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THE CARBON POLLUTION REDUCTION SCHEME – REVEALED

After much talk and controversy, a compulsory, Australian wide emissions trading scheme (Carbon Pollution Reduction Scheme) will finally come to fruition in July 2010. Everyone seems to have an opinion on climate change, and whether you believe developing an emissions trading scheme is the right move, the reality of the present situation is that the Carbon Pollution Reduction Scheme (CPRS) will affect all Australians, from large corporations to every individual.

Why employ a Carbon Trading Scheme?

An increase in certain gases in the atmosphere causes the atmosphere to heat up, altering environmental systems across the globe and changing climate patterns. Among other impacts, climate change is expected to cause an increase in the frequency and severity of natural disasters and drought conditions, changes in rainfall patterns and increased costs to the community associated with these changes.

Carbon Trading Schemes are seen as an effective mechanism for reducing greenhouse gases within the market economy. Governments in countries across the world have already put in place emission trading schemes to help combat global warming. Australia is among several developed countries leading the change against global warming. The current economic climate is viewed a short-term problem, where this cannot cause a delay in long term strategies. Employing an emissions trading scheme now will serve to avoid long term costs to the environment and the economy.

The build up to the introduction of the CPRS in 2010

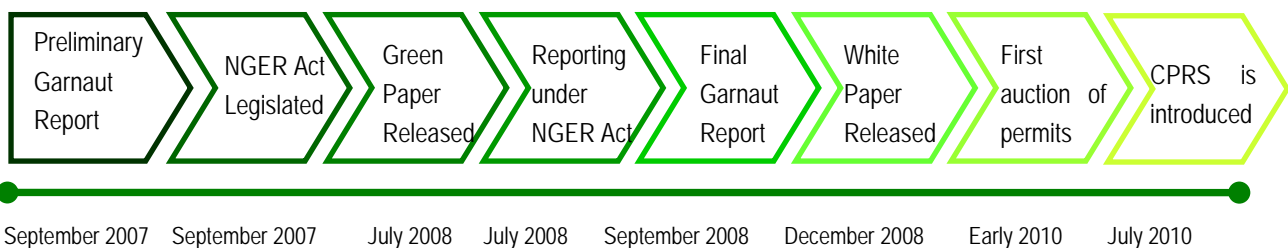
Australia introduced the concept of the Emissions Trading Scheme under the Howard Government. The present government have continued to develop the scheme where it is planned to come into force on July 1st 2010.

The CPRS in Brief

The Carbon Pollution Reduction Scheme will apply to larger emitters in all states and territories in Australia and will be administered by CPRS legislation in conjunction with the National Greenhouse and Reporting Act 2007 (NGER Act). The CPRS Scheme can be simply explained in 4 steps. More information can be obtained at the Australian Department of Climate Change website: <http://www.climatechange.gov.au/emissionstrading/>

1) Determining Caps

Australia intends to reduce greenhouse gas emissions by 60% of 2000 emission levels by 2050. By 2020, Australia





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will have reduced greenhouse gas emissions by a minimum 5%, and up to 15% of 2000 levels. New targets would be continually set every 2 and 4 years to achieve reductions.

The CPRS will operate as a "cap and trade" scheme. The scheme will set limits (the "cap") on greenhouse gas emissions for different industry sectors. Caps will differ for each industry sector involved in the scheme. Emissions will not be reduced in each sector by the same proportion. Among others, industry sectors include Stationary Energy, Transport, and Industrial Processes.

2) Distributing Permits

Each year a number of permits for each industry sector will be issued based on allowable emissions. Carbon pollution permits equivalent to the tonnage of greenhouse gas emissions will be auctioned. During the early stages of the scheme, free permits will be allocated to emissions intensive trade exposed industries. Given that permits will be traded, the price of permits will be determined by the market. Based on government modelling to achieve a 5% reduction of 2000 levels by 2020, the initial emission price could be expected to be A\$23/t CO₂-e when the scheme commences in 2010. However a cap of a maximum A\$40/t CO₂-e will be set when the scheme commences. Each tonne of carbon dioxide equivalent will be equivalent to one emission permit.

3) Monitoring and Reporting Emissions

Each compliance period (financial year) companies will be required to monitor and verify greenhouse gases emitted. The same greenhouse pollutants included under the Kyoto Protocol will be covered by the CPRS Scheme. These greenhouse gases include carbon dioxide, methane, nitrogen oxide, sulphur hexafluoride, specified perfluorocarbons and specific hydrofluorocarbons. Permits can be traded in the market between companies. Monitoring and reporting conditions will be stipulated under the NGER legislation. Monitoring would be conducted in accordance with the NGER (Measurement) determination. Reporting would be conducted through an

online system – OSCAR (Online System for Comprehensive Activity Reporting). At the date of writing, details of this legislation were being amended under the National Greenhouse and Energy Reporting amendment Bill 2009 - Exposure Draft. This amendment will require reports to be verified by an independent auditor registered with Greenhouse and Energy Data officer.

4) Trading Permits

Once emissions have been determined, companies must surrender permits equivalent to emissions produced during the compliance year. Companies are free to trade permits between those with surplus credits, and those who require additional permits. Each permit will be date stamped with the year it was activated, however permits do not have an expiry date.

Where the cost of abatement exceeds the cost of a permit, companies would choose to reduce emissions. However, in the same way, some companies may choose to instead buy permits because it would be cheaper for them to do this instead of employing abatement alternatives.

Penalties for non-compliance will occur.

How the CPRS will affect your business

The Government have focused the Carbon Pollution Reduction Scheme on Australia's highest greenhouse gas emitters. Facilities that directly emit 25kT of carbon dioxide equivalent would have obligations under the Scheme. It is estimated that approximately 1000 large emitters across Australia would have obligations under the CPRS.

The introduction of the compulsory scheme where a dollar value is put on greenhouse emissions will change the relative costs of goods and services. Even if your company is not directly involved in the Carbon Pollution Reduction Scheme, the Scheme will indirectly affect your business as the increased costs of running a carbon-intensive service or business will have a trickle down effect where there will be increase costs to the consumer. Large increases in electricity and fuel are anticipated to occur and costs for



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energy intensive products will continue to rise as the cap is reduced over the coming years.

These cost increases are ultimately the underlying mechanism for reducing carbon emissions. A change in consumer behaviour based on the higher costs of emission intensive products would be expected to occur. This will in turn place increasing pressure on business' to improve their environmental performance.

The Government do appreciate the pressure increase costs will have on business' – all revenue raised through this scheme would be used to aid Australian people and business' adjust to the scheme and contribute to develop emission reduction technologies. The Government plan to establish a Climate Change Action Fund to help businesses achieve lower emission targets.

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