

Europe's rollercoaster carbon prices set to hit Australia

April 17 2013, by Liz Minchin



The price of Australian carbon permits is set for a steep drop after 2015 when it links to Europe's fluctuating emissions market. Credit: Flickr/PaulSteinJC

Australia's key strategy to tackle climate change is looking shaky, after another price drop on the world's biggest carbon market raised fresh doubts about the future of emissions trading schemes.

In Europe, the price of carbon permits plunged after the [European](#)

[parliament](#) narrowly voted against a plan to delay the sale of 900 million new permits to pollute, which would have reduced a massive [oversupply](#) of permits that has undermined the scheme's effectiveness.

Australia and Europe's carbon prices will start to be linked from mid-2015, under a deal announced last year by the Gillard government that will allow full trading between the Australian and European markets no later than July 2018.

That means the success or failure of Australian [emissions trading](#) is closely linked to what happens in Europe – and experts say the signs are not looking good.

[Climate Change](#) Minister Greg Combet said next month's budget will include revised revenue forecasts, factoring in the lower European prices, though he would not provide details.

"We'll continue with our plans to link with the [European Union emissions trading scheme](#) from the July 1, 2015, which is still over two years away, but this year's budget will include a revised forecast for a carbon price in 2015-16 in Australia," he told the ABC today.

Earlier this year, the Australian Financial Review revealed that the [Australian government](#) is facing a revenue hole of up to \$4 billion in 2015-16, due to the likelihood of future carbon prices being much lower than originally forecast.

Riding the European rollercoaster

The European emissions trading scheme covers 31 countries and more than 11,000 power stations and industrial plants, which need permits to emit large amounts of carbon dioxide.

The value of emissions permits has been on a rollercoaster ride since the EU scheme's [launch](#), from a high in 2006 of €30 for a permit to produce a tonne of [carbon dioxide](#), crashing only a year later to just €1 a tonne.

Immediately after yesterday's European [Parliament](#) vote, the permit price dropped 40 per cent to €2.55 (A\$3.25) a tonne of emissions, later recovering to €3.15 (A\$4.00).

In contrast, Australia's current fixed price is A\$23 per tonne of emissions. That is set to rise to A\$25.40 in July 2014 – estimated to raise around A\$8 billion that financial year – and then the permit price is likely to plummet once the price starts being set by the market from 2015.

"For Australia, this means that we too effectively will not have a carbon emissions scheme of any significance once we join up with the Europeans in two years time," said Paul Frijters, a Professor of Economics at the University of Queensland.

"The 'good news' is that joining up will hardly cost the country anything, as the only real effect of joining was for Australia to fund the governments of Europe (a kind of development aid from the former colony).

"The bad news is that our own tax receipts are going to be negligible. The price per tonne is going to be closer to A\$2 per tonne, rather than the A\$27 per tonne the Australian Treasury so foolishly had been counting on."

Professor Frijters, who warned against Australia linking to Europe's scheme in an article for *The Conversation* last year, said the Australian Treasury had made a serious mistake by relying on "the politically-motivated projections" of the European Commission.

Fixing a budget black hole

The Grattan Institute's Energy Program Director, Tony Wood, also criticised the Treasury and the federal government for relying on unrealistically high carbon price estimates.

"The black hole in the budget is a consequence of fixing a compensation package [for Australian industry and households] on the basis of a particular forecast of prices, which was always going to be wrong.

"It does illustrate why policies dependent on a particular forecast are very dangerous indeed."

But Mr Wood said that there are ways that European and Australian governments could increase the market prices for carbon permit, if there was the political will to do it.

For instance, he said that the Climate Change Authority is in the process of reviewing future climate and emission targets for Australia, and was likely to be factoring in what was happening in Europe.

"The current Australian emissions reduction target is 5 per cent by 2020, which is not consistent with our longer-term goal of an 80 per cent reduction by 2050.

"Setting emission targets that are more in line with what the science says we need to do to avoid a 2 degree Celcius temperature rise would help tighten up the availability of emission permits, which affects price, and mean we were doing more to address climate change."

In the meantime, Mr Wood joked: "I'm glad I don't have my superannuation tied up in the European [carbon price](#) right now."

This story is published courtesy of [The Conversation](#) (under Creative Commons-Attribution/No derivatives).

Source: The Conversation

Citation: Europe's rollercoaster carbon prices set to hit Australia (2013, April 17) retrieved 25 April 2024 from <https://phys.org/news/2013-04-europe-rollercoaster-carbon-prices-australia.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.