GolfAustralia

The Impact of the Carbon Pricing Mechanism on Golf Club Operations

May 2012

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1. Overview

On 8 November 2011, the Australian Parliament passed laws to put a price on carbon emissions which will come into effect from 1 July 2012.

The carbon pricing mechanism, or “carbon tax” as it is often referred, is central to the Federal Government’s Clean Energy Future program to reduce carbon emissions (carbon pollution) and encourage investment in clean energy via four key initiatives – carbon pricing, renewable energy, energy efficiency and land management.

The Clean Energy Future plan is the Government’s initiative to address climate change and reduce Australia’s carbon emissions by at least 5 per cent below year 2000 levels by year 2020. The Government has also committed to a long-term target to cut emissions by 80 per cent below year 2000 levels by year 2050[i].

Under the carbon pricing mechanism, the biggest emitters in Australia will be required to pay for their emissions, or offset their usage via the purchase of carbon credits. This represents approximately 60% of Australia’s total carbon emissions and includes emissions from electricity generation, some business transport, waste and industrial processes.

The carbon price will be fixed for the first three years and after that it will be determined by the market. Households, farmers and smaller businesses (including golf clubs) will have no direct obligations under the carbon price mechanism.

However, golf clubs will be indirectly affected as the impact of the carbon pricing mechanism filters through the supply chain of goods and services that a club typically purchases.

All revenue generated from the carbon pricing mechanism will be allocated toward supporting clean energy investment, climate change programs, funding affected industries to remain competitive employers, and assisting households deal with any cost of living impacts.

With a commencement date of 1 July 2012, Golf Australia, together with the support from Golf Management Australia and Australian Golf Course Superintendents’ Association, has developed this report to provide golf clubs with detail of the carbon pricing mechanism and its’ likely impact on club operations.

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2. Key Elements of the Carbon Pricing Mechanism[ii]

• From 1 July 2012, for every tonne of carbon emission they produce, Australia's biggest carbon emitters (25,000+ tonnes of CO2-e) will be required to purchase a carbon unit as issued by the Government; or offset via the purchase of a compliant carbon credit.

• Carbon emissions from the following sources will be covered under the carbon price: stationary energy, waste, rail, domestic aviation and shipping e.g. power stations, landfills, mines and heavy industry. Heavy on-road vehicle fuel use may be liable after July 2014.

• The carbon price will be fixed for the first three years, starting at $23.00 per tonne and rising to $25.40 for 2014/15.

• From July 2015 the price will be set by the market under an emissions trading scheme (ETS) and will become flexible, at which point the price may rise or fall, subject to a price minimum and maximum.

• A business may use compliant carbon credits to offset up to 5% of their carbon price liability. From 1 July 2015, offsets via compliant carbon credits will increase up to 100% of a businesses' liability.

• Compliant carbon credits can be earned by farmers and landholders from approved activities, including reforestation and avoided deforestation.

• Compliant carbon credits can be traded in an Australian carbon market and international compliance market.

• Non-compliant carbon credits can be earned by farmers and landholders from other activities, including soil carbon, improved forest management and non-forest revegetation.

• Non-compliant carbon credits can be made available to the voluntary carbon market, and some will also be purchased by the Government.

• The carbon pricing mechanism is a component of the Government's initiative to address climate change and reduce carbon emissions by 5 per cent below year 2000 levels by year 2020.

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3. Likely impact to golf club operations

3.1 Impact on the cost of goods and services typically purchased by a golf club

As carbon emissions will now be factored into the cost to produce and supply many goods and services purchased by golf clubs, it is likely this will lead to price increases of varying degree.

Information has been sought from golf club industry suppliers and specialists with the likely impact on major expense items as follows:

Electricity – Fixed Contract:

Clubs whose energy supply is currently contracted beyond 1 July 2012 will have provisions in their contracts allowing the supplier to vary the club's energy contract rates (retail component) from 1 July to recover the costs of a carbon price.

