

Dr Ian Woods: Senior Research Analyst  
Responsible Investment Association Conference  
25<sup>th</sup> September, 2008



# Social Impact of Climate Change



# Emissions Trading and the Big Wealth Transfer

- How do we achieve an equity and efficient way to reduce emissions?
- The Issues
  - Need to reduce emissions quickly – lead to high permit prices under an ETS
  - Potential significant increase in electricity prices and the resulting social issues
  - Under auctioning, significant wealth transfer to government from investments and the community

# Emissions Trading - The Wealth Transfer Impact

- What is the cost of reducing emissions?
  - Cost to reduce Australian emissions by 10% (56 mT CO<sub>2</sub>-e), <\$1.6bn/yr (@ \$30/tonne CO<sub>2</sub>-e)
- Impact of National Emissions Trading Scheme
  - Approximately 420 million tonnes CO<sub>2</sub>-e (Excl. agric and land use emissions)
  - Permit Price likely to be \$25-30/tonne CO<sub>2</sub>-e
  - Permit distribution around \$10.5-12.5bn a year, **nearly 7-8 times cost of 10% abatement**
  - Permit allocation by government is equivalent to about 5% of all non-GST tax government revenue or 16-18% of company tax raised (equivalent to revenue raised by government if permits are auctioned)
  - **Permit allocation has potential to lead to significant financial impact on company valuations, which does not reflect total cost of emissions abatement, if wealth transfer is realised through windfall gains.**

# Impact on Electricity Price

- Significant increase in electricity price under auctioning
- Are there alternatives which given the same environmental outcome and investment incentive?
- Output based allocation of permits achieves environmental result without increasing electricity price

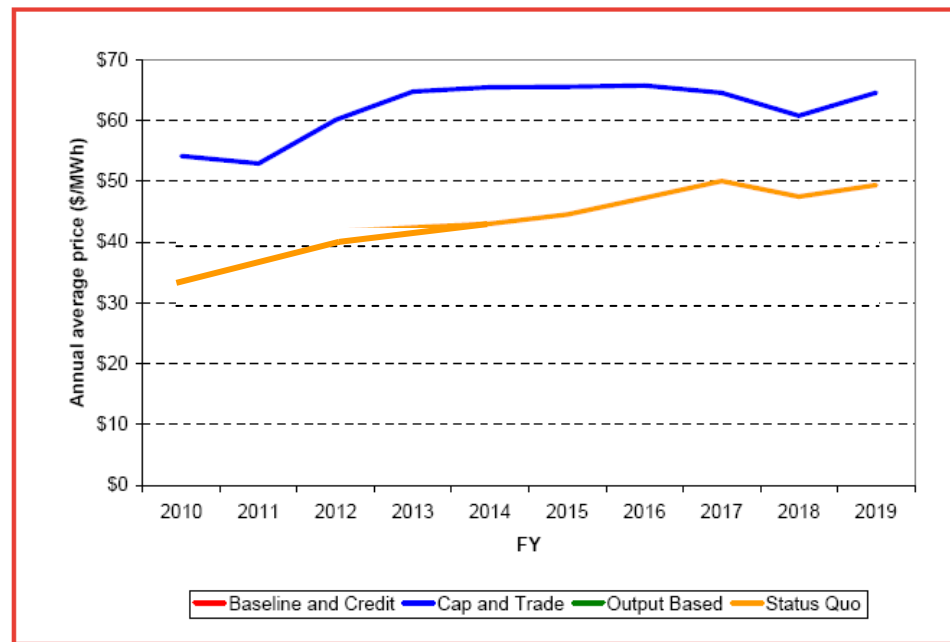


Figure 9: Annual average pool prices in Victoria, 2010 –2019, under status quo and alternative schemes

Source: IGCC and Frontier Economics (2008)

# Other Important Issues

- Impact on Regional Communities
  - Need to assist communities to adjust to the potential significant impacts: e.g.. Latrobe Valley
  - Partial auctioning (5%) provides revenue for government for assist structural adjustment
- Need to fund new technologies
  - Low carbon tax on production of fossil fuels, raises \$750m/yr
  - Small increase in energy prices, e.g. 0.2c/litre on petrol
- Providing incentive for Demand Management
  - Demand side abatement can be accepted within trading scheme
  - Provides same financial incentive as auctioning for energy efficiency
  - Overcomes problem of split incentive in property

# The Great Biofuels debate

- The issues
  - Real solution or red herring?
  - Net greenhouse benefit?
  - Links to increase in food prices and decrease in availability – fact or fiction?
  - Environmental impact of production?
- A response
  - Role of life cycle assessment
  - 2<sup>nd</sup> generation biofuels
  - Certification
  - Roundtable for Sustainable Palm Oil

# Important note

Neither AMP Capital Investors Limited (ABN 59 001 777 591) (AFSL 232497), nor any other company in the AMP Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this presentation.

Past performance is not a reliable indicator of future performance.

While every care has been taken in the preparation of this document, AMP Capital Investors makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts.

This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs.

This document is solely for the use of the party to whom it is provided.