

Submission by Telstra Corporation Ltd Emissions Trading Scheme Discussion Paper

Telstra Corporation Ltd (**Telstra**) welcomes this opportunity to make a submission in relation to the proposals contained in the Emissions Trading Scheme Discussion Paper (**Discussion Paper**).

1. The Importance of Architecture & Social Norms

If the Federal Government's objective is to impose limits on greenhouse gas emissions through a cap and trade scheme, the over-riding consideration in designing the scheme should be to minimise its cost to the economy. Telstra agrees with the core principles of scarcity, credibility, simplicity and integration. While we welcome the emphasis on a market approach, we believe that it will be more effective if attention is also paid to *architecture* and *social norms*.

By architecture we mean structural features of the economy such as network infrastructure and institutional arrangements which lock in a level of carbon intensity of production or preclude carbon-reducing innovation. A good example is the effect of the current Fringe Benefits Tax arrangements on the use of salary sacrifice vehicles, which encourages people to drive more rather than fewer kilometres. Social norms are important because a shift in preferences can bring into play cost-effective energy conservation measures which are not currently being deployed to their full potential. Uncoordinated voluntary actions may not be particularly effective in reaching the objective of substantial reductions in greenhouse gas concentrations in the atmosphere. However, to the extent that they are effective, voluntary actions will have the benefit of reducing the ultimate cost of an imposed cap.

2. Avoiding Overlapping Federal and State-based Regulation

As a nationwide business, Telstra is a strong advocate for harmonisation of Federal and State-based regulation. The Council of Australian Governments should review and consolidate the various Federal and State based reporting and energy efficiency measures and targeted schemes, like the Mandatory Renewable Energy Target, in light of the new National Greenhouse and Energy Reporting Scheme and the proposed ETS. Fragmented regulation at both Federal and State levels adds to business costs without commensurate benefit. Genuine consultation with business on the operational detail of measurement and reporting requirements will be essential.

3. Impact of an ETS on Telstra

Telstra has a proactive and innovative approach to managing its environmental impacts, including those impacts associated with energy and fuel use. For example, Telstra is the largest private-sector solar panel operator in Australia with over 10,000 solar powered sites. Customers in isolated regions are now able to enjoy 3G mobile and broadband services using a fixed wireless terminal which can operate from solar-powered batteries.

Nevertheless, the impact of an ETS on Telstra and its subsidiaries will be significant. In general, any adverse impact on Australia's economy is bad for our business. Like any other major energy user, we will face increased operating costs and some uncertainty, particularly in the early stages of operation of the scheme, about its long term impact and consequently how it will affect our investment decisions. On the upside, as demonstrated by the report commissioned by Telstra, *Towards a High-Bandwidth Low-Carbon Future, Telecommunications-based Opportunities to Reduce Greenhouse Gas Emissions*¹ there are many opportunities for the use of telecommunications networks to reduce carbon emissions by large scale energy conservation. A price on carbon will strengthen the business case for these innovative services.

Telstra's strong preference is not to be a direct participant in the ETS. We support the recommendation that electricity generators, and not electricity users be responsible for holding permits for emissions associated with electricity generation. We also believe that it would introduce unnecessary complexity to include commercial vehicle fleets as a covered emissions source. Upstream fuel suppliers should be responsible for holding permits to match the emissions from all users of their fuel products. Whether or not Telstra is in scope for the proposed ETS, we have a close interest in its design and will want to participate fully in each stage of consultation.

The Discussion Paper is predicated on the assumption that businesses (in non-traded sectors of the economy) will be able to pass through carbon costs to the ultimate customer. This will challenge any businesses whose production methods are more carbon intensive than their competitors. They will not be able to pass through full cost and retain market share. Clearly this is an incentive to shift to more carbon-efficient production. However, this will take time and capital. The ability to adjust will vary significantly from business to business. The potential impact on shareholder value should not be underestimated.

In Telstra's case, we are subject to extensive price regulation. The ability to pass through all of the costs of the ETS to customers cannot be assumed. Other regulated services face exactly the same risk. In our view, the emissions scheme design should include an explicit requirement for economic regulators such as the ACCC to allow full pass-through of carbon cost increases. This is analogous to the way a new tax would be treated; noting that in many respects an ETS and a carbon tax are similar in intent.

4. Allocation of revenue generated

The Discussion Paper highlights the scale of government revenue that may be raised through auctioning permits. Undoubtedly there will be fierce debate about the allocation of this revenue, including the option to distribute permits without charge (essentially tax expenditure in Treasury parlance). This will be the most politically challenging and the most economically significant policy decision that the government faces.

We note the recommendation that a proportion of the revenue be invested in "payments to firms to correct market failures in relation to new technologies" and

¹ The report was prepared by Australian environmental experts Climate Risk Pty Ltd, released in October 2007, and peer reviewed by WWF Australia Chief Executive Officer, Mr Greg Bourne.
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“support for public infrastructure”. We agree with the rationale, although it is not a simple task for government to make wise investment decisions in this arena. We are concerned that the contribution of telecommunications to the infrastructure mix is often overlooked. In this context, public investment may well be focussed too narrowly on the energy sector. This would distort and erode the potential for innovation by other sectors of the economy to drive reductions in carbon emissions.

5. Telecommunications: a key enabler of carbon saving opportunities

The report *Towards a High-Bandwidth Low-Carbon Future: Telecommunications-based Opportunities to Reduce Greenhouse Gas Emissions* identifies seven opportunities using telecommunications networks and digital products that could lead to a reduction in Australia's emissions by almost 5% or around 27 million carbon tonnes by 2015. This scale of impact depends on the existence of pervasive and highly integrated broadband networks which connects intelligent sensing and control devices with sophisticated applications.

These seven opportunities are:

1. Networked demand-side energy management to increase renewable energy use
2. Integrated personalised public transport to your door with a phone call, or ordered online
3. "In-person" high-definition video conferencing in lieu of business travel
4. Presence-based power to turn appliances on or off using wireless presence sensors
5. Real-time freight management with vehicle monitoring via wireless broadband to fill empty vehicles
6. Remote power management for appliances not in use or on "stand-by", via a broadband enabled sensors
7. De-centralised business district: teleworking

A copy of the report can be found at:

http://www.telstra.com.au/abouttelstra/csr/climate_change.cfm

As defined earlier, some of these opportunities are architectural in nature and others relate to social norms about how we live and work. Any public investment in research and development and promotion of emissions-reducing technologies should have scope to include innovations of this kind. It is also important that the design of the ETS itself provides as much incentive in our industry as in any other for companies and their customers to explore creative new emissions reduction models.

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Telstra Corporation Limited