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# MINERALS COUNCIL OF AUSTRALIA

**SENATE SELECT COMMITTEE INQUIRY INTO CLIMATE POLICY**

**APRIL 2009**

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## SENATE SELECT COMMITTEE INQUIRY INTO CLIMATE POLICY: SUMMARY POINTS

### Flaws in the design of the emissions trading scheme

The MCA has six fundamental concerns with the proposed scheme design:

- The scheme design is not calibrated with progress toward a global agreement or the availability of low emissions technologies.
- It is out of step with other schemes being implemented globally, and will impose the world's highest carbon costs.
- It will threaten the loss of thousands of jobs and threaten billions of dollars of investment in Australia's minerals sector.
- The proposed price cap for emissions permits of \$40 (increasing in real terms by 5 per cent p.a.) is too high and will not prevent damaging carbon price volatility.
- The proposed 2020 target, when combined with the flawed scheme design, will be very challenging; and
- the scheme will distort domestic economic activity by imposing different carbon costs on various sectors of the economy.



### Flaws in the structure of the legislative package

The MCA has serious concerns with the *structure* of the legislative package including, but not limited to, the following:

- Critical elements of the scheme design – including the treatment of emission intensive trade exposed firms – will be dealt with in regulations rather than in the legislation proper. As a consequence:
  - EITE firms will lack policy certainty on the nature, detail or operation of the assistance program;
  - Parliament will not have the opportunity to directly scrutinise and/or amend the most critical elements of the scheme design; and
  - the complexity of the EITE assessment process means it will be unlikely that the Parliament (or affected firms) will have a clear indication of the operation and commercial impact when the legislative package is considered in May/June 2009.
- The legislation falls short of Government's pre-election commitments. The legislation's commitment to 'reduce the incentives' for firms to shift offshore is significantly weaker than the pre-election commitment to "ensure that Australia's international competitiveness is not compromised" by the introduction of emissions trading.
- There are numerous critical policy areas where existing detail is inadequate, further information is required, or where current drafting is unclear.

### A simple alternative

- Many industry concerns with the proposed ETS design can be addressed with one change, namely a phased approach to the introduction of full auctioning of emissions permits.

## SUMMARY POINTS

### Emissions trading as the policy choice

- The CPRS, as proposed, is neither economically efficient or environmentally effective and will not establish incentives for investment in low emissions technologies;
- In the absence of significant changes to the CPRS including the embrace of a phased approach to auctioning, the minerals sector supports a comprehensive examination of alternate approaches.

### Contribution of complementary measures

- Federal and State Governments should be wary of adopting a proliferation of complementary measures especially mandatory measures (e.g. Renewable Energy Target) that threaten contradict or distort carbon price signals from a proposed emissions trading scheme.
- There is a strong case for public support for research, development and demonstration (RD&D) of low emissions technologies.

### Environmental effectiveness of the scheme

- The proposed scheme threatens to deliver a double whammy – significant economic dislocation in jobs and investment without appreciable environmental benefits.
- The scheme design overlooks a key element of emissions trading scheme – the size of the economic burden borne by firms affected by the scheme is not an accurate measure of the environmental effectiveness of the scheme.
- An alternative approach – the phased approach to auctioning – will produce a better environmental outcome, because it will not encourage the shifting of industrial activity abroad.

### A mechanism to determine relative global contributions

- Global emissions targets should be based on the notion of comparable adjustment, not on uniform targets.
- Identical targets do not mean identical sacrifice. A 20 per cent reduction in European Union emissions by 2020 would require a further reduction of 14 per cent. By comparison, based on current projections (after measures), Australia will need to cut its emissions by 33 per cent to achieve a similar reduction.
- Global mechanisms must recognise different economic structures – one third of Australia's emissions are associated with exports.

### Investment signals from the CPRS design

- The economic burden imposed by the proposed CPRS will reduce the scope for firms to invest in energy saving innovations and low emissions technologies.
- The minerals sector will face permit costs of up to \$2 billion annually limiting its ability to invest in low emissions technologies, and forcing a reassessment of the viability of a number of current and proposed operations, with consequent implications for employment in the sector, and economic activity in regional and remote Australia.
- Treasury modelling projects a 35 per cent reduction in forecast coal mining output by 2020.



## OVERVIEW

The Minerals Council of Australia (MCA) represents Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. MCA member companies produce more than 85 per cent of Australia's annual minerals output, and will account for about 60 per cent of Australia's merchandise exports in the year to June 2009.

To be economically and environmentally effective, an Australian emissions trading scheme (ETS) must be part of an integrated policy approach that includes the following:

- a global protocol involving greenhouse gas reduction commitments from all major emitters;
- the development and deployment of low emissions technologies; and
- a measured transition to an ETS, with cost burdens comparable with schemes or policy measures being developed by our international competitors.



The development and implementation of these policy tools must be closely synchronized.

If Australia implements a flawed ETS without progress on a global protocol or technology solutions, then there will be severe economic consequences.

Australia has both a responsibility and self-interest in taking a leadership role in the international climate change debate. The critical element of Australia's leadership role however will be the example it sets for others. If we act hastily and adopt a poorly designed ETS, the economic impact will be dire, and no-one will follow our lead. On the other hand, if Australia can demonstrate that it is possible to make the transition to a lower emissions economy without forsaking jobs, international competitiveness and living standards, then other nations will be much more likely to follow our example.

### Structure of the MCA submission

The MCA considers that the proposed emissions trading scheme is fundamentally flawed, and must be substantially revised. If the scheme is implemented in its proposed form, the competitiveness of the Australian economy will suffer, investment will stall, jobs will be lost and the overall environmental impact will be negligible, and possibly even negative.

This submission has three parts, including:

- an outline of the MCA's concerns with the design and structure of the proposed ETS and an outline of an alternate approach, namely a phased approach to the full auctioning of emissions permits
- the minerals sector's views on the specific terms of reference raised by the Select Committee
- MCA views on key questions on the design and impact of the scheme.

## PART ONE: CONCERNS WITH DESIGN

### 1. The scheme proposed in the legislative package is not calibrated with progress toward a global agreement or the availability of low emissions technologies.

- The proposed ETS will impose net carbon costs on the Australian business sector of \$14.5 billion in the first two years, and nearly \$34 billion over the first 4 years.
- The cost burdens imposed by the ETS are not comparable with, or linked to, actions by other major emitters, and take no account of the limited availability of low emissions technologies.
  - none of Australia's international competitors are likely to impose any carbon costs on their businesses or households over this period.
- This burden will be imposed on Australian business and householders irrespective of whether there is a global agreement achieved in Copenhagen in December 2009.
  - firm commitments from other major emitting nations – even developed nations – will take several years to emerge.
- By then Australian businesses will have paid tens of billions of dollars in carbon costs
  - the result will be lost jobs, investment and the long-term competitiveness of the Australian economy.



#### Absence of review mechanism

- Other nations are more closely calibrating their emissions reductions effort to progress in international negotiations. The European Union will review the design of the next phase of its own emissions trading scheme – which is not due to start until 2013 – after the Copenhagen meeting in December 2009. If the Copenhagen meeting fails, the EU will further adjust its scheme.
- In contrast, the White Paper scheme contains no such flexibility.

