Joint Select Committee on
Australia's Clean Energy Future Legislation

Westpac submission:
Inquiry into Australia's clean energy future

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Summary

Westpac is an active participant in ongoing public policy dialogue on an appropriate national response to climate change. We welcome the opportunity to provide a submission to the Joint Select Committee on Australia's Clean Energy Future Legislation.

Westpac has had a consistent position on climate change for over a decade and under three consecutive governments. Westpac recognizes climate change as an environmental, economic and business risk and is committed to developing practical solutions to assist Australian business and the community to respond and position for the low-carbon economy of the future.

Westpac sees our role in the Australian carbon debate as:

- Promoting an economy-wide perspective
- Supporting positive environmental outcomes
- Applying our financial market expertise; and
- Recognising our role as an important intermediary in the community through our employees, customers, suppliers and shareholders.

Westpac welcomes the release of legislation to introduce a price on carbon within a market framework by 1 July 2012 and is broadly supportive of the Clean Energy Future package announced.

Establishing an effective and viable carbon price framework is a critical component of the suite of policies required to meet national emission reduction objectives of 5% (or more) by 2020. Westpac supports a market-based approach to pricing carbon.

In reviewing the Clean Energy Future package, the following considerations have informed our position. The package must deliver:

- Investment certainty
- Market confidence
- Environmental outcomes
- Transitional assistance for industry and households
- Innovation and economic transformation
- Affordable and efficient greenhouse gas abatement across the economy; and
- A clear understanding of ongoing liabilities.

Westpac believes that the provisions detailed within the Clean Energy Future package will facilitate an effective policy framework for supporting the decarbonisation of the Australian economy.

Westpac has extensive experience in managing carbon risk within our investment and lending activities and in delivering carbon price risk management products and services via our financial markets services. Westpac's climate change credentials are detailed in the attached Appendix.

Westpac would be happy to appear before the Committee to discuss these matters further.

Submission

1. Westpac position

Westpac accepts the scientific consensus on climate change. We believe that climate change will have significant economic, social and environmental impacts in the regions where we operate. Upon examining the projected economic impacts on Australia, we formed the view that a precautionary approach to managing current and future risks is required.

There are also regulatory and market imperatives to acting on climate change. Regulatory responses to climate change are solidifying in all the jurisdictions where we operate. While international negotiations are ongoing, there is no doubt that at the national level; countries are regulating to manage down their emissions.

Capital markets have also identified climate change as an investment trend, with all the attendant commercial risks and opportunities that this entails. This comes from both recognition of the need to manage exposure to changing industry dynamics, and the desire to capitalise on emerging opportunities in renewable energy, biodiversity services or the CleanTech sector for example.

So in looking at all three factors - physical risk, regulatory risk and market risk - it becomes clear that for Westpac, climate change is fundamentally a major business impact with significant economic implications for Australia's national wellbeing.

Westpac supports the implementation of a price on carbon and the application of broad based market mechanisms as the most effective, affordable and flexible means of transitioning to a low carbon economy. This must be implemented as part of a suite of policy responses aimed at tackling the various policy and market challenges associated with structural adjustment to a low carbon economy.

A carbon price reduces the price gap between cheap and dirty technologies and clean but usually more expensive processes. It removes perverse incentives in the marketplace and promotes greater investment in innovation and technological solutions by making them more competitive. It encourages households and small business to reduce energy demand. It allows businesses with large carbon footprints to manage the cost impact out into the future with greater flexibility and to plan for the investment required to decarbonise industrial production affordably.

Establishing an effective and viable carbon price framework is critical to meeting Australia's bipartisan emission reduction objectives of 5% by 2020 in an economically sustainable manner.

We recognize that this will be challenging, and that there is clearly a case for a number of adjustment support mechanisms with the introduction the scheme to allow business and the community to transition into a carbon-constrained economy. Westpac supports the consistent application of a robust approach for determining EITE status and eligibility for assistance, along with additional measures to support investment in the energy sector, in the deployment of clean technology and biodiversity and land management practices.

