

THE AUSTRALIAN GREENHOUSE STORY

(In 7 papers)

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Our government has now, it seems, decided to nail its colours to the carbon capture and storage (CCS) mast, come what may. In reaching that decision it has rejected, at least for the time being, the Kyoto logic of 'Cap and Trade' and the resultant Emissions Trading Market. By rejecting Kyoto, it has also rejected the advice it has so frequently received, that by applying economic pressure on emitters across the board, change will occur much faster and that it is this that will cause new sources of energy to emerge to replace fossil fuels and that, in turn, will create new products requiring less energy to make and to operate.

Our government, contrary to its free market philosophy, has rejected a market approach and is, attempting to 'pick winners', which conventional logic says is a dangerous game to play. Nevertheless it says it feels justified. It would probably argue, for example, that we have at least 200 years' of coal, so why give it up? Or, that we have market advantage with coal because it provides the cheapest power available, unless its pollution is policed, why surrender this? Or again that the Europeans have obtained unreasonable advantages using nuclear energy, therefore we need to match them by 'toughing it out' with coal. After all, the Americans are in the same boat and together we may be able to achieve something.

To add credibility, the US and Australia are trying to bring about an alliance with Japan, China, India and South Korea, all of which are also coal reliant. While these nations are prepared to support the acceptance of geosequestration and other so called, but unspecified, 'technological solutions', it is clear, even at this early stage that their actions will be largely



governed by their customers' requirements. The European Union and the other nations which have ratified Kyoto (which includes Japan) have made it clear they will press for an earlier and more stringent compliance with the treaty. They are certainly in no mood to hold everything in abeyance while the coal users sort out a satisfactory commercial application with CCS, over the next 20 years or so. They want action now and it seems most likely our new allies will accept their requirements because to refuse to do so could result in the loss of their trade.

But the risks are huge. The Europeans and the many other nations who support Kyoto are determined to proceed. They now argue the process can, and should, be speeded up. They hold the votes to extend Kyoto as an international treaty whereas Australia by refusing to ratify the treaty has become a mere observer. They are likely to set far lower targets for the second and subsequent commitment periods than Australia would previously have anticipated. We must therefore now contemplate a second commitment period target somewhere in the order of 90% of 1990 levels or even lower.

If this is the case, we will indeed be in dire straits. Our emission levels by the second commitment period are likely to be in the vicinity of 140% + of 1990 levels, and rising. On any reasonable

assessment, we will still be waiting for the commercial implementation of geosequestration, always assuming its trials are successful, and without any other significant means of reducing GHG. At the same time we need to trade with our traditional customers, most of whom will by then be linked to a worldwide Emissions Trading Market. Each of our customers in complying with its Kyoto obligations will have imposed on its own citizens, the cost at the market rate for emission offsets. That would leave those nations no option but to impose countervailing duties of at least the same order on Australian imports (including packaging). If they failed to impose countervailing tariffs on Australian imports this would put their own producers at a market disadvantage because the Australian products, not having been made to comply with Kyoto, would be cheaper.

This is a topic that has received only scant attention in Australia except in a handful of industries, notably the wine industry. In Europe it is discussed frequently and openly and is recognised as a legitimate way of bringing about a de facto re-introduction of tariff barriers that have only recently started to be removed in the name of the so-called 'level playing field'. Manufacturers of car parts, and Australia is a significant producer in this market, are already finding that environmental regulations are being imposed in Europe (to reduce GHG emissions) that mitigate against their products. In Europe, wine buyers are being warned not to tie themselves to Australian producers because Australian wines will

become progressively dearer as the result of countervailing duties once these begin to be applied.

Some naïve producers still believe the World Trade Organisation will prevent any of this occurring without realising that the WTO judicial process has already ruled on the issue and found in favour of nations imposing tariffs for environmental protection purposes.

Others, no less naïve, look to our free trade treaties particularly with the US as providing us with a trading solution to offset countervailing tariffs without appreciating that in a 'greenhouse trade war' our traditional customers would, for the most part, be on the other side.

Still others believe they can always move offshore and manufacture in some developing nation to which Kyoto does not yet apply. Their belief is that their exports back to Australia would not attract countervailing duties. This seems naïve in the extreme.

All up therefore, it is hard to see Australia faring well in international trade unless by a combination of initiatives, which it is conceded could include CCS, we are able to keep emissions down to a Kyoto level after 2012. On the most recent ABARE estimates it appears this will be next to impossible without the introduction of 'Cap and Trade' and an Emissions Trading Market.

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