The report of Working Group I of the IPCC, "The Physical Science Basis" was released in Paris on 2 February. Six hundred authors from 40 countries prepared the work which was reviewed by 620 experts. The Summary for Policymakers was signed off by representatives of 113 countries. Key findings as outlined in the summary for Policy Makers include:

- Atmospheric concentrations of CO₂ and other Greenhouse Gases have increased markedly as a result of human activity since 1750.
- The warming of the climate system is widespread and can be detected in temperature observations taken at the surface, in the free atmosphere and in the oceans, and cannot be explained without external forcing, i.e. human activity.
- Temperature increases this century – "It is likely to be in the range 2 to 4.5 degrees Celsius with a best estimate of about 3 degrees and is very unlikely to be below 1.5 degrees Celsius" (IPCC WG1 Fourth Assessment Report). Increases of this magnitude could lead to potential catastrophic impacts for many regions and industries unless appropriate actions are taken.
- Potentially dangerous rises in sea levels are likely over the 21st century and will be exacerbated if there is significant melting of polar ice and the Greenland and Antarctic ice sheets.

The report is available at www.ipcc.ch

References

ⁱ Australian Business Roundtable on Climate Change
www.businessroundtable.com.au

ⁱⁱ Australian Financial Review, Monday 26 February 2007, page 1 ff.

ⁱⁱⁱ www.pmc.gov.au/emissionstrading/issues_paper.cfm

^{iv} "A Credible Foundation for Long Term International Cooperation on Climate Change" at "<http://www.sensiblepolicy.com>"

^v Australian Financial Review 12 February 2007, page 1

We would be pleased to receive any feedback you may have.

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