Finally, Westpac supports the prompt and timely introduction of a price on carbon. Lack of an appropriate policy framework encourages the status quo, while additional investment in emission-intensive infrastructure has the potential to lead to future stranded assets, imposing a significant cost to the national economy. Without a clear policy framework that matches investment horizons, Australian business has little incentive to invest now in newer, cleaner technologies.

Failure to implement an effective and comprehensive policy response at this stage will increase the amount of regulatory uncertainty currently hindering investment in existing emissions-intense infrastructure as well as in new clean technology and the structural adjustments required to decarbonise the Australian economy.

Westpac does not support the proposition that short term market volatility is sufficient justification for further delay in implementing a framework for pricing and managing carbon risk. Westpac does not support delaying that start date of the scheme and strongly supports industry calls to finalise the policy framework and introduce the carbon price by 1 July 2012.

This submission draws upon the bank's considerable experience in factoring environmental considerations into business policies, systems and procedures, our investment and lending experience, as well as our practical participation in carbon and environmental markets across other jurisdictions where we operate. Westpac has been trading the EU ETS since 2005 and was the first bank to begin trading the NZ ETS in 2010[1].

Overall, Westpac supports the carbon pricing framework as detailed within the Clean Energy legislative package.

Westpac has played an active role in participating to the development of an appropriate policy response for Australia, under both current and previous Commonwealth governments and at the state and regional level. We have worked closely with the Australian Bankers Association (ABA) and the Australian Financial Markets Association (AFMA) in developing our position and engaged extensively with impacted clients.

Westpac will continue to engage with the Government and work with our customers around the introduction of a carbon price signal across the Australian economy.

2. Feedback on the Clean Energy Future Legislative package

Westpac welcomes the release of draft legislation to introduce a price on carbon within a market framework by 1 July 2012 and is broadly supportive of the Clean Energy Future package announced.

Overall, Westpac supports the carbon pricing framework as detailed within the Clean Energy legislative package.

This package appears to present a more integrated set of measures than previous announcements. It pulls together the carbon pricing mechanism, more finance for renewable energy, energy efficiency and clean technology and the Carbon Farming Initiative, along with additional regulation for sectors excluded from coverage under the carbon market. It also seeks to bring climate change under a more effective governance process with the Climate Change Authority advising on approach and the Clean Energy Regulator administering the carbon pricing scheme.

2.1 The economic impact

Westpac's Economic Research team has made a number of observations around the broader economic impacts of the introduction of the Clean Energy package[2].

- The policy is broadly fiscally neutral: This reform package is not expected to impact upon the Government's commitment to returning the Commonwealth Budget to surplus in 2012/13. The

[1] Westpac publishes a fortnightly Carbon Update providing price and market information in all relevant carbon markets.
2 Commentary provided by Justin Smirk, Senior Economist, Westpac Economic Research, published in the Westpac Carbon Update, Australian Special Edition, Issue 25, 11 July 2011 and Issue 30, 22 September 2011.

exemption of petrol and special industry assistance measures will, however, result in a net cost to the Budget of a total of $4bn over 4 years. While there is a net cost to the government, it is not particularly large overall.

It is notable that the scheme will have an initial establishment cost in the 2011/12 financial year of around $2.7bn, but once operational, will be broadly revenue neutral. By front loading the industry and regional assistance, the government is able to reach its targeted budget surplus by 2012/13. From a fiscal policy perspective, a modest short-term financial impact of a major policy reform is a second order issue. The primary concern is the quality of the reform.

- Smaller impact than the GST: The direct impact is smaller than the introduction of the GST, and in fact raises just 1/3 of the income that the GST does so the impact on prices (a 0.7% boost to the CPI in the first year 2012/13 vs. 2.5% with the introduction of the GST) and activity will be smaller. Of this increase, the tax is expected to boost electricity prices by 10%, gas prices by 1.5% and food prices by less than 0.5%. The remaining goods and services in the CPI are forecast to rise, on average, by around 0.4%. Treasury estimates that this will boost total household costs by $9.90 per week while the average assistance will be $10.10 per week.