#### PROJECTED REVENUE FROM SALE OF PERMITS UNDER THE EMISSIONS TRADING SCHEME

Year	No of permits auctioned.	Treasury's projected carbon price (per tonne of CO <sub>2</sub> )	Revenue from sale of permits*	Net revenue after some free permits for EITE, transitional assistance for power generators, and other assistance.
2010-11	460 million	\$25	\$11.5 billion	\$7.67billion
2011-12	454 million	\$26.7	\$12.1 billion	\$8.17 billion
2012-13	448 million	\$28.6	\$12.8 billion	\$8.67 billion
2013-14	442 million	\$30.6	\$13.5 billion	\$9.17 billion
<b>Revenue for years 2010-14</b>			<b>\$49.9 billion</b>	<b>\$33.7 billion</b>

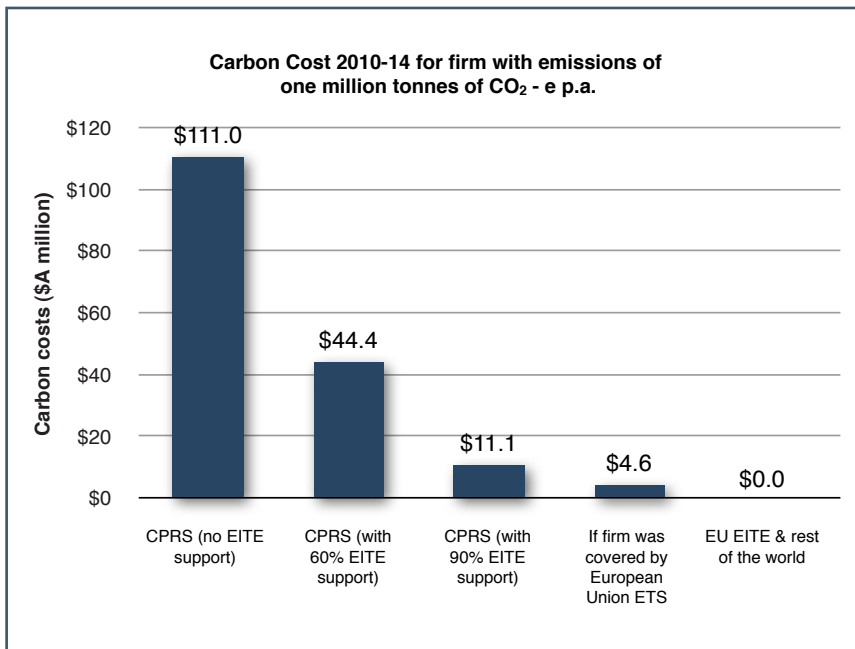
**2. The proposed ETS is out of step with other international schemes and will impose the world's highest carbon costs.**

- If the proposed ETS is implemented, Australian firms will pay the highest carbon costs in the world.
- All other international ETS schemes are based on a model where virtually all (more than 95 per cent) permits are allocated without charge during the transitional phase. (see box 1)
- In contrast, the proposed Australian ETS will auction around 70 per cent of total permits from the outset of the scheme.
  - this means that *most* Australian firms will buy 100% of their permits from July 2010. In comparison, their EU competitors will not have to buy all their permits until 2027.
- Even Australian firms classified as emissions intensive and trade exposed (EITE) will pay much more than their international competitors. Australian EITE firms will buy either 40 per cent or 10 per cent of their permits from 2010, a share increasing by 1.3 per cent every year.
  - by comparison, an EU firm classified as EITE will pay no carbon costs until 2020 at the earliest.



**A simple case study highlights the high costs of the proposed ETS...**

- An average Australian firm emitting 1 million tonnes of CO<sub>2</sub>e per annum will face carbon costs of nearly \$111 million over the 4 years 2010-14.
- Over the same period, an EU firm with the same emissions profile will pay less than \$5 million. This reflects the fact that EU firms will receive virtually all their permits free until 2013, when they receive 80 per cent of their permits free.



**3. The scheme poses a significant risk to jobs and investment in Australia’s most competitive export sectors, including the minerals sector.**

- The ETS will impose new costs on the Australian minerals sector of up to \$2 billion a year.
- In its first 5 years alone, the ETS will cost the Australian coal and gold mining sectors \$5 billion and \$700 million respectively. Firms producing a range of other commodities including iron ore, uranium, copper and zinc ore, diamonds and silver will also pay hundreds of millions in permit costs over this period.
- None of our competitors will bear such a cost. Given the highly competitive nature of the global commodities markets, it is inevitable that the ETS will threaten jobs and investment in Australia’s minerals sector.



**The ETS will exacerbate job losses in the minerals sector**

- Over recent months 12,000 jobs have been lost in the Australian minerals sector.
- The ETS will lead to further job losses. The Federal Government’s own Treasury modelling forecasts that coal mining output will be slashed by between 33 and 35 per cent by 2020 as a result of the introduction of its Carbon Pollution Reduction Scheme (CPRS).<sup>1</sup>
  - separate industry modelling estimates that the ETS will slash output in other minerals sectors by a similar amount.
- A National Institute of Labour Studies report last year estimated that Australia’s minerals sector would need to expand by 86,000 employees if Australia was to recover and maintain its global market share.<sup>2</sup> A 30-40 per cent reduction in projected output due to the ETS will mean that 30,000 to 35,000 of these jobs will be lost.
  - most of these jobs will be lost in regional and remote areas of Australia.

**MOST MINERALS EXPORTS WILL RECEIVE NO ASSISTANCE UNDER THE WHITE PAPER MODEL**

<p><b>Minerals exports likely to receive some assistance under White Paper approach</b></p> <p>Aluminium, Alumina, Copper (refined), Zinc (refined), Refined lead and bullion, and Titanium.</p>	<p><b>Value of exports 2008-9 (share of total)</b></p> <p><b>Approximately \$16 billion (~11 per cent).</b></p>
<p><b>Minerals exports likely to be exposed to the full carbon costs from the outset of the scheme, and ahead of international competitors.</b></p> <p>Thermal coal, Coking coal, Iron Ore, Gold, Lead Ores and concentrate, Uranium, Manganese Ore, Copper concentrate, Zinc ores and concentrate, Refined silver, Bauxite, Diamonds, salt and other minerals, Nickel, Zircon concentrate.</p>	<p><b>Value of exports 2008-9 (share of total)</b></p> <p><b>Approximately \$120 billion (~89 per cent).</b></p>

Source: ABARE.  
 Final determinations of EITE eligibility are yet to be made. The listing above is based on guidance contained in the White Paper. The minerals sector will be continuing to pursue EITE treatment for a number of the minerals commodities listed in the second row above.

<sup>1</sup>Australian Government, Australia’s Low Pollution Future: The Economics of Climate Change Mitigation, October 2008. p.119  
<sup>2</sup>National Institute of Labour Studies, The Labour Force Outlook in the Australian Minerals Sector 2008 to 2020, June 2008

