



Carbon Market Expo Australasia 2009

Carbon Pollution Reduction Scheme – Implications for the Carbon Market

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Executive Summary

- CPRS Coverage – what it means for market development
- CPRS Design – key components that will influence market
- International Linkage – what it means for Australian carbon price
- Emissions Liabilities – financial implications from managing this risk



CPRS Coverage – Stationary Energy More than 50%

- CPRS covers facilities that will account for more than 75% of current emissions in the Australian economy
- EU ETS currently covers only approximately 55% of economy wide emissions

Annual Emissions by Sector:

Stationary Energy 50% - expect to be very active in carbon market

Agriculture 15% - *not covered initially*

Transport 14% - initial government subsidy to offset carbon cost

Forestry/Land Use 7% - generate offsets from carbon sinks

Fugitive Emissions 6%

Industrial Processes 5% - majority qualify for EITE (Cement, Al etc.)

Waste 3%



Design Elements

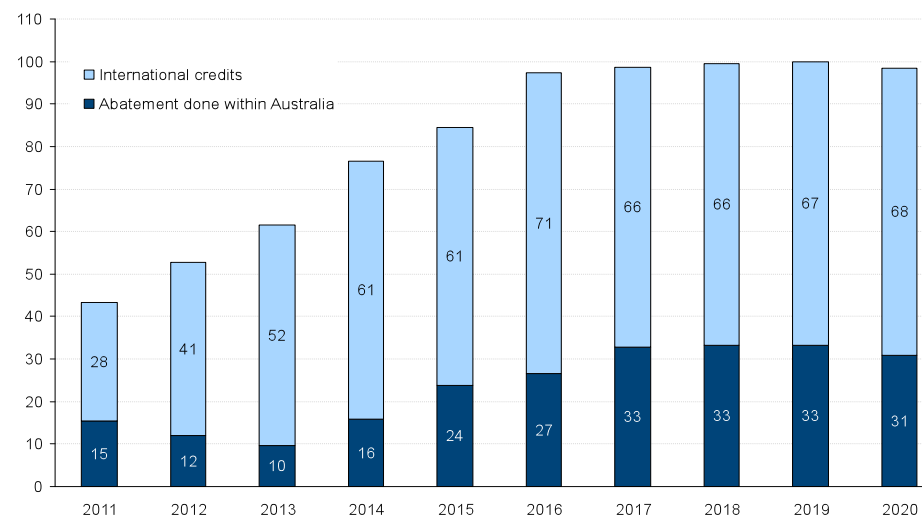
- **Year 1 Fixed Price of \$10** – possible disincentive for liable parties to enter market until late in 2011, may delay development of carbon market
- **\$40 Price Cap** – will have an impact on hedging activities (ie no price hedge required above \$40) and perception of potential price volatility.
- **Unlimited Banking** – as seen in the REC and EU emissions markets, this will result in a forward curve typically in contango. ie future prices higher than spot (today) prices
- **International Linkage** – 100% offset from CERs, ERUs, international carbon market likely to drive Australian carbon price as international credits likely to be cheaper than substantial amount of internal abatement options and below \$40 Cap



International Linkage – CERs, ERUs

- Low-cost internal abatement options available within Australia popular in the early years of the Scheme when the reduction targets are modest
- As the caps tighten and demand for abatement increases, could become more rational to use CERs in greater volumes
- New Carbon Finance modelling predicts that by 2020, between 50-65% of abatement is likely to come via the international market