  Having evaluated the assumptions made, this appears reasonable and would suggest that this policy may be mildly stimulatory in 2011-12. A smaller 0.2% rise in the CPI is expected in 2015-16 as the carbon price moves to a world price of $29/t as the programme transitions to a market price.

- There should be no implications for monetary policy: As the direct impact on prices should be small and transitional, the RBA should look though the temporary spike in inflation. Thus the tax has no direct implication for interest rates or money markets. The policy is broadly fiscally neutral – an additional $4bn spend over four years is not materially significant to the outlook for the Budget.

- Minimal impact on overall economic growth or jobs: Treasury modelling suggests that the tax will have a minimal impact on growth and employment. While we think this is a fair assessment overall, this does not mean there may not be significant adjustments within and/or between industries.

- Household compensation: Lower incomes households will be over compensated while higher income households (around 10% of households) will receive no compensation at all. It has been estimate that up to 1/3 of households will be worse off after the introduction of the tax (i.e. no or under-compensated). However, as this is a relatively small amount (an average increase in weekly spending of $9.90 per week) and the overcompensation occurs in lower income households who generally have a higher propensity to spend, it is possible that the policy could be mildly expansionary for the household sector. The compensation payments that will be delivered in 2012 Q2 (worth around $1.5bn) would be equivalent of ½% of GDP. If it is mostly spent, it will provide a boost to consumer spending in that quarter.

- Lost in the debate are significant taxation reforms: Principally, the raising of the tax free threshold from $6,001 to $18,201. This not only helps to offset the impact of the package for lower income households, but it is also a welcomed reform in its own right. By encouraging an increase in participation amongst the lower paid, due to the removal of potential double taxation for the loss of benefits and imposition of income tax at the same time, this should help expand the labour force at a time of labour shortages. It will be particularly relevant for part-time and casual workers who form a large part of the retail, food services and hospitality labour force.

On 21 September, Commonwealth Treasury released more detailed analysis of the introduction of a $23 tonne carbon price in 2012-13. The analysis is based on a suit of models that in combination provides a scope that spans global, national, sectoral (or industry) and household dimensions. By doing so Treasury was able to capture the interaction between nations, different sectors, and among producers and consumers.

Based on the work, Treasury has confirmed their earlier estimate that the introduction of a carbon prices would have a small impact on the Australia economy; that by 2020 the size of the Australia economy (as measured by GDP) would be just 0.3% less than it would have been without the introduction of a carbon price.

Treasury also provided more detailed analysis of the impact of a carbon price on the average Australian household. As expected given that stationary energy generation is the largest greenhouse gas emitter, the largest impact appears in utilities which are expected to rise $4.60 per week or 7.9%. The next largest impact was in other housing costs (including rents) which are forecast to rise $1.30 per week or 0.6%.

Just about everything else rises less than 0.5% which is why the total impact is estimated to be just $9.90 per week or 0.7%. To put the scale of the impact in perspective, it is estimated that the introduction of the GST lifted the CPI by 3.3% - that is the impact of the GST on the household budgets was almost 5 times larger than what Treasury expects the impact of the carbon price to be.

2.2 Business and investment impacts

Delivering clear and unambiguous regulatory and policy frameworks and signals around carbon management is now fundamental to supporting investment in long life assets.

Having the means to accurately understand and manage carbon risk over the life of the investment is critical to successfully pricing in emerging carbon risk impacts. Business is used to working in uncertain environments, through fluctuating interest rates, exchange rates or crude oil prices for example, and we have developed the frameworks for managing them. However, existing frameworks allow business to take informed positions on these variables. They provide certainty.

Westpac supports the need for a carbon price as a required economic reform because it is the policy mechanism that makes all others affordable and achievable. Harnessing the market in order to provide more options and opportunities is central to lowering the cost of climate change for the Australian community. A market-based response is cheaper for the economy as a whole, cheaper for business and ultimately cheaper for households.

Westpac has consulted extensively with customers at all levels of the community over the last 15 years, on the impact of climate change on their operating environment and emerging risks and opportunities for their business. In particular, Westpac has undertaken significant, dedicated consultation with clients impacted by the introduction of the carbon price and accompanying transitional assistance package in the Clean Energy Future package.

