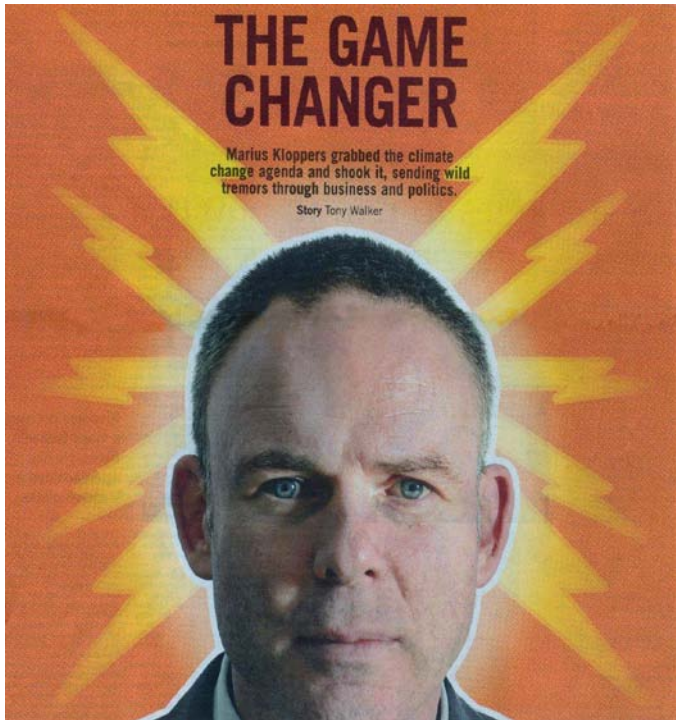


## There is movement at the Station...

It has been almost a year since the Labor Government and the Coalition negotiated and agreed to the heavily emasculated and revised Carbon Pollution Reduction Scheme legislation. The deal that Mr McFarlane negotiated with Ms Wong was withdrawn; Mr Turnbull lost his position as leader and Mr Abbott was installed.

In April, 2010, Mr Rudd made a fatal decision to withdraw the CPRS from consideration until 2012 and that decision was considered to be a major reason for his removal as Prime Minister. Julia Gillard became PM and called an election. The subject of climate change received scant attention by either party vying for Government. Prior to the poll, Ms Gillard said she would not consider a carbon tax.



Source: Australian Financial Review 18 Sept, 2010

The 2010 election resulted in a strong swing to the Greens and the elevation of the Independents to a position of power. Most of the independents supported action on climate change.

The incoming Gillard Government has now established a Climate Change Committee, comprised of Labor, an Independent and Greens ministers, and a small group of experts. The Coalition has chosen not to join.

Then Marius Kloppers made his notable speech at the British Chamber of Commerce on the 15th September, 2010.

The full speech can be found here: <http://www.bhp.com/bbContentRepository/docs/100915AbccBhpBillitonCeoSpeech.pdf>

Mr Kloppers said that BHP Billiton's position is that:

- The mainstream science is correct and we need to reduce carbon concentrations in the atmosphere
- As the largest per capita emitter of carbon in the world, Australians need to reduce their emissions. (see chart at right)
- Our power generation sector is one of the most carbon intensive in the world
- There is no silver bullet solution to the problem
- Australian business needs to anticipate a price on carbon when considering long-term investment decisions.



CLIMATE ALLIANCE

*A business essential.*

The impact of Mr Kloppers' speech was immediate and far-reaching. By stepping forward and stating BHP Billiton's position so clearly, Mr Kloppers left little room to move for many who had avoided taking a position on this issue.

The most notable outcome is that the PM has now not ruled out anything from the agenda of the Climate Change Committee - including a carbon tax. A tax is the preferred position of the Greens - and they will have the balance of power in the Senate in July 2011.

### AICD ANNUAL CONFERENCE

Leaders in the Australian business community are calling for action. At the recent 2010 Australian Institute of Company Directors conference in NZ, Origin Energy Chairman, Kevin McCann said: "While it (a price on carbon) may have dropped off the agenda this year, I am going to lobby like hell to have it on the agenda next year".

### MORE PRESSURE - THIS TIME FROM TREASURY

To further increase the pressure on our politicians to act, Treasury released a heavily redacted (censored) version of the "Red Book" - a document that is used to brief incoming Governments.

In the readable section on climate change it states:

#### The Emissions Reductions Challenge

*The emission reductions challenge is significant. The sooner that emissions are reduced below 'business as usual' levels, the more likely it will be that we can achieve a smooth and orderly transformation of the economy. Direct action measures alone cannot do the job without imposing significant economic and budget costs. Blanked out.*

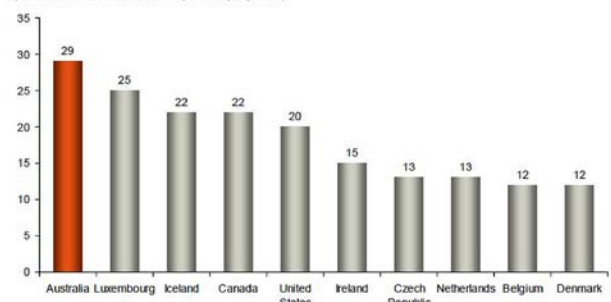
*The longer Australia delays implementing a comprehensive carbon pricing regime, the more costly and disruptive will be the change. There are also real and present costs associated with on-going uncertainty around climate change policy framework, particularly in the electricity generator sector.*

Source: [http://treasury.gov.au/documents/1875/PDF/Red\\_Book\\_Part\\_2\\_Redacted.pdf](http://treasury.gov.au/documents/1875/PDF/Red_Book_Part_2_Redacted.pdf)

### Australia has high per capita emissions



Emissions per capita by Kyoto Annex 1 country - 2008  
(Metric tonne of carbon dioxide equivalent per person)



Source: UNFCCC Annex 1 GHG emissions; World Resources Institute, Climate Analysis Indicators Tool; Global Insight, team analysis.

