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**PACKAGING AND RECYCLING  
FOR A BETTER WORLD.**

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## Managing Global Warming in Australia

A response to the proposal for a National Emissions Trading Scheme

by Visy

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## Summary

Visy welcomes the release of the Discussion Paper as an important step towards formalising an effective national approach to managing global warming through limiting carbon emissions and other measures.

In summary, and subject to the specific comments in this paper, Visy supports the early establishment of a national emissions trading scheme to reduce greenhouse gas emissions and believes a commitment to establishing a scheme must be announced during 2007, with a targeted operational date of 2012.

Visy makes the following recommendations on the proposals:

- § Benefits of a 'cap & trade' structure: Visy supports a cap & trade approach, but recommends careful consideration of how to extend the incentives-based principles and offsets arrangements inherent in the NSW GGAS to a future NETS. Such principles could be incorporated into a form of 'hybrid' cap and trade scheme. The key to success of a Cap & Trade scheme and linkage with other schemes is to ensure certainty for investment linked with each scheme.
- § Jurisdictional management: Visy recommends that a NETS should be applied nationally and managed centrally, with a single Commonwealth entity organising and maintaining the new system. However, in the absence of Commonwealth support, Visy believes the Australian State Governments should implement a nationally-uniform scheme.
- § Coverage by sector: Visy recommends adoption of a staged, progressive approach to introduction of a NETS, starting with direct generation impacts from the stationary energy sector: electricity, gas and coal. When industrial (non-energy sector) entities do become liable, the threshold for liability should be applied on a site by site basis and not by corporate group to avoid unnecessary inclusion of small greenhouse emitting site. The threshold for liability should be 100kTCO<sub>2</sub>(e)/yr/site – the threshold by the NETT of 25kTCO<sub>2</sub>(e)/yr is too low and will unnecessarily involve a large number of relatively small greenhouse-emitting sites.
- § Approach to setting limits/caps: Visy recommends an initial cap of 92 per cent of current CO<sub>2</sub> emissions (that is, to achieve an 8% reduction) within 10 years of scheme commencement, with a 5-year review period as to effectiveness. This will foster widespread acceptance and adoption, and cater for the required adjustment period.
- § Extent of coverage of greenhouse gas types: Visy believes that all recognised greenhouse gas species should be covered in a NETS, provided the system is not so complicated as to render any gains neutralized by the transaction costs/complexity. The Taskforce should agree a priority list of greenhouse gas species for phased inclusion, based on their weighted significance in affecting atmospheric warming in the Australian context. Visy strongly believes that simplicity of design and low cost of administration are keys to an efficient Cap and Trade Scheme – the extent of greenhouse gas type coverage is one aspect of this.
- § Mechanism of permit allocation: Visy recommends consistent allocation of permits between and across States and industries. For domestic industries, there should be an initial 'free' period of the order of 5 years, after which a penalty regime is progressively introduced, to reach a maximum level in year 20. There should be a 'free allocation' to manufacturing export and import-competing industries for a period of the order of 20 years. Where the entity is not directly liable (eg non-energy sector during first 5 year of

scheme), allocation should at least be sufficient to “make whole”, those export and import-competing entities adversely impacted by any rises in energy cost impacted by the implementation of the scheme.

