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## Carbon Pricing

What's in, what's out? Who pays, who saves?

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### Changes to Australia's Carbon Pricing Regime

- What do they mean for the costs of doing business?
  - Electricity and gas
  - Raw materials
  - Diesel fuel
  - Refrigerant gases
- New consumer protection requirements

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### Recap: the Carbon Pricing Scheme

- "Liable entities" required to surrender carbon units for every tonne of greenhouse gas emitted from liable facilities
  - Liable facilities: emit >25,000 tonnes CO<sub>2</sub>e per year
  - Natural gas suppliers liable for customers
  - Carbon unit \$23 → \$24.15 → \$25.40
- In most cases, compliance costs passed down the supply chain via price rises or additional charges

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### Carbon Pricing Scheme abolished from 1 July 2014

- Carbon price not payable for GHG emitted on & from 1 July 2014
- Price reductions expected for electricity, gas
  - Other market factors in play to partially offset reductions
  - Prices will be less... but how much less??

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### Refrigerant gases

- A "carbon price" was applied to synthetic greenhouse gases used in refrigeration & air conditioning systems
- Paid by importers, passed on to customers
- Equivalent carbon price per tonne for Financial Year 2014/15:
  - R134a: \$33,020
  - R404a: \$82,800
  - R410a: \$43,820

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### How savings flow through will depend on contracts:

- Price + carbon arrangements will (generally) have carbon removed
- Fixed price contracts will have no change in price
- Where no carbon pass-through in price, also no change

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### Consumer protection requirements

- Electricity, natural gas and SGG suppliers:
  - Must pass through their savings or pay a penalty of 250%
- Electricity, natural gas and SGG retailers:
  - Must publicly disclose the amount being passed through
  - Must notify customers of the amount of their savings
- Prohibitions on misleading statements about pricing

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### Diesel fuel

- An "effective carbon price" was applied to diesel fuel used in:
  - Domestic aviation
  - Domestic shipping
  - Rail transport
  - Off-road vehicles (eg forklifts) (other than agricultural use)
  - Non-transport (eg diesel generators)

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### Diesel fuel

- The effective carbon price was applied via reduction of the fuel tax credit paid back to businesses by the ATO:

Fuel tax credit rate in cents per litre			
From 1 July 2012 (FY12/13)	From 1 July 2013 (FY13/14)	From 1 July 2014* (FY14/15)	*if no repeal
31.933 (38.143 - 6.21)	31.622 (38.143 - 6.521)	31.285 (38.143 - 6.858)	effective carbon price

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### Diesel fuel

- Repeal of the carbon pricing scheme
  - a direct saving of 6.858 cents/Litre in Financial Year 2014/15

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### Review of pricing arrangements

- Consider your supply contracts
  - Did prices increase when the carbon price began (July 2012)?
  - Have your suppliers notified you of price reductions?
  - Do you have any long-term fixed price contracts?
- Communicate with your suppliers – savings may be possible

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### What's next?

- Direct Action Plan – Emissions Reduction Fund
  - Crediting emissions reductions
  - Purchasing emissions reductions
  - Safeguarding mechanism

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### Safeguarding mechanism

- Carbon charge for emissions over a historical baseline
  - Facilities over 100,000 tonnes CO<sub>2</sub>e per year
    - electricity generation (fossil fuel)
    - gas producers and fuel suppliers
    - aluminium, steel, cement, construction materials
    - fertiliser, paper
- Carbon charge for emissions from new facilities (above "best practice")

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### Safeguarding mechanism

- Details not yet released
    - Amount of the charge unknown
    - Triggers for imposition unknown
    - "Best practice" for new facilities unknown
- Likely some form of carbon cost will be passed through

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### Opportunities

- Crediting of emissions reductions
    - Expansion of Carbon Farming Initiative
    - Obtain carbon units for verified emissions reductions
      - Includes energy savings
- Opportunity to earn carbon units from winery / vineyard projects

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### Opportunities

- Purchasing of emissions reductions by Commonwealth Gvt
    - Carbon units issued under crediting scheme
    - Reverse auction
      - Lowest price wins
- Opportunity to earn cash from winery / vineyard projects

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### Keep in mind

- Payment is delivered once reductions are achieved
  - No upfront funding for capital works
  - "guaranteed purchase" contract can be used to secure finance
- Must make up any shortfall if project does not deliver reductions
- Reductions must be audited
  - Consider the costs of participation in your analysis

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