

# THE BUSINESS COUNCIL OF AUSTRALIA'S MISSING MILLIONS

Over the last twelve months the Business Council of Australia (BCA) and several of its big polluting members have sought to stall and undermine Australia's progress to a low-carbon economy.

The BCA has successfully lobbied for special treatment for a select group of its members under the Government's Carbon Pollution Reduction Scheme (CPRS), securing unlimited free permits for Big Polluters who need only make minimal carbon efficiency improvements.<sup>1</sup> Initial estimates are that \$1.9 billion in 2010 alone will be effectively redirected from public funds and given to just 18 members of the BCA in the form of free permits.<sup>2</sup>

Meanwhile, many of the businesses who have been lobbying the hardest for free permits are sitting on millions of dollars of potential savings through affordable energy efficiency measures.

In support of its case for free permits for its highest polluting members, the BCA released a report warning of dire consequences for its members under the CPRS.<sup>3</sup> However, the BCA's modelling assumed that there were no opportunities for energy efficiency savings or other abatement opportunities for the major polluters – a flawed assumption according to information provided by the polluters' themselves.

Through the Government's Energy Efficiency Opportunities (EEO) program large energy users have been required, for the first time, to identify opportunities to save energy, which will save money and reduce emissions.

Under this program companies are required to report on energy efficiency opportunities that would pay for themselves in four years or less. This does not cover the full potential of energy efficiency as bigger saving are likely if companies invest in projects that have a slightly longer payback period. The estimated payback periods also do not factor in future carbon price impacts which, until we clean up our energy sources, will increase electricity prices and significantly improve the cost effectiveness of many energy efficiency improvements.

Using the data in the EEO company reports, this policy brief quantifies the potential carbon pollution savings available to BCA members through energy efficiency improvements.<sup>4</sup> Implementing these measures will significantly reduce a company's direct and indirect carbon pollution, which means they will face lower costs associated with the CRPS than if no action is taken to improve energy efficiency. This policy brief also includes an estimate of the value of these reduced carbon liabilities. It also identifies simple policy solutions that can help ensure these cost neutral energy efficiency savings and other steps increase investment in clean technologies, clean jobs and a clean, low-carbon recovery for the whole Australian economy.

<sup>1</sup> The CPRS White Paper proposes that the rate of assistance provided to EITEIs will be reduced by 1.3% per annum, described as a "carbon productivity improvement".

<sup>2</sup> Based on: Fryer, D., Barraclough, M. and Crooks, R. (2008) The Impact of industry assistance measures under the Carbon Pollution Reduction Scheme – White Paper update, Innovest.

<sup>3</sup> BCA, (2008) Modelling Success: Designing an ETS that Works <http://www.bca.com.au/Content/101485.aspx>.

<sup>4</sup> The analysis presented here is based on data contained in reports submitted by 37 BCA members under the EEO program. Where noted, specific data is also presented for the top 20 BCA members, with respect to energy efficiency opportunities.



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### SAVINGS IMMEDIATELY AVAILABLE TO BCA MEMBERS

By implementing all of the energy efficiency savings identified through the EEO program, the BCA members assessed here could save approximately 3.1 million tonnes CO<sub>2</sub>-e each year. This is equivalent to the emissions from 310,000 Australian households or equivalent to taking 715,000 cars off the road. Assuming the range of initial carbon prices identified in Treasury's modelling of \$23-\$53 per tonne, this equates to \$71.3-\$160.4 million savings in reduced carbon liabilities for the assessed BCA members.<sup>5</sup> It does not consider additional direct energy cost savings from the reduced power and fuel bills that are associated with energy efficiency.

BCA members are implementing or plan to implement some of the options identified in the EEO program. Across the assessed BCA members, the energy savings measures that have or are being implemented would equate to 1.9 million tonnes of CO<sub>2</sub>-e annually or a \$43.8 - \$98.5 million in avoided carbon liabilities per year. Again, this assumes the range of initial carbon prices identified in Treasury's modelling of \$23 - \$53 per tonne.

Even after implementing current and planned projects, total cost effective savings available across all assessed BCA members is still around 1.2 million tonnes per year. This could increase the potential savings for BCA members by around \$28 - \$62 million per year through reduced carbon liabilities.

