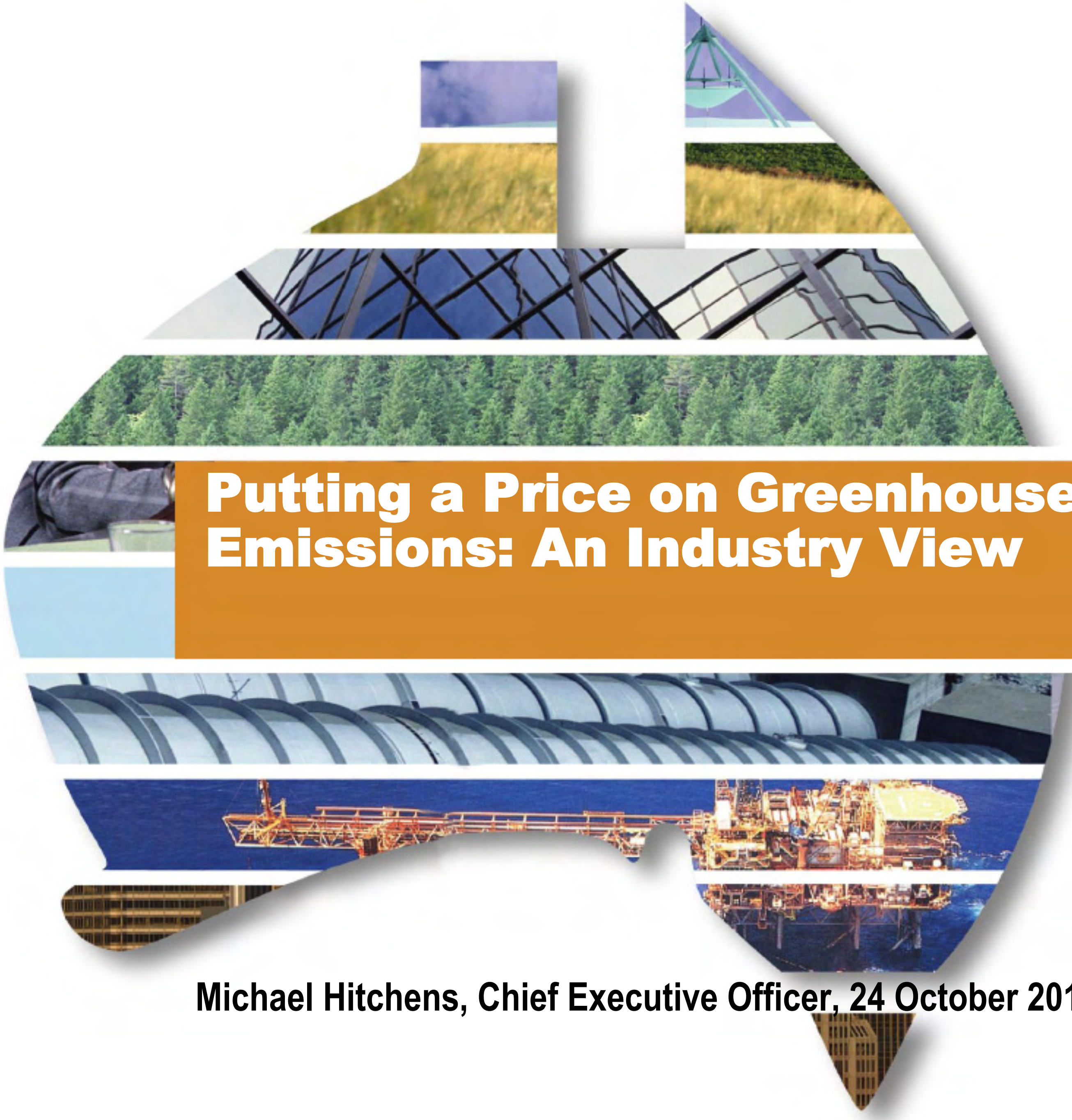


Putting a Price on Greenhouse Gas Emissions: An Industry View

AIGN

AUSTRALIAN INDUSTRY GREENHOUSE NETWORK

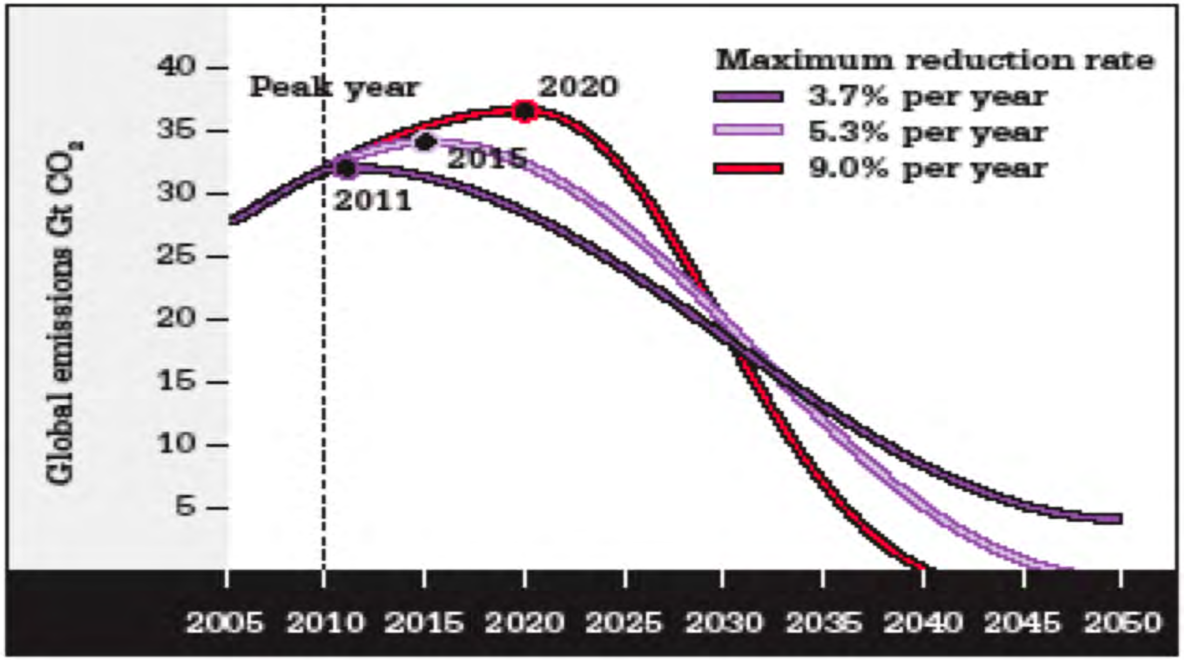
Michael Hitchens, Chief Executive Officer, 24 October 2011

Agenda

- International
- Australian domestic

The global 2°C challenge

Figure 37. Three emission trajectories based on the budget approach and giving a 67% probability of meeting the 2 °C guardrail.