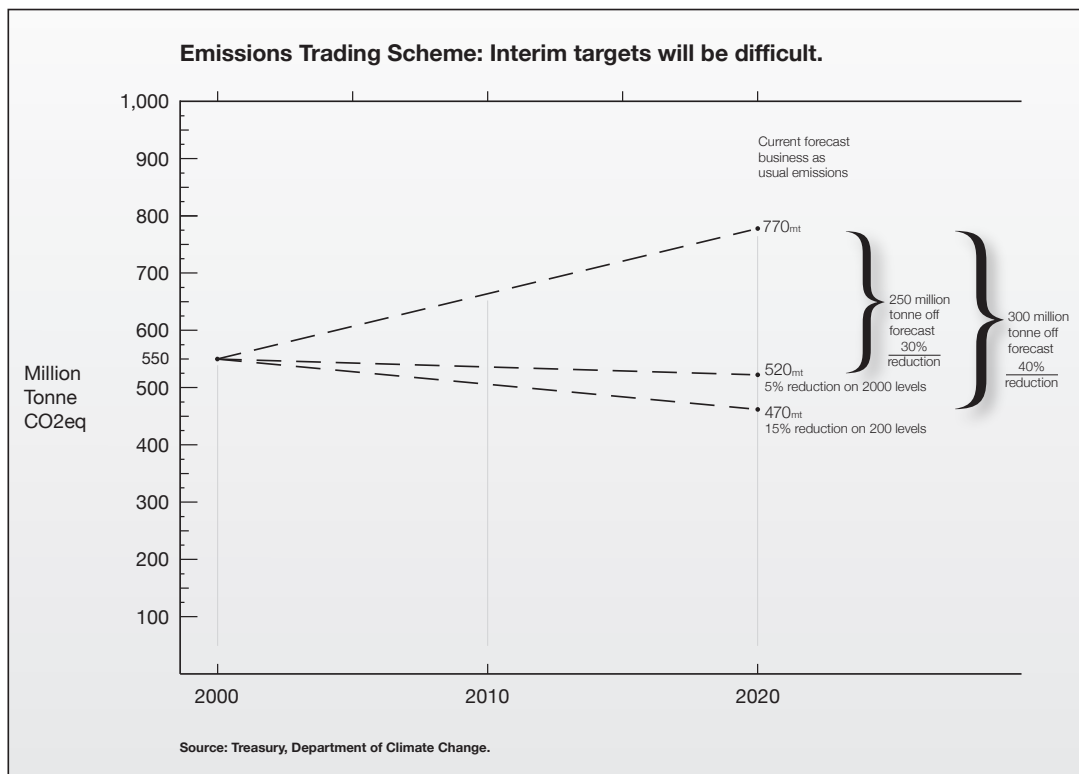


**4. Proposed price cap of \$40 (increasing in real terms by 5 per cent annually) is too high and will provide little assurance against damaging price peaks and volatility.**

- There is a critical need for a moderate price cap – previous emissions trading schemes have shown considerable price volatility in their early stages
  - for example, the EU carbon price trebled in the first few months of its scheme.
- If the price cap was triggered in the early years of the scheme's operation, Australian business would be paying carbon costs of up to \$20 billion annually.

**5. The proposed interim (2020) target will be extremely challenging.**

- A 5 per cent reduction in emissions (off 2000 levels) by 2020 represents a reduction of 250 million tonnes (or 32.5 per cent) of CO<sub>2</sub>e off business-as-usual projections
  - it is nearly the equivalent to the emissions from Australia's entire electricity and transport emissions (275 million tonnes CO<sub>2</sub>e in 2006).
- A 15 per cent cut represents a reduction of more than 300 million tonnes of CO<sub>2</sub>e off business-as-usual projections
  - that is a 40 per cent reduction off business-as-usual projections.
- Calls for a 40 per cent cut are irresponsible and unachievable, and would represent an annual reduction of 440 million tonnes of CO<sub>2</sub>e by 2020
  - That is nearly a 60 per cent reduction off business as usual projections.



**6. The scheme contains unilateral and arbitrary exclusions, will impose different carbon costs on various sectors of the economy, and contains taxation provisions that raise a number of significant concerns.**

**Arbitrary exclusions from assistance under the scheme**

- The scheme includes a notable, inexplicable and unsupportable exception to the eligibility criteria for assistance to EITE firms.
  - although the average emissions intensity of coal mining (conservatively estimated at 1400 to 1450t CO<sub>2</sub> per \$million of revenue) prima facie qualifies for 60 per cent allocation of permits, the White Paper unilaterally states that "the Government will not provide EITE assistance to the activity of coal mining."<sup>3</sup>



**The scheme will impose three different carbon costs on Australian industry**

- The proposed scheme design risks creating significant distortions between and across industry sectors – competing products will be treated substantially differently, despite only minor variations in emissions intensity. With a putative \$25 carbon price
  - firms with an Emissions Intensity (EI) above 2000t CO<sub>2</sub> per \$million revenue, will pay \$2.50 per tonne;
  - firms with an EI Between 1000t to 2000t CO<sub>2</sub> per \$million revenue, will pay \$10 per tonne; and
  - firms with an EI of up to 1000t CO<sub>2</sub> per \$million revenue, will pay \$25 per tonne.

**The scheme design is unnecessarily complex**

- The complex nature of the EITE rules contradicts the Government's broader commitment to simplify regulatory processes and taxation policy and administration, including through the Australia's future tax system review.

**Taxation elements of the scheme raise several concerns**

Initial analysis of the legislation has raised a number of concerns including:

- The proposed taxation arrangements are complex and potentially distortionary because they do not align with the legitimate corporate structures of the companies operating in the minerals sector.
- The application of GST to permits will create unnecessary administrative burdens on what are purely business-to-business and export transactions and place further cash-flow burdens on companies from the delays in reconciling GST credits in accounts.
- There is a real prospect that State and Territory governments will impose stamp duties on permits transaction-charges that could add millions of dollars to the cost borne by liable entities.
- The considerable costs involved in making application for and auditing of activities to obtain emissions intensive trade exposed (EITE) status under the Bill are not recognised as a legitimate business expense.

<sup>3</sup> Australian Government, *Carbon Pollution Scheme White Paper*, December 2008

## FLAWS IN THE STRUCTURE OF THE LEGISLATIVE PACKAGE

The MCA has serious concerns with the structure of the legislative package including, but not limited to, the following:

### Key details in regulation not legislation

- Critical elements of the scheme design – notably the treatment of emission intensive trade exposed firms (EITE) will be dealt with in regulations rather than in the legislation proper. For example, the legislation provides no substantive detail on the treatment of emissions intensive trade exposed firms, instead simply noting that the regulations 'may' formulate and EITE assistance program. This is a significant shortcoming of the legislative package for three reasons:
  - EITE firms will lack policy certainty on the nature, detail or operation of the assistance program;
  - Parliament will not have the opportunity to directly scrutinise and/or amend arguably the most critical elements of the scheme design; and
  - the complexity of the EITE assessment process means it will be unlikely that the Parliament (or affected firms) will have a clear indication of the operation and commercial impact when the legislative package is considered in May/June 2009.



### Legislation appears to fall short of pre-election commitments

- The legislation falls short of Government's pre-election commitments, particularly in relation to the treatment of EITE firms.
- In particular, the objects clause of Part 8 of the CPRS legislation commits to 'reduce the incentives' for EITE activities to 'be located in or relocated to, foreign countries'.
  - this commitment is significantly weaker than the Government's pre-election undertakings which were:
    - ◇ "to ensure that Australia's international competitiveness is not compromised by the introduction of emissions trading," and
    - ◇ "to ensure that the Australian operations of EITE firms are not disadvantaged by emissions trading."<sup>4</sup>

### Numerous areas lacking clarity

- There are numerous policy areas where existing detail is inadequate, further information is required, and where current drafting is unclear. These include, but are not limited to, the following:
  - the arrangements for major fuel users to assume the liability [from suppliers] for the resultant emissions;
  - the regulatory requirements relating to the treatment of emissions permits as 'financial instruments';
  - the CPRS legislation's interoperability' with the National Greenhouse Emissions Reporting Scheme (NGERS) is confusing and potentially duplicative.
    - ◇ In the absence of clarifications to the proposed 'operational control' arrangements, it is possible that one firm will be liable for certain emissions under the CPRS and another firm will be required to report the [same] emissions under the NGERS scheme.

<sup>4</sup>Senator Chris Evans, *Labor's Plan for a Stronger Resources Sector: Election 2007*, Australian Labor Party, 2007

## A SIMPLE CHANGE – A PHASED APPROACH TO FULL AUCTIONING

Many industry concerns about the proposed emissions trading design could be addressed with one simple change – a phased approach to auctioning of permits for the trade exposed sector rather than 100 per cent of auctioning from the outset of the scheme.

