Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Resources, Energy and Tourism Portfolio

Budget Senate Estimates

2 June 2009

Question: BR-8

Topic: Oil extraction

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Senator Joyce asked:

Senator JOYCE—My final question: is there any sort of emissions trading scheme tax or like tax in the European Union that currently is placed on oil extraction?

Mr Clarke—I cannot answer that question with confidence. I would rather take that on notice. Is your question how the European ETS applies to their oil sector?

Senator JOYCE—Norway's largest export would be oil, would it not?

Mr Clarke—Yes, but it is interesting that the Norwegian CCS experience was driven by the regulatory imposition of a carbon tax. That was exactly the policy driver that has made Norway a world leader in that area.

Answer:

The oil extraction sector is covered by the EU ETS. Under Phase 2 (2008-12) of the EU ETS operators receive a free allocation of allowances each year up to their emissions cap and only need to purchase allowances where the actual emissions of their installations exceed their free allocation of allowances. Under Phase 3 (2013-20) of the EU ETS, operators will no longer receive a similar level of free allocation of allowances, instead, they will be required to purchase a rising percentage of allowances through auctions up to their emissions cap in addition to any supplementary allowances they may need to purchase where the actual emissions of their installations are higher than their emissions cap. As a result, this will increase the cost to operators of complying with the EU ETS.

However, a key element of the EU ETS Phase 3 are new arrangements to provide assistance (through allocations of free permits) to sectors (or sub-sectors) deemed to be exposed to a significant risk of carbon leakage. The EC will identify energy intensive industry sectors subject to carbon leakage by 31 December 2009.

On 30 April 2009, the European Commission (EC) released its initial findings of sectors that may be exposed to carbon leakage under Phase III of the EU ETS. The EC's initial list suggests that a wide range of industries are likely to satisfy the quantitative tests to determine eligibility and include the extraction of crude petroleum and natural gas. For the sectors deemed to be exposed to a risk of carbon leakage, the revised Directive provides for 100 per cent of allowances allocated free of charge, at a benchmarked level of what could be considered a 'European best practice' benchmark. In particular, assistance will be based on the performance of the most efficient 10 per cent of European installations in any given sector in the years 2007 and 2008.

Norway has had a carbon tax since 1991 and as of 1 January 2008 has been a participant in the EU ETS. However the Norwegian Government has retained the existing carbon tax but has changed the design of both systems to give effect to the Government's ambition to ensure the overall financial burden of both systems remained broadly equivalent to the previous carbon tax regime.