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Climate Policy Turmoil

In this extended article, the CarbonEdge team explores the issues, themes and sub-themes that are running through the national capital as the nation's political leaders try and try and try to work out exactly what our domestic emissions reduction program will be or should look like.

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Fitzpatrick Woods Consulting is a sustainable development consulting firm with expertise in climate negotiations, research, public policy and campaigning in Australia, the Pacific and Asia. FWC provides industry, business and investment analysis and support. FWC works with affiliates in Indonesia and Papua New Guinea and recently opened a project office in the Solomon Islands.

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Climate Policy Turmoil



Climate policy turmoil affects Australian business outlook

In this extended article, the CarbonEdge team explores the issues, themes and sub-themes that are running through the national capital as the nation's political leaders try, and try and try to work out exactly what our domestic emissions reduction program will be or should look like.

At CarbonEdge we have the impression that every member of the population knows and understands the domestic manoeuvring over Australia's emissions reduction scheme. But for the record, we see it like this.

Without a strong outcome in Copenhagen (which was never likely), the impetus for decisive domestic action was lost, allowing the newly invigorated Coalition time to develop a new policy and providing a pretty determined Government with little wriggle room at least until their Carbon Pollution Reduction Scheme (CPRS) legislation is defeated once again.

While that's it in a nutshell, following is our more detailed analysis.

Coalition emissions reduction strategy creates genuine policy divide

Well before it was released, it was obvious that the new leadership of the Coalition had set its domestic climate change policy. So much of it was being dripped out that it was not difficult to guess the underlying principles that were being applied.

According to *The Australian* (4th December 2009), quoting the Coalition spokesman on climate change, **Greg Hunt**, the Coalition's policy would operate on a three pillars approach.

At the time, these pillars were described by Hunt as 'green carbon initiatives', energy efficient buildings and incentives for clean energy.

One well connected source who spoke to CarbonEdge then suggested that the new policy would be 'a lot like

the NSW GGAS program'. In essence, the NSW GGAS program provided rebates for specified emissions reduction and sequestration activities and was similar to an abatement scheme proposed by former Prime Minister **John Howard**.



The comments of **Tony Abbott** in launching the new Coalition policy confirmed that the abatement policy was drawn from the NSW GGAS Program. While this is true at a practical level, the main reason the comparison has been drawn is because the NSW scheme was introduced by a Labor Government. Tony Abbott is essentially saying his scheme and the NSW scheme are good and it is now Federal Labor's scheme that is out of step.

For all that, until just last week, after months of unseemly public debate, real detail was hard to extract from a **Liberal**



Climate Policy Turmoil cont...



Party room that just two months ago was conducting an unseemly leakathon.

To read the details and CarbonEdge analysis of the Coalition's Emissions Reduction Fund, click here.

And on the Government's side...

While all around them lose their heads, the Federal Government has made clear its commitment to the passage of its Carbon Pollution Reduction Scheme (CPRS) legislation. But almost nobody believes it will pass the Senate.

However, the Government's real commitment now seems to have shifted to a cap and trade based emissions trading scheme, not necessarily or even particularly the CPRS.

Prime Minister **Kevin Rudd** has left it to his ministers, but it is clear that while the passing of the CPRS would satisfy the Government, they have all but conceded it will not pass. A stubborn approach to policy from a government still in its ascendancy is no surprise. But the continued adherence to a market mechanism may not last as long as the stubbornness. If the impasse is not broken soon, something may have to give.

The Greens' leader, **Bob Brown**, has suggested a temporary carbon tax and the Government is talking to the Greens. That is a change of tune and perhaps signals the easing of approach from the Government that an outcome might just require. But don't expect a carbon tax to be introduced by negotiation with the Greens, even though it is likely to be used to pressure Tony Abbott's Coalition and what the Government views as overly critical industry groups.