Sources of Abatement – International vs Domestic

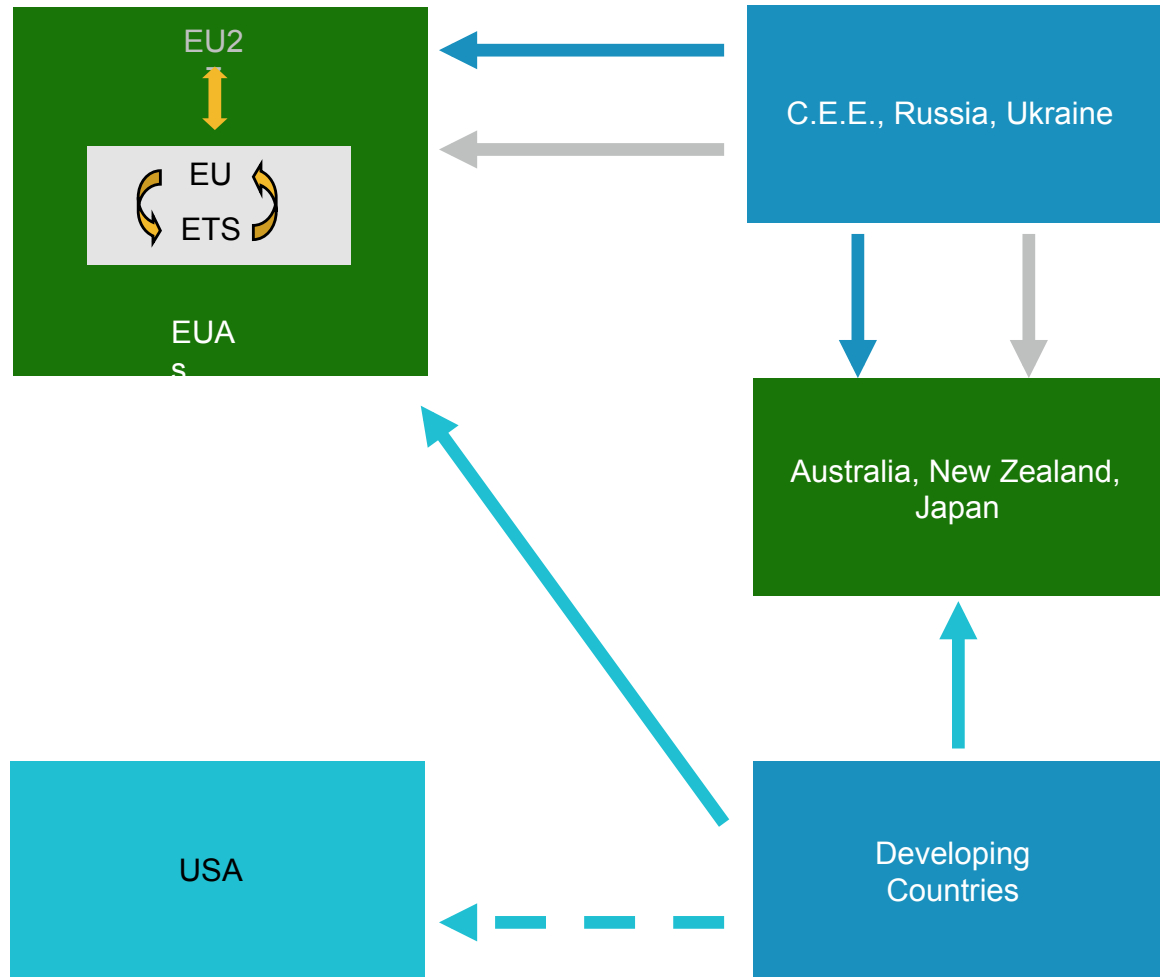




CPRS and International Linkage

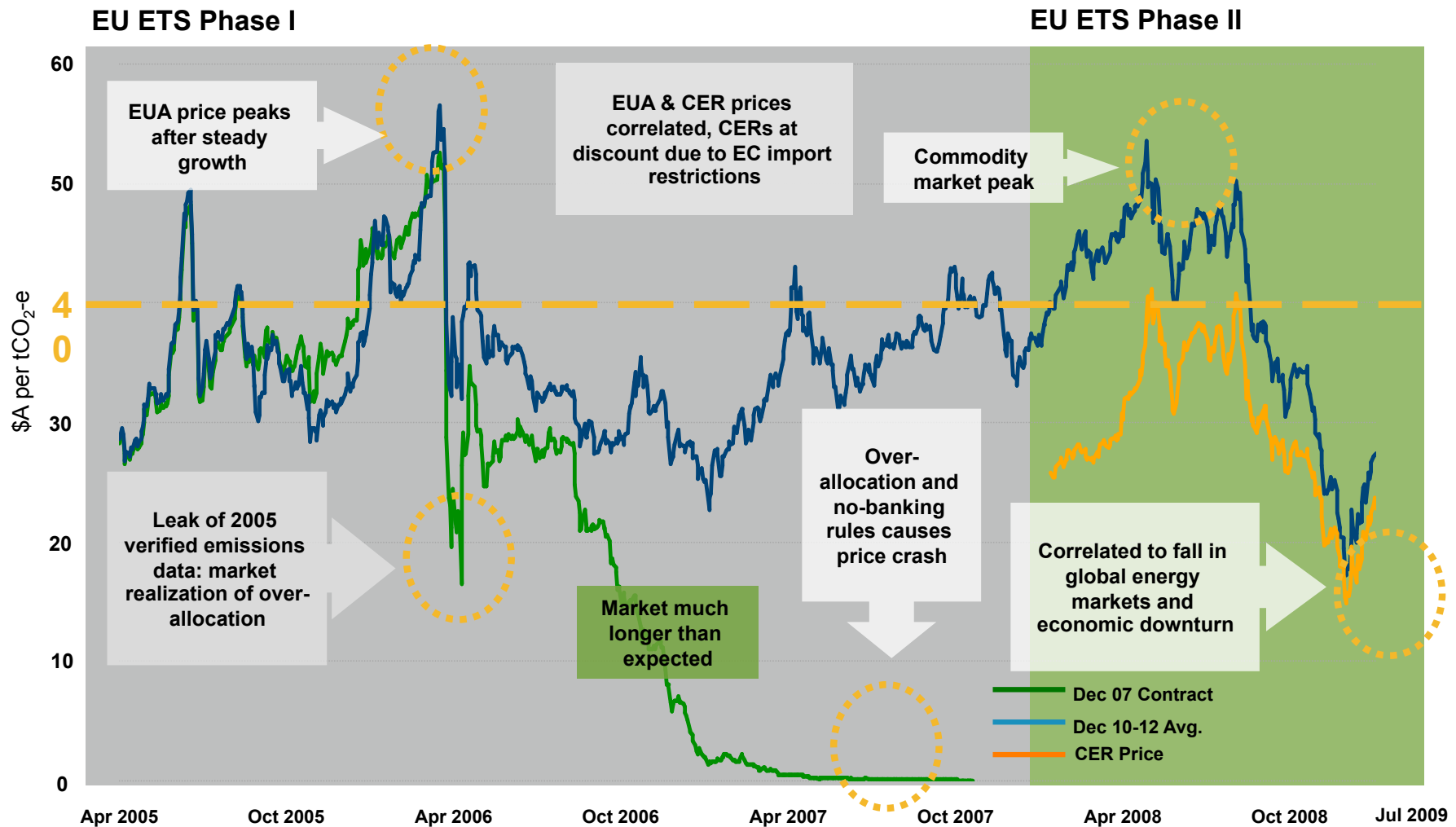
Markets & Instruments

-  Kyoto Demand (Annex 1)
-  Kyoto Supply (CDM / JI)
-  EU ETS
-  USA
-  AAU
-  CERs (CDM)
-  ERUs (JI)
-  EUAs (EU ETS)





