Government Pushes Ahead With ETS

Federal Treasurer Wayne Swan launched a report on climate change mitigation at the end of October, saying the longer Australia delays responding to climate change the more expensive tackling it will become.

The report, *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, contains Treasury modelling of the costs of combating climate change. It claims early action will be less expensive than later action.

A well-designed market could break the link between emissions and economic growth by putting a price on carbon to reflect the true cost of economic activity, Swan said.

"This is the central goal of the government's Carbon Pollution Reduction Scheme. The scheme will place a limit on the amount of emissions which can be pumped into the atmosphere – and the government will issue permits up to the level of the limit. This will put a price on our greenhouse gas emissions – so that the market takes account of their impact on the economy, and so that Australia moves towards a low carbon future", he said.

"The assertions proved by the modelling all point to one conclusion: the Carbon Pollution Reduction Scheme is a pro-growth, pro-competitiveness strategy for the Australian economy. It shows that a market-based solution allows us to tackle climate change in a way that's affordable for families and pensioners and promotes growth and competitiveness. By using a well-designed, market-based solution, we win on the environment, we win on competitive industry, we win on growth."

Minister for Climate Change Penny Wong reiterated Swan's comments at a press doorstop the following day.

"As you know, the government released its Treasury modelling yesterday on the Carbon Pollution Reduction Scheme. And what that modelling demonstrates very clearly is that Australia can tackle climate change. We can reduce our carbon pollution while continuing to grow our economy, and to grow our incomes – so it is affordable. We can tackle climate change. We can reduce our carbon pollution whilst ensuring that our economy continues to grow and our incomes continue to rise", she said.

A well-designed market could break the link between emissions and economic growth by putting a price on carbon to reflect the true cost of economic activity, Swan said.

"If we delay action on climate change it simply makes it more expensive later. So the economically responsible thing to do is to take action on climate change – to do so in a measured and responsible fashion, because delay simply will increase costs."

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While the global financial crisis has given fresh impetus to the arguments of critics who believe the slated start date of 2010 is too early – federal opposition Emissions Trading Spokesman Andrew Robb reiterated Liberal policy that the ETS should, at the earliest, begin in 2012 – Professor Ross Garnaut, report author, dismissed the crisis as relatively short-term compared to the long-term ramifications of climate change.

Garnaut laid out a number of emissions reductions scenarios in the report, dependent on the coordination of international efforts, but unequivocally stated Australia should commit at an early stage to play its full role in an effective global agreement for emissions control.

It is stated in the report: "Beyond the Kyoto period, Australia's central approach on targets and trajectories must be linked to comprehensive global agreement on emissions reductions, for four reasons. First international agreement is urgent and essential. Second, agreement is possible if Australia and some other countries attach enough importance to it. Third, a comprehensive global agreement it is the only way to remove completely the dreadful political economy risks, to Australia and to the global trading system, of payments to trade-exposed, emissions-intensive industries. Fourth, international agreement lowers the cost of Australian mitigation and so allows us to be more ambitious about the reduction in emissions."

The push and pull between Australian and international action is clearly cause for consternation. Federal Opposition Leader Malcolm Turnbull argued the ETS should be put back until a collective global agreement is reached. "There is one thing that screams out of the pages of Ross Garnaut's report, and it is this: that whatever Australia does will be ineffective unless it's part of a global solution", he commented after the report's release.

In its Carbon Pollution Reduction Scheme Green Paper submission APPEA stated: "As has been considered and accepted by every major analysis of an emissions trading scheme undertaken in Australia, the implementation of an emissions trading scheme in Australia but not in our customer and competitor nations will result in the escalation in production costs in Australia, which has implemented greenhouse policies, relative to those that have not implemented such policies."

In his report Garnaut labelled it "the prisoner's dilemma in international collective action". Countries that drag their heels will likely benefit economically from the sacrifices made by others, Garnaut stated, and if countries act on this basis alone – without forethought, communication or cooperation – there will be no resolution to the dilemma.

It is the goal of the United Nations Climate Change Conference, to be held in Copenhagen in 2009, to reach a binding global agreement on the reduction of greenhouse gases. Significantly, any agreement made will not apply until the period after 2012.

If a consensus on the means to a significant reduction of greenhouse gases is not reached at Copenhagen the dilemma of the federal government will be exacerbated – Australia will effectively be held 'prisoner' to collective global inaction, any reduction effort at a domestic level will be rendered largely ineffective in the global context, while local industry will be economically disadvantaged by a carbon cap and the electorate disquieted at rising energy prices.

Professor Warwick McKibbin, a Reserve Bank Board member and climate change economist, criticised the ETS along these lines in an interview with *The West Australian*, arguing the Australian Government should delay its introduction.

"They should wait well past 2010", he said. "There is no way that at Copenhagen there can be a firm commitment on abatement because the US administration, whoever it is, won't have the people in place to negotiate a rules-based system. What they will negotiate in Copenhagen is a set of principles – if you're lucky – and hopefully they'll separate mitigation or cutting emissions from investment in new technologies and forestry and land use actions."