It is an approach that would provide a measured transition to an emissions trading scheme. It would enable Australia to lead and shape the international debate while limiting the initial cost impact of the scheme on industry sectors and the broader economy.

Under a phased approach, all trade exposed firms would be required to purchase a proportion (10 per cent) of their permits in year 1 of a scheme, a proportion which could gradually increase as the scheme is bedded down and as other nations adopt binding emissions reductions. Under this approach there would be no arbitrary emissions intensity thresholds or complicated formulae for determining eligibility.

Such an approach would have the following advantages:

- It would be consistent with other approaches being implemented or planned in other nations including the European Union, United States and Canada, and New Zealand. For example;
  - under the EU scheme, permits will be allocated free for the first 8 years (till 2013) when firms will buy 20 per cent of permits; and
  - under the Western Climate Initiative involving 7 US States and 4 Canadian provinces, permits will be allocated free until 2015, when firms will be invited to buy 10 per cent of their permits.
- a phased approach will not weaken the environmental credentials of the scheme.
  - As the respected Pew Centre on Global Climate Change has indicated, "because total emissions are capped, the allocation of allowances does not affect the environmental integrity of a cap and trade scheme".<sup>5</sup>
- There would be no need for arbitrary thresholds, and no distorting impacts on economic activity – the burden of the new scheme would be spread evenly across the economy.
- It would enable better alignment with the other key policy pillars – a comprehensive global protocol and the development and demonstration of low emissions technologies.

A phased approach to auctioning eliminates inter-sectoral distortions. All trade-exposed sectors would pay the same price for a tonne of CO<sub>2</sub> emitted. Such an approach contrasts with the approach set out in the legislative package, which will impose three different carbon costs.

<sup>5</sup> Pew Centre on Global Climate Change, 'Greenhouse Gas Emissions Allowance Allocation', Congressional policy Brief, 2008

**BOX 1 : EMISSIONS TRADING SCHEMES AROUND THE WORLD**

Country/Scheme	Share of auctioned permits
US Acid Rain Scheme	Virtually all (98.75 per cent) of permits issued free.
European Union ETS (2005-2013)	About 98 per cent of permits issued free. <sup>6</sup>
European Union (2013-2020)	<p>More <b>limited coverage</b> in both sectors and greenhouse gases than Australian scheme.</p> <p>From 2013 onwards, <b>non-power sector firms will buy only 20 per cent of their permits</b>. This share will increase to 70 per cent by 2020. <b>Average EU firms won't buy 100 per cent of their permits until 2027</b> (17 years after their Australian counterparts).<sup>7</sup></p> <p>EU firms which are classified as emissions-intensive and trade-exposed will receive their permits free until 2020.</p>
Australia	<b>25 per cent of permits issued free</b> to selected non-farm EITE industries. <b>All other firms will buy all of their permits from 2010.</b>
New Zealand	<b>100 per cent of permits issued free</b> until 2018-19.
United States	<p>Schemes underway at the regional level</p> <p><b>The (US) Western Climate Initiative:</b> (A cap and trade scheme involving 7 US states and 4 Canadian provinces) will adopt a phased approach to auctioning, commencing with 10 per cent auctioning (including for the power sector) in 2012.</p> <p><b>Numerous Congressional proposals – virtually all to date have proposed phased approach</b> to auctioning.</p> <p>The Boxer Lieberman Warner Bill (defeated in 2008) proposed <b>75.5 per cent of permits issued free</b>, with reduction of free permits to 40 per cent by 2032. From 2032 to 2050, <b>40 per cent of permits would have been issued free.</b></p> <p>S.1766, sponsored by Chairman of the Senate Energy and Natural Resources Committee Senator Jeff Bingaman, proposed that auctioning be phased in from <b>24 per cent from 2012-17, rising to 53 per cent in 2030.</b></p>



<sup>6</sup> In Phase 1 of the EU ETS, only 4 of 25 EU nations auctioned any permits, and only Denmark auctioned 5 per cent of its permits.

<sup>7</sup> See Council of the European Union, Energy and Climate Change – Elements of the Final Compromise, Document 17215/08, Brussels, 12 December 2008.

## PART 2: KEY POLICY ISSUES

### Terms of reference:

The choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account the need to:

- reduce carbon pollution at the lowest economic cost,
- put in place long-term incentives for investment in clean energy and low-emission technology, and
- contribute to a global solution to climate change.



### Key Points:

- The CPRS, as proposed, is neither economically efficient or environmentally effective and will not establish incentives for investment in low emissions technologies;
- In the absence of significant changes to the CPRS model including the embrace of a phased approach to auctioning, the minerals sector supports a comprehensive examination of alternate approaches, including but not limited to the consumption-based approach, and the McKibbin/Wilcoxon Blueprint.

### Emissions Trading

The minerals sector supports emissions trading as a central element in a phased, mutually reinforcing and comprehensive suite of policies to reduce GHG emissions. The mineral sector also agrees that Australia should not wait until such a global regime develops before initiating its own scheme, subject to one critical proviso.

The design of the emissions trading scheme should ensure that Australia's decision to proceed ahead of a global scheme does not compromise the international competitiveness of the Australian economy and industry, with perverse economic and environmental consequences. The proposed ETS design fails this test.

The CPRS will impose the world's highest carbon costs, and is out of step with schemes in place or being contemplated elsewhere around the world. The result will be lost jobs, stalled investment and an inevitable steady decline in Australia's share of global commodity markets.

### The CPRS, as proposed, is not the least cost option.

On the basis of Government's own projections of carbon prices, the CPRS will impose a net cost on Australian business and consumers of \$34 billion in the first 4 years. It threatens to create 'a valley of death' for firms confronted with high carbon costs without access to low emissions technologies to reduce these costs. The carbon costs will represent a simple dead weight loss on the economy with no commensurate environmental gains.

### The CPRS, as proposed, won't establish long-term incentives for investment in clean energy.

The \$34 billion net economic burden imposed by the CPRS in the first 4 years is neither necessary nor likely to be effective in spurring investment in new technologies. It represents \$34 billion that Australian business will not have available to invest in innovative low emissions technologies. The expectation of a rising carbon price is more important than a high price in the absence of technologies sufficient to effect change in 'industrial behaviour'. As the 2007 Report of the Task Group on Emissions Trading stated, it is the 'market expectation of higher prices, reflected in the rising forward price curve, [that] is the key lever by which to pull forward new technology.

### The CPRS, as proposed, won't contribute to a global solution.

Australia has a responsibility and self-interest in taking a leadership role in building support for a global protocol capable of producing sustained reductions in greenhouse gas emissions. The critical issue will be the example Australia sets in pursuing our national policy approach. If Australia acts hastily and adopts a poorly designed ETS, the economic impact will be dire, and no-one will follow our lead.

On the other hand, if Australia makes the transition to a lower emissions economy without forsaking jobs, competitiveness and living standards, others will follow our example. This underlines the need for a policy approach that establishes a framework for emissions reductions. Australian must take care to avoid costly and pointless symbolism – even a 20 per cent cut in Australian emissions by 2020 will cut projected global emissions by 0.2 per cent.



### Examination of alternative climate policy options.

As noted above, many industry concerns with the proposed scheme can be overcome with a simple change to the design – namely the phased approach to the auctioning of permits. If this approach is not supported, however, MCA supports the consideration of alternate options. Given the scale and impact of the structural change to Australia's economy of a rising carbon price signal, it is critical that Australia adopt the most economically efficient and environmentally effective transition to a low emissions economy.

