AUSTRALIA

Impact of Response Measures

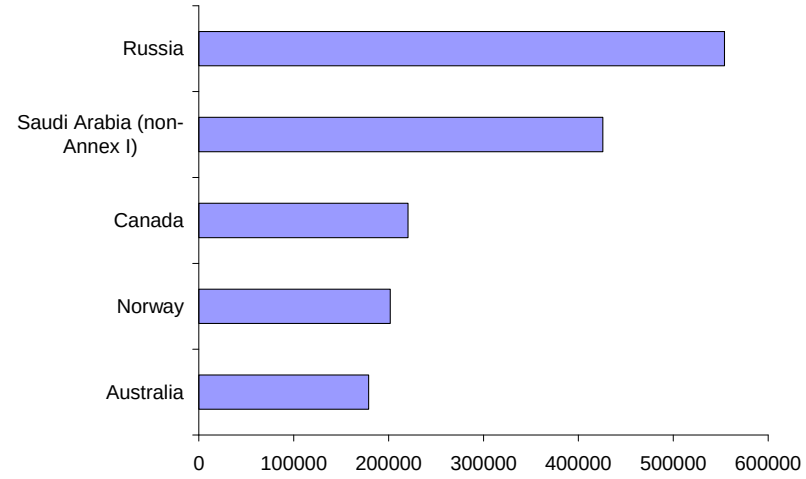
Submission to the AWG-LCA

The following are Australia's initial views on the Impact of Response Measures. This is the proposition that consideration should be given to compensating producers for a reduction in demand for their product as a result of an embodied carbon price.

The impact of response measures relates to mitigation. It is a separate issue to the adverse effects of climate change. This submission will focus on the impact on energy products, particularly oil, as some Parties have expressed particular concern in this regard. The carbon intensity of oil is higher than that for natural gas but lower than that for coal.

As one of the world's top five energy producing nations, Australia is sensitive to measures taken to alter energy patterns.

Fig 1: Top 5 Energy Exporters 2006 - Thousands of Tons of Oil Equivalent

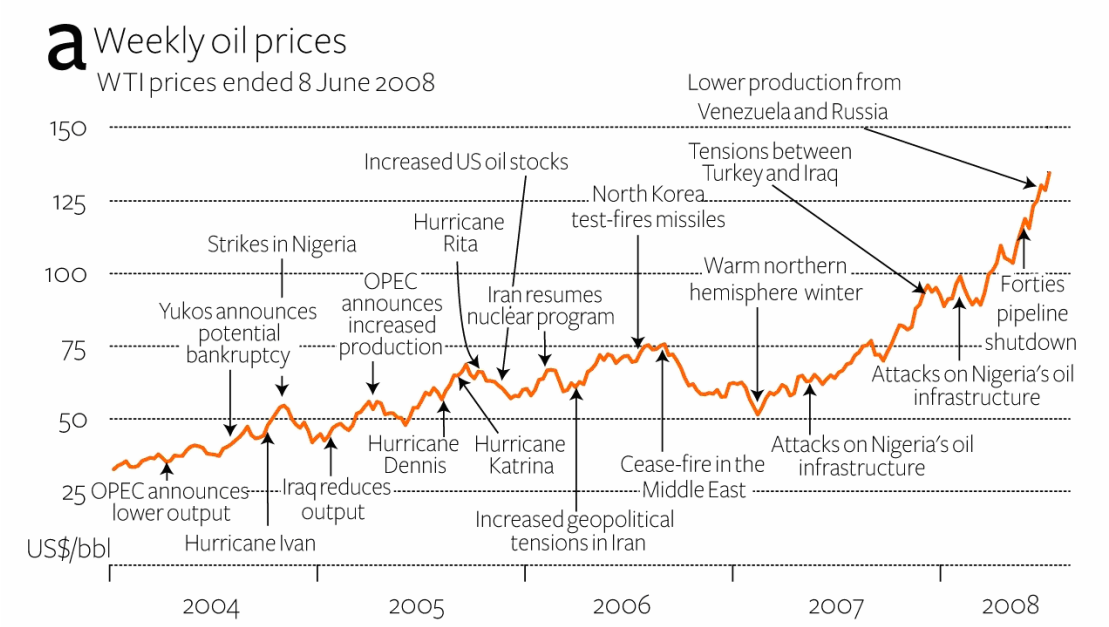


Source: IEA

Resource economies are cyclical in nature and require careful planning to absorb the significant fluctuations in demand. We traditionally respond to these pressures with national policies and measures designed to minimise these impacts and build economic resilience. Lessons that Australia has learned in this regard may be useful to other Parties with energy-intensive economies as per Articles 4.8 and 4.10 of the UNFCCC.