An example of a simple method to estimate the cost of carbon for electricity supply at your club is as follows:

ECA = ECI x CRP

ECA is the Electricity Carbon Adjustment in $/MWh

ECI is the Average Electricity Generation Carbon Intensity = 0.93 tCO2-e per MWh. This is the current average National Electricity Market carbon intensity published by the Australian Energy Market Operator and is subject to change[iii].

CRP is the Carbon Reference Price = $23.00/t

To estimate the carbon adjustment for your club, multiply the club's MWh energy use by the ECA. For example, if your club used 30,000kWh (30MWh) in a month:

(ECA = ECI x CRP) x Club Usage MWh
= 0.93 x $23.00 x 30MWh
= $641.70 + GST

Please note the calculation is a simple estimate to assist clubs understand the calculation method and is not meant to represent the actual monthly cost increase. This will vary due to other supplier specific information including transmission and site loss factors which may increase your estimated carbon adjustment impact.

Note: On 5 April 2012, the NSW Government announced it will close the Greenhouse Gas Reduction Scheme (GGAS) upon the commencement of the carbon pricing mechanism from 1 July [iv]. The NSW-based emissions trading scheme designed to cut emissions from the electricity sector has operated since 2003 and was adopted by the ACT in 2005. It is referenced as 'NSW Emission Abatement' or 'ACT green house gas abatement charge' on the electricity invoice.

Note: The Queensland Gas Scheme began in 2005 and was established to boost the state's gas industry and reduce greenhouse gas emissions. The previous Queensland Government had announced its intention to transition the scheme into a national emission trading scheme, but no updated information currently available[v]. It is referenced as 'Gov't GEC Charge' on the electricity invoice.

Electricity – Other:

Clubs whose energy supply contract expires prior to 30 June 2012, or choose to contract a price beyond their current contract period, will have the advantage of negotiating the best current local market price inclusive of the carbon price. Given the current market for energy is relatively competitive on the back of lower than expected load growth and sufficient generation capacity to meet demand, it is likely any new negotiated rate inclusive of the carbon price will be lower than the immediate past contracted rate.

Clubs should ensure that any supply contract has provision for the carbon price component to be removed should there be a significant change in legislation.

Natural Gas:

Clubs will have provisions in their natural gas supply agreements allowing the supplier to vary the club's rates from 1 July to recover the costs of a carbon price. Clubs should check the terms and conditions of their gas supply agreements to establish the method by which the supplier will calculate this, as it will vary from supplier to supplier due to supplier specific information.

An example of a simple method to estimate the minimum cost of carbon for gas supply at your club is as follows:

GCA = GCI x CRP

GCA is the Gas Carbon Adjustment in $/GJ

GCI is the emissions of greenhouse gases for each GJ of natural gas consumption = 0.05133 tCO2-e. This is published by the Commonwealth Government, through the National Greenhouse Accounts Factors report [vi].

CRP is the Carbon Reference Price = $23.00/t

To estimate the minimum carbon adjustment for your club, multiply the club's GJ gas use by the GCA. For example, if your club used 150,000MJ (150GJ) in a month:

(GCA = GCI x CRP) x Club Usage GJ
= 0.05133 x $23.00 x 150GJ
= $177.08 + GST

Please note the calculation is a simple estimate to assist clubs understand the calculation method and is not meant to represent the actual monthly cost increase. This will vary due to supplier specific information including local supply costs and retail margin, which will increase your estimated carbon adjustment impact. Clubs should check the terms and conditions of their gas supply agreements to establish the method by which the supplier will calculate this as it will vary from supplier to supplier.

Other goods and services:

Detailed information was sought from major national suppliers on the likely impact of the carbon pricing mechanism on pricing for the following goods and services as supplied to golf clubs – food, beverage (beer, soft drink and wine), fuel, waste collection, fertiliser and chemicals.

Given the complex nature of the carbon pricing mechanism and its direct and indirect impact on the supply chain, most suppliers indicated they will be in a position to advise clubs of any pricing adjustments by the end of May or early June. Clubs should contact their local suppliers in early June to confirm any price changes on these key expense items.