Meanwhile, the straight talking Resources and Energy Minister, **Martin Ferguson**, has reportedly been very firm

that in pursuing an emissions trading scheme, the Government will not cave in to demands from some of the major emitting industries (the aluminium industry has been most vocal) for additional compensation to trade exposed industries. (*Australian Financial Review*, 22nd January 2010)

Business support is on the wane for the CPRS, despite the Government committing far more compensation than it had intended. With an emissions trading scheme that is now expensive, disturbingly complex and increasingly unpopular, the failure of the CPRS might not especially bother the Government as it would give them a second shot, perhaps at something simpler.

Addressing one of the other criticisms of the Government's approach, Mr Ferguson was also clear that action in the US to introduce an emissions trading scheme was not a pre-requisite for the Australian Government to proceed with its own emissions trading scheme. CarbonEdge thinks this point is well made, even though it has been lost on most commentators.

The point is that even if the CPRS is voted down, the Federal Government will be pursuing an emissions trading scheme, arguing to the Australian population in an election year – an election they will almost certainly win – that flawed and new as it may be, a proper market based scheme represents action on climate change. That does not mean there will be an outcome before a new parliament is sitting, but it does indicate Australia remains more not less likely to operate an emissions trading scheme.

Best method to reduce emissions still some distance away

The genuine policy shock in all of this is that despite its failings and likely failure, the market mechanism of the

Climate Policy Turmoil cont...



emissions trading scheme are supported by Labor and in essence, the regulatory path - with serious qualifications - is supported by the Coalition. Of course it is easy for the Coalition to run this line when in Opposition. Whether this approach would continue if they were in Government is another question altogether.



None of us can predict the outcome of the CPRS legislation when it makes its way back into the Senate this week. However, it seems likely it will fail again, providing the Government with a double-dissolution election trigger. But still no legislation and no business certainty.

We should not assume that failure of the CPRS will lead to a wide ranging debate in the Federal Parliament about the best method to reduce emissions. That is too much to ask and very unlikely. But we could and should see a proper debate about the relative merits of different schemes occurring outside the Parliament.

And the Coalition might be able to contribute to the policy debate in a meaningful way for the first time.

Subscribers can click here to access the CarbonEdge team's analysis of the Federal Coalition's policy.

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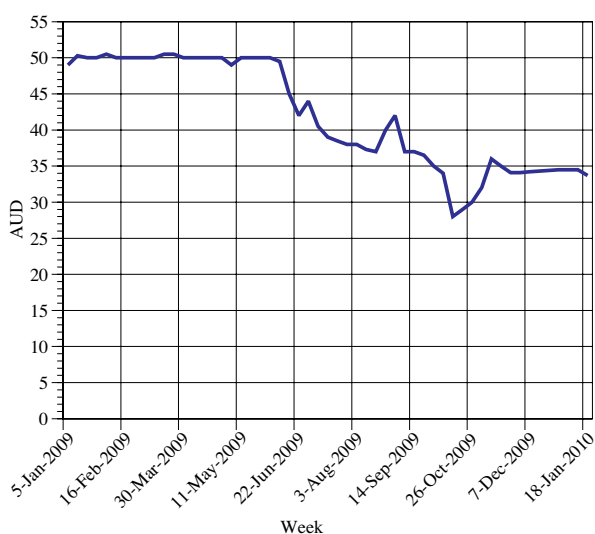
REC needs mandated floor price



Amid the turmoil of the Government attempting to pass legislation on Carbon Pollution Reduction Scheme, introducing a carbon trading mechanism and attempting to respond to the fragile commitments of Copenhagen, there is a casualty of the skirmishing that has fallen close to home.

The casualty, not a fatality yet, is the price for Renewable Energy Certificates, which fell away reasonably sharply during the third quarter of 2009. To be supportive, or at least fair, the price for REC's is likely to be volatile as it finds a true market price while it continues to respond to short term influences such as rebates that are offered or removed from hot water or solar systems for instance, the level of water in hydro dams and the number of Green Power sales. However, a significant factor remains the uncertainty about what is counted in and what is out, and for how long.

Weekly REC Prices
5 Jan '09 - 18 Jan '10 (AUD)



Source: NextGen

During the last quarter of 2009, a significant number of RECs were available under the auspicious of the Renewable Energy Target schemes. Applying Economics 101, when the

supply of goods increases and demand does not respond fully, then the price heads south.

