Carbon pollution Reduction Scheme in Australia
-The Economic Implication on the Resources Sector-

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Summary

- What are the issues of global warming?
- What’s ETS/CPRS?
- ETS Discussion Paper
- Response from each sector
- Implication on the resources sector
- Schedule for ETS/CPRS
- Who wins/loses?
What are the issues of global warming?

- **Kyoto Protocol**
  - Instruments of ratification submitted by Australia on December 12th 2007

- **Stance of the federal government to KP**
  - The federal government currently remains dedicated to the targets set out in the KP and has committed itself to commencing its planned ETS by 2010.

- **Strategy of the Australian Government**
  - Implementation of an ETS/CPRS
  - Investment in clean technologies: By 2020 The Australian government aims to have renewable energy account for 20% of Australia’s overall energy supply.
    - In particular, the development of ‘clean coal’ technologies is being focused on
Projected emissions

Figure 1: ‘Business as Usual’ and ‘With Measures’ emissions estimates
Projected emissions by sector (Mt CO2e)

Figure 2-2 Emissions projections by sector (Mt CO2e)
What’s ETS/CPRS?

- The ETS/CPRS is the mechanism through which the government will combat climate change. Projections and targets are as follows:

Figure 1. 2008–10 guidance over scheme caps and indicative national emissions trajectory.
ETS Discussion Paper

In July of 2008 the Federal Government began seeking submissions for the CPRS Green Paper which sought the major concerns of industry regarding the ETS/CPRS

• In General, the response from industry has been that, while it supports the fight against climate change, no policies that would reduce the competitiveness of Australian Industries should be implemented until a binding global agreement is in place to ensure similar constraints are place on all major contributors in the international market (in particular China and India). If this does not happen, Australia risks forcing companies to send production to countries with more lenient environmental regulation and thus potentially causing greater net GHG emissions.
Response from each sector

• Mining (iron ore, coal, smelter, Aluminum etc.)
  – Minerals Council of Australia stresses Australia’s small impact on climate change, citing that its overall emissions contribute only 1% of global emissions, and claims that the cuts suggested by the Garnaut Report will damage Australia’s economy and reduce its overall comparative advantage.
  – BHP Billiton has argued against the implementation of Mandatory Renewable Energy Targets (MRET) and comparable state level policies, arguing that they will create market distortions.
  – BlueScope Steel has claimed that the ETS will cause steel produces to shut down in Australia due to the heavy costs.
  – Some positive responses: Rio Tinto and Atlas Copco have teamed up to develop “autonomous drilling solutions” to create safer and more energy efficient operations.
Response from each sector

• Public utility companies
  – The main representative of Australian Energy providers, the Energy Networks Association, has suggested that “ETS settings should not have a negative impact on energy supplies while there is not a concerted credible global effort… that includes China and India” in their submission to the discussion paper.

• Transport (air, rail, bus etc.)
  – The ETS has a projected 10 cent a liter increase in petrol prices, meaning that Australia’s state run transport industries will not significantly be effected.
  – However, the Airline industry has argued that the ETS could make domestic air travel economically prohibitive for many people and thus damage the tourism industry as well.
Implication on the resources sector

- Surging price of commodities
  - According to Citigroup, companies that make products that compete with overseas producers will face higher operating costs, which they may not be able to afford. It estimates the increasing cost on companies in the aluminum, paper, steel and cement sectors could impact on their value by between 0.5% and 7% of their market capitalisation. On that analysis the most exposed companies were BlueScope Steel, PaperlinX, Iluka, OneSteel and Alumina.
  - However, such emissions-intensive trade-exposed industries (EITE) industries as aluminum and steel will also be provided with carbon permits to help maintain competitiveness.
  - Coal is currently not eligible for carbon permits and will see a loss of profits as a result. However, the coal industry will receive assistance through the Federal government’s “Electricity Sector Adjustment Scheme” (ESAS), which will support such industries in developing clean technologies.
Schedule for ETS/CPRS

- **July 2008**: Public release of the Green Paper on scheme design (*Complete*)
- **July-Sep 2008**: Phase 2 consultation on the Green Paper
- **Dec 2008**: Public release of exposure draft of legislative package
- **Dec 2008-Feb 2009**: Phase 3 consultation on exposure draft legislation package
- **End 2008**: Firm indication by Government of planned medium-term trajectory for the scheme
- **Mar 2009**: Bill introduced into Parliament
- **Mid-2009**: Government aims to achieve passage of bill by Parliament at this time
- **During 2009**: Phase 4 consultation on emissions trading regulations
- **3rd quarter 2009**: Act enters into force; scheme regulator established
- **2010**: Emissions trading scheme will commence
Who wins/loses?

- **Winners**
  - Government: compliance with global emissions targets is good for Australia’s image as a good international citizen.
  - Alternative energy industries and research organizations: Clean coal research and nuclear energy development will both receive significant boosts
  - Banks, Stock Market: ETS implementation will result in significant new investment opportunities
  - Polar Bears

- **Losers**
  - Economy: GDP may suffer more than the Garnaut report suggested if the implementation of ETS/CPRS scheme’s fails to occur in major emitting countries.
    - With the limited number of permits available to EITE industries some companies may be forced to close down their projects.
Thank you for your attention!

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