The high cost of saving the planet

ETS to cost taxpayers $1.2 billion over the next 4 years

By John Wayland

The director of Carbon Managers Pty Ltd, JOHN WAYLAND questions the rationale behind the Federal Government's highly publicized Emission Trading Scheme (ETS)

Laudable as it may be, will an international unit of carbon create as much change as a tax driven method?

- Treasury has estimated ETS will cost Australian $1.2b over four years.
- The CPRS does not have any tax incentives.
- Will it prove to be an expensive economic theory

Despite the shortcomings of the NSW abatement scheme, introduced as far back as 1996, and the free fall of the renewable energy reduction price [RET] of a REC, the Government and the Opposition press on – onward to the world stage of Copenhagen.

It is understandable that the evangelists from the Government press on, but not a word of an alternative from the opposition on alternatives.

Very few understand the mechanism proposed. There is a high degree of confusion as to what is legislation, as to how it works, and, importantly: "What's in it for me" – either as a company or an individual.

Worse still, the farmers are being feed 'half truths' and snake oil, without being offered the opportunities.

Governments forget that:

- To attract serious institutional investment the legislature has to remove regulatory risk as much as possible. Even though there are still large amounts of private money invested in the European exchanges and the trading of carbon, there have also been large sums lost when the price dropped to below 1.00 due to over issue of credits to polluters. There are also large investors who won't invest knowing that changes in policy will be made in Canberra without enough consultation.
- The result will be as is now:

- There is a wind farm industry putting off workers, needing REC's at $100 to make wind farms commercial.
- At various times the solar power industry suffers from a start stop policy planning.
- There is funding and assistance, however, forms require more accounting time than industry has time to fill in.
- There is funding for ambitious schemes, but, as with the four solar power projects, none have a hope of success.
- To drive the secondary market, this private money is needed.

> *'No politician can explain what ETS is'*

Even before the idea of a Federal government scheme was proposed, the Carr NSW Government idea of an abatement scheme had been over supplied with 'credits' and the price had slumped [NGATs]. This left investors with worthless paper.

Given: there is a need to do 'something' and there is enough science to support that need. Given: no politician can explain what ETS is, (a difficulty that would make John Hewson's explanation on GST to Mike Willesee look simple), what can be done so that Australia understands and implements change?

Some of these solutions were set out in the Senate Select committee on Climate Policy in 2009:

- A carbon tax that is used to fund 'alternatives'.
- Improved tax deductibility for alternate energy technology.
- Gradual introduction of CPRS over 5 to 10 years with a cap and a floor price (USA has a floor but Australia does not)
- Restrictions on purchase of overseas permits (Australia has no limit, whereas the UK has a 10% cap)
- Reduce the talk of compensation to polluters.
- For overseas countries that have no policy - a carbon import tax to create a level playing field even if this is so heinous to GATT economists.
- And have greater emphasis on NGERS, product labeling, car and truck emission reductions through ADR's and energy reduction targets through NBERS

The price of carbon today is set in Europe. It is around $30 (15.00) and there are predictions that it will reach $100.

This, of course, is nonsense, as no politician will be re-elected if that flows on to gasoline prices in the US or food in Australia – and it will. The US legislation caps the price at $28 until 2030.

To create change and bring about a switch to alternatives the price needs to be $60 a tonne, while the cost of technology does not enjoy accelerated depreciation under the tax Act.

Whenever politicians talk, they leave out the after-tax cost and that is the key to any business person's decision.

While a wind farm is deductible over 20 years, as are solar panels on a commercial roof, why would any business look at these alternatives? In France it is deductable in one year.

These price predictions are based on the calculation of what a country is assigned as its amounts (AA) under Kyoto, which in Australia's case is 586mts, and then calculate the supply of permits that will be issued in a 'blind' auction run by the Government.

As polluters can buy unlimited offshore credits [CERs] it is unlikely they will enter a blind auction for Australian permits (AEUs)

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As a market mechanism this won't work and history shows this.

The core of the problem is to raise the price of conventional power from coal and oil so that the introduction of more costly alternatives is adopted. If this were done at a staged rate by way of a tax everyone could understand that and adjust accordingly.

The costs of CPRS are now becoming evident.

Earlier this year Treasury announced ETS will cost the tax payer $1.2 billion over the next 4 years, rising to $2.5 billion by 2020 as the revenue from the sale of permits will only start in 2016.

The assistance by way of free permits to the largest 20 could be over $11.7M (RiskMetrics) but seems to be lost somewhere.

At these levels of cost offering tax deduction to install costly alternatives reduces the cost of switching and will generate change at a business level.

The fact that it is a huge burden, for the future generations, to repay in tax, seems to be lost in the debate.

Challenges ahead as manufacturers face the 'New Normal'

By James Abbott

Conditions have irrevocably changed for manufacturing.

The industry has to adapt to a very different economic landscape – described by some experts as the "New Normal."

What are the trends and how should you navigate your business through this new environment?

The signs are good. In December last year, Reserve Bank of Australia (RBA) deputy governor Ric Battellino said the Australian economy, emerging from the global economic slump, has embarked upon a new growth phase which would last for years.

This financial year the RBA is predicting a 3 per cent growth in the local economy.

Indeed, Citigroup recently lifted its 2010 Growth Domestic Product (GDP) outlook for the US, Japan, Britain, Australia, New Zealand, Hong Kong, Korea, Argentina, Hungary, Poland, Czech Republic and Turkey.

Some of the factors to be taken into account when planning the future of your manufacturing company include:

- Industries will restructure
- Businesses with long or inflexible production cycles will find it difficult to manage their funding
- Monetary policy will regain prominence as the main instrument of economic control so interest rates will rise
- Credit availability will likely be limited for at least another year or two as banks seek to raise extra capital
- Growth in business investment and exports is expected to be strong, underpinned by the ongoing expansion of the resources sector; and
- The bounce back of the economic activity in Asia is a positive indication for Australia.

Matthew Quinn, managing director of property group Stockland, recently spoke about what it takes to be a good leader.

He said that "along with technical skills, a leader must have courage, decisiveness, authenticity and consistency".

Many leaders froze when things became tough and so there were casualties. Now those who weathered the storm must decipher the way forward.

Agility is the key. Strategically you need to have plans for a number of possible scenarios. Recognise that budgets and projections based on the old economy are practically useless.

You must have a sharp awareness of your own and competitors' positions.

You must learn to be more flexible, aware and resilient. Your business must be flexible enough to seize opportunities and act fast.

Count on reduced access to credit, so making the best with what you have may be an option. This means thinking smart and looking at continuous improvements in your processes.

The New Normal requires a courageous and aware leader.

James Abbott

To be successful companies will have to manage within the new economic conditions and be structurally ready to pounce on opportunities.

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