

Business SA
ABN 14 725 309 328
Enterprise House
136 Greenhill Road
Unley South Australia 5061
Telephone 08 8300 0000
Facsimile 08 8300 0001
Email enquiries@business-sa.com

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Garnaut Climate Change Review Secretariat
Level 2, 1 Treasury Place
East Melbourne, Victoria 3002

Dear Sir/Madam



Business SA, as the state's leading business organisation, represents many thousands of businesses across all industry sectors ranging in size from micro-business to multi-national companies. Business SA is therefore well placed, and pleased, to represent the South Australian business community in responding to the *Garnaut Climate Change Review*.

The absence of a national planning framework, until now, has prevented companies from taking greater responsibility for sustainable business practices.

While Business SA supports and understands the need for carbon constraints and the emissions trading scheme (ETS) we stress the need for architects of the scheme to take into account the administrative and operational costs of introducing any mandatory scheme to business.

Business SA believes the key elements to an ETS should include:

- > a low cost national system, consolidating all existing markets and schemes, with minimal market interference
- > a transparent and equitable scheme allowing businesses to transition to lowest greenhouse gas emissions, while maximising opportunities and increasing economic viability
- > plans to move steadily, and in an organised manner, to a broad coverage base that includes all significant emitting sectors and encourages consumers to make informed choices
- > Long-term planning and certainty for all industries, to generate confidence in property rights of permits
- > recognition of credible off-sets and abatement action of early and voluntary actions, including the voluntary use of renewable and low emissions energy products.
- > allocation processes based on good quality emissions data.



After consultation with its Environment Committee, consisting of approximately 13 members from various industry groups, as well as consultants and legal advisers, Business SA is pleased to provide feedback on the discussion paper.

Business SA recognises the importance of encouraging future business development to be undertaken in an environment that encourages best practice behaviour. However, we urge the ETS architects to understand that the design of the scheme will need to protect Australia's economic, community and environmental needs, both for now and for future generations without compromising our standard of living.

The paper proposes that Australia should be an 'ambitious' GHG reducing country, to set an example for the international community. Australia has a comparatively small impact on global greenhouse gas emissions while our per capita impacts are high. Business SA understands that establishing the right level of leadership within our economic capacity will be a challenge. We support the notion of a "soft" and manageable start to the scheme that will best serve to sustain Australia's continued success for tackling climate change and protecting our industries.

We are concerned that with the advent of an aggressive ETS, the possibility of carbon leakage will undermine the ultimate goals of an ETS and Australian industry. Our country has high levels of efficiency in energy-intensive industries, therefore the incentives to take up higher standards of efficiency are limited. Business SA recommends that international sector agreements should be facilitated as soon as possible, to support a level-playing ground and encourage GHG reduction opportunities.

In discussing the compliance penalty at great length, Business SA believe that the scheme requires a more detailed strategy to manage ETS industry to have a "soft start" to the scheme. Having a "make-good" compliance penalty operate at the introduction of the scheme is heavy-handed particularly where measurement methodologies are still evolving: a "soft start" should be incorporated into the design of the ETS, which will ensure the data provided by companies, and the balances in the scheme are working to support the anticipated environmental outcomes. The regulators should only consider a "make-good" penalty, once the business community has confidence and certainty in the scheme.

We would encourage recognition of offsets, and low emissions products and services such as carbon offset fuels, renewable energy and other low emissions energy as a means of encouraging the participation of GHG emitters who are not covered in the scheme, either as buyers or sellers from the market. Offsets and low emissions accreditation should be managed through a single authority to ensure credibility.

Offsets and low emissions products and services add liquidity and allow a "soft start" for sectors not known well enough to be included in trajectory calculations, for small businesses that do not yet trigger the reporting thresholds or those that provide services to larger organisations outside the



boundary or operational control of the larger organisation. Credits generated must meet the integrity of ETS permits through robust and verifiable standards, as described in the Federal Government's Greenhouse Friendly program, and international ETS mechanisms like the Clean Development Mechanism and Joint Implementation programs.

Business SA broadly supports the idea of criteria to define the changing slope of the GHG cap trajectory to guide the nation in reducing its emissions. However we seek further information on the criteria for the examples outlined in the paper, especially within the concept of leadership and what it entails for the Australian economy and community.

The accuracy of the trajectory could introduce serious errors into the ETS market similar to those experienced by the first allocation period of the European Union ETS, however offsets rules that encourage participation will allow the trajectory to reflect quality data by phasing into the ETS sectors establishing their inventories.

Business SA's Policy Adviser and Environment Committee Facilitator, Rose-Linh Le, would be happy to provide further information concerning this submission. We would also welcome the opportunity to participate in a focus group where there will be an opportunity for our business representatives to provide the Garnaut team with more detailed feedback.

Rose-Linh can be contacted on (08) 8300 0009 or at rosel@business-sa.com.

Yours sincerely

Penny Gale
General Manager
Policy and International Business