

Brendan Pearson
Deputy Chief Executive, Minerals Council of Australia

"More than at any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction. Let's pray we have the wisdom to choose correctly."

For some observers, this extract from Woody Allen's 1980 'Speech to Graduates' might sum up the debate over the White Paper on an emissions trading scheme. On the one hand, the White Paper has been widely condemned by environmental NGOs well-practiced in hyperbole and ambit claims. On the other hand business groups, including my own, have warned that the ETS, in the form proposed in the White Paper, will cost jobs, investment and competitiveness. Some have been tempted to surmise that this means the Government has charted an appropriate 'middle path'.

But this is a lazy and cartoonish view of the challenges of sensible policy making. Leadership and sound policy making takes more than running a figurative tape measure between the two poles of a policy debate. That is especially the case where one end of the spectrum is populated by a cheer squad of enthusiasts whose analysis is uninhibited by economic and practical realities, including the impact on the living standards of average Australians.

The truth is that the proposed ETS is neither cautious nor a 'middle path'.

Under the White Paper approach around 70 per cent of permits will be auctioned. No comparable scheme anywhere in the world has ever auctioned more than 2 or 3 per cent of its permits. This means that many Australian firms will be paying tens or hundreds of millions of dollars in permits costs *every* year.

And another misconception is that there will be wheelbarrow loads of free permits to protect the competitiveness of Australia's export sector. Not true. Nearly 90 per cent of Australia's minerals exports will be subject to the full impact of all of their permit costs. At an expected opening carbon price of \$25 per tonne that's a lot of competitiveness being put at risk – literally billions of dollars of annual costs will be borne by local producers of coal, iron ore, gold, uranium and so on. Their competitors will face no such burden, at least not for a decade or so. Those who believe that this burden won't harm the competitiveness of our most important export sector also believe in the Tooth Fairy, monkey fishing and that Elvis Presley is living in a mobile home in Tumut.

It may not yet be widely understood but Australian business will face the highest carbon costs in the world. By a very large margin. Between 2010 and 2014, the carbon costs faced by an average Australian firm will be 18 times higher than its counterpart in the EU. And that margin won't close quickly. Under the deal finalised in Brussels by EU leaders last month, average European firms will not have to buy all their permits until 2027. That's right - 2027. Those who argue that Australia's scheme is softer than Europe's have a poor grasp of arithmetic.

The contrast between the treatment of so-called emissions-intensive trade exposed(EITE) firms is just as stark. Australian firms classified as EITE will be required to buy between 10 and 40 per cent of their permits from 1 July 2010 of the scheme. Their European counterparts will not be required to spend a single Euro on their permits before 2020. Not one single Euro. Real action from the USA is likely to be similarly delayed, while comparable action from China, Brazil and South Africa is even more distant.

Surely a 5 per cent reduction on 2000 levels shouldn't be too hard, say some. Given that Australia is already about 8 per cent above 2000 levels it will be a lot harder than some people think. On the White Paper's own numbers, we will have to strip 80 million tonnes of carbon out of our economy in the first 3 years of the scheme alone. By 2020, we will have to eliminate 250 million CO₂-e from current business-as-usual projections. That's nearly equivalent to the 2006 emissions of Australia's entire electricity and transport sectors.

These policy developments are contributing to some perverse outcomes. *The Guardian* reported last month on proposals to open 58 new coal mines in the United Kingdom. Meanwhile, in Australia – the world's largest coal exporter – production in the coal sector is being scaled back. Is this due to a sudden reversal of the rules of comparative advantage? Bear in mind that in Europe, coal miners face no current or future carbon costs because methane – the greenhouse gas generated during the mining of coal – is not even covered by the EU ETS. Meanwhile in Australia, the export coal sector will confront a \$5 billion carbon burden in the first 5 years alone. These are strange days indeed.

Ends.