Australian Coal and Climate Change Mitigation

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Australia is often called the ‘lucky country’ meaning that its prosperity depends more on its mineral wealth and natural resources than on the enterprise or innovation of its people. Whether true or not, Australia's mineral industry has been, and remains, an important part of its economy. It has also helped fuel a ‘resource boom’ in mineral exports over the past five years or so.

Coal is the most important of all Australia’s merchandise exports and in 2008-09 accounted for almost one fifth of the total value of exports. Australia also has the distinction of being the world’s largest exporter of coal accounting for about 30 percent of world trade. However, in terms of coal production Australia is dwarfed by China which mines ten times as much, and the United States which extracts three times as much.

Coal is important in other ways. It generates approximately 80 percent of Australia’s electricity supply and accounts for about 3-4 percent of the country’s GDP. Over the past decade coal-mining royalties have contributed about 3-5 percent to state revenues in Queensland and New South Wales.

Coal and Climate Change Politics

The importance of coal for Australia has allowed it to figure prominently in climate change policy and politics. Coal provides cheap energy and is perceived as providing Australia with an important competitive advantage. Australia's coal mindset, in part, made its diplomats play ‘hard ball’ in negotiating its commitments under the Kyoto Protocol. Collectively, industrialized countries agreed to a 5.2 percent reduction in emissions, relative to 1990, by the end of the 2008-2012 commitment period. Australia secured an 8 percent increase in emissions. Despite this concession, the Australian government under John Howard as Prime Minister refused to actually ratify the Protocol.

The fossil fuel energy lobby has played a significant role in influencing Australia's energy and climate policy since the mid 1990s. The reticence to sign the Kyoto Protocol was, in large measure, due to the effectiveness of the lobbying by the coal industry and coal-fired electricity producers. For instance, Ian Campbell, the Minister for Environment and Heritage (2004-2007) in the Howard Government recently stated that during his tenure, “You had the big miners and energy producers fighting very, very hard against any movement on climate policy.”

The failure to ratify the Kyoto Protocol eventually became a ‘litmus test’ for the general public in terms of its perceptions about Prime Minister Howard and his government’s willingness to ‘do something’ on climate change. In an effort to stem increased domestic criticism that Australia was a laggard on this issue, and concern that climate change was responsible for the drought in south-east Australia that began in 2001, the Howard government announced in July 2007 a plan to establish an emissions trading scheme (ETS) by 2012 with emissions targets to be announced in 2008. By this time, and with just a few months before a general election in November 2007, the then opposition Labor Party had taken the moral ‘high ground’ and promised to ratify the Kyoto Protocol and reduce Australia’s greenhouse gas emissions once elected.

In the November 2007 general election the Howard government lost office. One of the first acts of the new government led by Prime Minister Kevin Rudd was to ratify the Kyoto Protocol. A key plank in the Rudd government’s climate change mitigation policy is the commitment to implement an ETS that it calls a ‘Carbon Pollution Reduction Scheme,’ or the CPRS.

The CPRS policy came out of a process that began with an independent review headed by an academic economist, Ross Garnaut, and was initiated in April 2007 by premiers of the six states of Australia and the then leader of the opposition, Kevin Rudd. The review was then supported by the Rudd government in January 2008 following its victory in November 2007. The final report, known as the Garnaut Climate Change Review (‘Garnaut Review’), was released in September 2008. It provided detailed recommendations on what form the ETS should take in Australia. The Review recommended extending assistance to emissions intensive trade exposed (EITE) industries equal to about 30 percent of the value of permits allocated, and up to a maximum of $A one billion or about $US900 million in a one-off payment for reducing emissions in coal-power generation.

By the time legislation for the CPRS was tabled in the Australian parliament in 2009 both EITE industries and coal-fired electricity generators had acquired far more planned compensation for possible losses than recommended by the Garnaut Review. This planned assistance is in the form of free emissions permits that will be provided to industry should the CPRS become law. The coal-fired electricity sector is scheduled to receive about $US3.15 billion in assistance over the first five years of the CPRS. Funding of $US725 million was also available over this period as adjustment assistance for the coal-mining sector. Notwithstanding this assistance under the proposed ETS, both sectors vociferously argued and lobbied for additional compensation. For instance, the coal sector claims that the CPRS would cost it about $US12.3 billion and thousands of jobs. To support its claims it has funded a multi-million dollar campaign in mining regions and government-held marginal seats to advertise its belief that the CPRS will generate major job losses.

The legislation establishing the CPRS passed the lower
house of the legislature, but was rejected by the upper house, the Australian Senate, in August 2009. An amended bill agreed on by the government and the major opposition party was returned to the Senate at the end of November 2009. The bill increased transitional assistance to coal-fired electricity generators to $US6.5 billion over 10 years and $US1.35 billion to the coal-mining sector. However, the amended Bill was rejected in the Senate on 2 December 2009 because those opposed to its passage in the official Opposition forced a change in leadership and elected a leader on 1 December opposed to the legislation. This has provided the legal basis for the Prime Minister to recommend to the Head of State that both houses of Parliament be dissolved (‘double dissolution’) and an election called for all members and senators. The Rudd government has decided to retain this option and instead committed to return the defeated legislation when Parliament reconvenes in February 2010. If the bill were rejected again in the Senate in 2010, climate change policy would feature as an important part of the ensuing national election campaign.

Prior to the amended CPRS bill, Ross Garnaut had emphasized the current level of compensation to coal-fired electricity was already excessive and that further financial support would reduce expenditures on health, education, and also low-emission technologies. In a speech on 14 September 2009 he argued that the compensation to industries proposed in the CPRS was “…the ugliest ‘money politics’ we have seen for a generation” and questions whether “…those who support handing out more permits to the coal generators, are actually in favor of bigger budget deficits or lower expenditure on other things by government?