- § Creation and Banking of Allowances, Permits, offsets – Creation (registration) of Offsets should be required shortly after the activities giving rise to the offset (ie within one year of the activity). Scheme participants should be permitted to bank and accrue allowances but all allowances and offsets existing should be capable of being fully accounted for by any Scheme Administrator(s) to avoid serious market aberrations caused by the unanticipated registration of offsets/allowances.
- § Penalties: Visy agrees with the Taskforce that a penalty scheme is required to ensure compliance and incentive and believes penalties should be considered a ‘last resort’ device.
- § The role of offsets: Visy recommends the NETS incorporates a robust offsets mechanism, to include carbon sequestration (especially in timber plantations with realistic (ie <50 years) longevity criteria, landfill gas avoidance (through diversion of waste from landfill, material recovery and waste paper recycling), and energy efficiency measures.
- § Offsets and Additionality – Visy acknowledges the importance of additionality in ensuring that greenhouse abatement are key outcomes of offset projects, Visy recommends that an Environmental Additionality test is applied instead of a Financial Additionality test such that genuine greenhouse abatement projects are not thwarted by strict and onerous financial tests.
- § Structural adjustment: Visy recommends a structural adjustment approach which provides exemption from liability for trade-exposed industries, and which provides allowances for transitioning of participants from existing schemes (GGAS, MRET, VREC, etc) to a NETS.
- § Recognition of early action: Visy recommends the NETS includes a mechanism for accrediting early actions by participants, and application of a ‘no disadvantage’ principle to protect that who have already taken action to reduce greenhouse gas emissions.
- § Diversion from landfill and embodied energy: A trading scheme and greenhouse policy should acknowledge and account for the greenhouse gas abatement and benefits achieved through diverting waste from landfill and into recycling and from the energy and greenhouse gas reductions achieved by manufacturing recycled-content products. Diverting waste from landfill reduces emissions and making products from recycled content delivers significant reductions due to the lower embodied energy compared to making the same product from a virgin material.
- § ‘No disadvantage’ principle: Visy strongly supports ‘no disadvantage’ principle being applied to a future NETS regime, whereby those that have taken action to reduce greenhouse gas emissions are not disadvantaged by being held to the same allocations and standards as those who have not reduced emissions.
- § Deployment of Scheme revenue: Visy recommends that, to maintain national economic efficiency, governments should ensure that penalty revenue raised through a NETS is ‘recycled’ in a way that reduces or offsets other revenues levied through taxation or other charges associated with greenhouse emissions.

## 1 Visy – Overview of business operations and interest

Visy is a privately owned packaging and recycling company with its headquarters in Melbourne, Australia. The Company's operations comprise some 130 sites and employ about 5,500 people across Australia, New Zealand and South East Asia. Visy manufactures packaging products from paper, plastic, steel and aluminium and operates Australia's most extensive network of recycling facilities. It collects and reprocesses more than 1.9 million tonnes of used materials a year. Visy is comprised of the following divisions:

- § Visy Recycling: collects, sorts, and reprocesses recyclable materials to form new end products.
- § Visy Pulp and Paper: produces virgin Kraft and recycled paper for the packaging and building industries.
- § Visy Board: manufactures corrugated cardboard boxes from recycled and virgin Kraft paper
- § Visy Specialties: produces point of sale displays, specialty cartons and heavy duty industrial packaging and paper products.
- § Visy Beverage: Produces a range of paper, plastic and aluminium containers mainly for the beverage industry.
- § Visy Food: produces steel cans and lightweight plastic containers for the food industry.

Visy is committed to sustainable development and seeks to grow its packaging manufacture and recycling operations in a manner that enhances the community and the environment. Most of Visy's operations mesh with many community and government goals by expanding the domestic market for waste paper (and thus minimizing landfill), will provide economic development in the region and through export opportunities and will achieve clean-production and manufacturing excellence.

Visy welcomes the production by the National Emissions Trading Taskforce (the Taskforce) of the Discussion Paper as an important step towards formalizing an effective national approach to managing global warming through limiting carbon emissions and other measures.

## 2 Comments and recommendations

### *2.1 - Benefits of a 'cap & trade' structure*

Visy recognises the potential benefits and relative simplicity of establishing a 'cap and trade' system for addressing problems of greenhouse gas generation amongst Australian industry and the community. Cap and trade mechanisms have been effective in certain jurisdictions and with specific pollutant problems. However, as has been experienced with the EU Emissions Trading Scheme (EU ETS) – political issues and 'special pleading' can result in uncertainty as to the actual effectiveness of greenhouse gas cap & trade schemes in achieving genuine greenhouse gas abatement.

For its part, Visy has extensive working experience with the NSW Greenhouse Gas Abatement Scheme (GGAS) and believes a similar approach, suitably amended and extended, should also be considered for wider adoption under a national scheme. The NSW GGAS is directed more at setting targets for non-fossil fuel energy production, with incentives for demand-side abatement and offsets (such as through C-sequestration), and appropriate, administratively-set penalties.

