

Text Hugh Wareham**Photo** Dreamstime

Key Points

- > Some 400 to 500 businesses will be directly affected, but all organisations will feel some impact.
- > Electricity prices will rise by 10% over the first five years.
- > Procurement costs for a small business could potentially increase by \$3,000 per year.

Price impacts loom

*As the introduction of a price on carbon approaches, **Hugh Wareham** takes a quick look at some of the implications for organisations and their purchasing.*

The intent of the Clean Energy Future Plan (CEFP) is to reduce Australia's CO₂e (carbon dioxide-equivalent) emissions and enable it to comply with international obligations under the Kyoto Protocol.

There are 400 to 500 businesses directly impacted by the legislation, but all organisations will feel some impact as the cost of carbon-intensive products and services is passed along the supply chain.

The introduction of the Clean Energy Future Plan will:

- > Impact all businesses in Australia in various ways. It is unlikely any two organisations will be impacted in the same way;
- > Change over time, firstly from a fixed cost into a trading scheme and potentially tying into international schemes. It will also change as other sectors are covered; of particular note are transport fuels which are planned to be included in part in 2014;
- > Allow some organisations and/or industries access to funding via various programmes that

have been proposed as part of the Clean Energy Future Plan; and

- > Allow organisations certainty to put in place plans to reduce CO₂e emissions and reduce the potential financial impact to them.

The impact of the scheme will potentially increase electricity prices by 10% over the first five years. The actual cost will vary dependent on the organisation's size and energy intensity: small businesses may pay an estimated \$800 per year, medium-sized businesses up to \$6,000 per year, and large businesses up to \$220,000. There will be additional cost increases due to unrelated transmission and distribution expenses such as infrastructure upgrades.

Depending on the carbon intensity of an organisation's services and products, a small business' procurement costs could potentially increase by \$3,000 per year and those of a medium-sized business by \$30,000 per year.



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Organisations are looking at clauses to incorporate into contracts to pass on the costs associated with the legislation. These costs could be direct costs and indirect costs as well as compliance costs. Such costs need to be substantiated as the ACCC has the role of making sure that price increases are reasonable and substantiated. Consideration should also be given to sharing the costs with suppliers rather than simply seeking to pass all costs on.

Key issues for organisations

Understand whether or not your business is covered by the scheme. As it is estimated the scheme will cover 400 to 500 businesses, most businesses will not be covered directly by the scheme and will not have direct obligations under the scheme.

Assess whether or not your business is entitled to the various government programmes available under

the CEFP. This includes the various clean technology programmes, the Clean Energy Skills Programme and the Energy Efficiency Information Grants.

Understand the impact on your own costs and profits. Knowing your Scope 1 and 2 CO₂e emissions will allow your business to focus on the areas where the largest savings can be made. All energy contracts should be reviewed to assess the ability to pass on cost increases which will impact your margin and profits.

Understand how the cost will impact your suppliers. Understanding your Scope 3 emissions will help to understand the potential impact on your suppliers with the introduction of a price on CO₂e. If your suppliers are heavily affected by the scheme, you may see a significant increase in costs passed on. It may be more competitive to locate an alternative supplier, or consider changing products or processes.

Carbon tax facts

The Australian government's Carbon Tax, due to be implemented in July 2012 (moving toward an Emissions Trading Scheme a few years later), presents both opportunities and risks for organisations.

Companies that are well prepared, understand the cost increases and their effect on businesses and consumers will stand to benefit.

The government has laid out a plan to move to a 'clean energy' future through:

- **introducing a carbon price;**
- **promoting innovation and investment in renewable energy;**
- **encouraging energy efficiency;**
- **creating opportunities in the land sector to cut pollution.**

Around 500 large polluters will be required to pay for their emissions intensity through a carbon tax. They account for more than 60% of Australia's climate change impact. Most Australian businesses that will be liable under the carbon pricing mechanism are businesses that already have reporting obligations under the NGER Act.

The fixed carbon price will start at \$23 a tonne, for three years. This price per tonne of carbon dioxide released into the atmosphere will increase by 2.5% each year until July 1, 2015 when it will be set by the market under an emissions trading scheme.

All consumers and businesses are likely to be affected by the carbon tax as the high energy users pass on the cost of the tax down the chain.

Source: Carbon Reduction Institute

Consideration should be given to sharing the costs with suppliers rather than simply seeking to pass all costs on.

Review your contractual protection under a carbon price and ensure that the pass-through of carbon costs is reasonable and can be substantiated.

Understand the impact on your customers. Again, knowing your Scope 3 emissions and reducing them where possible will potentially improve the business' competitive position. Products with a low CO₂-e footprint are also likely to be more successful in a CO₂e constrained economy. Government and multi-national corporations often request tender respondents to provide information on environmental policies and procedures and impact reduction initiatives. The expectation of carbon reduction and management is likely to grow once the CEFP comes into effect.

Develop a CO₂-e strategy that identifies risks, investigates opportunities for new products and/

or services, pursues energy efficiency programmes, and investigates new technologies and behavioural changes.

Know where your business can obtain help, eg. industry associations, government bodies including the clean technology focus for supply chain website (www.innovation.gov.au/INDUSTRY/CLEANENERGYFUTURE/Pages/CleanTechnologyFocusforSupplyChains.aspx) as part of the CEFP.

Keep up to date with new low emission CO₂e products as they appear on the market.

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