



## Why waiting for the Carbon Pollution Reduction Scheme to become law is dangerous for SME's

Whilst much has been written and reported on about Australia's Emission Trading Scheme and in particular, the impending Carbon Pollution Reduction Scheme (CPRS), not nearly as much energy has been expended on the National Greenhouse and Energy Reporting Act (NGER) which has been law in Australia since September 2007. Understanding NGER legislation will enable SME's to understand and prepare for the information flows up and down Corporate and Government supply chains.

So what is NGER? NGER is Australian legislation designed to target businesses exceeding certain thresholds of CO<sub>2</sub>e- emissions or energy production or consumption to self report their greenhouse and energy data to the Department of Climate Change by prescribed dates. Failure to do so carries substantial penalties for the company and the CEO, in some cases.

Under NGER, the Department of Climate Change will develop a database of information as to who the larger polluters and emitters are. Government estimates have this at some 1,000 companies. Our experience in the field however, suggests this number may be somewhat larger. This data will be helpful when CPRS commences on 01 July 2011 because from this date on, these larger polluters/emitters and producers/consumers of energy will be required to buy "permits" from Government for the right to pollute. Permits will be purchased on an auction basis and will for the first time in Australia impose a cost on business for exceeding certain pollution thresholds. At the end of the yearly cycle, businesses will need to buy enough permits to match the level of Scope 1 (direct emissions) that they declared to the Department of Climate Change during that reporting period. They will be required by law to prove they have complied with the Legislation and purchased enough permits. Penalties will apply for non-compliance.

An example best illustrates how this will work. Let's assume the CPRS is up and running in Australia. A transport company has produced 30,000t CO<sub>2</sub>e during the reporting period and the CPRS facility threshold is 25,000t CO<sub>2</sub>e. Therefore the facility threshold is exceeded and the transport company must buy 30,000 permits to meet its compliance obligation. Assume the market auction price of permits is \$20 each, the company must buy 30,000 permits, creating a \$600,000 carbon liability for that period. Had the transport company stayed under the CPRS facility threshold, no obligation to buy permits would exist. Indeed, by exceeding certain thresholds, this transport company has made itself less competitive against other transporters who are carbon/energy savvy.

So what does this mean for SME's? It means by not understanding the implications of NGER legislation now, SME's are not likely to position themselves for dealing with the higher costs, the new carbon economy will impose. SME's need to understand and consider the impacts of carbon on all the businesses that they do business with and the likely impact for themselves. In addition to the transport cost increase, imagine not planning for a 11% electricity cost increase, a 4% increase in the cost of steel, an 8% increase in the price of gas, a 67% increase in the price of aluminium, to mention a few.

Understanding the implications of the flow down effect of the NGER legislation will give SME's time to assess the risks and opportunities before the CPRS becomes operational. Delaying any planning nor SME action until the introduction of the CPRS in 2011 will translate into valuable time lost to position your business as a low carbon, more efficient energy user and also leave you uneducated as to the carbon/energy strategies your supply chain partners are adopting. Why assume these risk, address the topic sooner rather than later.