As Productivity Commission Chairman Gary Banks cautioned recently:

The facts are that any abatement action by Australia (beyond 'no regrets' measures) will be more costly than that by most other developed economies. That simply reflects the reality that the structure of our economy has been shaped by the abundant availability of low cost fossil fuels.<sup>1</sup>

The scale of the economic transformation underlines the need for policy-makers to get the policy tools right. This is not an argument for inaction. It is an argument for a rational examination of all policy options that have the capacity to reduce Australian emissions as well as being calibrated with international action and promoting the development and adoption of low emissions technologies

### Options worthy of further consideration

Such an examination should be broad-ranging and consider all serious alternatives. Prominent options worthy of close consideration include the so-called consumption-based approach developed by Canberra economist Geoff Carmody and the McKibbin/Wilcoxon Blueprint developed by Professor Warwick McKibbin and Peter Wilcoxon.

The former option is predicated on the fact that a basic flaw in the existing global climate change architecture (and the CPRS design) is the focus on the production of emissions rather than the consumption of emissions. This represents a significant obstacle to a sustainable global agreement on greenhouse gas emissions reductions, not least because a production-based approach undermines the trade competitiveness of early movers. A production approach covers emissions from locally produced goods and services, including those destined for export. The production approach does not cover the emissions 'embedded' in imports.

As a result, a nation that imposes a carbon price signal will inevitably punish its own trade-exposed industry sectors and reward the producers from other nations who compete in that market or in third country markets. Such an approach provides an incentive for nations to delay action, not take it. An alternative, consumption-based approach would be neutral in terms of its impact on trade competitiveness. The carbon price signal would apply equally to domestic production and imports. National concerns about 'carbon leakage' would be largely eliminated.

Both carbon taxes and emission trading (cap and trade) schemes can be based on the consumption

<sup>1</sup>Gary Banks, Chairman Productivity Commission, 'Riding the Third Wave: some challenges in national reform,' Paper presented to the Economic and Social Outlook Conference, Melbourne, 27 March 2008.

approach. It is no more difficult or complicated to implement than under a production-based approach. In fact a consumption based scheme will have no need for the arbitrary carve-outs (to mitigate against carbon leakage) that must be included in production-based schemes, including the CPRS model.

The McKibbin/Wilcoxon Blueprint is a hybrid system of annual and long term emission permits. The annual permits focus on equating the costs and expected benefits of taking action whereas the long term permits focus on achieving targeted reductions in emissions but only along a low cost pathway and without specifying in which year these reductions will be reached. The purpose of the policy approach is to discourage increases in emissions, and to encourage reductions where they are cost-effective, but without levying a sudden multi-billion dollar burden on fuel users. The key to this proposal is that the price of annual permits would be fixed and set low enough to keep the costs of the policy modest, at least until some of the uncertainties about climate change have been resolved. Professor McKibbin has flagged that an initial permit price could be set at \$US10.

#### Terms of reference:

The relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils.

#### Key points:

- Federal and State Governments should be wary of adopting a proliferation of complementary measures especially mandatory measures (e.g. Renewable Energy Target) that threaten contradict or distort carbon price signals from a proposed emissions trading scheme.
- There is a strong case for public support for research, development and demonstration (RD&D) of low emissions technologies. This reflects the fact that markets tend to under-invest in RD&D because of the inability of individual companies to capture the full economic benefit of their investment.

#### Complementary measures

Over recent years, Federal, State and Territory Governments have developed and implemented hundreds of programs, initiatives, action plans and regulatory mandates on climate change and energy policy. The scope and scale of the initiatives range substantially in nature and scale. Many of them, considered in isolation, have some merit. Most are well intentioned. But the cumulative result is a mess of conflicting policy and price signals and stimuli. As the Productivity Commission correctly argued:

Climate change policy in Australia is currently a disjointed patchwork of measures across sectors and jurisdictions.<sup>2</sup>

The minerals sector recognises that an emissions trading scheme does not obviate the need for other measures. But considerable care should be taken in developing complementary policies to ensure that they genuinely support and not contradict the primary policy tool. Regulatory measures in particular should be technology neutral, and should not favour or prefer one set of technologies over another.

#### Renewable energy mandates

A primary example of a policy that cuts across the is the proposed emissions trading scheme is expanded of the mandatory Renewable Energy Target. The MCA opposes the expansion of a mandatory Renewable Energy Target for 5 reasons including that it will:

- distort the operation of a well-designed emissions trading scheme
- achieve no additional abatement

<sup>2</sup> Productivity Commission, Submission to the Prime Ministerial Task Group on Emissions Trading, March 2007.



- raise electricity costs
- have a negative effect on jobs in the overall economy
- exacerbate concerns about the reliable and uninterrupted supply of energy.

In the event that the Government decides to proceed with a Renewable Energy Target, it should be revised to a Clean Energy Target that does not grant preferment to one category of low emissions technology (renewable) ahead of others (low emissions coal technologies). If there is to be a mandatory low emissions target, it should not discriminate - or grant preferment - between technologies with the same or similar environmental impact.

### Support for low emissions technologies

In the MCA's view, there are more efficient and less distortionary ways to promote investment in renewable energy technologies. In addition to direct support options worthy of consideration include incentives, including taxation incentives, for investment in low emissions technology research, development demonstration and deployment. The Productivity Commission has highlighted the advantages of such policy approaches:

Advantages of investment support policies are that they can be technology neutral and that investing firms can be made to share the risk, leading to self-selection of viable projects.<sup>3</sup>

In the MCA's view there are three factors that justify public support for research, development and demonstration (RD&D) of low emissions technologies.

First, the nature and scale of the task is beyond the resources of a single company, so government, industry and the research community will need to work together to undertake the pre-competitive RD&D to bring these technologies to commercial reality. A major disincentive for private sector investment in RD&D is the potential for the 'spillover' of new technological developments to competitors. These disincentives occur when potential innovators fear that they cannot capture all of the benefits that they create. As a consequence they invest less and innovation takes longer than is socially desirable.

Second, the emissions trading scheme will work most effectively when there are alternate low emissions technologies available for deployment. Where none are available or in prospect, the emissions trading scheme will function primarily as a blunt taxation instrument.

Third, although an emissions trading scheme will provide a carbon price signal, this price may not be sufficient to divert investment in RD&D projects. Indeed, the MCA has argued elsewhere for a measured transition to an emission trading scheme because of the scale of the reform that an ETS represents to the Australian economy, and because many of Australia's trading competitors have not yet committed to matching or similar emission reductions. During this transition - the length of which is difficult to accurately determine because of the uncertainty of the outcome of international negotiations - the emissions trading price signal may be insufficient to drive investment in RD&D in these technologies.

As a consequence, a mix of technology 'pull' (emissions trading) and technology 'push' (e.g. R&D) policies will be necessary.

### Carbon Stores

MCA supports the further development and exploration of bio-sequestration including forest, soils and other materials including algae and notes that independent analysis has shown that these have significant GHG mitigation potential. For example, recent estimates suggest that the amount of carbon sequestered by the agriculture and forestry sectors in the US is approximately 800 million tonnes of CO<sub>2</sub>e per annum. According to the US Congressional Research Service, US authorities project additional mitigation potential of 590 to 990 million tonnes CO<sub>2</sub>e per annum.<sup>5</sup>

<sup>3</sup>Productivity Commission, op cit, p.24.

<sup>4</sup>Minerals Council of Australia, Submission to Garnaut Review, April 2008.

<sup>5</sup>Renee Johnson, Ross Gorte, Brent Yacobucci and Randy Schnepf, 'Estimates of Carbon Mitigation Potential from Agricultural and Forestry Activities', CRS Report for Congress, 20 February 2009.



