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The Carbon Tax

The Australian Government has announced the imposition of a carbon tax effective 01 July 2012 with the overarching objective that a price on carbon pollution will create incentives to reduce pollution and invest in clean energy. Under the carbon price, around 500 of the biggest polluters in Australia will need to buy and surrender to the Government a permit for every tonne of carbon pollution they produce. For the first three years, the carbon price will be fixed like a tax, before moving to an emissions trading scheme in 2015. In the fixed price stage, starting on 1 July 2012, the carbon price will start at $23 a tonne, rising at 2.5 per cent a year in real terms. From 1 July 2015, the carbon price will be set by the market.

The key elements of the carbon pricing mechanism are set out below:

Price

A two stage approach:

1. Fixed price period—The carbon pricing mechanism will commence on 1 July 2012, with a price that will be fixed for the first three years like a tax. The price will start at $23 per tonne and will rise at 2.5 per cent per annum in real terms.
2. Emissions trading scheme—On 1 July 2015, the carbon price will transition to a fully flexible price under an emissions trading scheme, with the price determined by the market.

Coverage

Broad coverage from commencement, encompassing the stationary energy sector, transport (as described below), industrial processes, non-legacy waste, and fugitive emissions.

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Treatment of fuel and transport

Transport fuels will be excluded from the carbon pricing mechanism. However, where applicable, an equivalent carbon price will be applied through changes in fuel tax credits or excise. A carbon price will be applied to domestic aviation, domestic shipping, rail transport, and non-transport use of fuels. A carbon price will not apply to household transport fuels, light vehicle business transport and off-road fuel use by the agriculture, forestry and fishing industries.

International linking

International linking to credible international carbon markets and emissions trading schemes from the commencement of the flexible price period. At least half of a liable party's compliance obligation must be met through the use of domestic permits or credits.

Price ceiling and floor

Price ceiling and floor will apply for the first three years of the flexible price period. The price ceiling will be set at $20 above the expected international price and will rise by 5 per cent in real terms each year. The price floor will be $15, rising annually by 4 per cent in real terms.

Carbon Farming Initiative

Kyoto-compliant credits created under the Carbon Farming Initiative can be used for compliance under the carbon pricing mechanism subject to a 5 per cent limit in the fixed price period.

The government has put in place a series of measures to mitigate the burden of the tax on the vulnerable sections of society, which include:

- The carbon price will be accompanied by assistance supporting households, jobs, businesses and communities, to help them adjust, lower their carbon pollution and to protect Australia's international competitiveness.
- To assist households with price impacts, there will be two rounds of tax cuts and increases in pensions, allowances and benefits. Over 50 per cent of carbon price revenue will be spent on households. Household transport fuel consumption will not be subject to a carbon price.
- Substantial industry assistance will be provided to support jobs and competitiveness as the country moves to a clean energy future for emissions-intensive, trade-exposed industries, manufacturing, food processing, metal forgers and foundries, electricity generators and small business, as agreed by the Multi-Party Climate Change Committee. The Government is also separately investing in protecting jobs in the steel and coal industries.
- A $10 billion new commercially oriented Clean Energy Finance Corporation will invest in renewable energy, low pollution and energy efficiency technologies—a major increase in support.
- Farmers and land managers will receive significant support to pursue climate change action on the land and enhance biodiversity through a suite of measures including the Carbon Farming Initiative, the Carbon Farming Futures program and a new Biodiversity Fund. Emissions from agriculture will not be subject to a carbon price.
- The Government is providing additional support to promote energy efficiency. Low Carbon Communities will help local councils and communities improve energy efficiency in community facilities, including a new Low Income Energy Efficiency Program.

Reaction to and impact of the Carbon Tax

The Australian Government feels that the Carbon Tax will have no impact whatsoever on the investment flows into the resources and minerals sector in Australia. The carbon tax was announced last year but investments have been coming in since then and amount to nearly $430 billion, by companies from China, Japan, South Korea and even India. A sum of $170 billion alone has been committed for various LNG projects in Australia, including areas of Queensland, New South Wales and areas of copper, coal, uranium and iron ore.

Further that the cost of coal, LNG, iron ore or gas would not go up after the carbon tax comes in to force. The rationale behind the tax is that Australia's people, whose priced assets are being shipped abroad, should get some benefit out of the exploration of these assets and that is why the tax has been imposed. The new tax will enable the people of Australia to make a share of profits from Australia's natural resources. Ninety per cent of the tax will come from coal and iron ore and not from LNG.

Department of Resources, Energy and Tourism (RET) spokesperson Sean Lounder reinforced this thinking saying the government does not anticipate that a carbon price will have a major impact on mining industry operations in Australia.