McKibbin criticised Treasury for assuming the rest of the world will agree to a reduction of carbon emissions and for not providing alternative modelling of what will happen if an international agreement is not reached.

Woodside warned in its Carbon Pollution Reduction Scheme Green Paper submission: "Investors in the LNG sector in the Asia-Pacific region are primarily international oil and gas companies. Investment funds are 'footloose' and will be redirected to competing LNG projects if superior returns are available. Australia must compete with project proposals in countries like Qatar, Oman, the UAE, Iran, Malaysia, Brunei, Indonesia, Papua New Guinea and Eastern Russia. None of these countries are currently proposing the imposition of a carbon cost."

Woodside stated the ETS must protect the Australian LNG industry while governments negotiate the transition to a world in which LNG emissions are comparably treated. In other words, if the Australian Government pushes ahead with the ETS, and other countries do not commit to reduction targets, investment will dissipate and the Australian LNG industry will be hung out to dry.

Further to this, APPEA said a carbon reduction policy should look to facilitate and encourage natural gas projects, arguing gas-generated electricity produces significantly less greenhouse emissions than coal-fired generation. APPEA has requested the LNG industry receive special treatment under its proposed new Clean Global Contributors category.

"Every extra tonne of cooled gas that the LNG industry can export to China will help avoid global greenhouse emissions of up to 6.8 tonnes in net terms. That is why the growth of the LNG industry in Australia and elsewhere is so important, because clean-burning natural gas provides a vital stepping-stone on the path to low-emissions economies", said Belinda Robinson, APPEA CEO.

"To constrain the growth prospects of an industry that enables Australia to practically and substantially assist our region reduce its greenhouse gas emissions to the tune of 120 MM tonnes of greenhouse gases makes no sense. Any export industry that can demonstrate the ability to deliver substantial greenhouse reductions for the world and meet

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a materiality threshold should be included in the Clean Global Contributors category as a means for directly addressing the market failure delivered by the absence of a global emissions trading scheme."

Woodside, like APPEA, has lobbied for exemptions for the LNG industry, in their Green Paper submission calling for special recognition of the potential of LNG, stating: "It is imperative that the implementation of a domestic emissions trading scheme allows Australia to capture the full value of its low emissions energy exports and therefore in no way erodes the international competitiveness of Australian LNG."

At the recent Asia Pacific Oil and Gas Conference & Exhibition (APOGCE) Chevron Managing Director Roy Krzywosinski criticised the structure of the ETS.

"As most of you are aware the Australian Government is introducing an emissions trading scheme – or ETS. A well designed ETS should consider a cleaner global contributor mechanism. On this basis the LNG industry should be recognised and encouraged over more polluting energy industries", he said.

"I'm afraid the way the ETS is currently composed leaves the LNG industry bearing the full economic costs, and is essentially subsidising more carbon intensive industries. This will compromise the growth of the LNG industry and increase, in my view, global warming."

Krzywosinski further argued Australian LNG has the potential to help other nations meet carbon reduction targets by displacing more emissions-intensive fossil fuels.

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"We believe it is also in the interests of the Australian Government to protect the international competitiveness of the Australian LNG industry and to ensure that all businesses, large, medium and small, are not impeded by an imperfect and unrealistic trading scheme that is far too reaching ... The current proposed model in our view penalises the LNG industry, the very industry that is part of the solution to reducing global emissions. I'll actually go a step further to say a well-designed ETS system, in our view, should encourage and support industries such as LNG that make a net-positive contribution to a lower carbon world."

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Woodside CEO Don Voelte backed up Krzywosinski's comments at APOGCE.

"Woodside Energy, our employees and management, 110% support Roy's comments on the greenhouse gas programme that Australia is trying to introduce – the emissions trading scheme", Voelte said.

"LNG is part of the solution, it is not part of the problem."

The Climate Institute, however, has disputed the claims of the LNG industry; in its Green Paper submission it cited a McLennan Magasanik and Associates (MMA) report (commissioned by the institute) which states it is unlikely reduced production in Australia would substantially increase foreign production:

"MMA finds that that [sic] emissions leakage is likely to be partial and claims of industry fleeing offshore have been widely exaggerated. For example, it concludes for the LNG industry that 'emissions leakage from reduced production in Australia may not occur at all given that global resources available for development of such facilities are currently limited and that all resources that are economically exploitable are either being exploited or under development."

The Climate Institute cited Citigroup Global Markets research on the impact of an ETS on the LNG industry which suggests a 1-2% impact on revenue at a carbon price of $20/tonne and a 1-6% impact with a carbon price range of $20-60/tonne. Further, the institute stated the research suggests the LNG industry will likely benefit from increased global demand for its products in an increasingly carbon-constrained world.

The potential impacts of the proposed ETS are clearly complex and subject to debate. The need for a principled approach toward its design is emphasised in the Garnaut Climate Change Review report. Concurrently, Australian mitigation efforts need to be complemented by global action. The pressure is now squarely on the federal government, which campaigned heavily on its environmental credentials and ability to reduce greenhouse gas emissions, to strike a balance between fiscal responsibility and environmental management. ■