**Terms of reference:**

Whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change.

**Key points:**

- The CPRS design is likely to produce minimal (global) environmental gain, because the projected emissions reductions are likely to be largely outweighed by carbon leakage.
- The proposed scheme threatens to deliver a double whammy – significant economic dislocation in jobs and investment without appreciable environmental benefits.
- The scheme design overlooks a key element of emissions trading scheme – the size of the economic burden borne by firms affected by the scheme is not an accurate measure of the environmental effectiveness of the scheme.
- An alternative approach – the phased approach to auctioning – will produce a better environmental outcome, because it will not encourage the shifting of industrial activity abroad.

**Environmental effectiveness**

The primary test of the proposed emissions trading scheme CPRS should be its economic efficiency and environmental effectiveness. In the MCA's view, the proposed scheme will have a significant adverse economic impact without delivering commensurate environmental benefits. The latter is due to the fact that scheme will encourage carbon leakage – the gradual but inexorable shift of emissions-intensive investment to other locations where there are no limits on emissions or applicable carbon price. This is a particular concern in the minerals sector, in which the alternate locations for investment are predominantly developing nations that will not be subject to either emissions constraints or carbon prices in the next decade.

In this respect, the scheme in its current form will be achieve neither its stated environmental objective nor the Government's undertaking that it will not compromise the competitiveness of Australia's trade exposed industry sectors. The decision to auction more than 70 per cent of permits from the outset of the scheme is arguably the root cause of this undesirable outcome. This design feature – ostensibly aimed at generating significant revenue – is not an essential feature of a functioning and effective emissions trading scheme. Eileen Claussen, the President of the respected Pew Centre on Global Climate Change recently testified to the US Congress that:

free allocation [of permits] provides the same economic incentive to reduce emissions as does an auction.<sup>6</sup>

In other words, the size of the economic burden borne by firms affected by the scheme is not an accurate measure of the environmental effectiveness of the scheme.

**An alternative approach**

There are alternatives to the Government's approach. As noted elsewhere in this submission, the MCA has consistently advocated for a phased approach to the auctioning of permits. Such an approach would reduce emissions, but it would do so without encouraging carbon leakage in terms of jobs and investment.

<sup>6</sup>Eileen Claussen, 'Competitiveness and Climate Policy: Avoiding Leakage of Jobs and Emissions,' Testimony to the Energy and Environment Sub-Committee, US House of Representatives, 18 March 2009.

**Terms of reference:**

An appropriate mechanism for determining a fair and equitable contribution to the global emission reductions.

**Key points:**

- Global emissions targets should be based on the notion of comparable adjustment, not on uniform targets. Identical targets do not mean identical sacrifice.
- Identical targets do not mean identical sacrifice. A 20 per cent reduction in European Union emissions by 2020 would require a further reduction of 14 per cent. By comparison, based on current projections, Australia will need to cut its emissions by between 33 per cent to reach a 20 per cent reduction.
- One third of Australia's emissions are associated with exports ultimately consumed by others.

**Australia's record in containing emissions**

Much of the national debate about Australia's response to climate change lacks perspective and balance. Australia has been wrongly cast, both in Australia and abroad, as a laggard in efforts to slow the growth of greenhouse gas emissions. The reality is that Australia's economy has become substantially less emissions intensive over the last 2 decades. By the Kyoto Protocol's target period (2008 to 2012) Australia's greenhouse gas emissions per \$billion of real GDP will have declined by 44 per cent since 1990. By 2020, Australia's greenhouse gas emissions intensity is projected to be 54 per cent below the 1990 level.

Australia's minerals sector has been a part of that steady improvement in emissions intensity. Emissions from aluminium smelting in Australia have fallen by 39.4 per cent since 1990. And while coal production has increased by 93.4 per cent since 1990, fugitive emissions from coal production have increased by only 18.2 per cent over the same period.<sup>8</sup><sub>10</sub>

**National commitments should be based on comparable adjustment**

The notion of comparable adjustment should provide the basis for a future global protocol. Such an approach should be founded on comparability of effort and sacrifice. While Australia should not seek, or receive, an easy ride in international negotiations, a blueprint for a genuinely comprehensive global response will need to accommodate variable geometry. An approach that is configured on uniformity will mean that the sacrifice will fall disproportionately on certain nations, including Australia. Such an approach is not sustainable.

In important respects, Australia's economic base is different to most other developed nations. In the average OECD nation, resources exports account for just 6 per cent of total exports. In Australia, by contrast, resources exports account for 49 per cent of total Australian exports of goods and services. That proportion is growing, not falling. Such a contrast in economic structure has an inevitable impact on the respective emissions intensity of an economy.

**Identical targets do not mean identical sacrifice**

Australia must be cautious of simply adopting 2020 targets adopted by other nations (or regions). Identical targets do not mean comparable sacrifice. For example, some have suggested that the EU target of a 20 per cent reduction by 2020 should provide the guide for an Australian target. It is important to point out that that such an objective would involve a great deal more effort (and economic pain) for Australia than that target will mean for the European Union.

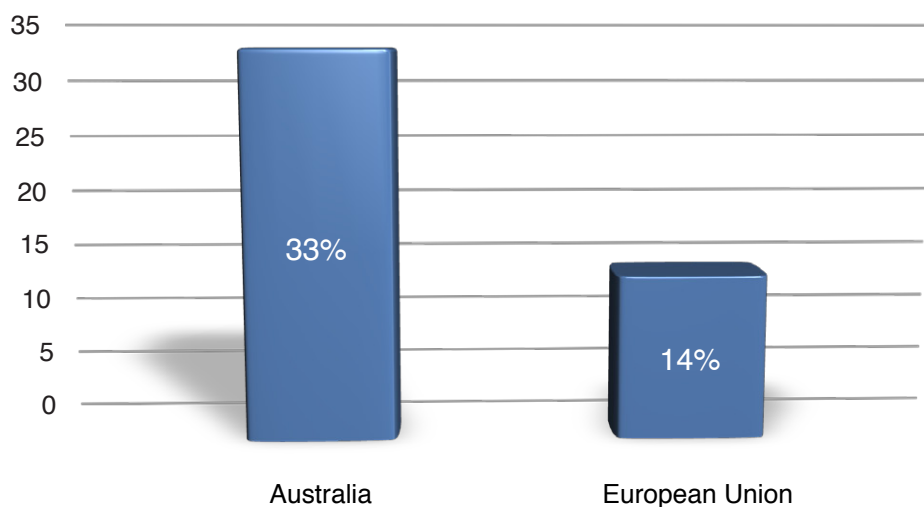
<sup>7</sup>Department of Climate Change, 2007: Tracking to the Kyoto Target, February 2008.

<sup>8</sup>Department of Climate Change, National Greenhouse Gas Inventory 2006: Accounting for the Kyoto Target, June 2008

The best way to measure this is to examine the reductions that will need to be made off current projections in order to achieve a 20 per cent reduction off 1990 levels by 2020. Current projections of EU-27 emissions by 2020 are 6 per cent below 1990 levels<sup>19</sup> (and these do not include the effect of 'additional' policies). This means a 20 per cent target will require a further reduction of 14 per cent in order to meet its 2020 target. By comparison, based on current projections (after energy efficiency and RET measures), Australia will need to cut its emissions by between 33 per cent to reach a 20 per cent reduction. In other words, the Australian effort required to reach the same target will be nearly 2 and a half times that of the EU.