While we can stand back and say "well that's obvious, what do people expect?" the cold reality is that if the price of RECs is not controlled through a mechanism such as mandated floor prices, then the other parties in the trading of RECs, namely the major energy suppliers (generators) will turn their backs on the potential of renewable energy and revert to the cheaper option of fossil fuels.

While CarbonEdge does not wholly support intervention by the Government of the day into market prices, in this instance there is an argument a floor price for RECs should be considered in the interim to encourage energy generators such as AGL and Origin to pursue major renewable energy schemes.

It is the old chicken and egg conundrum, which comes first – a REC scheme to encourage renewable energy investments, or commitments to the investments without the schemes to encourage them. The answer is preferably that both RECs and the investments occur simultaneously, however, as always the theory is easier understood than applied.

The volatility in REC's pricing is certainly a disincentive to market traders, especially in periods when the price heads south with such commitment, but for businesses, industry and households higher energy prices are almost certainly the outcome as the generators have to claw back the capital costs of large renewable energy projects, and a tool for this would be Green Power sales.

The battlefield does not look pretty in the short term, and REC prices bouncing along the bottom is akin to cutting off supplies to the fighters. A mandated floor price will provide some certainty of supply of reasonable funds to the front line, at least until the skirmishing stops and the investments are made.



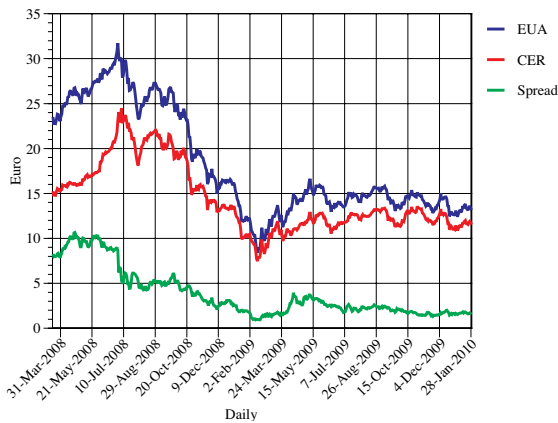
The CarbonEdge Charts

More and more information is becoming available on markets and carbon prices. CarbonEdge expects this information to multiply rapidly over the next few months and years.

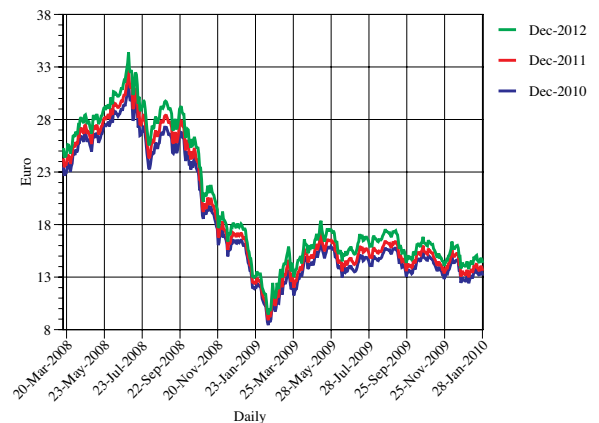
Here, CarbonEdge provides four charts showing the prices of several forms of emissions allowances and credits. All of the charts refer to European base prices.

Organisations and individuals are free to use the CarbonEdge charts and other information contained in this document.

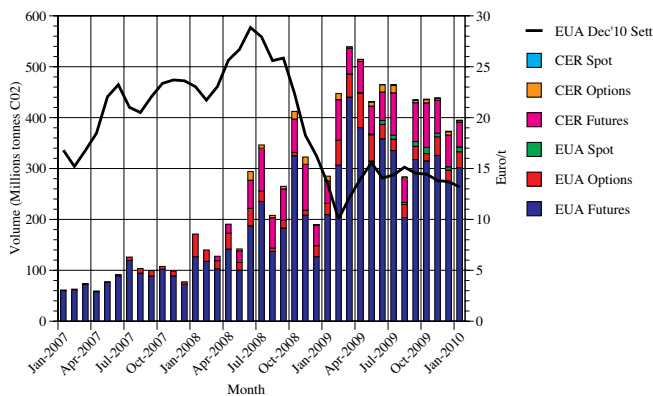
However, we do request that you attribute the charts to CarbonEdge and where appropriate, include the CarbonEdge logo and website: www.carbonedge.com.au