Visy would not want to see the clear gains and workability of the GGAS being lost in the transition to a future NETS. Renewable energy and greenhouse gas abatement / avoidance benefits that are recognised under GGAS should be afforded full credit under any NETS, including offset from any cap and trade obligation.

Accordingly, Visy recommends that the Taskforce carefully considers how to extend the incentives-based principles and offsets arrangements inherent in the NSW GGAS to a future NETS. If feasible, such principles could be incorporated into a form of hybrid cap and trade scheme.

### *2.2 - Jurisdictional management*

The current multi-party and multi-scheme greenhouse gas abatement response in Australia is confusing and complex. It suffers from high overall transaction costs as a result.

Visy' advocates that a NETS should be applied nationally and managed centrally. Visy does not support a State-by-State approach to greenhouse gas management, which might see a lack of national uniformity and poor cooperation between jurisdictions. An example of the latter is the largely unsuccessful and un-responsive COAG mechanism that has been attempted for water management. Rather, Visy believes a single Commonwealth entity should organise and maintain the new system. That said, however, should the Commonwealth Government not agree to adopt a national scheme, the Australian State Governments should implement a nationally-uniform trading scheme.

Visy believes the establishment of a national emissions trading scheme to reduce greenhouse gas emissions must be announced during 2007, with a targeted operational date of 2012.

### *2.3 - Coverage by sector*

While some Australian States and the Commonwealth have already some experience in establishing greenhouse gas abatement measures, it is always prudent to adopt a staged, progressive approach to introduction of such systems.

Accordingly, Visy recommends that a future NETS be introduced progressively, according to the following pattern, with each successive stage being implemented after 5 years:

#### Stage 1

Direct generation impacts from the stationary energy sector/electricity sector with a lower threshold of 30 MWe generation.

#### Stage 2

'Secondary' impacts from the stationary energy sector such as fugitive emissions, fossil-based energy source transport impacts, embodied energy & recycling, and greenhouse gas emissions from wastes in landfill and STPs.

#### Stage 3

Process emissions from industry, with a lower threshold of output based on (for example) total emission gas output/flows

#### Stage 4

Remaining industry, including the transport sector.

It is important to note that this progression ignores the direct effects of personal/domestic activities on greenhouse gas generation. These can be significant in both direct terms, but also as a means to heighten overall community awareness of the need to reduce greenhouse gas impacts. In this context, Visy supports the orderly extension of greenhouse gas management instruments beyond corporates and into the personal/community sphere.

### *2.4 - Approach to setting limits/caps*

Visy recommends adopting a minimalist initial cap level to ensure widespread acceptance and adoption, and to cater for the required adjustment period. The period of review needs to be carefully chosen to provide the right balance between (a) investment certainty (especially for new stationary energy facilities) and (b) maintaining genuine progress towards the desired greenhouse gas reduction objective.

Visy therefore recommends an initial cap of 92 per cent of current CO<sub>2</sub> emissions (that is, to achieve an 8% reduction) within 10 years of scheme commencement, with a 5-year review period as to effectiveness.

### *2.5 Extent of coverage of greenhouse gas types*

Visy believes that, in principle, all recognised greenhouse gas species should be covered in a NETS. An important caveat is that the system must not be so complicated as to render any gains neutralized by the transaction complexity. For example, in Visy's view, the (perhaps originally unintended) complexity of the National Electricity Market has introduced miscellaneous 'network' charges that have burdened the overall system and reduced its efficiency.

The same must not be allowed to occur with the administration of a NETS.

Visy therefore recommends that the Taskforce agree a priority list of greenhouse gas species for phased inclusion, based on their weighted significance in effecting atmospheric warming *in the Australian context*.

### *2.6 Mechanism of permit allocation*

Permits must be consistently allocated between and across States and industries. Because it will be a national scheme, Visy does not support 'special pleading' by individual States with respect to permit allocation.

However, again because it is a *national* scheme, Visy supports consideration of 'free allocation' to manufacturing export industries for a defined period to ensure no-disadvantage to these export industries. The period for free allocation in this case should be of the order of 20 years.

For all domestic industries, the initial 'free' period should be of the order of 5 years, after which a penalty regime could be progressively introduced, to reach a maximum level in year 20.