### ADDITIONAL SAVINGS TO BE HAD

On average, the BCA members evaluated here have only assessed around 46% of their energy use for efficiency improvements. As such, the emissions and cost savings identified above is based on this portion of the companies' total energy use.

If you assume that a similar level of savings can be achieved for the energy use that has yet to be assessed, BCA members could potentially cut emission by up to 6.7 million tonnes of CO<sub>2</sub>-e per year through energy efficiency.

Applying the \$23 carbon price, this implies cost savings of \$156.2 million annually, through reduced carbon liability. For perspective this would be enough to employ the equivalent of 3,400 people.<sup>6</sup>

### WHO ARE SITTING ON THE BIGGEST SAVINGS?

BHP Billiton, Qantas, Shell, BlueScope Steel and Alcoa have the largest potential to reduce total emissions through affordable energy efficiency improvements (Figure 1 and Table 1).

For example, BHP Billiton has identified investments that could reduce emissions by around 741,000 tonnes a year. This equates around \$17.3 - \$38.9 million per year in reduced carbon liabilities.

As noted above, companies have reported on energy efficiency measures that are currently being implemented, or are planned for implementation, as well as those which have been identified, but to which they have yet to commit. Excluding those measures which are already being implemented, or are planned, BlueScope Steel, BHP Billiton, Alcoa and Rio Tinto have the largest outstanding potential to reduce emissions cost effectively (Figure 2 and Table 2).

<sup>5</sup> These are in nominal terms with the carbon price range being the approximate starting prices under the CPRS-5 and Garnaut-25 scenarios, modeled by Treasury. The CPRS-5 scenario starts in 2010, while the Garnaut-25 scenario starts in 2013. The carbon liability covers direct and indirect emissions associated with energy use. It is assumed that the carbon price is passed through to electricity bills in full, which is consistent with the approach proposed by the Government under the assistance package for emissions intensive trade exposed industries.

<sup>6</sup> Based on the average earnings in 2008 data from the Australian Bureau of Statistics

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BlueScope Steel, for example, has identified, but is not currently implementing, measures that could reduce emissions by around 261,000 tonnes CO<sub>2</sub>-e a year and reduce their annual carbon liability by \$6.1 - \$13.7 million.

The energy efficiency opportunities identified by companies range from relatively simple steps to more complex options. For example, amongst other things, BHP Billiton plans to install automatic shutoff devices for electric lighting, while BlueScope Steel's is investigating installing variable speed fan drivers to optimise energy use based on production.

Xstrata, a company which has vigorously sought to delay progress on emissions trading and other climate measures, have provided minimal data in their first EEO report. As such assessment of Xstrata's carbon savings could not be included in this Policy Brief.

## POLICY IMPLICATIONS

Emissions Intensive Trade Exposed Industries (EITEIs) will receive excessive assistance under current CPRS proposals. This analysis shows that Australia's biggest companies are sitting on millions of dollars of savings waiting to be unlocked through improved energy efficiency.

Under the current CPRS design, the Government has promised an excessive handout to Big Polluters, including unlimited free permits available to EITEIs. Without significant shifts in international and domestic arrangements, between 2010 and 2020 the share of permits given to EITEIs is expected to rise from 25% to at least 45%. To avoid what the Government admits will be a shift of "an ever increasing burden onto rest of the economy"<sup>7</sup>, stronger policies are needed to ensure all Australian businesses are doing their fair share in the shift to a low carbon economy.

As part of a package to build community confidence, increase transparency and avoid transferring large amounts of wealth from the public to the private sector, the Government should increase the default carbon productivity improvements for EITEIs assistance to at least 4% per annum. This would ensure that the share of permits flowing to EITEIs would remain roughly constant over time, avoiding an ever increasing economic burden being passed on to the rest of the economy. This would also free up permit revenue to direct towards low emission technologies such as geothermal and concentrated solar.

Assistance given to EITEIs should also be tied to a requirement for recipients to prepare and publically report annual and externally audited statements on abatement opportunities. For example, by strengthening the Energy Efficiency Opportunities program including through: extending to greenhouse gas emission abatement opportunities for those receiving EITEI assistance, stronger public reporting requirements on energy efficiency opportunities with longer paybacks; and greater external auditing. Mandatory uptake of energy efficiency opportunities should be foreshadowed as a future option, pending a full evaluation of the EEO program.