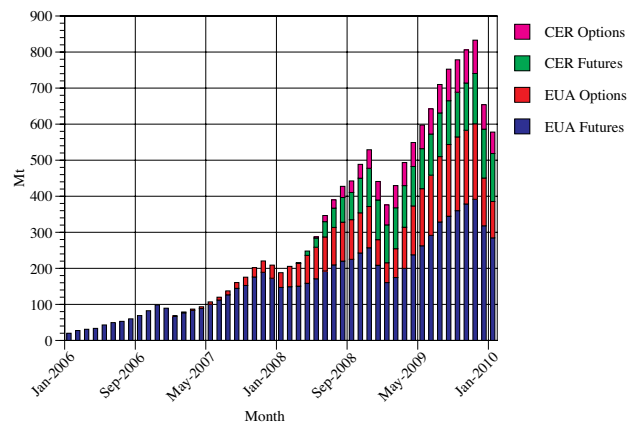
CER-EUA Futures Spread
14 March '08 - 28 Jan '10 (Euro)



EUA Futures
14 March '08 - 28 Jan '10 (Euro)



Contracts Monthly Volume
Jan '07 - Jan '10 (Mt & Euro/t)



ECX Open Interest Breakdown
Jan '06 - Jan '10 (Mt)

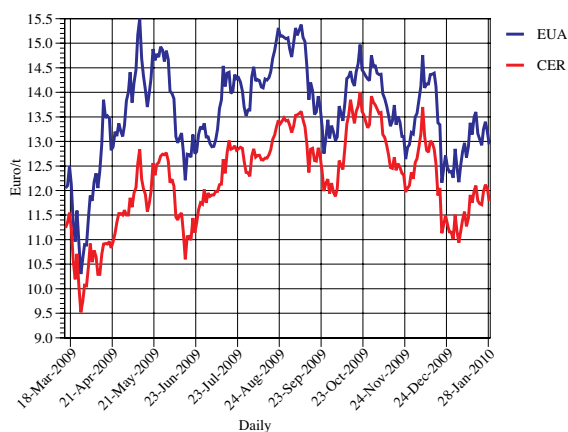
[Download Charts in PowerPoint](#)

For definitions and methods used to compile these charts, please download a free copy of the powerpoint presentation and notes.



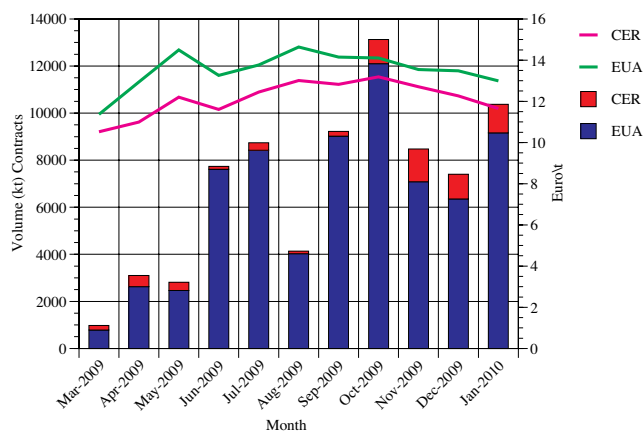


The CarbonEdge Charts Spot Markets



CER & EUA Daily Settlement

13 Mar '09 - 28 Jan '10 (Euro/t)



CER & EUA Spot Volumes

Mar '09 - Jan '10 (kt & Euro/t)

[Download Charts in PowerPoint](#)

The chart showing daily futures contract prices for European Union Allowances (EUAs) and Certified Emission Reductions (CERs) in Euros per tonne is bound to show more volatility than monthly smoothed charts providing the same data on an average basis. Therefore, for trading, it is the longer term trends which are going to matter.

