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Businesses' biggest cost exposure looms downstream

Christian Kerr | December 18, 2008

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COMPANIES and consumers face extra costs from hidden exposure to the Rudd Government's emissions trading scheme, according to a leading business advisory firm.

Research by climate change analyst RepuTex has found direct emissions account for only 24 per cent of a company's overall carbon emissions risk.

RepuTex head of research Hugh Grossman said businesses might be ignoring significant indirect effects and liabilities.

Only about 1000 companies are expected to be directly exposed to carbon costs under the Government's carbon pollution reduction scheme.

Mr Grossman told The Australian the market focus on direct exposure meant the effects of the emissions trading scheme on supply chains had been ignored.

"The introduction of the CPRS will inevitably result in the passing on of direct costs by companies to their end markets," Mr Grossman said.

The RepuTex research points to the example of the property sector, with a 91 per cent "downstream" exposure due to indirect emissions through the life of a building stemming from heating, cooling, ventilation, hot water and lighting.

"If the average Australian company has 76 per cent of its emissions exposure attributed to its upstream and downstream supply chain, then we are likely to see carbon liabilities having a significant impact on the cost structures of many companies," Mr Grossman said.

"The scariest thing is that every sector is highly exposed. It's going to affect all companies regardless of size." Consumers might face higher costs on a wide range of services, he warned.

RepuTex's analysis advises that indirect carbon costs could hit business earnings, margins and creditworthiness.

Jennifer Westacott, head of KPMG's sustainability, climate change and water practice, said: "If there is one message this research sends, it is that Australian companies need to begin to understand and assess their total exposure to carbon now, before the CPRS commences in 2010."

Ms Westacott said companies that were not high direct emitters, such as financial institutions, might be unaware of their downstream carbon liabilities. "Only 5 per cent of the financial sector's carbon footprint is attributed to their direct emissions," he said. "Ninety-five per cent of their carbon risk lies in downstream emissions through their investment and lending portfolios.

"Financial institutions are directly exposed to asset under-performance and concerns over creditworthiness as increased costs flow through the market."

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