**COMPARABLE ADJUSTMENT? EFFORT REQUIRED OFF CURRENT PROJECTIONS TO ACHIEVE A 20 PER CENT REDUCTION OFF 1990 EMISSIONS BY 2020**



Source: Department of Climate Change European Environmental Agency.

The Garnaut Review last year suggested that targets should embody a 'similar adjustment cost' to that accepted by other developed nations. An illustration of such an option may be instructive. If Australia matched the EU's 'adjustment cost' - i.e. 14 per cent off current projections for 2020 - Australia would aim for emissions of around 570 million tonnes by 2020 (roughly parity with 1990 emissions of 550 million tonnes). Interestingly, parity with 1990 emissions is the target that US President Obama has set as his preferred 2020 target.

**A per capita approach will not work, and will not gain wide support.**

Some have advanced the so-called 'Contraction and Convergence' model as a basis for a global solution. That model - based on the convergence towards uniform per capita emissions - assumes that the world's population is divided into roughly 200 units of identical geography, resource endowment, stage of development, economic history, growth rates and prospects, access to technology, political preference, and environmental amenity.

While Australia shares the same population as the Netherlands and Denmark combined, that population is spread across a land mass 99.8 times larger. Moreover, consider the differences in the principal contributors to greenhouse gas emissions - GDP and population growth - between Australia and the EU over the last 15 years. Between 1990 and 2005 for example, the population of European Union-27 grew by 4 per cent. Over the same period Australia's population grew by 19.2 per cent.<sup>4</sup>

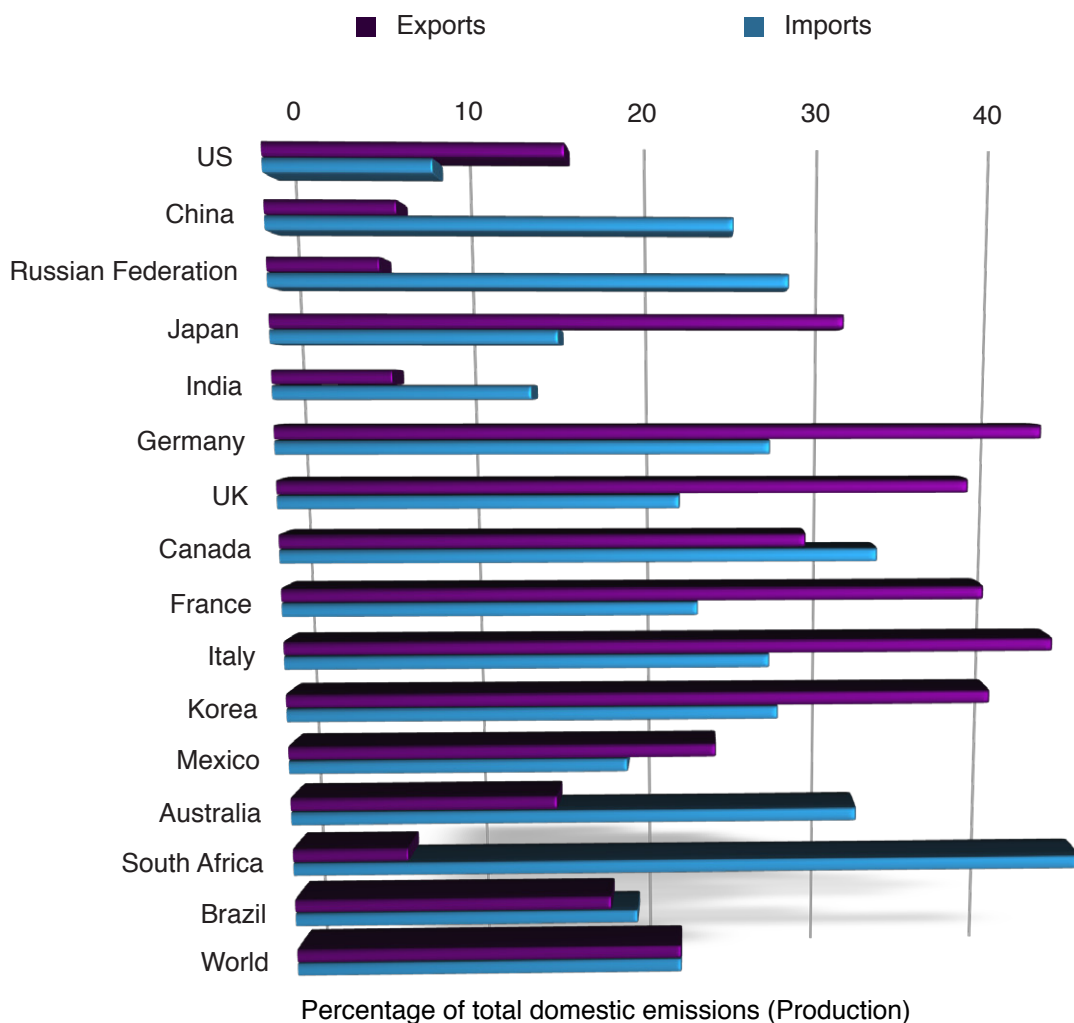
An approach based on per capita emissions ignores the complementarity that underpins global commerce. It fails to take account of the fact that nations generate emissions in the production of goods and services consumed by others.

**One third of Australia’s emissions are associated with exports ultimately consumed by others**

Furthermore, the following table demonstrates the fact that a substantial proportion (approximately 33 per cent) of Australia’s GHG emissions are ‘embedded’ in exports ultimately consumed by others. In other words, while the emissions are counted against Australia’s national total, the product (e.g. beef and sheepmeat) is consumed elsewhere. It is also important to note that Australia is rare amongst developed nations in that emissions associated with exports are higher than those associated with imports. This suggests that exporting nations are disadvantaged by the current approach to measuring a nation’s emissions by production rather than consumption. Put another way, if Australia’s emissions were based on emissions consumed rather than produced, Australia’s per capita emissions would likely be much lower.



**ESTIMATE OF CO<sub>2</sub> EMISSIONS ASSOCIATED WITH IMPORTED AND EXPORTED PRODUCTS IN 2007**



Source: Peters, Glen, and Edgar Hertwich. 2008. CO<sub>2</sub> Embodied in International Trade with Implications for Global Climate Policy. Environ. Sci. Technol. 45, no. 2 (January 30): 1401-1407

**Terms of reference:**

Whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues.

**Key Points:**



The significant economic burden imposed by the proposed CPRS will reduce the scope for firms to invest in energy saving innovations, and low emissions technologies.

The minerals sector will face permit costs of up to \$2 billion annually limiting its ability to invest in low emissions technologies, and forcing a reassessment of the viability of a number of current and proposed operations, with consequent implications for employment in the sector, and economic activity in regional and remote Australia.

Treasury modelling projects a 35 per cent reduction in forecast coal mining output by 2020. Industry estimates suggest that the loss of output in other commodity sectors will be of similar scale.

**The key signal to investors will be a negative one**

In its first 5 years alone, the ETS will cost the Australian coal and gold mining sectors \$5 billion and \$750 million respectively. Firms producing a range of other commodities including iron ore, uranium, copper and zinc ore, diamonds and silver will also pay hundreds of millions in permit costs over this period.

None of Australia's competitors – or alternate locations for mining investment – will bear such a cost. Given the highly competitive nature of the global commodities markets, it is inevitable that the ETS will threaten jobs and investment in Australia's minerals sector.

**A staged approach to a carbon price signal is a better alternative**

The minerals sector supports a cautious and gradual approach to the introduction of a carbon price signal. High carbon costs will be ineffective in the absence of adequate alternate technologies, not necessary to spur investment in low emissions technologies, and could even be counter-productive.