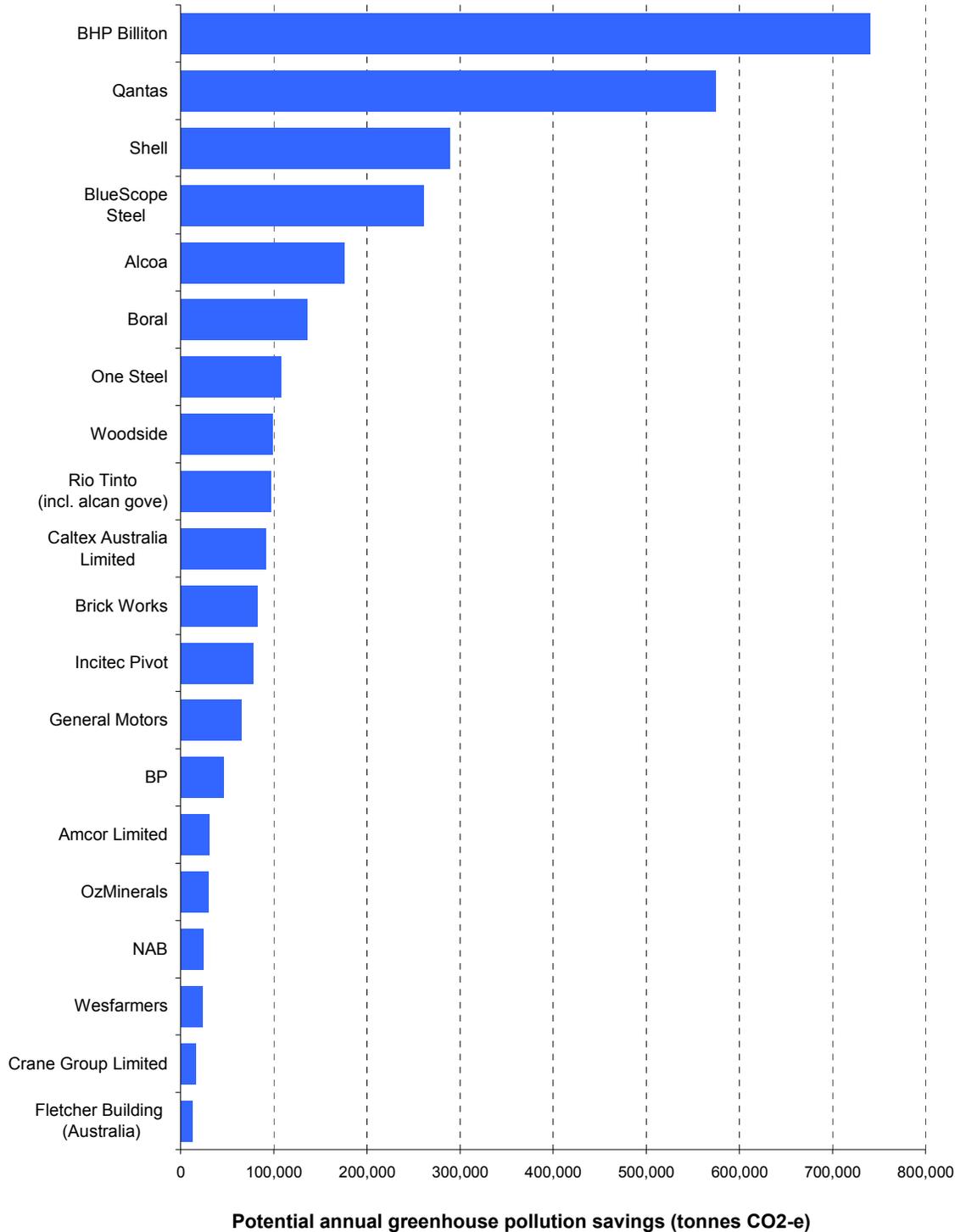
The draft CPRS legislation should also be amended to include a trigger to review assistance as soon as any new international agreement is negotiated, and to empower the regulator or Productivity Commission to annually report to the Parliament on real and shadow carbon prices in competitor countries. Both of these measures would help avoid billions of dollars being transferred from the public to the private sector unnecessarily.

