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Garnaut Review Secretariat
Level 2, 1 Treasury Place
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By email: contactus@garnautreview.org.au

Dear Professor Garnaut

Issues Paper 1 – Agriculture and Forestry

CPA Australia appreciates the opportunity to provide comments on *Issues Paper 1: Climate Change: Land use – Agriculture and Forestry*.

As Australia's pre-eminent professional association, representing the diverse interests of more than 117,000 finance, accounting and business advisers, we are committed to working with governments and their agencies to ensure current and future economic and social policies foster an environment that facilitates sustainable economic growth.

The following comments draw upon a number of recent submissions CPA Australia have made in response to climate change issues, including discussion papers on the early abatement activity and the regulations for the *National Greenhouse and Energy Reporting Act 2007*. The submission also draws upon our recent 2008-09 Pre-Budget Submission to the Federal Government.

CPA Australia believes that a properly designed emissions trading scheme that incorporates a well-calibrated cap, will address the market failure relating to climate change by appropriately pricing greenhouse gas emissions. Such an approach though will clearly only be one part of a comprehensive suite of policies required to effectively reduce emissions.

While the Australian Emissions Trading Scheme (AETS) will be the central climate change policy initiative, CPA Australia is of the view that other policy initiatives should be pursued that complement and build upon the AETS. These policy initiatives, whether regulatory, tax and other fiscal initiatives should encourage the deployment of existing technology that reduces emissions and energy use (early action) and also to encourage investment in developing new technology.

Given that emissions from the agricultural and forestry sectors are unlikely to be included in the AETS, at least in the medium term, the climate change policy responses for this sector must involve a range of other mechanisms. These other mechanisms should encourage behavioural change and assist participants in these sectors to take advantage of the commercial opportunities that policy initiatives such as the AETS and changing consumer behaviour raise.

Tax Incentives

Investing in new lower-carbon/greener technologies carries risks, and businesses will be concerned that they will not have a market for their new product if carbon-pricing policy is not maintained into the future. Thus there are good economic reasons for government to promote new technology directly, and one approach that could help facilitate this outcome would be via certain tax incentives which would be more easily accessed by a wide range of business (including business who are not part of the AETS).

We note that the Commonwealth Government recognised the influence that tax policy can play with climate change through the proposed favourable tax treatment of the establishment of carbon sink forests. Possible other tax incentives for consideration include:

- an upfront investment allowance of, say, 20% for capital expenditure on new low emissions technology
- accelerated depreciation for certain capital expenditure, including expenditure on upgrading existing plant and equipment to lower energy and low emissions technology
- a higher Research and Development (R & D) tax concession of, say, 200% for R&D into new low-emissions technology (reflecting the higher commercial risks associated with such technology); and
- remove any disincentives that the GST or State taxes may currently impose on the introduction/deployment of 'green' technologies.

These types of incentives will potentially be advantageous to all businesses, not just those in the agricultural and forestry sectors.

Improving information available to business to influence behavioural change

Policies removing barriers to behavioural change are also required. For example, the Government needs to consider developing information resources that can assist the agricultural and forestry sectors understand its impact on the environment. With such information, businesses will be better informed as to what practices may need to be altered and/or they can more accurately disclose their impact on the environment.

In CPA Australia's recent survey of some 500 small businesses (including businesses in regional and rural areas) and 200 public practitioners, we found that only a quarter of respondents had done anything to reduce their carbon emissions, with another 17% of small businesses intending to do something. While the survey did not ask why more than 50% of respondent small businesses do not intend to do anything to reduce their carbon emissions in the foreseeable future, it is clear that the Government needs to consider how it can build the capacity of small businesses to address climate change issues. CPA Australia believes simple guides to reducing energy and water use and helping businesses easily calculate their emissions are tools that may be of assistance.

We believe businesses that are not part of the AETS would benefit from a simple tool that would give them an accepted estimate of their emissions (and possibly abatement). Systems such as the New Zealand OVERSEER, the Department of Climate Change FullCAM or the Online System for Comprehensive Activity Reporting (OSCAR), also run by the Department of Climate Change could be developed into a tool that simply gave businesses an accepted estimate of their greenhouse gas emissions. This would be based on an agreed emissions figure that the average use of plant and equipment or different land management techniques would generate. Business would therefore not need, for example to calculate the amount of time such an asset was used, to calculate their emissions. An example of a similar product is the effective life of assets schedules produced by the Australian Taxation Office – these tables give the accepted effective life of an asset for the calculation of depreciation and the effective life is accepted no matter how frequently the asset. As with determining effective life, businesses should also be able to continue to self-assess their emissions.

Measuring and reporting emissions

CPA Australia encourages the Government to devote resources to developing reporting methodologies for the measurement of emissions from agriculture and land use, land use change and forestry emissions at a facility and corporate level.

The development of all reporting methodologies, including for the agricultural and forestry sectors, should be from a single source. We strongly counsel against adopting more than one source for standards as such an approach is not consistent with the development of robust requirements and could lead to arbitrage opportunities for entities participating in the AETS.

CPA Australia is also of the view that standards for the verification of emissions and mitigation should be from one source and the source should be the Auditing and Assurance Standards Board (AUASB). CPA Australia has recently written to the AUASB urging for an assessment of the existing assurance framework be embarked on. This is a matter of priority to determine whether engagements to provide assurance of emissions information is suitably accommodated for in the present framework and standards. The AUASB has responded positively to this call and has expressed that it will

appropriately reflect the importance and urgency of the topic of emissions reporting and assurance in its forward work program.

Creating carbon offsets

In CPA Australia's submission on abatement incentives prior to the commencement of the AETS, we stated that it is important for the Government to encourage as much early abatement activity as possible. Meeting this objective requires the agricultural and forestry sectors to participate in a growing and robust carbon offset market. It is therefore important to balance the need for integrity and possible international linkages of abatement (carbon offset) projects and not imposing such rigorous standards (procedural and/or technical) that they discourage developers of carbon offset schemes. Imposing standards on proposed carbon offset schemes that are too rigorous will discourage many smaller participants in the agricultural and forestry sectors. Alternatively, to not have appropriate standards to approve carbon offset schemes will devalue carbon offsets in the eyes of business and the community generally.

CPA Australia thanks you for the opportunity to comment. If you have any enquiries or wish to discuss any aspects of our submission, please contact Mr Gavan Ord, CPA Australia's Business Policy Adviser on 03 9606 9695.

Yours sincerely



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