3.2 Eligibility for golf clubs to generate carbon credits via the golf course landscape

Land management is one of the four components of the Clean Energy Future plan to reduce carbon emissions by providing farmers and landholders the opportunity to earn carbon credits via the Carbon Farming Initiative scheme as established by the Government.

The scheme provides a framework for compliant and non-compliant carbon credits to be generated by reducing emissions or storing carbon on the land.

Compliant carbon credits can be earned by farmers and landholders from approved activities, including reforestation and avoided deforestation. In turn, compliant carbon credits can then be purchased by business to offset their emissions.

Non-compliant carbon credits can be earned by farmers and landholders from other activities, including soil carbon, improved forest management and non-forest revegetation. Non-compliant carbon credits can be made available to the voluntary carbon market, and some will also be purchased by the Government.

For any carbon storing or emission reducing activity to be eligible to earn carbon credits, it must satisfy all the requirements of the Carbon Farming Initiative. A carbon credit will only be issued for additional abatement, which means that carbon credits will not be available for projects that are required by law, or as a result of activities that are common practice and already widely adopted.

This framework will ensure that carbon credits are only issued for genuine offset activities and will help protect the integrity of Australia's carbon credits, and the local and international carbon market.

Components of a typical golf course landscape relevant to storing carbon are the existing tree population (non-forest vegetation) and soil. At present there is no activity recognised by the Carbon Farming Initiative relating to these golf course landscape components and therefore no present opportunity for a golf club to earn carbon credits.

However, Golf Australia, together with Golf Management Australia and Australian Golf Course Superintendents' Association, will be considering whether to jointly explore this issue further with a view to identifying an industry-based opportunity that could benefit golf clubs by allowing them to generate carbon credits via an eligible activity, or activities.

3.3 Encouraging energy efficiency

The Clean Energy Future program is also promoting energy efficiency as an initiative to reduce the Nation's carbon emissions. The Government will be supporting a comprehensive education program for small and medium businesses on ways to promote energy efficiency.

Golf Australia, together with Golf Management Australia and Australian Golf Course Superintendents' Association, will also be considering whether to jointly pursue Government funding opportunities to develop and provide practical and industry specific information to golf clubs on the smartest ways to use energy and reduce energy costs.

4. The Future of the Carbon Pricing Mechanism

The next Australian federal election must be held by 30 November 2013 and the carbon pricing mechanism will have been in operation for over 12 months. The Coalition's Direct Action Plan policy does not include a price on carbon[vii], so uncertainty exists on the long term future of the carbon pricing mechanism if the Coalition was elected to government. Any effort by the Coalition to repeal the relevant legislation will require the support of the Senate.

Australian Government information:

http://www.cleanenergyfuture.gov.au/

http://www.climatechange.gov.au/

Acknowledgements:
This report has been prepared by Flow Project Services for Golf Australia, Golf Management Australia and Australian Golf Course Superintendents' Association and with the support and information from the following golf club industry suppliers and specialists:

Agriplex Group, Australian Golf Course Superintendents' Association, Bidvest, Coca-Cola Amatil, Energy Price Solutions, ePar, PFD Food Services, Lion, Schweppes and Transpacific.

About Flow Project Services:

Flow Project Services

Flow Project Services was established by Guy Chapple in late 2011 to provide golf clubs and golf-related businesses with expert golf consultancy services. Guy commenced his career in 1991 and has held the most senior management positions at Caloundra (1993), Croydon (1994), Rosanna (1999) and Yarra Yarra (2003) golf clubs. Guy has established a comprehensive understanding of all facets of successful club operations and golf project management.

With over 20 years' in the golf industry, Flow Project Services provides genuine, practical and experience-based consultancy to clubs and organisations connected to golf. For more information on Flow Project Services visit www.flowproject.com.au.

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(vii) Liberal Party of Australia: The Coalition's Direct Action Policy. Retrieved April 2012 from http://www.liberal.org.au/Issues/Environment

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