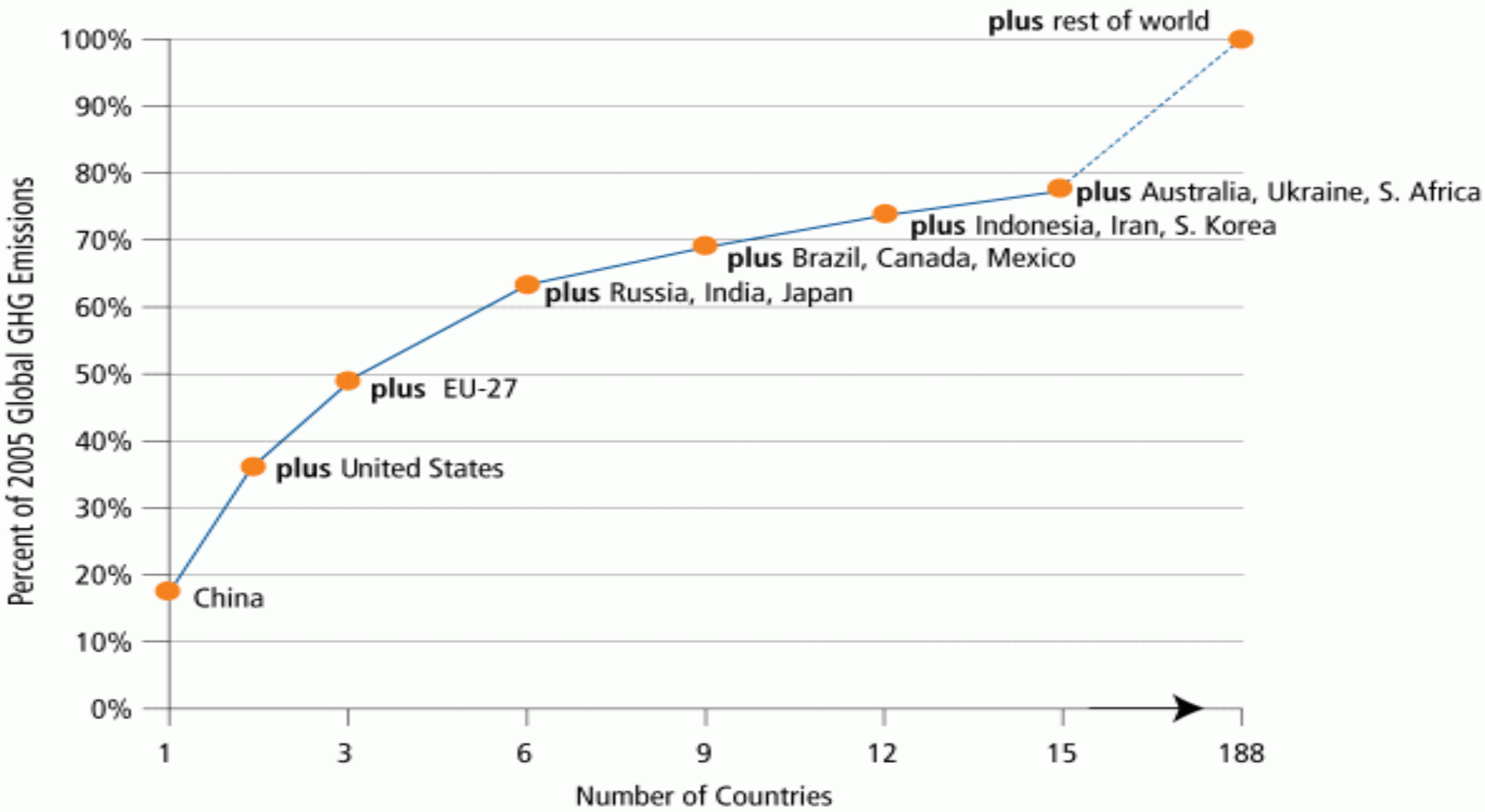


Source: WBGU (2009).

WBGU (German Advisory Council on Global Change)(2009). Solving the Climate Dilemma: The Budget Approach. Special Report. Berlin: WBGU Secretariat. Reprinted in the Climate Commission, THE CRITICAL DECADE: Climate science, risks and responses, 2011, page 56