The Taskforce will need to carefully manage the question of new entrants. One possibility is to reserve a proportion of permits as a 'strategic reserve' to allocate to new entrants over the initial 'free' period.

A further protection needs to be afforded downstream energy users to avoid the problem of "super-charging" of these users by the energy retailers (a situation which tends to occur now with some State-based schemes). A possible protection mechanism is to establish an 'independent watchdog' for the initial period to ensure no super-charging occurs, especially where there are limited options for energy purchase by consumers.

### *2.7 - Penalties*

Visy believes the real benefits of a NETS will accrue through the way Australian industry and the community behaves and responds to the various incentives and measures to reduce greenhouse gas emissions. Penalties should therefore be considered a 'last resort' device to ensure compliance.

Visy recommends a minimalist penalty regime be adopted, with a review as to its effectiveness after year 10 (that is, 5 years after the domestic 'free' period). The impacts of the quantum of any penalty would need to be subjected to rigorous modelling before confirming the quantum. Subject to such modelling, an indicative figure for CO<sub>2e</sub> emission charge within a penalty regime is \$8-\$15/t.

### *2.8 - The role of offsets*

Emissions trading systems are primarily intended to reduce global warming through an overall reduction in greenhouse gas emissions. However it is recognised that there are many secondary or less-direct activities which can reduce global warming effects. Most of these are 'land-based' activities such as biological carbon-sequestration, limiting organic matter decomposition and promoting the 'cooling effect' of vegetation at the earth's surface (reducing localized atmospheric heating). A significant and widely acknowledged failure of the EU ETS is its inability to innovatively deal with emissions impacts through offsets.

Visy is strongly of the opinion that a national NETS must incorporate a robust offsets mechanism.

In NSW, the GGAS provides for some limited offsets – largely mediated via the LUAC Rule and the Sequestration Rule, however Visy is currently seeking an extension of offsets to encompass off-site GHG abatement activities such as landfill gas avoidance through waste paper recycling. Visy believes it is inconsistent that the NETS Discussion Paper recommends inclusion of methane collection and combustion but not avoided methane from landfill diversion. This must be corrected in the final structuring of a NETS because *avoided* methane from landfill diversion has the potential for significant greenhouse gas savings.

Current Australia Greenhouse Office (AGO) calculations show that the national average of methane recovery at landfill is only 16%. Visy's view is that even this figure is too high and capture and combustion is much lower. To provide a comparison between the utility of landfill gas capture and methane emission *avoidance*, the AGO, using IPCC guidelines, estimates that the diversion of one tonne of used paper from landfill prevents 2.1 tonnes of CO<sub>2</sub>(e) being created. Visy's current operations prevent 2,560,000 tonnes of CO<sub>2</sub>(e) being emitted every year and crediting this abatement will provide an incentive for further diversion and prevention of emissions.

Other important offset mechanisms that must be incorporated into a future NETS are:

- § energy efficiency (as provided for under the GGAS DSA Rule)
- § recognition of the GHG benefits of embracing the 'waste hierarchy' in operations (especially via active materials recycling), and
- § biological carbon-sequestration, especially in timber plantations with realistic (ie <50 years) longevity criteria.

Visy therefore recommends that a future NETS incorporates a far-reaching offsets regime which recognises credits accrued via existing schemes, and which includes the ability to have additional offset categories assessed and accredited.

### *2.9 - Structural adjustment*

It must be recognised that no new scheme can, in practice, start with a 'blank sheet of paper'. There are existing industries and economic activities upon which a NETS will be overlaid.

Accordingly, it is important that possible unintended adverse consequences for industry and trade are catered for in a NETS arrangement, via specific structural adjustment provisions.

Visy proposes two forms of structural adjustment, viz:

- (i) exemption from liability for trade-exposed industries, and
- (ii) allowances for transitioning of participants in existing schemes to a new NETS.

Exemptions for trade-exposed industries needs to take account of the prevailing greenhouse policies of key export destination countries. For example, full exemptions may not be warranted where an export destination's scheme has parity with Australia's scheme. However, many developing countries, including China,

have indicated<sup>1</sup> they will not enact specific greenhouse gas abatement policies until they have reached a certain level of 'development'. In such cases, Australian exporting companies need specific protection from the impacts of domestic greenhouse gas policies via liability exemption.

