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Carbon cost to companies unlikely to fuel exodus

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The bare bones of the Federal Government's emissions trading scheme have been released — and it took about 10 minutes for poor, oppressed and innocent companies to put out the begging bowls.

Woodside's Don Voelte was warning within two days that he and every other LNG producer in the country would pull up stumps and head somewhere else. Chevron, working on its $20 billion WA Gorgon project, suggested it might just follow Woodside out the door if its special needs weren't recognised.

Power companies, particularly those public-owned enterprises trying to be sold by the NSW Government, cement manufacturers, oil refiners and others were also quick off the mark to warn of either their imminent demise or a mass exodus to the carbon-polluting badlands of China and India.

Premier Alan Carpenter went public within hours of the release of the ETS arguing that the threshold for free pollution permits should be reduced from 1500 tonnes per $1 million of revenue to 1200 tonnes.

Not surprisingly, industry insiders suggest Woodside and Chevron fall short of the 1500 tonnes threshold but get over the line at 1200 tonnes.

At almost every turn, there are warnings that if a certain industry doesn't get a free permit, then the nation will be lost in the dust as they flee for a country where there is no carbon cost.

But — and this is a big but — is that true? There has been some research into this very question overseas, mostly focused on Europe where a carbon emissions scheme has been running for some time and the price of carbon is around €35 ($60) a tonne, much higher than the expected $10-$20 a tonne in the Australian scheme.

And they've found that there's been almost no movement from ETS-affected nations to non-ETS nations.

Even the aluminium industry, which under the Federal Government's scheme would get 90 per cent of its required permits free, has stayed put in Europe rather than rush off to Russia, China or India.

Why? Because the benefits of being close to customers, previous investment, good environmental standards, reliability of inputs supply (electricity or businesses aren't shut down periodically or collapse as happens in certain other nations) outweigh the extra costs of an ETS.

A recent report out of the US called Levelling the Carbon Playing Field estimated that the companies potentially affected by an emissions trading scheme in America amounted to 3 per cent of GDP and 2 per cent of total employment.

Australia's economic make-up is slightly different from that of the US, but not by that much.

The very fact no one has disputed the Government's claims that the total number of companies that will need permits under its proposed ETS is just 1000 suggests that full impact — and potential threat to the economic future of Australia — is so far greatly over-stated.

Put it this way.

Is Mr Voelte really going to surrender the $15 billion sunk into the North-West Shelf and the potential billions in the Pluto LNG project which already has 15-year sales agreements with Kansai Electric and Tokyo Gas over the free permit issue?

Makes you wonder what a couple of bit-player companies like ExxonMobil and BHP Billiton are doing spending $1.3 billion on an oil and gas project in Bass Strait. Production is due to start in 2011 — after the ETS is operational.

Mr Voelte is simply doing what his shareholders would expect of him — trying to get the best possible deal out of the Government to maximise the potential profits accruing to Woodside.

At the truly macro-economic level, the profit share going to companies is at an all-time high and the share of profits returning to workers is at a near all-time low. And those enjoying the best gains in profits also happen to be those who are pumping the most greenhouse gases into the environment.

While there might be some sympathy for trade-exposed companies which fall short of the free permit threshold, have a look at the bigger picture. For every free permit, the cost borne by every other industry, by every other individual taxpayer, increases.

While LNG is important, it pales in comparison to the $292 billion retail sector that employs around 1.2 million Australians.

There's Buckley's chance of retailing getting protection even though it is worth far more to the national economy than LNG.

The ETS is not the only policy issue where the Chicken Littles of certain industries have been squawking.

The Federal Government's move to end the excise-free arrangement on condensate out of the North-West Shelf has provoked some simply amazing claims by the affected companies.

This was best illustrated by evidence from the Shelf's joint venture companies to a recent Senate committee in which it was suggested the Government's Budget decision had undermined Australia's sovereign risk standing.

By changing a tax arrangement close to 30 years old, the joint venture complained Australia was as risky as Papua New Guinea when it came to big-scale investment.

By the way, Australia remains ranked among the most secure nations in which to invest by authorities such as the OECD, while PNG remains just above Iraq and Afghanistan.

Again, you have to wonder where the joint venture would rank the Rudd Government compared with Hugo Chavez and his nationalisation campaign of Venezuela's oil, cement and steel industries.

There's been no complaint from the joint ventures for tax changes over the past 30 years that have reduced their payable tax.

So, the real argument is that you can make a change to a tax arrangement, as long as they're better off for it.

Again, there's nothing wrong with companies trying to protect their bottom lines and the share price. You'd be worried if they didn't.

Ultimately, it looks like the condensate tax change will stand. But the LNG companies stand a good chance to get a change in the threshold rates for free permits that will satisfy their demands or some sort of handout to offset some of the costs they will face.

For taxpayers, it's probably a one-all draw and the same for the environment.

What it highlights is just how many pitfalls there are in change, especially when so many vested interests are at stake.

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