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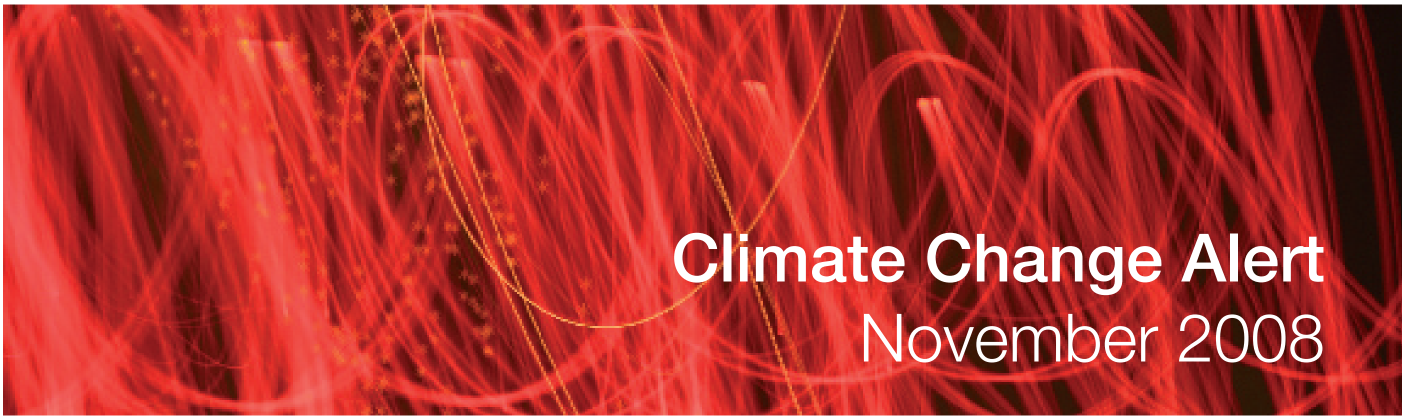

What impact will the global financial crisis have on the introduction of the CPRS?

The Government still intends to implement its proposed CPRS in 2010 despite the global financial crisis.

The recent global financial crisis and threatened economic recession have raised questions about the future of Australia's proposed Carbon Pollution Reduction Scheme (CPRS) and similar mitigation policies worldwide. The Australian Government has confirmed it remains committed to strong action against climate change, standing by its intended commencement date of 2010.

The Australian Government's Response

Prime Minister Kevin Rudd and Climate Change Minister Penny Wong have both confirmed that the Government still intends to implement its proposed CPRS in 2010 despite the global financial crisis.

The Federal Government also remains committed to reaching an international post-Kyoto agreement next year. In this regard, Rudd has reminded world leaders that the problem of climate change won't just disappear, and unless the world deals with it now the consequences for the global economy over time will be huge. He has admitted, however, that the economic crisis makes the already tough negotiations even more difficult.

Responses of Other Key Groups

> Professor Ross Garnaut strongly urges governments to proceed with global action against climate change, stressing that the financial crisis, regardless of how severe, will be short-lived. He says that long-term structural changes must not be compromised by short-term economic concerns. Garnaut predicts that the current crisis will be over by the end of 2009 and normal growth patterns restored by 2013.

> The Federal Opposition has called for the Government to postpone the implementation of the CPRS by one or two years noting that the Treasury's recently released economic modelling fails to take the financial crisis into account.

> Forty Australian scientists have signed a statement warning that the financial crisis must not detract attention from the serious need to combat climate change. They argue that large-scale investment in renewable energy industries and infrastructure such as public transport could ease the financial crisis by strengthening our economy as well as helping to reduce emissions.

> Business groups have indicated that they do not want the Government to delay the commencement of the CPRS because this will create even more uncertainty:

- The Business Council of Australia says it is critical that businesses know what the Government is planning, therefore delaying the scheme would be problematic, but the current economic situation makes it imperative that the Government gets the design of the scheme right.

- The Australian Industry Group says the Government should not delay the scheme but must ensure that it is in line with the international response to the economic situation.

- The Minerals Council of Australia also stresses the importance of correctly designing the system, saying that if you get the framework right you can adjust to changing economic situations.

> The public's support for the CPRS has softened in response to the financial crisis, however most people are still concerned about climate change and want the Government to cut emissions.

- A recent national survey conducted by the Climate Institute reveals that confidence in the Labor Party's ability to deal with climate change has slumped from 43% to 28% since the election, however 82% of people remain concerned about climate change. In relation to the CPRS, only 22% of people feel that the government should delay its commencement, while 68% feel that the financial turmoil makes it even more important to take action on climate change to create green jobs and industries.

