



**BORAL ENERGY HOLDINGS LIMITED** ACN 004 132 423  
**Planning & Development**  
Level 39, AMP Centre 50 Bridge Street Sydney NSW 2000  
GPO Box 910 Sydney NSW 1041  
Telephone 02 9220 6300 Facsimile 02 9235 1661

*Writer's Direct Dial: 9220 6471*

16 March 1998

The Secretary of the Committee  
House of Representatives Standing Committee  
on Environment, Recreation and the Arts  
Parliament House  
CANBERRA ACT 2600

By facsimile: (02) 6277 4424

Dear Mr Dundas,

**Re: Inquiry into the Regulatory Arrangements for Trading in  
Greenhouse Gas Emissions**

Boral Energy Holdings Limited (Boral) is pleased to provide the Standing Committee on Environment, Recreation and the Arts with written comment on its inquiry into the regulatory arrangements for trading in greenhouse gas emissions. Boral and its subsidiary companies are substantial participants in the Australian energy market. Through the Boral Building Products and Boral Construction Materials Groups we are a major consumer of energy in this country. The Boral Energy Group is a significant supplier and retailer of natural gas, has significant oil and gas exploration and production interests, is an electricity retailer, and is one of the largest LPG marketers in the country.

Boral would like to offer the following comments with regard to the Committee's Terms of Reference.

***Requirements of a Domestic Emissions Trading Scheme***

***Cost Effective***

A proposal to introduce an emissions trading scheme, must meet the primary requirement of cost effectiveness. That is, the costs must not outweigh the benefits such a scheme can deliver. Further, mechanisms should be implemented to provide confidence to the market that the scheme will be administered as efficiently as possible. A scheme capable of being operated by commodity exchanges is preferable to one that would require the establishment of a bureaucracy.

### *Compatible*

Any scheme needs to be equitable for Australian business, recognising our significant trade with non-Annex 1 countries, and be capable of fully integrating with an emerging international trading scheme. The government must also comprehensively consult with: industry bodies; potential emissions trading market participants (representing both sources and sinks); green groups; and the wider community; to gain a proper understanding of the ramifications of any decision it may make.

### *Equitable*

A fundamental characteristic of greenhouse gases which prevents the use of simplistic trading models is the diverse range of sources. The diversification also extends to the ability to practically measure and therefore quantify those emissions. For example, the combustion of hydrocarbons in power plants can be easily and accurately measured, whereas while it is possible to accurately measure the combustion of hydrocarbons in motor vehicles, it is not practical to do so. The issue becomes further complicated by the variance in the science of measurement, which varies from the calculation of combustion products from an exactly measured quantity of hydrocarbon fuel, whose composition can be independently verified, through to the effects on sequestration and emissions of land clearing. A trading scheme must attempt to include as many sources and sinks as possible, within the bounds of practicality and cost effectiveness.

It will not be possible to devise a scheme that cost effectively captures all sources and sinks, however there is a risk Government will disproportionately focus its reduction strategies on any scheme that is developed. Those sources with easily quantifiable emissions, in which historical data is readily available or can be simply calculated, will be captured by a trading scheme. Whereas, those sources for which the science of measurement is inexact, or where the measurement of emissions will be impractical, will not participate in a trading scheme.

The energy industry is particularly vulnerable to this risk, due to the ease of measurement at large sources and the exact nature of the science of combustion. To minimise the risk of disproportionate and inappropriate burdens between industries, emissions trading must exist as one of a suite of reduction strategies. The alternative strategies can then be applied as appropriate to those sources not captured by the trading scheme. To assure equity it is vital that the suite of reduction strategies be implemented simultaneously.

### ***Issues surrounding an International Emissions Trading Scheme***

Whilst there may appear to be a significant time delay before the first commitment period, Australia must not become complacent. The Australian government must fully participate in the international deliberations over the establishment of an international trading scheme. An international scheme would ideally encompass the requirements described above for a domestic scheme. Only through early and full participation can Australia hope to influence the development of a scheme that

meets those requirements and is not discriminatory to our position in international commerce.

### ***Measurement and Verification***

Domestically, measurement must impose as little expense as possible whilst retaining integrity and complying with the requirements of any international trading scheme. To gain community acceptance the system of measurement and verification must not only be robust, but also be seen to be robust.

An international scheme will need to develop mechanisms to ensure permits have same worth regardless of origin. Distrust by market participants of the legitimacy of permits from a particular origin will inevitably lead to market failure.

### ***Allocation of the right to emit greenhouse gases***

The initial allocation of a tradeable right to emit greenhouse gases (emissions permit) must be issued to the emitter free of charge. Any fee imposed by the government for emissions permits is a defacto "carbon tax" and distorts the operation of the market to find the least cost solution. An auction may prove useful for the purposes of price discovery, but any such auction must be revenue neutral to the government.

The emission permits themselves must be given commensurate standing to property rights, and no restriction on ownership can be tolerated.

The initial allocation of permits should be to sites rather than companies, such that the permit will constitute an asset of that site.

### ***Impact of emissions trading on the environment***

The adoption of market based mechanisms to achieve the most economically efficient solutions to a problem is a well understood and accepted concept. The application of this concept to the environment is not new. The SO<sub>2</sub> trading scheme in the United States is the oft-cited example of this type of system at work. Several commentators have rejected the applicability of an SO<sub>2</sub> type system to greenhouse gases, due to the additional complexity inherent in a greenhouse gas trading scheme. Whilst we acknowledge the added complexity of greenhouse gas emissions, the SO<sub>2</sub> scheme provides a sound framework from which to start.

This type of "cap and trade" system will control emissions in the manner prescribed by the cap. However, the previous comments on equity need to be remembered as this control will only apply to those sources/sinks participating in the scheme.

### ***Impact of emissions trading on the economic and social welfare of Australia***

Australia is a major exporter of energy products and value added products produced from energy intensive industries. There is a significant risk Australia could be placed at a competitive disadvantage to our international competitors if Australian industry must burden additional costs not faced by those competitors.

Every attempt should be made to provide incentives for non-Annex 1 countries to enter into voluntary reduction strategies, including the participation in trading.

Due consideration should be given to the ability of domestic market participants to directly trade in the international scheme. If restrictions are required, the nature of those restrictions and the impact they may have must be carefully considered, especially in light of the international nature of many Australian companies.

Yours sincerely

JOHN LAWRENCE

**Manager, Policy & Regulatory Affairs**