The Australian Carbon Price Mechanism

By Piers Maclaren

Whereas New Zealand has a generally equitable climate, this is not always true for our western neighbours. Australia has a long history of droughts, and sometimes floods, on an almost continental scale. Some people fear that recent catastrophes may be linked to anthropogenic global warming and thus there is, at least in some quarters, an urgency to address the issue. On the other hand, Australia, together with the USA, was the staunchest hold-out against Kyoto-type action. The ruling Labour Party appears to be bitterly divided over its implementation (it was the reason for Julia Gillard’s seizure of power from Kevin Rudd), and Tony Abbot of the Liberal Party recently condemned the CPM as a “great big new tax”. Indeed, he congratulated New Zealand’s national party for “watering down” the ETS that they had inherited, and said that their “sister party” in Australia will “go further and do better”. He said that “should we inherit any carbon tax we won’t just reduce it, we will rescind it”.

In other words, whereas the NZ ETS is supported by a remarkable cross-party consensus (whether watered down or not), there is no such stability on the other side of the Tasman. For this reason alone, any possible alignment of the two schemes must be some way off. In the meantime, let’s look at the existing Australian system and see how it compares with ours.

Until 2015 both countries can be described as being in a transition period. In Australia, there is a fixed carbon price for large emitters (>$25,000 t/yr), natural gas retailers and landfills – about 500 entities altogether. These entities get a generous allowance of free emissions (eg 94.5% for emissions-intensive trade-exposed industries). Compare this to New Zealand, where emitting industries currently need to compensate for half their emissions, and agricultural emissions are excluded. In both countries, the trading starts in earnest in 2015. There is widespread scepticism that this date will be honoured in either case, but theoretically the two systems are somewhat compatible subsequent to that date.

One major difference is that Australia has a floor price as well as a ceiling. New Zealand carbon price has crashed to as low as $6.00, because of over-supply of units (including importation of cheap overseas units) combined with worldwide economic recession. It has been suggested that a steadily increasing price of NZD$20-40 is needed to make any worthwhile impact on emissions. The proposed Australian floor price in 2015 is AUD$15 and rising by 4% per year.

As far as the rural sector is concerned, the major difference is that agriculture is excluded from the Australian scheme. Forestry is also excluded except for “carbon farming units” which can comprise only 5% of emissions. The “Carbon Farming Initiative” is not what we would imagine in NZ. It comprises manure management in piggeries, establishing environmental plantings, capture and combustion of landfill gas, and management of savanna fires. While acknowledging that vegetation can absorb and retain carbon, the CFI accepts sequestration only if it is non-commercial and “permanent” – defined as vegetation that exists for 100 years or more. Only 95% of the sequestration in this category can be traded. According to the (questionable) Australian philosophy, vegetation that is 100 years old will have fulfilled its role because that is the estimated atmospheric lifetime of the carbon dioxide that it has replaced.

There is clearly a major conceptual gulf between the two countries regarding the greenhouse benefits of forestry, and it will be some considerable time before, for example, NZUs obtained from forest planting can be freely traded across the Tasman. This is a pity, because back in 1995 the Australian Greenhouse Office seemed for a while to have adopted New Zealand’s proposed “averaging approach” for forestry, whereas it has only just been accepted here.

In conclusion, we should not hold our CO₂-rich breath waiting for Australia to come around to our way of thinking.