

# Pottinger

PERSPECTIVES

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## **WHAT DO SAUDI ARABIA, THAILAND, IRAN, INDONESIA, ARGENTINA, JAPAN AND RUSSIA ALL HAVE IN COMMON?**



In total, around 60% of the world's GDP is now already subject to a price on carbon, or has one legislated or planned for implementation in the next two to three years. With this in mind, the key questions for Australia are these: Can we turn adaptation to a low carbon future to our country's advantage, and emerge from this energy revolution a winner, alongside countries such as China? Can we harness abundant zero-emission and renewable power sources in Australia to improve our competitiveness in key industries? Or are we better to hold back, alongside regimes such as Saudi Arabia, Thailand, Iran, Indonesia, Argentina, Japan and Russia, and wait to see what happens?

#### **What do Saudi Arabia, Thailand, Iran, Indonesia, Argentina, Japan and Russia all have in common?**

Of the world's 25 largest economies, these are the only ones that currently do not have, or plan to have, a carbon price at a state or national level. In total, approximately a third of the world by GDP already has a carbon pricing mechanism in place. Meanwhile, approximately 60% of the world by GDP (and by emissions), and over half the world's population, either has a carbon pricing mechanism in place, has legislated for one, or has announced plans to implement one. So, on this simple measure, Australia is neither a leader nor a laggard. Many other nations are already well on the path to reposition their economies for a low carbon future. It is critical to Australia's future that we seize the opportunities that the forthcoming energy revolution presents, to help us build new pillars of strength in our economy alongside resources and to secure medium to long term economic growth.

#### **So who already has a price on carbon?**

Most people are aware of the 30 European nations who already participate in the EU Emissions Trading Scheme. The scheme was introduced almost a decade ago and indeed several EU countries launched a carbon price as early as 1990. In fact, Sweden introduced a price of over A\$50 in 1990 and has since cut emissions by 12%, while achieving over 50% economic growth. The EU price is now around €8 (A\$10) per tonne of carbon dioxide equivalent, although the price peaked at €30 (A\$50) in the second half of 2008 and is projected to return to €20 to €40 by 2020. The EU system is well established and from

the start of 2013 will move into Phase III, with a wider scope, tighter limits on the use of offsets and a move to auctioning permits rather than setting allowances.

#### **But what about North America?**

The world's largest economy, the United States, does not have a national scheme. But ten states, covering approximately 30% of the country's GDP and a quarter of its population, have already implemented or are planning a carbon price. This includes California, the equivalent of the world's eighth largest economy. In Canada, almost half of the country is already operating under a carbon pricing regime, with three of the four largest states (Alberta, Quebec and British Columbia) having implemented carbon prices up to C\$30 per tonne. Meanwhile, Mexico has recently legislated emission targets and is encouraging the development of an emissions trading scheme.

#### **Aren't the larger emerging economies the biggest drivers of future emissions?**

Each of Brazil, Russia, India, China and South Africa are industrialising rapidly. Their energy requirements are increasing significantly as a result and all except Russia are on the path towards carbon pricing. Brazil plans to commence a trial of an emissions trading scheme in Rio de Janeiro to accompany the scheme launched in Sao Paulo earlier this year. India has a tax on coal of about A\$1 per tonne which was implemented in 2010, and an energy efficiency trading system implemented in the beginning of 2012. South Africa aims to implement a carbon tax in 2013 and China will introduce a scheme in 2015 taxing

