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Don't be fooled: dawn of carbon trading is nigh

Big energy users that already have energy-saving disciplines will be the winners, writes **Rory Deavin**.

AUSTRALIA'S big energy users should not be lulled into complacency by Prime Minister John Howard's refusal to endorse a carbon-trading regime. There is already a Federal Government program in place that will provide much of the blueprint for carbon trading.

It is called the Energy Efficiency Opportunities program, and with Rio Tinto now in favour of carbon trading, the timing could not be more critical for Australia's biggest energy users.

A recent Pricewaterhouse-Coopers survey found that 60 per cent of Australian business leaders expect and desire the introduction of carbon trading in the next two to five years. Labor — uncharacteristically sniffing the electoral wind earlier than Howard on this issue — recently appointed popular recruit Peter Garrett to the newly created climate change portfolio.

All of which means, as the incoming Climate Institute chief executive, John Connor, put it recently: "Carbon trading is coming, ready or not."

At present 40 per cent of Australia's energy use (60 per cent of total business use) is accounted for by 250 companies (each of which uses more than 0.5 petajoules of energy a year). The Energy Efficiency Opportunities (EEO) program requires these top energy-using companies to report on their energy usage, and identify (not capture) energy-saving opportunities in the next five years.

Since there is no requirement to capture energy savings, green groups (and complacent executives) could be forgiven for viewing the EEO program as a toothless tiger. But they are mistaken. The real value of the EEO program lies in what Australia's big energy users are not required to do.

Rio Tinto's position indicates that even the big energy users can profit from carbon trading. It is now a race to influence the way the trading regimes are designed.

The potential bottom-line benefits for Australian companies are significant. According to the Government's energy white paper, a 5 per cent improvement in energy efficiency by Australian business would generate annual savings of more than $1.5 billion. But these immediate bottom-line improvements are far outweighed by the longer-term strategic advantage to be gained through active participation in the EEO program.

There are two critical reasons why Australia's big energy users should rapidly do what they are not at present required to do — capture energy savings now under the EEO framework.

First is what climate change strategist Erwin Jackson calls the Homer Simpson syndrome — not acting now to reduce your energy use is akin to preparing for this year's Rugby World Cup by sitting on the couch eating doughnuts. When carbon trading commences, those companies with energy efficiency already built into their operational continual improvement will profit most. The rest will play an expensive game of catch-up.

The second reason is even more compelling. Through the EEO program — so it can design a carbon-trading regime that works — the Federal Government wants to learn how industry profitably reduces its energy use.

Those companies that rapidly operationalise and report on energy savings through the EEO framework will have much greater influence over what Australia's carbon-trading regime looks like when the dust settles.

Some of the hard work has begun. Companies have invested in research and development, or started to work with their suppliers and customers, on supply-chain issues.

These initiatives are laudable for the long and medium term. But when the game commences in the not too distant future — and energy suddenly costs a lot more — the winners (survivors) will be companies with energy-saving disciplines already operational and built into their continual improvement programs.

Rory Deavin is an associate principal of management consultancy Partners in Performance.