<sup>7</sup> Commonwealth of Australia (2008) *Carbon Pollution Reduction Scheme Green Paper*, Department of Climate Change, Canberra.



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Figure 1: Estimated total carbon pollution reduction potential from energy efficiency measures - BCA Top 20



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**Table 1: Estimated total emissions savings and reduced carbon liabilities through energy efficiency measures - BCA Top 20**

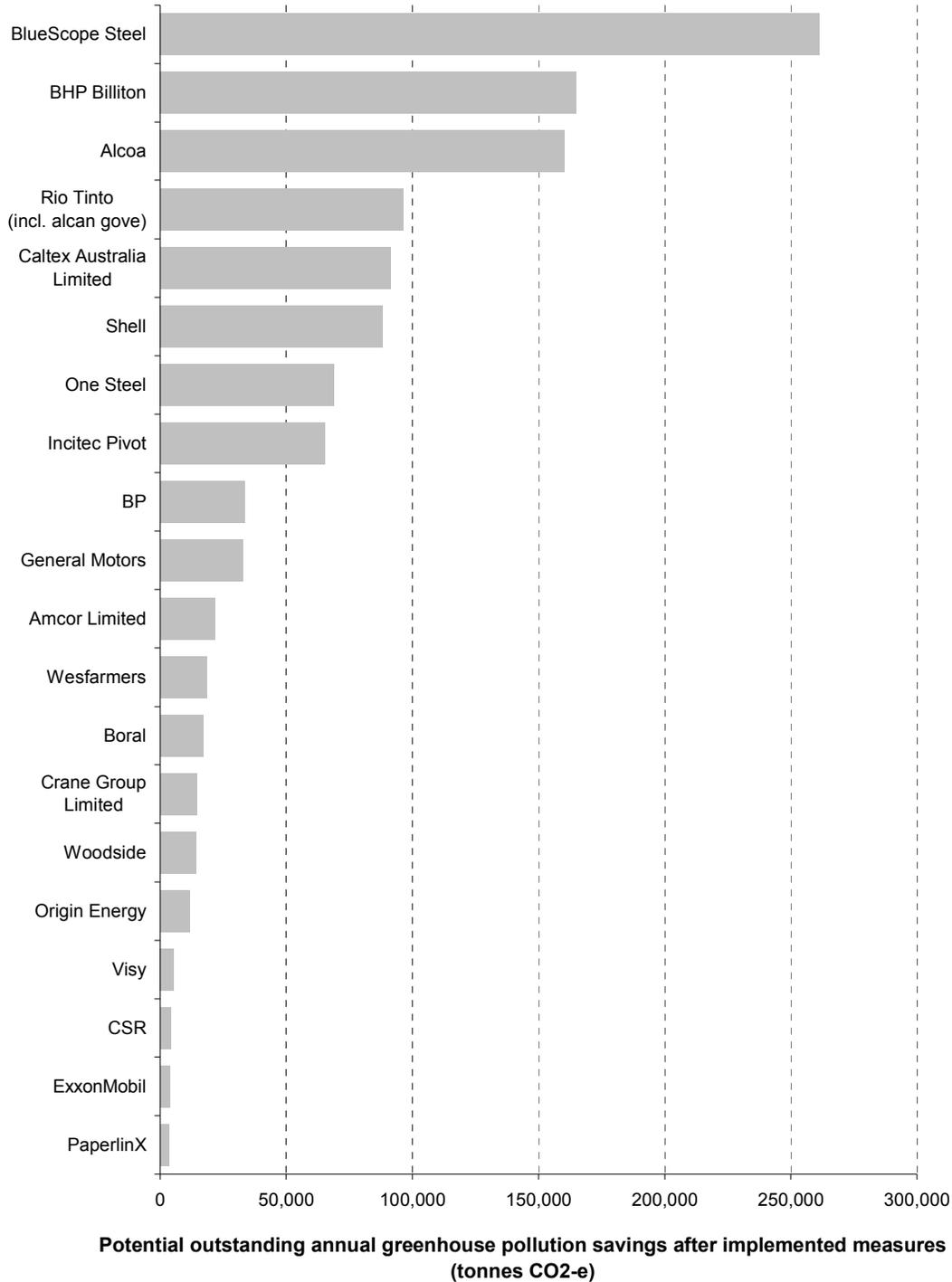
Company	Estimated annual GHG reduction potential ('000 tonnes CO <sub>2</sub> -e/pa)	% of company's total energy use that has been assessed	Est. annual reduced carbon liability (nominal at \$23/tonne, million \$)	Est. annual reduced carbon liability (nominal at \$53/tonne, million \$)
BHP Billiton	741	100.00%	\$17.3	\$38.9
Qantas	575	98.00%	\$13.4	\$30.2
Shell	289	96.00%	\$6.7	\$15.2
BlueScope Steel	261	80.00%	\$6.1	\$13.7
Alcoa	176	50.50% <sup>8</sup>	\$4.1	\$9.2
Boral	136	63.00%	\$3.2	\$7.1
OneSteel	108	6.00%	\$2.5	\$5.7
Woodside	99	4.56%	\$2.3	\$5.2
Rio Tinto (incl. alcan gove)	97	14.50% <sup>9</sup>	\$2.3	\$5.1
Caltex Australia Limited	91	97.58%	\$2.1	\$4.8
Brick Works	83	16.70%	\$1.9	\$4.3
Incitec Pivot	78	55.00%	\$1.8	\$4.1
General Motors	65	93.00%	\$1.5	\$3.4
BP	46	14.00%	\$1.1	\$2.4
Amcor Limited	30	39.75%	\$0.7	\$1.6
OzMinerals	30	82.00%	\$0.7	\$1.6
NAB	24	40.00%	\$0.6	\$1.3
Wesfarmers	24	89.49%	\$0.6	\$1.2
Crane Group Limited	16	24.90%	\$0.4	\$0.9
Fletcher Building (Australia) Pty Ltd	13	18.00%	\$0.3	\$0.7

