



18 April 2008

Submission on the Garnaut Climate Change Review's Emissions Trading Scheme Discussion Paper – April 2008

Overview

Visy has been a leader in Australia's enlightened corporate response to climate change, and strongly supports the Government's intention to set up a national, fully-functioning and comprehensive emissions trading scheme (AETS).

As a major Australian-based manufacturing enterprise, which consumes significant amounts of energy in its operations, Visy is a significant emitter of greenhouse gases – both directly, and indirectly, through its substantial purchased energy. However the Company directs its core business offering towards environmentally-aligned activities, including pursuing greenhouse gas abatement opportunities. These include active materials recycling (which avoids landfill methane generation), domestic remanufacture from recycled inputs, energy-efficiency in its plants, renewable energy generation, co-generation, transport innovations and a genuine closed-loop business philosophy.

As part of its preparation for the introduction of formal emissions trading in Australia, Visy has recently examined, first-hand, the operation of the EU-ETS and other emissions trading schemes, as they affect industry in general, and the paper/packaging industry in particular. It is in the light of this examination, and of its own internal data and operational analysis, that Visy has examined the Garnaut Discussion Paper (March 2008) and makes six key recommendations on the design of an AETS, viz:

- 1 Full and transparent transitioning of measures and benefits from existing genuine greenhouse gas related schemes such as the NSW GGAS
- 2 Permits provided by free allocation to efficient energy intensive, trade-exposed (which includes the Australian pulp and paper industry) to cover their indirect as well as direct exposure to emissions liability
- 3 Offsets afforded a significant role in the scheme to encourage innovative carbon abatement in uncovered sections of the economy
- 4 Strong incentives provided for genuine abatement actions in liable sectors which may not be feasible in the absence of any additional incentive. Key opportunities are co-generation and energy efficiency
- 5 Large energy users enabled to opt-in as parties liable for the emissions of their purchased power, to avoid exposure to "cost-plus" pass-through by electricity generators
- 6 Coverage under the scheme limited to sectors where there is a clear relationship between that sector's activity and greenhouse gas emission, and the costs of compliance are low per unit of CO_{2e} abated. The waste sector and the forestry sector should remain uncovered, at least until methodologies for assessing emissions can be agreed.

Further details are set out on the following pages.

Recommendations

- 1 **The design and introduction strategy for AETS must allow for a full and transparent transitioning of measures and benefits from existing genuine greenhouse gas related schemes such as the NSW GGAS**
 - Genuine abatement credited under NSW GGAS should receive AETS permits on a tonne-for-tonne CO_{2e} conversion basis until 2020
 - Visy is making a detailed submission to the NSW Government on this matter and will provide the Review with details
- 2 **Permits should be provided by free allocation to efficient energy intensive, trade-exposed (which includes the Australian pulp and paper industry) to cover their indirect as well as direct exposure to emissions liability**
 - Australian industries that cannot competitively pass carbon costs through in their goods and services should be assisted with free permits, at least until equivalent carbon costs are included in competitor countries.
 - The Australian pulp and paper industry is highly trade exposed, as evidenced by its treatment in other jurisdictions (especially the EU). The pulp and paper industry here is relatively small in relation to our total trade in pulp and paper products, with imports totalling around \$3bn in 2006¹. Further, this industry is regionally-dispersed, with a particular exposure to large transport costs.
 - Visy stresses that the trade-exposure of the Australian pulp and paper industry needs to be recognised by the Review in the same manner as our steel and aluminium industries.
 - The Review should consider the New Zealand Government's model of free allocation of permits to energy *customer* industries (as distinct from the *generation* sector), with such permits able to be used to offset the impact of increased electricity costs that flow from the introduction of the ETS.
- 3 **Offsets should be afforded a significant role in the scheme to encourage innovative carbon abatement in uncovered sections of the economy**
 - Projects that actively capture recyclables from the waste stream, and divert degradable organic material and other valuable feedstocks from landfill should be eligible for offsets on the basis of avoided methane generation and embodied energy in manufacturing resources
 - The scheme should provide incentives, via offsets, for the expansion of plantation forestry as a genuine carbon sequestration solution
 - The test of environmental additionality should be applied to these and other relevant offset projects to ensure that genuine greenhouse abatement activities are not thwarted by the application of an onerous financial additionality test
 - Rules for creating offsets from activities in uncovered sectors should be designed to facilitate genuine CO_{2e} abatement in uncovered sectors, with no limit on the amount of offsets available

¹ ABARE data for 2006 show the Australian forest and wood products trade balance to comprise \$2.35 bn of exports and \$4.28 bn of imports.

- The Review should consider introducing opportunities for domestic Joint Implementation through a “domestic offset projects” system, as is being implemented in France (consistent with article 6 of the Kyoto Protocol). There, the system is aimed at generating emission reductions in those segments not covered by the EU-ETS.
- 4 Strong incentives should be provided for genuine abatement actions in liable sectors which may not be feasible in the absence of any additional incentive. Key opportunities are co-generation and energy efficiency**
- **Co-generation:** Appropriate recognition should be given to the clear benefits of co-generation *beyond* greenhouse. These benefits include (a) improved resource efficiency due to the lift in fuel efficiency from ~30% for a typical base-load coal-fired power station to up to 80% for co-generation, and (b) the deferral of asset investment in the electricity network that comes with embedded generation.
 - Under the AETS, incentives should be afforded co-generation in the form of Offsets, notwithstanding that co-generation sits within the liable “stationary energy” sector.
 - Further, co-generation from renewable fuel sources should attract so-called “Heat RECs” or “Thermal RECs” as is provided under the UK Renewable Obligation Scheme
 - **Energy efficiency:** While it is true that additional savings may be accrued for energy efficiency projects due to the inevitable increase in power prices the AETS will bring, such increase may be insufficient in some cases to drive energy efficiency investments. Therefore, as for co-generation, energy efficiency should be accorded high priority for incentivisation, given its clear benefits for resource efficiency and sustainability. Such incentives could be in the form of Offsets under the AETS, or through a dedicated Energy Efficiency Trading Scheme, to operate in parallel with the AETS.
- 5 Large energy users should be enabled to opt-in as parties liable for the emissions of their purchased power, to avoid these industries’ exposure to “cost-plus” pass-through by electricity generators**
- The scheme should provide specific means by which consumers can protect themselves against windfall profiteering by electricity generators
 - The Government should scrutinise the pricing behaviour of electricity generators to guard against price gouging
- 6 Coverage under the scheme should be limited to sectors where:**
- there is a clear relationship between that sector’s activity and greenhouse gas emission, and
 - the costs of compliance are low per unit of CO_{2e} abated
 - The waste sector and the forestry sector should remain uncovered, at least until methodologies for assessing emissions can be agreed.