The bulk of trading for the foreseeable future will continue to be for EUAs. There is a set volume and even as the Europeans move through future iterations of carbon trading business models, there will be a financial lag as holders of EUAs carry assets from one period to the next.

Market prices for EUAs have continued to be volatile moving in a range between Eur12/t to Eur15/t for EUAs and between EUR11/t and EUR14/t for CERs.

Towards the end of 2009 there was a surplus of EUAs on the exchange which pulled the price back sharply as the year ended. However, moving into 2010 the trend is more positive with renewed activity.

The prognosis for the market continues to be volatility within the band as traders seek to opportunities while policy and international agreements are moving at a lack-lustre pace.

What will the Copenhagen 'failure' mean for Australia?



Tim Woods

Of course, whether Copenhagen was a failure or a success depends on your frame of reference. If you think globally, then as UN climate change head, Yvo DeBoer said, it is another step towards a global agreement. But, if you think domestically, then the December conference was a failure because it created policy uncertainty that is driving a new paralysis in Australian policy making.

Without the stimulus of a fixed and clear international agreement, the driver, the urgency, the reason for immediate action is diminished, if it has not disappeared altogether.

The Government is intent on its CPRS legislation getting through the Parliament. It will put it back for another thrashing in the next couple of weeks. It has to play its hand out to the end. It cannot fold and anyway, the trigger for a double dissolution election is worth having.

But when, as seems inevitable, the legislation fails, it may just be back to the drawing board for the Government as they search for a solution to the political problem of the climate problem.

At the same time, the riven Liberal Party and their firm and unified Coalition partners, the Nationals, have found a new consensus. Their policy will avoid even the language of 'emissions trading' and be incentives based. That accommodates outright climate change sceptics and while barely, it suits the believers. Especially in an election year.

The major parties have never been further apart and the Greens have dealt themselves into a corner where nothing - even feasible schemes and programs that would deliver the most significant and emissions reductions - are acceptable.

Industry lobbies, business groups and unions have had a little to say, but not a lot. What can they say about a CPRS legislation package that has already failed and on which they have already been heard? Not much, but a lot more than they can say about an as yet unreleased Coalition policy on climate change.

It seems a little like waiting for midday in that great film, High Noon. And if you remember the street scenes as the time approached, the streets were deserted, the shops were shuttered and the people were just waiting for the outcome, feeling pretty helpless despite their underlying interest in the outcome.

And that's not good for business, investment or jobs.



Robert Eastment

The extent of the term 'failure' at Copenhagen, or at least the extent to which the word could or should be used is subjective, but in the eyes of the committed believers that the end of the world is nigh, then failure is a word they feel comfortable using.

For the pragmatic believers, they may even believe they are the true thinkers, then failure at Copenhagen is couched more in terms of success in the realisation that globally there is still a differing opinion among parties across many aspects. To name a few the biggest one would be is climate change really happening or is it a hoax, who should pay for it and who should be compensated, how will regulation be imposed on none signatories? There are many vexing questions still to be discussed before agreement can be reached.

On the domestic front the pragmatic disciples see the scene as little different to the international stage. Significant differing opinion is still apparent across the nation, the current Federal government is increasingly politicising the debate and science appears to be less of a tool in finding a solution.

Businesses and corporations also have diverse opinions on the introduction of a CPRS and the impediments or incentives this may provide. Many companies are clearly of the opinion some action needs to be taken to reduce emissions and are undertaking voluntary reduction programs. While the political imbroglio continues, the commercial world is already making inroads.

If success or failure of Copenhagen is judged on political solutions then the world has a problem. Science and markets are already making the difference in many countries, with developing countries (including China and India specifically) realising action is required but on their terms.

In the domestic arena reality is little different. While political grandstanding and filibustering are set to continue for probably a few elections to come and go yet, those who are more action than talk are just getting on with making a difference.

Island nations under threat: the climate challenges in Pacific Island nations

Daniel Misson, MA, an emerging social policy analyst, author and educator has written, exclusively for CarbonEdge, what is perhaps the most detailed and considered article on climate change, the Pacific Islands and Australia's role that has yet been seen.