"New capital expenditure in the mining industry has increased from $35 billion in 2009-10 to $51 billion in 2010-11, and is expected to reach $80 billion in 2011-12," he said. Lounder says part of the price companies will pay will be subsidised through government assistance packages. "The Australian government has also committed to providing assistance to the coal mining sector through the $1.3 billion Coal Sector Jobs Package and the $70 million Coal Mining Abatement Technology Support Package" .

The Department of Resources, Energy and Tourism states Australia's resources and energy exports are tipped to reach a record AUD $225 billion (in 2011-12 dollars) in 2016-17. And Lounder says there will be "an additional 82,900 workers in the mining sector by 2016, compared to November 2010".

Climate Change Minister Greg Combet has said that under the carbon tax companies would incur an average additional cost of only $2 for every tonne of coal produced: "This cost impact of less than $2 a tonne of coal should be compared to selling prices of more than $300 a tonne for metallurgical coal and around $120 a tonne for thermal coal."

Industry reaction to the Carbon Tax

Australia's mining giants have slammed the carbon tax, insisting that it will contribute to increase in sovereign risk of investment in the Australian resources sector, weaken the industry and its ability to ensure multinational companies investment and hurt Australian export competing industries.

The Mineral Council of Australia estimated the mining sector would face "a carbon tax liability of $25 to $30 billion by 2020-21" has contended that potential investment and jobs growth in the mining sector would also be threatened under the carbon tax and that real wages, employment and productivity will grow more slowly under carbon pricing.

The Australian Coal Association (ACA) fear that the tax will diminish the competitive advantage of the $50 billion coal industry by handicapping one of Australia's largest exports at a time of global uncertainty and will not deliver any environmental benefit by way of global emissions reduction. They have criticised the federal government, saying the proposed compensation will be insignificant compared to the overall cost of the tax for the mining industry. According to ACA chairman John Pegler, the government has underestimated the impact of the carbon tax and mining companies will be paying too much.

There is also concern from some mining companies that the outcome for Australia will not be valuable if it moves too fast and other countries don't move on carbon tax as this will eventually simply damage energy-intensive, trade-exposed business at a cost to us as a country.

The broad investment concern is the uncertainty of the impact of the tax in the short term, and whether it will create ambiguity around additional risk for investors when looking at the share market. It remains to be seen whether the Government's current strategy on carbon pricing will achieve an outcome that serves both interests well. The Government's policy will be tested as businesses and the economy adjust to these changes from next year.

Indian companies have been quite active in the recent past. Two major Indian investments include the one by Hyderabad-based GVK group and another by the Adani group in some projects in New South Wales. The GVK group had acquired a stake in Hancock coal mines for $1.26 billion (Rs. 5,983.74 crore). The Adani group had

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acquired the Galilee Basin mines in Queensland and has successfully commenced mining exploration programme. It also involves the construction of a railway track for 400-500 km and the redevelopment of a port. The Tata group is involved in clean energy generation project with investment in a geothermal project with Australia's Origin Energy.

The main public debate continues around whether the carbon tax compensation offered by the Government is enough to offset the flow on effects of the carbon tax. It is clear that there will be a 10% increase in energy prices across the nation in four years and that a big portion of such energy price rises come from the policy of favouring renewable energy to non-renewable energy to the extent of subsidising the former.

According to the National Accounting Report of the Australian Bureau of Statistics, for the quarter ending March 2012, the Australian economy registered its strongest growth in four years at 4.3% annualised, making it "an island of growth in the middle of global uncertainty", for its Treasurer Wayne Swan. The mining boom is underpinning the economy, with engineering construction growing by 53%, Western Australia and Queensland have between then averaged more than 10% growth in the past year compared with just over 2% in the rest of the country. An industry breakdown of the national accounts showed mining grew 9.2% over the year while manufacturing and utilities, shrank over the same period. The statistics indicate that Australia is well placed, a key factor being that the bulk of the growth in the March quarter came out of the private sector. Consumer spending registered an increase during the quarter. National productivity is stated to have increased in the period with Australian export oriented firms forced to be more competitive as a result of the high Australian dollar.

Australian Bureau of Statistics (ABS) figures reveal that the State of Tasmania is in recession. The latest data revealed that Tasmanian final demand fell by 0.28 percent in March quarter and 0.09 percent in December quarter, the only state in Australia to record a fall.

According to Bureau of Statistics, investment in business in Victoria State fell 14 percent in the quarter ending March, 2012. This was mostly due to high Australian dollar and high interest rates. In the six months prior to March, investment rose to 40 percent in the Mining sector but fell to 10 percent in Service industries and 18 percent in manufacturing industries. China and India have contributed

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Business Opportunities

Plans to expand mining and renewable energy sectors

The Australian government has drawn up a plan to turn the Latrobe Valley in Victoria into a major mining export hub, like the Pilbara in Western Australia. The valley has huge untapped potential to supply major offshore markets with brown coal. Victoria has the largest deposit of brown coal in the world after Russia. Another sector is the renewable energy sector. The government intends to invest through R&D and offer innovation and technology to the world in the field of photovoltaic (PV) solar, geothermal, bio-mass and even wind energy. A wave energy project in Australia and this could prove to be a breakthrough technology for the future.