Figure 2 shows the impact of a number of factors on the price of oil. The nature of markets is such that energy producing countries are not compensated, nor penalised, for this or any other impact. Price variability is a natural, predictable and understandable aspect of the international resource market. There are a large number of factors that influence the demand for and price of energy exports. Influences on energy prices include political instability and increased supply. The global financial crisis will have a much larger and immediate impact on global energy prices than the longer-term impact of climate change response measures.

Fig 2: Impacts on oil prices



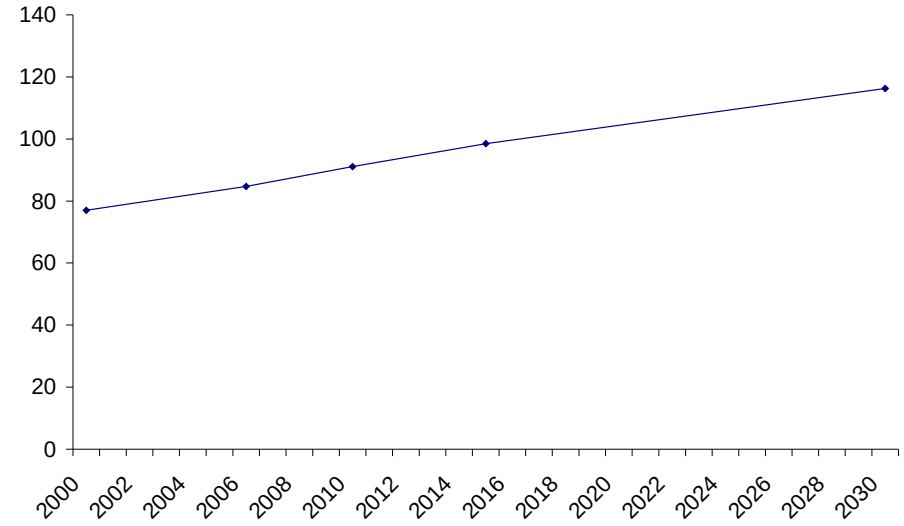
Source: Australian Bureau of Agricultural and Resource Economics (ABARE)

The costs of oil production vary significantly between Parties. Some Parties are able to produce oil at very low cost, whereas for others, the need to use alternative production techniques such as refining oil sands, mean that it is relatively more expensive. Those Parties with the lowest costs of production are the least affected by any reduction in demand. OPEC has the lowest average production costs in the global oil industry[1].

[1] Source: OPEC

The outlook for oil demand is positive. The IEA forecasts that demand for primary oil will grow by 37.3% between 2006 and 2030 (Fig 3). Demand for oil, as with other energy sources, is relatively inelastic.

Fig 3: Forecast World Primary Oil Demand



Source: IEA World Energy Outlook Reference Scenario 2007

Low emission technologies can reduce the impact of existing activities and lower the implicit carbon cost of using fossil fuels. Carbon capture and storage has the potential to play a critical role. In September 2008, the Australian Prime Minister announced a Global Carbon Capture and Storage Initiative, including annual funding of up to A$100 million for the establishment of an Institute to accelerate the development of carbon capture and storage technology. Through this institute, Australia aims to work cooperatively with other Parties to help reduce carbon dioxide emissions in energy production, especially with regard to coal (although much of the technology is relevant to other fossil fuels).

Given the difficulty in quantifying the impacts of response measures, and the long-term nature of any impact – both positive and negative - national policies and measures of the sort outlined above are the most effective way for Parties to address the impacts of response measures.