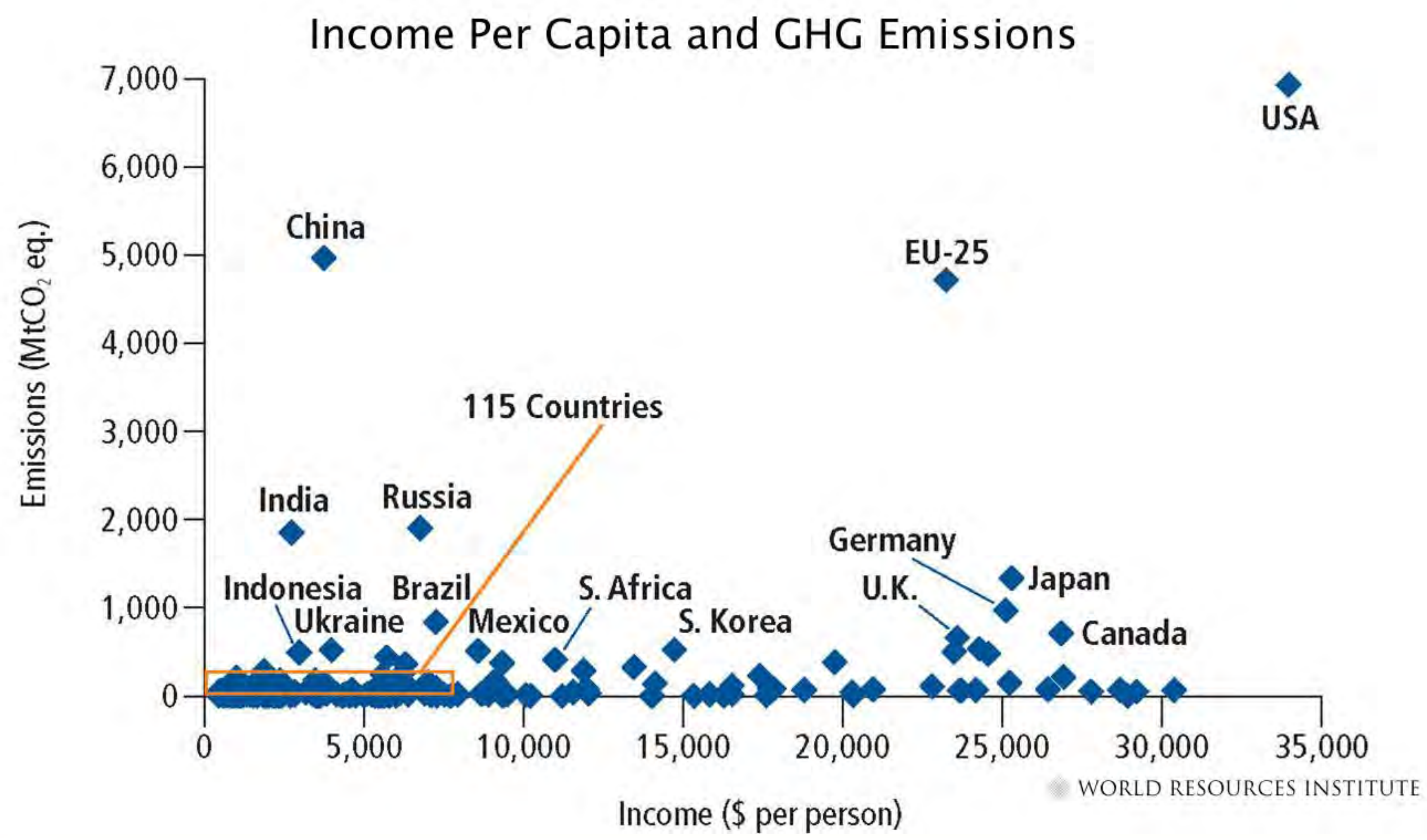
Who Needs To Contribute?

Aggregate Contributions of Major GHG Emitting Countries: 2005



Sources & Notes: WRI, CAIT (http://cait.wri.org). Percent contributions are for year 2005 GHG emissions only. Moving from left to right, countries are added in order of their absolute emissions, with the largest being added first. Figures exclude emissions from land-use change and forestry, and bunker fuels. Adapted from Figure 2.3 in Baumert et al. (2005).