AMMG scouting for Investors in Iron ore project

The Australia Minerals & Mining Group Ltd (AMMG) has announced that it was looking for overseas investors for its Southdown Extension iron ore project on southern coast of Western Australia 80 km from Albany. The project is estimated to contain an average concentrate of 68 per cent iron, with mass recovery of up to 35.6% low silica and low alumina. AMMG had acquired the project from Minemakers last year.

Sale of stake in Isaac Plains coal mine

Aquila Resources has announced that sale of its 50% stake in the Isaac Plains coal mine to Japan's Sumitomo Corporation at $430 million was closer to finalisation. The company plans to use the funds from the deal on development of its 50% stake in the $6 billion West Pilbara iron ore project. A feasibility report released on 5 June confirmed viability of West Pilbara iron ore project.

NRW Holdings secure harbour expansion contract

NRW Holdings has secured a $148 million contract from Fortescue Metals Group after signing a $129 million contract with BHP Billiton for Port Hedland inner harbour expansion. The work includes a $70 million contract for the construction of 28km of earthworks for the Solomon Spur rail project, earthworks, and rail and concrete installation to expand the existing stockyards.

Minemakers search for new partners to develop Wonarah phosphate project

Minemakers, in a communiqué on 7 June, stated that as the National Mineral Development Corporation (NMDC) was not keen to take forward a deal to purchase 50% stake in Wonarah phosphate project in Northern Territory, it will begin search for identifying a new partnering company. NMDC had initiated talks with Minemakers in June 2011.

Santos and Conoco Phillips invest in Caldita and Barossa gas fields

Santos and Conoco Phillips have signed an agreement on 7 June securing a US$ 520 million investment from SK E&S, a South Korean energy company, to develop Caldita and Barossa gas fields in Timor Sea at about 300km north-west of Darwin. In return SK E&S will acquire 37.5% interest in the project, while ConocoPhillips and Santos will have 37.5% and 25% stakes respectively. NT Chief Minister Paul Henderson described the deal as a potential new gas project for the territory and securing new investments was a key target under the "Territory 2030" strategy to make Darwin a key centre for oil and gas operations. According to Vice President of Santos in Western Australia and Northern Territory (NT), Santos would explore the possibilities to develop a floating LNG facility to process gas from Caldita and Barossa gas fields and link it with the existing LNG plant at Darwin.

Demand for mining professionals set to increase

According to the Australian Mines and Metals Association, the demand for workforce in resources industry would rise significantly as $260 billion worth of new projects and expansion projects are taken up in Australia. It estimates job vacancies in mining and oil & gas sectors at 40,000 during next year. The Minerals Council of Australia has blamed the local universities for chronic shortage of mining and geoscience professionals.

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towards most of the world's growth since 2008. This also helped Australian exports to expand to a large extent. But now due to a decrease in India's GDP which grew by 5.3 percent (4th quarter) and a reduction in China's manufacturing activity (5.5 percent in May) a growing sense of insecurity has built up in the global economy. As the demand from these two countries fell, Australia's trade also sunk into deficit. Its commodity price fell by 10 percent (1.8 percent in May alone). Future markets now see interest rates going into free fall for the rest of the year.

Business related events in Australia

WA Delegation to participate in Petrotech 2012

Western Australian Government delegation will participate in Petrotech 2012 scheduled to be held in Mumbai from 14-17 October 2012. The Department of State Development has informed that WA Trade Office in Mumbai will take a stand at the event for use of WA companies and organise networking events.

Indian Film Festival in Melbourne

The Indian Film Festival began on the 11th June, 2012 in Melbourne. It will run up to 22nd June and is being sponsored by the State Government of Victoria (Film Victoria) to develop close ties with India. Premier Ted Baillieu while leading the Super Trade Mission to India had announced that Melbourne's Mind Blowing Films on the basis of a three-year contract would stage a festival of Indian Cinema. The Film Festival that started with the presence of the Bollywood actors Shahid Kapoor and Priyanka Chopra, Jugal Hansraj and some famous directors and designers, will have around 40 films not only from Hindi and other regional languages, but also from other South Asian countries like Pakistan, Bangladesh and Sri Lanka.

Upcoming Events in Australia:

Supply Chain 2020 (26-27 June)

This event is an exhibition for innovation and best practices in Australia's supply chain industry. It will provide interactive and educational seminars for supply chain and logistic managers to source new products and solutions in line with best practice in supply chain management.

Venue: Melbourne Convention and Exhibition Centre, Melbourne

Website:

http://www.supplychain2020.com.au/Homepage.aspx

Organizer: Interpoint Events