Westpac has integrated formal carbon risk assessment into mainstream credit risks policies, systems and processes. Carbon risk is assessed at the industry sector level, at the company level and at the transactional level.

Moving to a low carbon economy will mean a fundamental transformation in our energy infrastructure with significant investment implications. Westpac notes that the carbon price will always operate within the context of a number of market dynamics across the energy sector. Over the medium term fossil fuel energy generation will continue to play a major role in the economies where we operate. At the same time, our early analysis would indicate that a carbon price range of $20-25 will start driving fuel switching across most states, particularly as a replacement for the oldest and least efficient plants which are already nearing the end of their useful lives.

However, to really drive the level of investment required to deliver decarbonisation across the energy sector without system dislocation, investors will need to be able to reasonably look to a carbon price signal over the longer term. This requires scheme and regulatory stability, long term national emission reduction signals and stronger policy consensus to deliver greater investment certainty out into the future.

Westpac believes that this legislative package delivers an important and necessary first step, by establishing the carbon policy framework for companies to reasonably begin to manage their carbon exposure out into the near future and to adopt an informed position.

2.3 The benefits of international linking

Westpac strongly supports linking to and alignment with international markets. Linking to the global carbon market will reduce the cost of compliance for business and support the emergence of an international carbon price signal. These are important policy objectives which Westpac would strongly endorse.

Westpac supports the provisions detailed in the Clean Energy Future package which deliver linking to existing international carbon markets, and to project-based credit origination frameworks such as the Clean Development Mechanism. They provide an important conduit for business to source low cost emission reductions and facilitate the emergence of an international approach to addressing climate change.

The inclusion of accredited international offset credits (CERs, AAUs and ERUs) will assist liable entities to manage their carbon exposure through accessing larger carbon pools in international markets. It will also promote the expansion of the emerging global carbon market as a means of limiting trade exposure for covered entities.

Westpac notes that there is broad consensus that a comprehensive international agreement governing national targets, market frameworks and technology and carbon finance transfer across jurisdictions in the developed and developing world is a desirable outcome. The emergence of national and regional schemes which link to international markets over time will play an important role in facilitating the convergence of a robust international framework governing the global response to climate change.

Westpac would also support the pursuit of bilateral linking between operating markets as detailed in the Clean Energy package, as a means of increasing liquidity and reducing the cost for business. In particular, Westpac supports steps currently being taken to explore bilateral linking between Australia and the existing New Zealand Emissions Trading Scheme. Many companies operating in Australia will have a Trans-Tasman exposure and linking will allow companies to manage their position in a more efficient manner.

(a) The New Zealand experience

Westpac has played a critical role in the establishment and commencement of the New Zealand Emissions Trading Scheme (NZ ETS). Westpac was the first bank to trade the NZ ETS and remains the only financial institution making a market for our clients, for forestry companies and for liable entities covered by the scheme.

In Westpac's experience the implementation of the NZ ETS has been remarkably smooth for such a new market established by regulation and particularly considering current global economic conditions. Considering its size, the market is reasonably efficient and liquid. Participants have good indications of where carbon units are trading and the market has linked well with the international market.

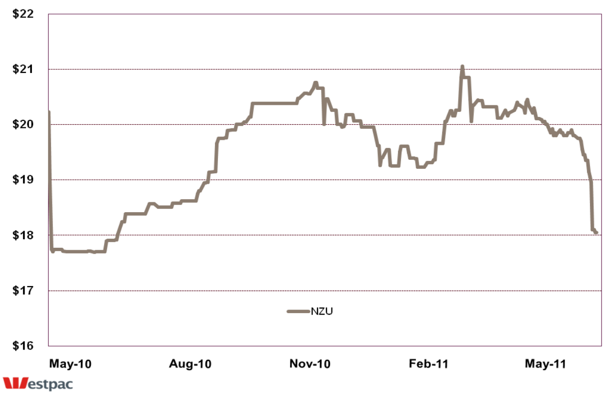
A Government review of the first year of operation of the scheme found that that more than 98% of permits acquitted for compliance were sourced from the domestic market[3]. While current market activity would

[3] *Report on the New Zealand Emissions Trading Scheme,* Ministry for the Environment, 30 June 2011, p9.

indicate that this figure will be lower in 2011, there is no doubt that the use of domestic permits for compliance purposes was far higher than anticipated in the lead up to the commencement of the market.

