

ANZ industry update: emissions trading

Countdown to emissions trading continues

11 April 2008

The Garnaut Climate Change Review is now halfway to completion and an ambitious timetable for introducing a national carbon emissions trading scheme has been finalised.

This is, without doubt, the biggest regulatory change to confront the Australian economy in many years. For individual businesses, the devil is in the detail however, and much of it is yet to be declared.

Economics@ANZ will release further updates on Australia's forthcoming emissions trading scheme as more detail becomes available in the latter half of 2008.

Author:

Julie Toth

Senior Economist, Industry
+61 3 9273 6252
Julie.Toth@anz.com



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Ms Astarini Suyono, Electricity and Emissions Sales, +61 3 9095 0014

The Government will release its draft emissions trading scheme legislation by the end of this year, and enact it by the end of 2009

The national ETS will commence in 2010

The GHG reporting system is being phased in from 1 July 2008 but will not be complete until 2011

The Garnaut Review is a key part of the ETS development process, but it is not the only input

An ambitious timetable: emissions trading by 2010

In March the government announced its timetable for establishing a national carbon emissions trading scheme (ETS). The ETS is the centrepiece to the Government's pledge to reduce Australia's greenhouse gas (GHG) emissions to 60% of 2000 levels by 2050. The Government reiterated a deadline of 2010 for commencing the ETS and set out an extremely tight timetable of consultation and legislation, with the first stage of consultations already well under way:

1. March to June 2008: technical consultations with industry on ETS design
2. 30 June 2008: Garnaut Climate Change Review Draft Report
3. July 2008: a Green Paper on the design of the ETS to be released
4. July to September 2008: further consultations on the ETS design
5. 30 September 2008: Garnaut Climate Change Review Final Report
6. **December 2008**: Government to release a draft legislation package (the ETS Bill) and provide a "firm indication of planned medium-term trajectory"
7. December 2008 to February 2009: consultations on the Bill and trajectories
8. March 2009: ETS Bill introduced to Parliament and debated
9. **mid 2009**: Bill passed by Parliament
10. 2009: consultation and drafting of technical regulations to support the Act
11. **late 2009**: Act and regulations enter force, ETS regulator established
12. **2010**: ETS formally commences.

Overlaying this timetable, a separate GHG reporting timetable under the *National Greenhouse and Energy Act 2007* requires corporations with large emissions or energy needs to register and report their GHG emissions and energy consumption. Corporations will join the reporting scheme in successive annual tranches, beginning from July 2008 and running out to February 2011.¹

The Australian Greenhouse Office estimates this public reporting process will eventually cover 700 larger companies and account for 70% of GHG emissions from the targeted industries. The timetable however, means that the GHG reporting system intended to identify the major industrial sources of emissions (and intended to underpin the ETS) will not be complete until well after ETS trading commences in 2010. The NGER reporting timetable is:

2008-09 Corporations to register by 31 Aug and report by 31 Oct if they control a facility that emits 25kt of GHGs, or produces or consumes 100TJ of energy, or the corporate group emits 125kt of GHGs or produces or consumes 500TJ of energy. Company-level data published by 28 Feb 2009.

2009-10 Corporations to register by 31 Aug and report by 31 Oct if they emit 87.5kt of GHGs or produce or consume 350TJ of energy. Company-level data published by 28 Feb 2010.

2010-11 Corporations to register by 31 Aug and report by 31 Oct if they emit 50kt of GHGs or produce or consume 200TJ of energy. Company-level data published by 28 Feb 2011.

The devil is in the detail

The much-publicised Garnaut Climate Change Review is now halfway through. Garnaut released an interim report in February and a technical discussion paper in March, plus a suite of issues papers. These indicate the Review favours:

- designing Australia's ETS so it can eventually be directly and actively linked to international GHG trading systems (a truly global ETS is "the end goal")

¹ See ANZ Industry Report: Emissions Trading, June 2007.

**Key parameters of the ETS
are yet to be finalised**

- clearly defined fixed GHG 'trajectories' to map our national GHG reduction targets, with permits released in line with the trajectory
- auctioning all ETS permits right from the start, with no free allocations. Instead, revenue raised from the auctions could be distributed to compensate businesses, communities and households facing increased costs and assist with transition costs in high-energy industries and locations
- no price controls, floors or caps on traded permits
- creation of an 'Independent Carbon Bank' that can bank, hoard or lend ETS permits and monitor and enforce market compliance
- the broadest industry coverage including agriculture, forestry and transport.

But there is no guarantee that the Government will implement Garnaut's vision. Indeed, it has already indicated it may not agree with several of Garnaut's initial suggestions, particularly those relating to free permits and interim GHG targets. Other inputs include round tables, discussion papers, calls for submissions, economic modelling by Treasury, and further public and industry consultation.

Some of the big questions about the national ETS that are yet to be decided are:

- the maximum allowable annual GHG levels that will 'cap' the whole ETS
- which companies will participate in the ETS initially and which will join later
- auction, fixed sale or free allocation of initial ETS permits
- transition arrangements for current Australian emissions trading systems
- linkages and compatibility to international trading systems in the EU and US
- compensation or subsidy arrangements for businesses and households that are likely to suffer financial loss due to the introduction of the ETS.

**The ETS has the potential to
significantly re-shape
Australian corporate
behaviours and the wider
business landscape.**

These details will be crucial to how the ETS operates in practice and how Australian businesses participate in it. Perhaps more significantly to the wider economy, the detail will dictate how individual Australian businesses are likely to be shaped by the ETS, in terms of their energy use and emissions, but also in terms of their broader corporate behaviours. The ETS has the potential then, to significantly re-shape our corporate landscape. ANZ and virtually all other large Australian corporates are watching these developments closely. As noted by Geoff Clear, Global Co-Head of ANZ Commodities: "ANZ Markets has been trading in the [voluntary] Australian domestic carbon markets since 2004, and we have plans to enter the international market in the near future. The ETS represents huge opportunities for ANZ and its clients."

*For further information on this topic, see our other publications on our website:
ANZ Economic Outlook, March 2008, Update on Australian Climate Change Policy, pp. 21-24,
ANZ Australian Economics Weekly, 8 June 2007 The Road to an Emissions Trading System,
ANZ Industry Report: Emissions Trading, June 2007,
ANZ Australian Economics Weekly, 23 March 2007, Sources of Carbon,
ANZ Economic Outlook, March 2007, Carbon Trading, pp. 21-24.*

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Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

10th Floor 100 Queen Street, Melbourne 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000

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