The Pacific Islands have been shown to have a unique vulnerability to the effects of climate change. They are among the least responsible for climate change, yet most severely impacted by it. Issues relating to food security, migration, energy security and gender have been identified as areas of specific vulnerability requiring a careful policy response.

Pacific Island nations will be particularly reliant on external developmental aid assistance to successfully adapt to the risks that they are facing. Australia has been called upon to play a vital role in this regard.

The research considers these regionally identified needs and the implications that this has for Australian policy making.

Australia's response needs to be one of practical implementation and effective engagement that effectively couples the principles of sustainable development with climate change policy, and is not simply measured in terms of statements and initiatives.

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Greens propose temporary carbon tax

On 21st January 2010, Greens Leader Bob Brown announced a new Greens policy to introduce a temporary 'two year' carbon tax to ensure a price is placed on carbon. The Greens proposed an initial price of AUD23 per tonne, rising to AUD24 per tonne within a year. In what is likely to prove a sticking point for the Government, which has started a discussion with the Greens on this proposal, the Greens oppose compensation to the non-renewable electricity generators.

Complaints on Greenwashing Hit Record Highs

Complaints about green washing - the practice of claiming a non-existent or exaggerated environmental benefit - are coming thick and fast according to the Australian Competition and Consumer Commission (ACCC). The majority of complaints and certainly the highest profile examples have been about so called 'green power' providers and their carbon offset programs. Subscribers can **click here** to read a more detailed article.

However, there have been other complaints.

CarbonEdge understands the ACCC has recently received complaints alleging that environmental claims about some entire product types are wrong and unable to be substantiated because they do not follow the ACCC's guidance of January 2008 that:

"When making claims about a particular characteristic or part of a product, you should also consider the whole product life cycle. The manufacturing, recycling, destruction and disposal process should be taken into account before making any environmental claims regarding the relevant characteristic or part."

To download a copy of the ACCC guidance document, **click here**.

Still other complaints allege that environmental campaigners who lend their names to products by way of being credible, independent endorsements are misleading because the payments they and their organisations receive means they are not independent. CarbonEdge is familiar with one such complaint which alleges that the use of the term

'sponsorship' instead of advertising adds to the misleading nature of the claims.

With actual falsehoods and incorrect or unsubstantiated statements, a lack of deep consumer awareness and no clear standards for what is and is not 'green', the ACCC has its work cut out over the next few years.

IPCC wrong on glaciers - credibility damaged

Himalayan glaciers will not be melted by 2035 on the current global warming projections as previously reported by the UN's lead scientific body on climate change. An embarrassing technical error in the 4th Assessment Report of the Intergovernmental Panel on Climate Change challenges the credibility of the lead global scientific advisory body on climate change.

To read more on the IPCC's woes, click here.

Green loans join raft of household measures

Australia's domestic 'green loans' program has joined a raft of other household measures designed to assist households and families to reduce their emissions. CarbonEdge has regularly commented on the relative economic efficiency of these measures compared to industry level measures.

To read the latest CarbonEdge analysis, click here

Copenhagen timing commitments likely to be 'missed'

Part of the Copenhagen 'accord' involved countries advising their emissions reduction strategies and in the case of developed countries, targets, by 31st January 2010. The head of the UN climate change body advised that only twenty four countries had even sent letters agreeing to the accord.

However, by the 29th January, a much larger group of countries had provided the requisite correspondence

and Australia had included its pre-existing emissions reduction ranges (5% unilateral and up to 25% if the world agrees to significant action).

.....
[To read more, click here.](#) [To download a copy of the Copenhagen accord, click here.](#)
.....

Wood pellet plants get new record holder

Reports on the Renewable Energy World website indicate that a 750,000 tonne per annum wood pellet factory will be built in Georgia, in the US South. This would be the largest pellet plant built to date. Its development comes amidst the frenzy of activity to develop these plants to provide relatively cheap pelletised wood to meet the European renewable energy target.

