



Australia's Low Pollution Future Fact Sheet

Impacts on Emission-Intensive Trade-Exposed Sectors (EITES)

Allocation of some free permits to emission-intensive trade-exposed sectors, as the Government proposes, eases their transition to a low-emission economy in the initial years. Shielding redistributes costs from shielded to unshielded sectors and could redistribute costs amongst shielded sectors.

The changing nature of our production

Putting a price on emissions drives a structural shift in the economy, from emission-intensive goods, technologies and processes, towards low-emission goods, technologies and processes. As a result, growth in emission-intensive sectors slows, and growth in low and negative-emission sectors accelerates.

While global demand for some emission-intensive goods and services may fall, many of Australia's emission-intensive trade-exposed sectors (EITES), such as coal, non-metallic minerals, livestock, and iron and steel, are likely to maintain or improve their competitiveness and share of global trade. Overall, these sectors are expected to continue growing, albeit at a slower rate than they would in a world without climate change and emission pricing.

Coal's long-term future depends on developing new technologies — most importantly, carbon capture and storage. With commercially viable technologies, coal is likely to play a major role in future national and global energy supply, and Australian production is likely to grow.

Slower growth in world demand for energy commodities will lower Australia's terms of trade. The exchange rate acts as a buffer to changes in world demand, and would be expected to depreciate. This will improve the competitiveness of other traded sectors, such as manufacturing and iron ore mining.

Australia is likely to lose competitiveness where its production is more emission-intensive than its competitors in other parts of the world.

The impact of shielding EITES

Competitiveness distortions may arise where Australia prices emissions before other economies: EITES could move to other locations that are more emission-intensive than Australia, but not yet pricing emissions. As a result, global emissions could rise, a process called 'carbon leakage'.

The report shows little evidence of any such carbon leakage. This suggests the emission prices in these scenarios were not high enough to induce significant industry relocation. Industry location decisions reflect multiple factors, including access to skilled labour, legal and political stability, access to resources and quality of infrastructure.

Shielding reduces the impact of emission pricing on shielded sectors in the initial years of the scheme. When shielding is applied, output of EITES falls relative to the reference scenario (reflecting the contraction in world demand), but at a more gradual rate. This effect is particularly significant for the aluminium sector. This suggests the shielding arrangements proposed in the *Carbon Pollution Reduction Scheme Green Paper* could ease the transition to a low-pollution future for the shielded sectors.

Shielding is projected to impose modest costs on non-shielded sectors through its impact on permit trading, electricity demand and energy prices. Shielding also redistributes costs amongst shielded sectors, by diverting labour and capital from more to less competitive EITES.

Government assistance to ease the transition to a low-emission future

If Australia prices emissions before its competitors do, some EITES may lose some of their competitiveness. The report finds that the shielding arrangements proposed for EITES in the *Carbon Pollution Reduction Scheme Green Paper* could ease the transition to a low-emission economy, and assist affected industries with the required structural adjustment.

Maintaining clear mitigation incentives for shielded sectors is a crucial part of achieving low cost emission reductions. If the level of shielding is increased, or eligible sectors expanded, this would increase mitigation costs.

The costs associated with shielding highlight the importance of establishing an effective global mitigation framework. Broad participation in international emissions trading, sectoral agreements or equivalent measures could reduce competitiveness distortions stemming from national mitigation policies.