<sup>8</sup> Alcoa's % of company's energy use assessed is based on the refineries and mining area of the business

<sup>9</sup> Rio Tinto's % of company's energy use assessed excludes Alcan Australia

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Figure 2: Estimated emission savings from energy efficiency measures that have yet to be acted upon - BCA Top 20



## CLIMATE INSTITUTE POLICY BRIEF

**Table 2: Estimated emission savings and reduced carbon liabilities from energy efficiency measures that have yet to be acted upon - BCA Top 20**

Company	Estimated annual GHG reduction potential ('000 tonnes CO <sub>2</sub> -e/pa)	% of company's total energy use that has been assessed	Est. annual reduced carbon liability (nominal at \$23/tonne, million \$)	Est. annual reduced carbon liability (nominal at \$53/tonne, million \$)
BlueScope Steel	261	80.00%	\$6.1	\$13.7
BHP Billiton	165	100.00%	\$3.8	\$8.7
Alcoa	160	50.50% <sup>10</sup>	\$3.7	\$8.4
Rio Tinto (incl. alcan gove)	96	14.50% <sup>11</sup>	\$2.2	\$5.1
Caltex Australia Limited	91	97.58%	\$2.1	\$4.8
Shell	88	96.00%	\$2.1	\$4.6
One Steel	69	6.00%	\$1.6	\$3.6
Incitec Pivot	65	55.00%	\$1.5	\$3.4
BP	33	14.00%	\$0.8	\$1.8
General Motors	33	93.00%	\$0.8	\$1.7
Amcors Limited	22	39.75%	\$0.5	\$1.1
Wesfarmers	19	89.49%	\$0.4	\$1.0
Boral	17	63.00%	\$0.4	\$0.9
Crane Group Limited	15	24.90%	\$0.3	\$0.8
Woodside	14	4.56%	\$0.3	\$0.7
Origin Energy	12	81.00%	\$0.3	\$0.6
Visy	5	12.00%	\$0.1	\$0.3
CSR	4	12.50%	\$0.1	\$0.2
ExxonMobil	4	2.40%	\$0.1	\$0.2
PaperlinX	4	10.00%	\$0.1	\$0.2

<sup>10</sup> Alcoa's % of company's energy use assessed is based on the refineries and mining area of the business

<sup>11</sup> Rio Tinto's % of company's energy use assessed excludes Alcan Australia