Another Way to Look At It



A Post-Kyoto Agreement

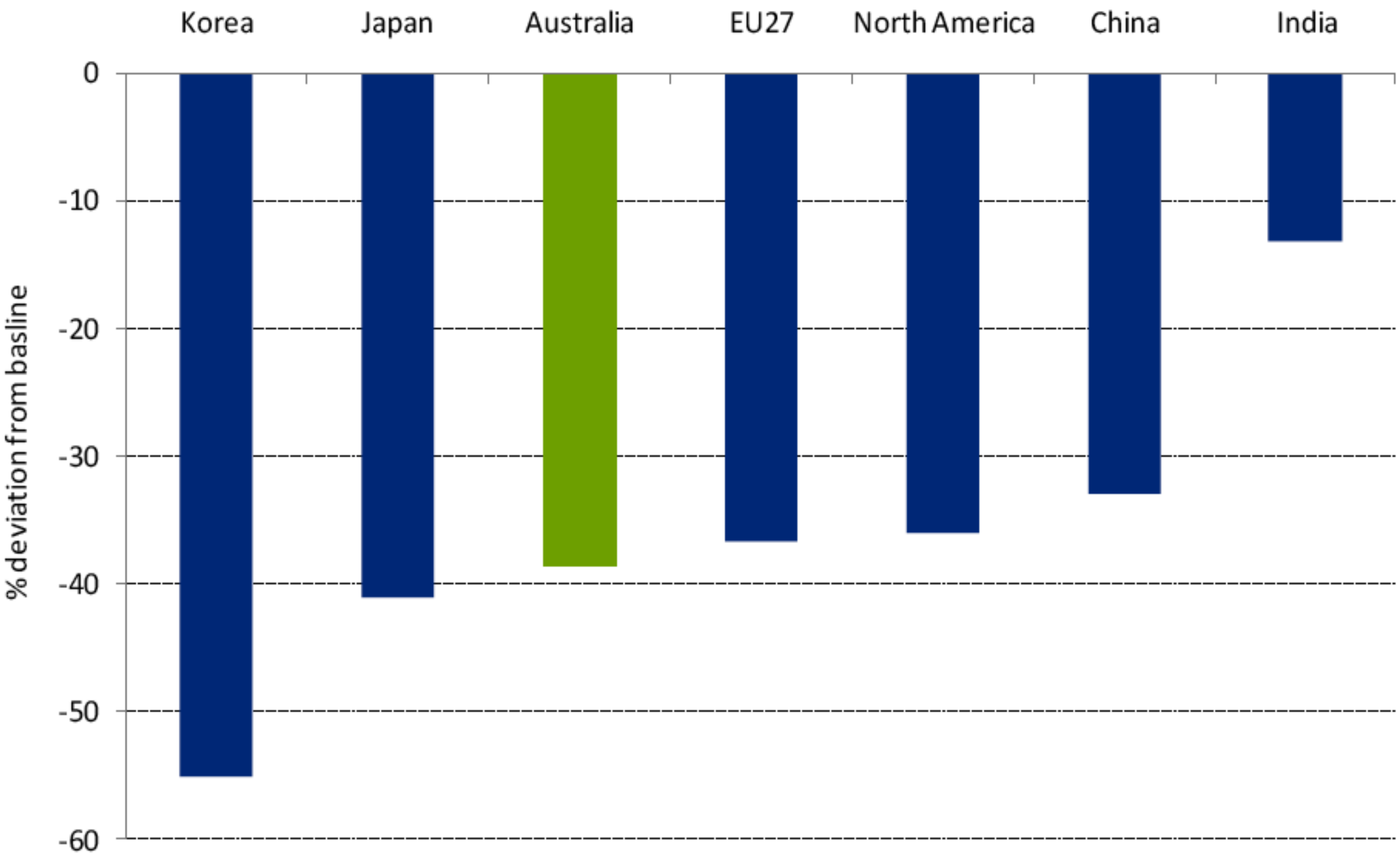
- **Not likely before 2015**
- **Dump the ‘developed’ / ‘developing’ country paradigm**
  - ‘advanced’ / ‘least-developed’ solution
  - GDP/capita of Ukraine is the standard?
- **Kyoto architecture flawed**
  - USA, China and others will not commit
  - Canada, Spain, Japan, Italy, Ireland cannot meet their targets
- **The concept of ‘comparable effort’**