Reportedly, these pellets are destined to be co-fired in a Netherlands coal fired power station but can be re-directed into pure biomass power plant, as and when required.

.....
[To read more, click here](#)
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United Arab Emirates goes for hydrogen and gets in on the act

Demonstrating that everyone is getting in on the act, the United Arab Emirates (UAE) has announced it will build a USD2.2 billion hydrogen power plant with a linked carbon capture and storage (CCS) project to be completed by 2014.

The UAE will be operating a splitter plant where natural gas would be broken down into hydrogen and carbon dioxide. Around twenty per cent of the approximately 500 megawatt plant will be used to run the plant which is expected to store around 1.7 million tonnes of carbon dioxide per annum. Presumably the captured carbon dioxide will be making its way into former oil wells.

Proponents of the project is Hydrogen Power which is a joint venture that includes Rio Tinto, BP and Masdar.

US cools on climate action...

Reports from the United States indicate, not surprisingly, that US President Barack Obama is cooling his desire for immediate and substantial action on climate change. In particular, the emphasis on a cap and trade emissions trading scheme is likely to be dropped in coming weeks.

While Tony Abbott has leapt upon this as an example of a change of Obama's policy position, this is not really what is going on.

After the by-election for the Senate vacancy created by the death of Ted Kennedy, and the Democrat's loss of the by-election, Obama has lost the prospect of passing meaningful legislation without serious negotiation.

That remains possible, but Obama is committed to his health care legislation, and to picking up the pace of the clapped out US economy. So, this is not a change of policy, just a change of political circumstances, and not particularly surprising for all that.

...Steps up action on alternative fuels

Meantime, President Obama has thrown yet more weight and funding behind the push for renewable and alternative fuels for the US.

Major efforts and expansion of the corn based ethanol industry and other alternative liquid fuels. The US effort here operates on two fronts. First, it is an emissions reduction strategy. Second, it is an energy security strategy.

Australia may be concerned to secure its energy futures, but for the US, it is absolutely critical.

Emphasising the inter-relationship between the two policy agendas, Obama also announced an accelerated carbon capture and storage program, partially in recognition that coal will continue to drive the US stationary energy industry for decades to come.

This sounds familiar because it is, except for the emphasis on alternative liquid fuels. Perhaps its time Australia took the lead from the rest of the world on that front.

Some energy companies are ducking from lifecycle analysis of energy and emissions

Lifecycle analysis and a whole of life approach to impact assessments are a key aspect of sustainability. Unfortunately, there are many commentators who either do not understand or wilfully refuse to accept the validity of lifecycle assessments.

What is worse, is that some manufacturers are ignoring lifecycle considerations when they promote their products as good for the environment.

CarbonEdge will not be naming any business in particular, but we are keenly aware that some renewable energy companies, especially in the solar and wind area, refuse to provide any information about the energy used (and therefore the emissions generated) in the manufacture and installation of their generators.

If it is possible to say how much energy a solar panel or wind turbine or wave or tidal unit will generate over thirty years, it is also possible and probably more accurate to determine how much energy was used in its manufacture. The only reason we can see for not disclosing this information is the certain knowledge that the 'pay back' time to neutrality is too long to justify the investment and higher cost of these energies.

CarbonEdge is conducting research on lifecycle analysis and will report on it in a subscriber only special report in the April edition.

Save the planet - print this publication!

When it comes to lifecycle analysis of energy use and emissions, our computers and digital systems have a lot to answer for.

Some fairly simple research demonstrate that on a standard computer, one hour of reading will cause the emission of approximately 220 grams of CO₂e but a printed book of 700 pages uses only around 80 grams of CO₂e.

So every time we read a document on line or send an email, we use more energy and emit more greenhouse gases. Printing the document means it will never use any more energy and others can read it without using even more energy. Oh, and that is without mentioning recycling, which does not happen with your computer.

Perhaps it is time those silly email footers that say things like 'think before you print' should be replaced with 'think before you email'.

To find out more, click here

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Contact CarbonEdge

CarbonEdge needs you views and feedback on the publication, its content and ideas for future editions

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