Importantly, the New Zealand Carbon Price (the New Zealand Unit or NZU) has primarily traded on the basis of domestic supply and demand factors. Only in circumstances where the international carbon price (the Certified Emission Reduction or CER price) has traded below the NZU have international carbon market conditions become an overriding factor in the domestic carbon market.

NZU Price History



NZU vs CER (in $NZ) Price History

This is particularly significant given that New Zealand allows for 100% acquittal of international units for compliance purposes. Westpac notes that the Australian scheme will allow for 50% of the compliance obligation to be met with international permits, thereby increasing the likelihood that this pattern of behavior would be more or less replicated with the traded Australian carbon price.

2.4 Operation of the market

Overall Westpac supports the carbon market framework detailed within the Clean Energy package, and anticipates that it will deliver an efficient and liquid traded market.

Westpac notes that the carbon pricing mechanism proposed in the legislation does not appear to contain any substantive surprises from what the market was expecting and builds on work undertaken in previous governments to design and implement an effective market based carbon pricing mechanism.

Many of the implementation issues experienced in the European Union Emissions Trading Scheme (EU ETS) appear to have been proactively identified and responses incorporated into the policy proposal, while outstanding concerns around aspects of the previous Carbon Pollution Reduction Scheme (CPRS) also appear to have been addressed.

The proposed model should address many of the investment uncertainty issues previously raised, although clearly further analysis will be required around the implications of the price floor and the cap once detail has been finalized.

(a) Market implications of the price floor

Westpac has continuously argued against the application of price control mechanisms on the carbon market, on the basis that it distorts behavior and undermines the price signal. However, we also recognize that, from a practical perspective, an interim period with a fixed price, and a price collar in the early stages of the floating market may be required to support the transition to a fully functioning emissions trading market.

The imposition of price controls (the price floor and the price ceiling) will impact traded activity. Westpac has particular concern with the practical operation of the floor price.

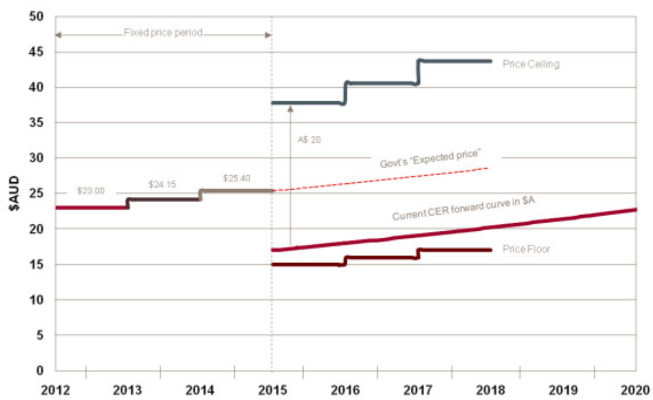
The government has signaled that the intent of the price floor is to provide a minimum price to promote greater investment certainty in clean energy or clean technology transactions. Further, the price floor is intended to be set at levels far below the 'expected international price'. It would be enforced primarily through the setting of a floor price in regular Government auctions of permits for domestic compliance permits and then applied subsequently to eligible international emission units surrendered for compliance.

In particular, Westpac believes that applying a price floor to international emission units will increase the cost of compliance for businesses covered by the scheme, will generate significant levels of administrative complexity for all entities, and will undermine the efficient operation of the market by inhibiting trading activity in secondary markets. This issue is particularly relevant given current economic conditions which are driving down international carbon prices.

CERs in AUD

Westpac

What market activity will the scheme yield ?



Westpac is continuing to work through the Australian Financial Markets Association (AFMA) in conjunction with the Department of Climate Change and Energy Efficiency on the challenges of implementation and flow through impacts for secondary markets.

3. Concluding comments

Westpac is well known in the market for adopting strong risk management practices and a forward looking progressive approach to identifying emerging material risks and opportunities for our business. We recognised a number of years ago that climate change is ultimately a business issue requiring the same approach.