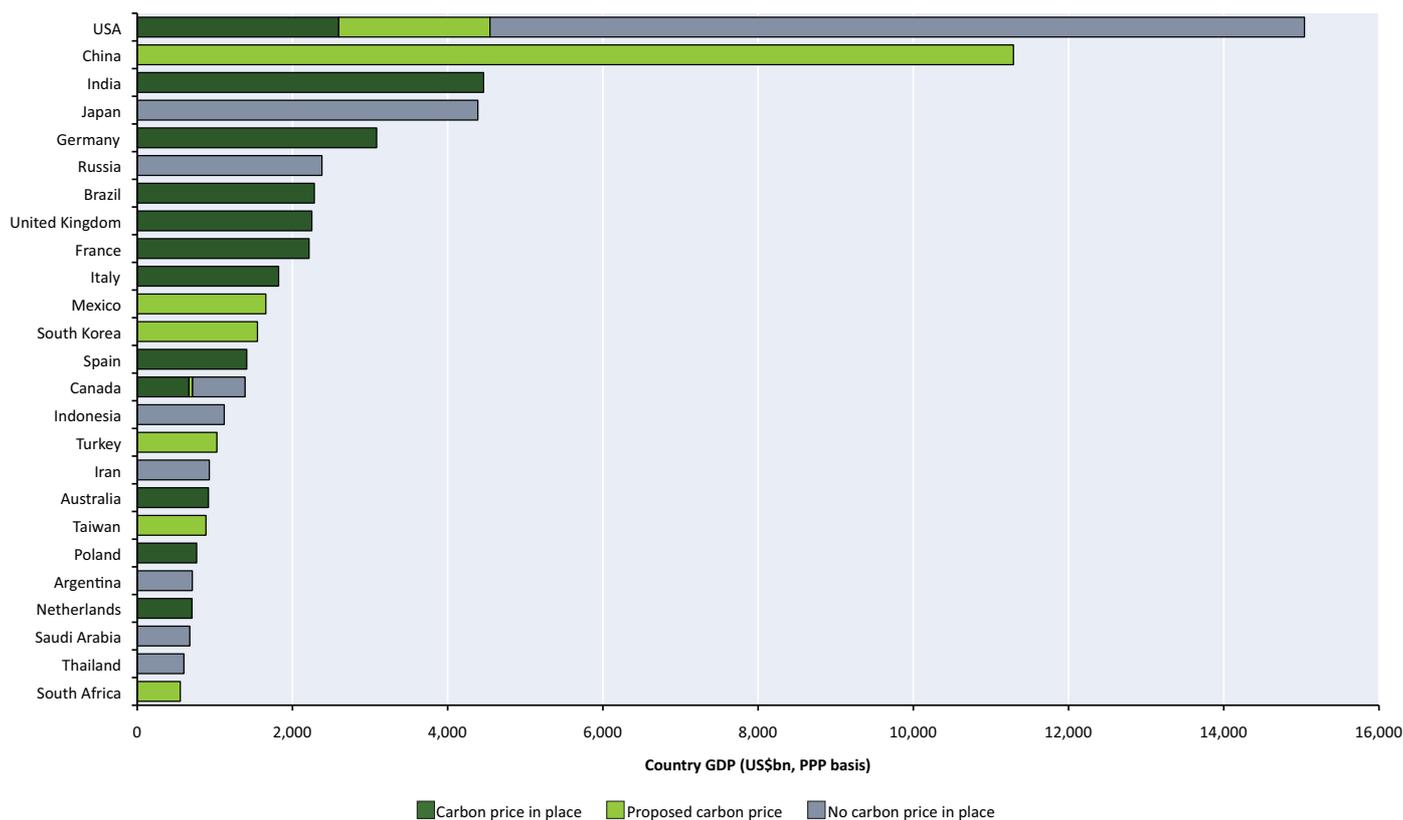


polluters around A\$1.50 per tonne. Before writing off these apparently low figures as proof that Australia's carbon price is far too high, it is worth remembering that, in GDP per capita terms, A\$1 in India is equivalent to approximately A\$40 in Australia. For China, the price on one tonne of CO<sub>2</sub> emissions is equivalent to almost half a day's work on minimum wage in a number of Chinese provinces, compared to the less than two hours of work on minimum wage in Australia. So, these carbon prices are meaningful in their potential impact on each country's consumers.

#### **Would Australia ever want to rejoin the "no carbon price" group?**

If Australia abandoned carbon pricing, we would find ourselves in a group that currently comprises Saudi Arabia, Thailand, Iran, Indonesia, Argentina, Japan and Russia. In contrast, the rapidly growing list of countries who are implementing carbon pricing mechanisms includes both large and small, and rich and poor. For example, Costa Rica has had a carbon price since 1997, Kazakhstan and South Korea have legislated emissions trading schemes to commence in 2013 and 2015 respectively, and Dubai has announced its intention to implement an emissions trading scheme. Similarly, Thailand and Indonesia, whilst not proposing to implement a carbon price, are working with the World Bank to develop policies to enter the carbon market.

### Carbon prices in the largest 25 countries by GDP



#### Could we just change the settings on the carbon price dial?

Economists agree that free-market pricing signals are likely to deliver the lowest cost reduction in emissions. One particular appeal of a pricing mechanism is that it is possible to adjust price signals in the light of emerging outcomes and the wider environment. Of course, taken to its logical conclusion, the optimum method is an exchanged traded scheme, with the specified emissions outcomes determining the price. This is the mechanism now in operation in Europe, and indeed was the mechanism proposed by both Labor and the Coalition in the Rudd/Turnbull period.

#### Will Australia win or lose from energy revolution?

Just like other revolutions, such as mobile communications, information technology,

motorised transport, industrial and agricultural, there will be winners and losers. Recent history has demonstrated that the victors can emerge incredibly rapidly – in just ten years, Apple’s market value has increased from US\$6bn to US\$591bn, while Nokia’s market value has declined from US\$70bn to US\$9bn.

China has stated very publicly that it is determined to win this race. Over 15% of its energy was derived from renewable sources in 2007 and is aiming to more than double this over the next five years. China has pledged to reduce its carbon output per unit of GDP by 40% to 45% by 2020. China is leading the development of the thorium-cycle nuclear reactor, which would provide clean nuclear energy with significantly reduced risks compared to traditional uranium reactors. With the rate at which China is changing its energy mix, demand for our thermal coal may

decline significantly, and there is a real risk that this will happen faster than we anticipate.

There is also real opportunity for Australia. We have abundant sources of renewable energy to be tapped, including low emission power sources that will *reduce* our power costs. Whatever policy pathway Australia takes towards implementing a low carbon economy, early and cost-efficient adaptation will be critical to our future, and will be an important aspect of developing new pillars of strength alongside resources to support our economic growth over the medium to long term. **P**

*By Nigel Lake, Daniel Chaitow and Julian King*

## About Pottinger

Our clients say that we offer a completely different proposition to traditional consulting and investment banking advisors, seamlessly integrating true strategic thinking, commercial insight, financial expertise and execution excellence. Our assignments typically relate to one or more of:

- Strategy and public policy
- Mergers and acquisitions
- Partnerships and joint ventures
- Restructuring and capital advice

Our approach to every assignment reflects a fundamental belief that strategy, business and execution perspectives must underpin any business initiative if it is to be commercially successful and stand the test of time.

Together our team has advised on over 200 M&A and financing transactions, as well as many significant strategic advisory assignments. Our first hand experience covers most of the world's larger economies, and we are accustomed to working on complex assignments across borders and cultures.

We are highly regarded for our investment in people, most recently being profiled by the Australian Workforce and Productivity Agency as a role model for effective skills development in financial services. In addition, Pottinger is the only organisation ever to have won the ABA's "Recommended Employer" award for six years in a row.



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