Allowing for appropriate transitioning from State-based or other schemes to a NETS will be important for many domestic manufacturing companies. In particular companies like Visy, which have long been active in embracing state-based schemes, must be afforded credit for its existing streams of scheme benefits in the transition to a NETS.

#### *2.10 - Recognition of early action*

Recognition of, and/or rewards for, early abatement action is clearly important for:

- § ensuring continuity of corporate investment in responses to global warming,
- § providing a basis for recognising corporate leadership and examples for others to follow, and
- § maintaining the 'good faith' dealing between governments and corporations in the lead-up to a NETS.

Visy therefore recommends that the relevant national NETS authority (when formed) establishes a mechanism for accrediting early actions by participants. In particular, Visy seeks to ensure that its 'allowance allocation' under a NETS relative to its *actual* emissions recognises Visy's strong greenhouse gas abatement performance to date, through the use of non-fossil fuels and other energy efficiency actions.

#### *2.11 - Diversion of waste from landfill and embodied energy*

Visy believes that any NETS, as well as other greenhouse gas reduction policies and regulations, must acknowledge and account for the benefits achieved through diverting waste from landfill and reducing embodied energy in products. Numerous studies from around the world identify that diverting material from landfill reduces GHG emissions by reducing methane production and release. Most greenhouse gas inventories and analysis recognise that landfill is a significant source of greenhouse gases ranging from 3 to 6 % of total emissions in Europe, the United States and Australia most jurisdictions.

The United States Environment Protection Authority emissions inventory identifies that materials in landfills degrading and emitting methane are considered anthropogenic GHG because the methane emission would not occur if not for deposition of compostable/putrescible waste in landfill.

With respect to embodied energy, CSIRO and other research demonstrates significant energy and greenhouse gas reductions are achievable by manufacturing recycled-content products. For example, virgin paper and cardboard is calculated to use about three times more energy than recycled content paper and cardboard, virgin aluminium uses 10 times more energy than

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<sup>1</sup> Pan Jiahua, 2005. China and climate change: the role of the energy sector. *Science and Development Network*. Policy Brief ([www.scidev.net](http://www.scidev.net))

*recycled and virgin plastics uses about 4 times more energy than recycled.*

Recognition and support of this benefit through a NETS will provide for equity in emissions management and facilitate further greenhouse gas reductions.

#### *2.12 - 'No disadvantage' principle*

Visy strongly supports the 'no disadvantage' principle. That is, those that have taken action to reduce greenhouse gas emissions should not be disadvantaged by being held to the same allocations and standards as those who have not reduced emissions. While debate continues on the best means to administer this, Visy suggests an efficiency rating for greenhouse gas emissions in manufacturing and industrial processes be applied by the future scheme administrators.

#### *Deployment of Scheme revenue*

Finally, while not raised in the Discussion Paper, it is most likely that trading in atmospheric carbon under a NETS will generate revenue for governments. Visy believes that, to maintain national economic efficiency, governments should explore ways of ensuring how revenue raised through a NETS can be 'recycled' in a way that reduces or offsets other revenues levied through taxation or other charges<sup>2</sup>.

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<sup>2</sup> The Allen Consulting Group discusses this in *Deep Cuts in Greenhouse Gas Emissions: Economic, Social and Environmental Impacts in Australia*, and provides suggestions/alternatives of income tax, payroll tax, GST for revenue recycling.

### 3 Concluding comments

Visy has invested considerable resources in adopting greenhouse gas abating measures in all of its manufacturing operations. As such, Visy considers it is already a significant stakeholder in the development of a future NETS.

Visy wishes to stress the importance for investment certainty of there being a consistent, long-lived application of government instruments and measures to reduce greenhouse gas emissions. This is because the way governments manage their roles as scheme designers and regulators will be a key determinant of the level of Visy's future investment in recycling and remanufacturing in Australia. Also, the extent to which Visy embraces energy-efficient plant, and commits resources to appropriate consumer product design and development, will be determined largely by the way governments 'lock down' their greenhouse gas management measures for the long term.

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