- A similar poll taken by the Australian National University found that the public views global warming as the most serious threat to the future well-being of our world, and on the balance the majority of the public favour the CPRS, with 54% in favour and 34% opposed.

Economic Arguments for Proceeding with the CPRS in 2010

Professor Garnaut argues that not only is the economic downturn not a reason to postpone the introduction of the CPRS, but it is actually an ideal time to do so.

He explains that while it is politically difficult to make major long-term structural reforms during a financial crisis, it is actually the right time to do so economically. This is because the resources invested in implementing the structural changes, which will include the development of low-emissions technologies and transport systems, will stimulate employment and economic growth.

Other economists have suggested that introducing the scheme at a time when unemployment is rising makes sense because it means there will be an abundance of workers able to be diverted to green industries.

Most importantly, Garnaut reminds us that it is not a question of economy versus environment, because "climate change will damage the economy very, very severely if it's not mitigated", therefore it's more a matter of short-term economics versus long-term economics.

Professor Garnaut's Final Report highlights that the long-term economic cost to Australia of unmitigated climate change will be much higher than the cost of mitigation. In addition, these estimated costs are based on conservative modelling which generally excludes carbon cycle feedback effects on global warming, meaning that the true cost of unmitigated climate change may be even higher than suggested.

Economic Arguments for Postponing the CPRS

Certain groups have called for the Government to postpone the commencement of the CPRS by one or two years in light of the current economic downturn.

The Federal Opposition fears that the scheme will further hurt the Australian economy and would pose a greater risk of high unemployment levels. Other critics argue that the CPRS needs to be reconsidered because it is essentially a tax on energy, which will offset the positive effects of the Government's recently announced $10 billion relief package.

There are also concerns that the current financial crisis may not be a "short-term problem", undermining Garnaut's argument that the current crisis is a short-term cyclical issue which must be outweighed by long-term climate change issues. Accompanying this is speculation that the slowing of the world economy could help to reduce global carbon emissions by lowering production levels.

Although it is true that less economic activity naturally results in lower emissions, when considered in the context of the long-term trend of emissions, the reduction of emissions due to the current economic downturn will have very little impact on global atmospheric GHG levels and will not help Australia achieve its mid-to-long term emissions targets.

The International Response

Australia is not the only nation to be re-evaluating its climate change mitigation proposals in light of the current financial crisis. Nonetheless, most developed nations also remain committed to strong action against climate change.

> The European Union Council met to discuss climate change in Brussels on 16 October. There was some

divergence in opinions, with several countries claiming that climate change mitigation will be too costly for businesses in the current economic climate. However the majority view was that the EU must remain committed to deep cuts in greenhouse gas emissions despite the economic downturn. It was agreed that the EU must reach agreement as to its internal climate change policy prior to the global negotiations in Copenhagen in 2009. The EU pledged last year to cut emissions by 20 per cent on 1990 levels by 2020 and currently intends to increase that target to 30 per cent if a corresponding global agreement is reached.

> Britain has led the way by becoming the first country to introduce a legally-binding emissions reduction target, pledging to cut emissions by 80 per cent by 2050. British PM Gordon Brown has urged other countries not to abandon climate change goals as a result of the financial crisis.

> We now know that Senator Barack Obama will be the next President of the United States. During the election campaign, Senator Obama stated he would set a goal of reducing US emissions to 1990 levels by 2020, and by 80 per cent by 2050 using a cap-and-trade system and a 10-year investment program in renewable energy. Nonetheless, concern exists about the limited time that the new President will have to secure Congressional agreement on these issues before global negotiations for a post-Kyoto agreement commence in Copenhagen next December.

The Next Step

Climate Change Minister Penny Wong has stated that any changes in GDP growth forecasts due to the current financial crisis will be taken into account when the Government sets its future emissions trajectories. Indicative trajectories are due to be released in December however final “caps” won’t be announced until after the crucial UN meeting in Copenhagen next year. Our next Climate Change Alert will provide an overview of the Treasury’s recently released modelling on the costs and opportunities of climate change mitigation.

If you would like to speak to us about any aspect of climate change law or policy, please contact one of the people below.

For more information on this topic please contact:

Fraser Bell
Partner
+61 8 8236 1225
fraser.bell@thomsonplayfordcutlers.com.au

Shen Dycer
Lawyer
+61 8 8236 1227
shen.dycer@thomsonplayfordcutlers.com.au

Alison Brookman
Special Counsel
+61 8 8236 1386
alison.brookman@thomsonplayfordcutlers.com.au

John Howard
Partner
+61 2 8248 3401
john.howard@thomsonplayfordcutlers.com.au

www.thomsonplayfordcutlers.com.au