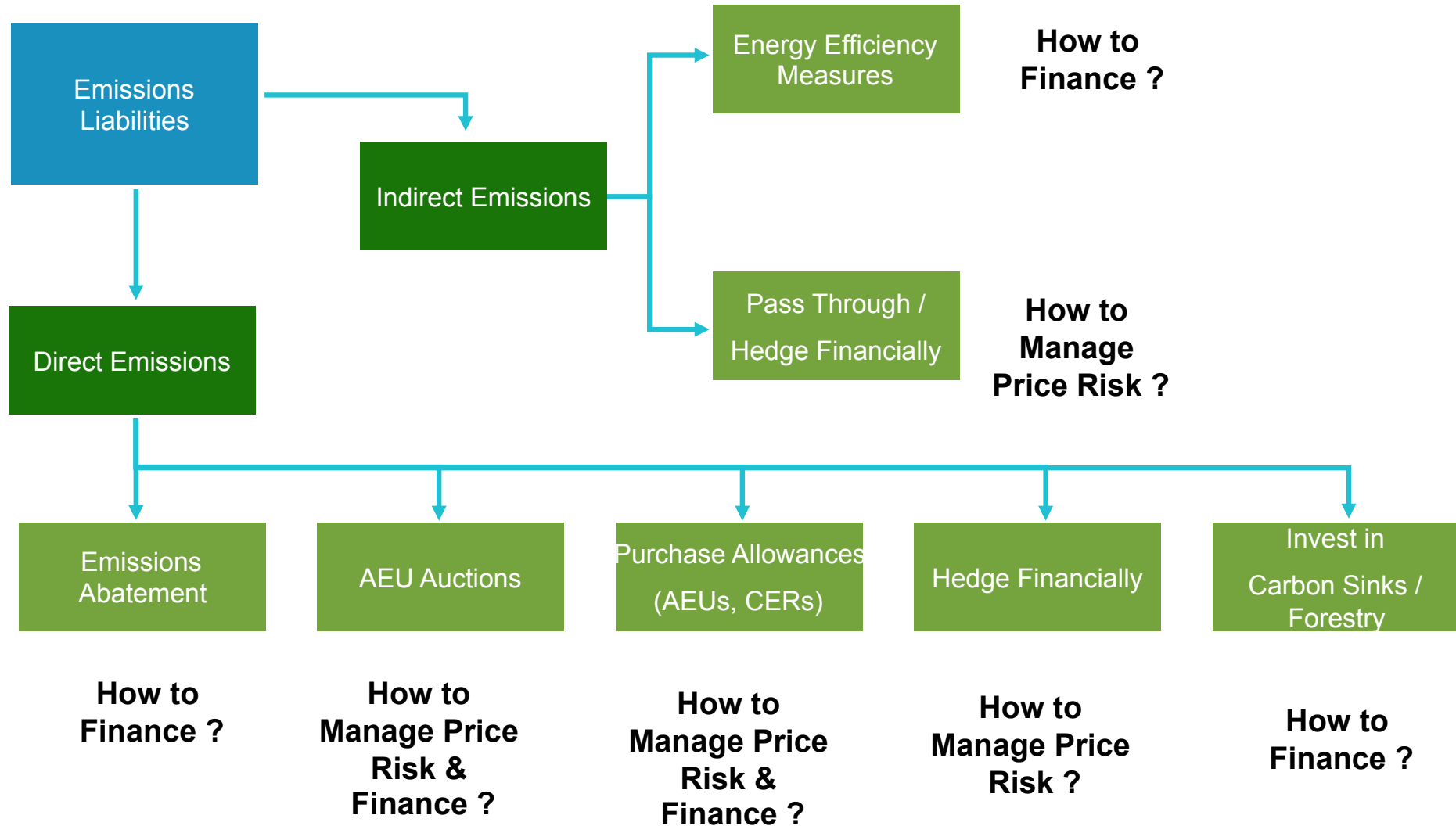
International Credits – Volatile Market



Sources: ECX, Bloomberg



Emissions Liabilities Management





In Summary.....

As currently designed, the CPRS is likely to result in an Australian carbon market that is:

- AUD equivalent of the CER market
- Volatile
- May lack liquidity initially due to size of stationary energy liability focused on several players and delayed start with fixed price in Year 1
- Relatively sophisticated due to European experience and risk mitigation products available



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