BHP Billiton - 15 September 2010

Source: Marius Kloppers Presentation

## GOOD NEWS FROM DENMARK

A new report from the Danish government's Climate Commission concludes that Denmark can and should perform a complete conversion of the entire energy sector away from oil, coal and gas to a green and efficient economy based primarily on wind and bioenergy. The commission also concludes that the extra costs of completing this transition will be surprisingly low if they start today.

From the report: [http://www.klimakommissionen.dk/en-US/Danish\\_Commission\\_Report/Green%20Energy%20summary%20GB%20.pdf](http://www.klimakommissionen.dk/en-US/Danish_Commission_Report/Green%20Energy%20summary%20GB%20.pdf)

*"The cost of conversion may seem surprisingly low. The low cost means that not only can we maintain our present living standards, we can also have considerable economic growth, so that energy expenditures will constitute less of our budgets in the future than today. The reason the cost is not higher is primarily because we will not have to pay for overpriced fossil fuels and CO2 reductions, and we will be able to limit our energy consumption through efficiency improvements in all areas in the future. There are many opportunities for greater energy efficiency available already today, and new technologies will enhance our opportunities in the future."*

## INVESTMENT DECISIONS



Leigh Creek Coal Train

A number of commentators have recently written about the importance of considering the potential impact of a price on carbon - when company directors are making long-term investment decisions. In Australia, the NSW Government is trying to sell its power generating assets and QR National is about to float. Both these initiatives entail either the production of carbon emissions or the export of large quantities of coal.

The "What-If" analysis of a \$20 or even \$50/Ton price on carbon could be applied to an investment in a power station - but anticipating how current coal customers will react in coming years is considerably more difficult. It will be very interesting to see how these risks are addressed in the QR National Prospectus.

## DIRECTORS UNDER THE SPOTLIGHT IN LONDON

The EU carbon trading market has been operating since 2005 and most EU based companies are adapting to the evolving regulatory environment. But the adjustment has not been smooth. Some have found that the economic models underlying their capital investments have turned out to be very wrong. Others are finding that the long-term contracts they entered into before the European regulations were finalised are now ending in court with disputes over substantial sums of money.

One of the visiting speakers at the Climate Alliance National Conference - Liz Bossley - has been secured by the courts in the UK as an expert witness.

There are many parallels between the EU in 2005 and Australia in 2010. Boards cannot wait until the politicians have agreed and passed legislation. Companies need to write contracts to run their businesses. Liz is speaking at the Chartered Secretaries Australia - Melbourne on the 12th October and Sydney on the 14th October. Please visit: <http://www.csaust.com/> and select 'Courses and Events.'

## URBAN MYTH - AUSTRALIA WILL BE THE FIRST COUNTRY TO PRICE CARBON

It is disquieting that this urban myth continues to do the rounds and is perpetuated by beguiled reporters. There are at least 30 other countries that have priced carbon - including our neighbours in New Zealand.

## OUR CARBON BUDGET AND INVESTMENT RISK

Paul Gilding wrote in the Climate Spectator recently (<http://www.climatespectator.com.au/commentary/carbon-risk-climate-change-markets-investors-emissions>) about the risks facing investors. He writes that a Potsdam Institute study concludes that we globally have a budget of around 890 billion tons of CO2 to emit between 2000 and 2050 - if we want to reduce the risk of exceeding 2 degrees of warming to around 20%.

The study then calculated how long it would take to use up that carbon budget if we carried on with 'business as usual' growth in the absence of policy change. The answer was 2024, just 14 years away. Under this scenario, the Potsdam Institute concluded that more than 75% of proven, economically recoverable fossil fuel reserves would not be burnt. This suggests that, under Scenario 1, approximately 75% of known fossil fuel reserves may be of no economic value.

In a study that supports the article (<http://paulgilding.com/filesare/Carbon-Induced-Financial-Disruption-Gilding-and-Preston.pdf>) Mr Gilding makes this insightful comment:

*"Those investors who put time and energy into formulating strategic responses before the market adjustments commence will be well placed to significantly outperform those who don't. Investing in process change now, rather than later, is akin to paying an insurance premium for future protection."*

## Climate Alliance Leadership Awards 2010

The winners were announced at the National Conference on October 7.  
See [www.climatealliance.org.au](http://www.climatealliance.org.au) for details.

## About Climate Alliance

Climate Alliance is a not-for-profit, membership based company that collects and disseminates information on climate change. Our primary focus is to provide independent, business-oriented information to Company Directors, to help them inform themselves about the opportunities and risks resulting from climate change. We do not consult, lobby or develop policy.

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