

TREASURY EXECUTIVE MINUTE

10/2422

Minute No.

1 October 2010

Deputy Prime Minister and Treasurer

STATE OF PLAY — UNITED NATIONS SECRETARY GENERAL'S HIGH-LEVEL ADVISORY GROUP ON CLIMATE CHANGE FINANCING (AGF) FINAL REPORT

Timing: For information.

Recommendation/Issue: That you note this briefing.

Noted

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KEY POINTS

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international aviation and maritime *bunker fuels*.

a possible carbon levy on

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ADDITIONAL INFORMATION

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INTERNATIONAL BUNKER FUEL MEASURES — WHAT ARE THEY?

Currently the environmental externality associated with emissions from fossil fuel use in both the international maritime and aviation sectors is under-priced at a global level. These emissions represent around 2½-5 per cent of global emissions, and are rising.

Measures proposed to target these two sectors include: a sectoral Emissions Trading Scheme (ETS), a fuel levy or an aviation ticket tax. (An ETS or fuel levy would be more efficient compared to a ticket tax, as a ticket tax does not tightly target the carbon externality.)

Concerns around a potential bunkers measure

Australia is relatively far from our trading partners, so any rise in transportation costs (associated with a bunker measure) may well disproportionately impact us.

- You should note that there is an on-going inter-departmental committee process analysing potential bunker measure effects on Australia. As part of this DCCEE has employed ABARE (the Australian Bureau of Agricultural and Resource Economics) to model these impacts, and is itself preparing a rough analysis of first-round cost effects on exports and imports. Appropriate agencies, including the Department of Resources, Energy and Tourism, are part of this process.

Policy aspects of a bunker measure

While Australia *is* relatively far from our trading partners, Australia's *relative* position need not be made worse, provided a potential international bunker levy is applied *universally* to all countries (with efforts to ensure substitutes also face a carbon price).

- *Universal application* is essential to avoiding trade distortions.

Presuming the international community ultimately acts on climate change, then emissions from international bunker fuels would eventually need to be addressed (without distorting trade).

- Where a bunkers levy is set consistent with emissions intensity and the global carbon price, then it could have the additional advantage of reducing the scope of climate change action in other sectors. (By covering an uncovered sector such a measure may reduce the burden on other sectors.)
- It may also improve the chances of a comprehensive international agreement.
- As a source of revenue, a bunker levy would also raise a significant amount of money. This is potentially important, given that industrialised countries will have to identify new funding sources to allow them to meet their commitment to transfer US\$100 billion per year to developing countries by 2020.

However, a bunker levy would face *very significant* implementation difficulties. It would likely be very hard to get agreement to its universal application. And even where an international agreement is reached, it would likely take many years before it could be implemented.

While it is a carbon-efficient funding source, the relative merits of a bunker levy will have to be carefully weighed against other potential revenue sources identified by the AGF, including those that might be less relatively disadvantageous to Australia.

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