

## ***The Age – Business Day***

### ***Emissions fears for banks***

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*December 17, 2008 - 3:17PM*

Banks may face a fresh wave of losses in coming years triggered by rising costs from the carbon emissions scheme, which takes effect in July 2010.

Under the emissions trading scheme, outlined in the Government's White Paper released on Monday, companies will be responsible for their own emissions and those arising from their consumption of energy.

However, the biggest portion of the cost - about 76%, according to carbon-risk analysis company Reputex - may be in the form of higher prices on goods and services that create a drag on corporate cost structures.

For banks providing loans to companies throughout the economy, the drag on corporate profits may hamper the ability of clients to service their loans.

"Financial institutions that lend to or invest in highly carbon intensive companies could be exposed to loan defaults and loss of other investments," KPMG's head of sustainability, climate change and water practice, Jennifer Westacott, said in a statement.

"Only 5% of the financial sector's carbon footprint is attributed to their direct emissions, 95% of their carbon risk lies in downstream emissions through their investment and lending portfolios.

"Financial institutions are directly exposed to asset underperformance and concerns over credit worthiness as increased costs flow through the market."

#### **Property exposure**

In another example of how costs for carbon emissions can filter from one industry to the next, the property sector is expected to have a "major exposure" to greenhouse costs through energy and electricity consumption.

"A market shift arising from consumer preference for energy efficient buildings along with regulatory pressure and demand for green star buildings, presents as the most material risk/opportunity," the report said.

Companies in the materials, industrials, utilities and energy sectors account for 91% of direct exposure emissions, Reputex said.

In its White Paper, the Federal Government limited the maximum amount of greenhouse gas emissions to 15% by 2020, in a move seen as accommodating business in a time of economic uncertainty.

Under the plan, many businesses will receive free permits initially and individuals will get assistance helping them pay for bigger energy bills, expected to rise by about \$6 a week on average.

The power and coal industries, whose business is at the heart of the carbon producers, are expected to receive a \$4 billion assistance packages over five years.

### **Preparing for a new world**

Accounting companies have been busy in recent years mapping out tax strategies for companies entering the new world of emission trading, which is aimed ultimately at deterring the use of carbon-based fuels that contribute to global warming.

Ernst & Young has suggested businesses begin building carbon models to determine the risks and opportunities to project the impacts on asset values, and consider rebalancing asset portfolios.

The accounting group is also suggesting companies start integrating greenhouse gas data into their financial systems, as well as gather it in real time.

Companies will be required to begin reporting their carbon emissions by October 2009.

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