As markets and policy frameworks develop as a means of taking greenhouse gas emissions out of everyday lives, financial institutions have a critical role to play in partnering with customers across all areas of our business to help transition to a low-carbon operating environment.

There are no significant advantages for Australian business in delaying the establishment of a carbon price framework. Practically speaking, business responds to issues when they need to. If the Government delays the introduction of the scheme, business will delay implementing an effective response, and Australia's emission reductions targets, and legal obligations under the Kyoto Protocol and the subsequent implications for the Australian taxpayer, will become more difficult to achieve in the longer term. Further, any future attempts to proceed would be met with a high level of skepticism and inactivity.

Economic modeling undertaken both domestically and internationally, consistently demonstrates that delaying an effective policy response increases the economic costs and shock to the economy, while beginning now and ramping up the response gradually will reduce costs and smooth out the transition of Australian business into a carbon constrained economy.

Failure to implement an effective and comprehensive policy response which includes a price on carbon as a key foundation stone will increase the amount of regulatory uncertainty currently hindering investment in clean technology and the structural adjustments required to decarbonise the Australian economy. This is part of an inexorable global market trend. There is no competitive advantage to Australian businesses to maintain the status quo.

There is no doubt that the impact of the introduction of a price on carbon will be felt across industry and across the economy. There is also clearly a case for a number of adjustment support mechanisms to be established with the introduction the scheme to allow business and members of the community to transition into a carbon-constrained economy. Westpac supports the consistent application of a robust and uniform approach for determining EITE status and eligibility for assistance and accompanying support measures.

Managed properly through the design process and as part of a suite of national climate change polices, the establishment of a price on carbon will play an important role in ensuring Australia's long term continued economic growth while reducing the greenhouse gas intensity of our economy.

Appendix

About Westpac

Westpac Banking Corporation ("Westpac") was founded in 1817 as the Bank of New South Wales, and has a long and proud history as Australia's first bank. With a market capitalisation of $69bn billion and total assets of A$618 billion as at 30 September 2010, Westpac is one of Australia's top five listed companies. Our financial strength and risk management practices have been recognised by investors and rating agencies globally.

Today Westpac provides a broad range of retail, commercial and wholesale banking services to around ten million personal, business, corporate and institutional clients.

Westpac Institutional Bank, a division of Westpac Banking Corporation, manages the financial needs of corporate, institutional and government clients that are based, or have interests in, Australia and New Zealand. We are a leading provider of wholesale banking services in the region and are consistently recognised as a leading bank for Australian and New Zealand dollar-denominated financial products and risk management. We are located in Australia, New Zealand, London, New York, Singapore, Hong Kong and Shanghai, with representative offices in Beijing, Mumbai and Jakarta.

Westpac's climate change credentials

Westpac has maintained a consistent position on climate change risks for business and the need for an effective market based policy response for over a decade and under three consecutive Governments.

Westpac's commitment to working with clients to transition into a low carbon operating environment is built upon our broader commitment to sustainability as a key differentiator of our business.

Westpac is determined to play a constructive and positive role in promoting effective and practical solutions for our customers and across our business. As a facilitator of the growth of the Australian economy for the last 200 years, we will work with all of our customers to make this transition happen.

Recent significant achievements include:

- Westpac was the only Australian Bank to be recognised as one of the Global 100 Most Sustainable Corporations at the 2011 Davos World Economic Forum in Switzerland.
- In 2011, Westpac was ranked number one out of 190 banks globally as a leader in sustainability by the Dow Jones Sustainability Index, and included for the 10th year running.
- The Westpac Group was ranked sixth in the world in the Carbon Disclosure Project (CDP) 2011 Global 500 report and was rated the top Australian company. Westpac has been included in the global Carbon Disclosure Project Climate Leadership Index since 2003.
- Westpac was the only Australian bank, and one of only three banks globally, to be named as one of the 2010 World's Most Ethical Companies by the Ethisphere Institute.
- In 2010, Westpac Institutional Bank was voted 'Best Trading Company in Australasia' and 'Runner-up in the Best Finance House - Renewable Energy Finance Asia-Pacific' in the global Environmental Finance awards.
- Westpac received the 2010 Money Magazine inaugural 'Climate Leadership' award in Australia.
- In 2003, Westpac was the first Australian bank, and one of only ten founding signatories globally to sign the Equator Principles, a voluntary global set of guidelines developed for managing social and

environmental issues related to the financing of projects. Today there are over 50 signatories worldwide.