The expectation of a steadily rising carbon price is more important than a high price in the absence of technologies sufficient to effect change in 'industrial behaviour', particularly in relation to new low emissions technologies expected to mature in the medium term.

<sup>1</sup> Gary Banks, Chairman Productivity Commission, 'Riding the Third Wave: some challenges in national reform,' Paper presented to the Economic and Social Outlook Conference, Melbourne, 27 March 2008.

## PART 3: QUESTIONS AND QUERIES

### How will the ETS affect the minerals sector?

The ETS will impose new costs on the Australian minerals sector of up to \$2 billion a year.

In its first 5 years, the ETS will cost the Australian coal and gold mining sectors \$5 billion and \$750 million respectively. Companies in other mining sectors will also pay hundreds of millions of dollars over this period.

None of our competitors will bear such a cost. Given the highly competitive nature of the global commodities markets, it is inevitable that the ETS will threaten jobs and investment in Australia's minerals sector.



### What impact will that have on jobs in the minerals sector?

Over recent months 12,000 jobs have been lost in the Australian minerals sector.

The ETS will lead to further job losses. According to Treasury modelling and industry estimates, the ETS will reduce forecast output in the coal and other mining sectors by 30 to 40 per cent by 2020.

A National Institute of Labour Studies report last year estimated that Australia's minerals sector would need to expand by 86,000 employees if Australia was to maintain its market share. A 30-40 per cent reduction in projected output due to the ETS will mean that 30,000 to 34,000 of these jobs will be lost.

Most of these jobs will be lost in rural and regional areas of Australia.

### Doesn't the proposed ETS include a compensation package to enable a transition to the new scheme?

The overwhelming majority of Australian minerals exports will receive no assistance under the Government's so-called Emissions Intensive Trade Exposed (EITE) program. In its current form, less than 10 per cent of minerals exports will receive any support.

Australian minerals exports worth around \$120 billion in 2008-09 will face the full impact of the world's highest cost ETS. That means that firms responsible for around 90 per cent of Australia's minerals exports will pay billions of dollars in permit costs many years before any of their competitors.

Even firms that do receive some assistance will pay more than their competitors. Under Government proposals these firms will pay for between 10 and 40 per cent of their permits. If these firms were located in the European Union, they would pay no carbon costs for the next 12 years at least.

The coal sector has been explicitly excluded from receiving a share of allocated permits, even though it qualifies for support under the scheme.

### What will the impact be on the coal mining sector over the short and medium term?

The scheme will impose new costs on Australia's black coal sector of \$5 billion over the first 5 years (see box on next page).

The Federal Government's own Treasury modelling forecasts that coal mining output will be slashed by between 33 and 35 per cent by 2020 as a result of the introduction of the ETS.<sup>1</sup>

## COST TO THE BLACK COAL INDUSTRY FROM 2010-15

Year	Emissions (MtCO <sub>2</sub> -e)* (Direct and indirect)	Carbon Price**	Cost
2010-11	34	\$25	\$875 m
2011-12	34	\$26.7	\$907.8
2012-13	34	\$28.6	\$972.4 m
2013-14	34	\$30.6	\$1.04bn
2014-15	34	\$32.7	\$1.1 bn
Five year cost			<b>\$4.9 billion</b>

\*Based on direct and indirect emissions from the black coal sector in 2006-7.

\*\*Carbon price based on CPRS White Paper starting at \$25 increasing by 4 per cent in real terms p.a.

### What other nations have imposed carbon costs on their coal or minerals sectors?

None.

The European Union has exempted methane (the greenhouse gas generated during the extraction of coal) from its emissions trading scheme. Coal producers in Europe will face no carbon costs for at least the next decade - 58 coal mines have re-opened in the United Kingdom in the last year.

There is no prospect of coal producers in Indonesia, South Africa and Colombia facing any carbon costs over the next decade or two.

### What about the Government's plan to provide \$750 million over 5 years to the coal sector to ease the transition to support the transition?

This support represents only a small fraction of the costs that the ETS will impose on the coal sector.

Over the same period, the coal sector will pay about \$5 billion in permit costs. In other words, the coal sector will pay the Government \$7 for every \$1 that it receives in assistance.

### Is the minerals sector arguing that the Government should do nothing?

Not at all.

The minerals sector has put forward a simple change to the proposed ETS, namely a phased approach to the auctioning of permits. This approach would enable Australia to lead and shape the international debate while limiting the initial cost impact of the scheme on industry sectors and the broader economy.

This approach would be similar to the approaches being adopted around the world - in Europe, the United States and New Zealand.





### Is it true that Australia must act to catch up to other nations who are implementing emissions trading schemes including European Union, Japan, regional scheme in the USA and Canada.

Not true. The proposed CPRS will be much more costly than all other schemes being developed or planned around the world.

- In Australia, average firms will buy all their permits from 1 July 2010.

This contrasts with a much more measured approach being adopted elsewhere:

- In the European Union, all emissions permits will be allocated free for the first 8 years of the EU ETS. In 2013, firms will be required to buy 20 per cent of their permits, and firms will not be required to buy all of their permits until 2027.
- Japan's pilot emissions trading scheme involves firms meeting voluntary carbon dioxide emissions targets, with firms able to trade surplus emissions units if they are below their target. Only 77 Japanese firms have currently been approved to participate.
- The Western Climate Initiative which includes 7 US states and 4 Canadian provinces will provide at least 90 per cent free permits from 2012 (for the power sector) and 2015 (for other participating firms).
- The draft cap and trade legislation recently unveiled in the US is silent on the issue of the auctioning of permits. Obama Administration officials have been quoted conceding it has 'zero chance' of passing this year. All previous pieces of legislation considered by the US Congress adopt a phased approach to auctioning.



### Isn't a 5 per cent reduction off 2000/1990 levels too weak?

A 5 per cent reduction in emissions (off 1990/2000 levels) by 2020 won't be easy. It represents a reduction of 250 million tonnes (or 32.5 per cent) of CO<sub>2</sub>e off business-as-usual projections

To put these reductions into perspective, in the 15 years to 2005, the 15 developed nations of Europe reduced their collective annual emissions by a collective 87 million tonnes.

The primary drivers of these reductions included the almost complete collapse of East German heavy industry (causing extreme levels of unemployment, social dislocation and necessitating several hundreds of billions of dollars in adjustment transfers) and the United Kingdom's switch from coal to gas following the discovery of gas reserves in the North Sea. These reductions were nearly outweighed by the increased emissions in other nations in the EU.

It will not be easy for Australia— whose population is growing at four times that of Europe's and whose economy is growing twice as quickly as Europe – to be able to achieve emissions reductions by 2020 three times (to achieve a 5 per cent reduction) those achieved by the EU-15 in the 15 years to 2005.

### Is it true that emissions cuts proposed by the Obama Administration are deeper than those proposed in the CPRS?

No. The proposed CPRS target will reduce Australian emissions in 2020 to about 5 per cent below 1990 levels. The target proposed by President Obama will simply return US emissions in 2020 to 1990 levels. The draft legislation circulated by Energy and Commerce Committee Chairman Henry Waxman proposes cuts under a potential US cap and trade scheme broadly comparable with those set out in the CPRS.



Country	1990	2020	Reduction on 1990 levels
USA (Waxman)	6.2 billion tonnes CO <sub>2</sub> e	5.8 billion tonnes CO <sub>2</sub> e	6 per cent
Obama Administration	6.2 billion tonnes CO <sub>2</sub> e	6.2 billion tonnes CO <sub>2</sub> e	0 per cent
Australia	552 million tonnes CO <sub>2</sub> e	525 million tonnes CO <sub>2</sub> e	5 per cent