Australia's Negotiating Position

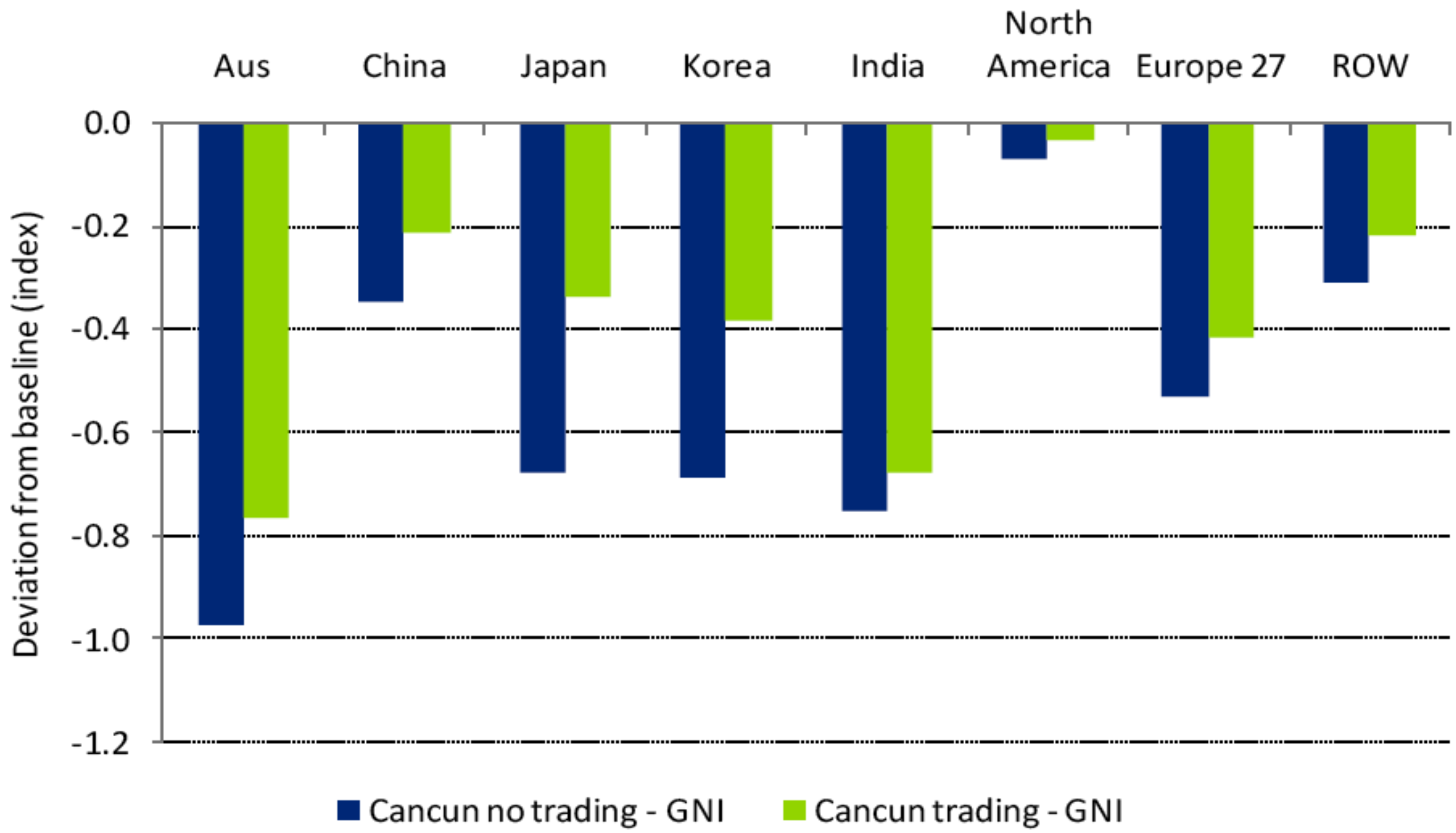
"… reduce Australia's emissions by 25 per cent on 2000 levels by 2020 if the world agrees to an ambitious global deal capable of stabilising levels of greenhouse gases in the atmosphere at 450 ppm CO2-e or lower…and… to unconditionally reduce Australia's emissions by 5 per cent on 2000 levels by 2020, and to reduce emissions by up to 15 per cent by 2020 if there is a global agreement which falls short of securing atmospheric stabilisation at 450 ppm CO2-e, and under which major developing economies commit to substantially restrain emissions and advanced economies take on commitments comparable to Australia's."

Joint submission to the UNFCCC by Australia, Belarus, Canada, and the European Community, May 2009

Comparison of low Cancun pledges: emissions reduction from bau



Comparison of low Cancun pledges: impact on GNI



Clean Energy Future: good policy intent

The 'good' policy of pricing emissions rests on two worthy objectives set by the Government

- Least-cost
- Mitigate investment uncertainty created by the policy process over the last several years

Not least-cost

Fails the least-cost test on 5 counts

- **$23/t is 50% higher than the world price**
  - plus price floors and ceilings
- **The scheme covers under 65% of emissions**
  - agriculture and motorists are 30% of emissions
- **No plan to deal with the 237 inefficient measures**
- **Restriction on eligible international units**
- **Object of the draft CE Bill and default caps shift 100% of the Australian pledge onto the scheme**

More uncertainty

Increased uncertainty for

- **Emission intensive trade-exposed industry**
  - major competitors doing little and no global agreement soon
  - 3 PC reviews in 5 years, with prospect of new JCP design
- **Electricity sector**
  - brown coal generator buy-out deal unknown
  - the RET continues to crowd-out gas-fired
  - operation of the Clean Energy Finance Corporation
  - $5-6 billion in asset value loss in NSW and Qld

Implications

In the next 10 years:

- Over $25 billion in additional costs imposed on trade-exposed manufacturing and mining industry
  - investment and jobs will go overseas
- Potential $18 billion hit on the budget if emission prices are low
  - wealth transfer to households will need new taxes
- The $5-6 billion asset loss for NSW and Qld owned electricity generators will burden those States

References

- AIGN http://www.aign.net.au/
- Department of Climate Change http://www.climatechange.gov.au/international/index.html
- UNFCCC http://unfccc.int/ghg_data/items/3800.php
- World Resources Institute www.wri.org