- In 1991 Westpac was one of six founding members of the United Nations Environment Programme Finance Initiative (UNEP FI). Today there are over 250 signatory institutions, in more than 45 countries.

Westpac first launched an Environment Policy in 1991 and began measuring and reporting on operational greenhouse gas emissions and broader environmental impacts in 1996. Westpac reduced our emissions by over 40% between 1996 and 2008, and is targeting a further 30% reduction by 2013.

The Westpac Climate Change Position Statement was published in 2008 and is endorsed by the Westpac Group Executive and the full Westpac Board. Progress is reported to the Board on a quarterly basis and performance against Key Performance Indicators is built into the remuneration scorecard of the full Group Executive.

Westpac's climate change strategy focuses on managing carbon risk in credit systems and processes, developing lending and investment products and services, engaging employees, advocacy and community engagement and reducing operational greenhouse gas emissions.

Westpac is working with clients across our Corporate and Institutional Banking division along with agribusiness and Commercial Banking clients, to understand where customers are seeing emerging risks and opportunities, and implementing practical products and solutions to assist.

Westpac's Renewable Energy Strategy was revitalized in 2008 to increase our involvement in clean energy and large scale renewable financing. Today, now more than 50% of our global infrastructure and utilities financing is directed towards hydro and renewables. Westpac's involvement in the renewable energy market includes:

- Financial relationships with energy retailers with significant liabilities under mandatory renewable energy supply frameworks (eg the Renewable Energy Target in Australia);
- Financial relationships with energy intensive trade exposed entities;
- Financing for large scale renewable energy projects;
- Support for small businesses involved in the distribution and installation of small and mid-size solar generation and solar hot water units; and
- Portfolio trading in electricity, Renewable Energy Certificates, carbon and other commodities and energy markets.

WIB has also established a dedicated team of carbon specialists to hothouse carbon and carbon related solutions. This team brings together expertise from across the business to focus on delivering integrated carbon solutions for our customers. This includes debt and equity funding for emerging business opportunities in the domestic offset sector (forestry and agriculture), clean energy opportunities, energy efficiency, internal abatement financing requirements and carbon credit off-take, price risk management or origination activities. This team has a global mandate across Westpac.

In late 2007, Westpac Institutional Bank brought together financial markets teams trading commodities markets and the National Energy Market (NEM) in Australia, along with Group Sustainability and emerging carbon market expertise to form an integrated trading team Commodities, Carbon and Energy (CCE). This approach recognizes overlapping market dynamics and resource conditions influencing pricing as well as how our clients look to manage their own price risk exposure.

CCE continues to build a strong track record of market firsts:

- Westpac's Energy Team has been trading in the National Electricity Market (NEM) in Australia since 1999 and has consistently been the single largest financial intermediary in the derivative wholesale swaps market. Carbon and carbon cost pass through is an increasingly significant influence in forward pricing.
- Westpac was the first bank to commence trading of Renewable Energy Certificates (RECs) in Australia in 2002.
- Westpac has been trading the EU ETS since 2006.
- Westpac undertook the very first trade of Australian compliance credits in May 2008.
- Westpac was the first and remains the only financial institution making a market in the New Zealand Emissions Trading Scheme (NZ ETS), which has been operating since January 2010.
- More recently, in 2011 Westpac and Perenia partnered to develop a joint 'primary CER' (pCER) deal, where Westpac agreed to offtake pCERs for sale into New Zealand and Australian compliance markets.

Westpac believes that managing the risks and opportunities posed by climate change will be a defining factor in achieving long term profitability for our clients and for business. Westpac is committed to developing practical and effective solutions for our customers at every level of the economy.