The proposed CPRS provides transitional assistance to EITE industries to address concerns that the scheme may adversely affect their international competitiveness. What happens to the CPRS now is uncertain. The opposition party with its new leader has adopted a strong anti-ETS position which means that unless the government strengthens emission reduction targets and gains support from a minor opposition party, further attempts to pass the CPRS legislation in the Senate are likely to be thwarted. The United Nations Climate Change Conference in Copenhagen in December 2009 may also play a role in determining the outcome of ETS legislation in Australia. Regardless of what happens at Copenhagen, the Australian fossil fuel lobby’s rent-seeking interventions have already had a major impact on the CPRS, and can be blamed for hindering effective Australian action on climate change.

Climate Change Policy

Australia’s current action on climate change is based on four policy initiatives: The Clean Energy Initiative; the Clean Business Australia program; the Renewable Energy Target (RET) Program; and the CPRS.

The Clean Energy Initiative is a $US4.0 billion fund to promote low emission technologies. It sets aside about $US1.1 billion to build four solar plants with a total capacity of 1,000 megawatts by 2015 and some $US2.25 billion for a Carbon Capture and Storage Flagships Program for research and development of low emissions clean coal technologies along with funds for a Global Carbon Capture and Storage Institute. The remainder of the budget for this initiative will be used to support research and development to reduce CO₂ emissions of passenger motor vehicles.

The Clean Business Australia program aims to increase the energy efficiency of Australia’s buildings and manufactur-
Carbon Pollution Reduction Scheme

The cornerstone of Australia’s mitigation strategy is the CPRS. The goal of this scheme is to reduce Australia’s CO₂-equivalent emissions to 60 percent below their 2000 levels by 2050 through mitigation or the purchase of eligible equivalent carbon compliant credits from overseas. In May 2009 the Government proposed three alternative medium-term targets for reducing CO₂-equivalent emissions by 2020, where the choice of the target is dependent on the actions taken by other countries. If there is comprehensive global action by both major developing economies and advanced economies in stabilizing CO₂-equivalent concentrations of greenhouse gases at 450 ppm or lower (currently about 380 ppm), the target for Australian emission reductions will be 25 percent relative to the 2000 levels (20). If there is an international agreement, but it only involves commitments to stabilizing CO₂-equivalent greenhouse gas concentrations at 510–540 ppm, then the targeted reduction is reduced to 15 percent. The worst case scenario, where there is no international agreement on stabilizing greenhouse gas concentrations, the targeted domestic reduction by 2020 becomes 5 percent. Actual CO₂-equivalent emission reductions may be much less than those required to meet this target because Australian industries that are obliged to surrender emission permits will be able to purchase compliant carbon credits overseas.

Notwithstanding the decision on the emissions target, under the CPRS the price of permits is to be capped for the first five years. It is proposed that the cap be fixed by legislation at $A10 or about $US9 per tonne in the first year of the scheme (2011-12). This is to be followed by another price cap, set by regulation that will determine the caps for the four remaining years. During the first five years of the scheme, an unlimited number of additional permits will be offered for sale at the capped price and, thus, limit the costs of GHG mitigation to polluters. The mandatory obligations under the CPRS are scheduled to begin on 1 July 2011.

Table one summarizes the most recent version of the CPRS and compares it to its antecedent, the Garnaut Review. The change in compensation in terms of free permits to EITE and the coal sector represents successful interventions by the fossil fuel lobby to lower their costs of mitigation.

The proposed CPRS provides transitional assistance to EITE industries to address concerns that the scheme may adversely affect their international competitiveness. Assistance is in the form of allocations of free emission permits linked to production levels in existing and new firms in EITE industries. In May 2009 the rate of assistance was increased and full emissions trading delayed until 1 July 2012. For the first five years of the scheme, the rates of assistance are set at 94.5 percent and 66.0 percent of baseline emissions for emissions intensive and moderately emissions intensive activities, respectively.

Under the provisions of the CPRS there is also assistance to strongly affected industries that do not conduct emissions intensive trade exposed activities. Assistance is delivered to eligible coal-fired electricity generators in the form of about $US6.5 billion worth of free permits allocated over the first ten years of the CPRS to partially off-set anticipated losses. The coal-mining sector also receives adjustment assistance of $US1.1 billion of free permits and $US2.43 million of direct funding for the promotion and exploration of emission abatement opportunities over the first five years.

Coal and the Mitigation of GHG Emissions

The importance of coal in the economy, and the ability of the coal, mining and energy-intensive industries to lobby government to protect their interests, has had a major impact on climate change policy in Australia. Concerns about the effects of mitigation on these sectors help to explain why Australia failed to ratify the Kyoto Protocol until 3 December 2007, just days before the start of the Protocol’s commitment period.

The influence of coal and the emissions-intensive sectors has had two principal effects. First, when John Howard was Prime Minister (1996-2007) it delayed any meaningful emission reduction in Australia’s energy sector. Second, as public opinion over time shifted in favor of mitigation, lobbying by the coal sector has allowed it to secure very large financial compensation should an ETS be introduced into Australia. The Australian experience suggests that other countries with important coal energy sectors, such as China and the United States, will also find it difficult to implement effective emissions mitigation programs. Even if such mitigation programs were to become operational, Australian experience suggests the fossil fuel lobby is likely to secure lower domestic mitigation targets for the carbon-intensive energy sector, and, in particular, substantial compensation in the form of transfers and free permits that would be paid for by other sectors of the economy.

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