



MARITIME UNION OF AUSTRALIA (MUA)

**RESPONSE TO RUDD GOVERNMENT'S GREEN
PAPER ON A CARBON POLLUTION
REDUCTION SCHEME**

**AN EMISSIONS TRADING SCHEME (ETS) FOR
AUSTRALIA**

12 SEPTEMBER 2008

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1. Sectors in which the MUA is involved

- 1.1 The Maritime Union of Australia (MUA) represents over 11,000 workers in the shipping, stevedoring, port services, hydrocarbons, diving and recreational dive tourism sectors of the Australian maritime industry. MUA members also work in international shipping.
- 1.2 Members of the MUA work in a range of occupations across all facets of the maritime sector including on coastal and international cargo vessels as well as passenger vessels, towage vessels, salvage vessels, dredges, ferries, cruise ships and recreational dive tourism vessels, and in stevedoring and ports. In the offshore oil and gas industry, MUA members work in a variety of occupations in vessels which support offshore oil and gas exploration e.g. on drilling rigs, seismic vessels; in offshore oil and gas construction projects including construction barges, pipe-layers, cable-layers, rock-dumpers, dredges, accommodation vessels, support vessels; and during offshore oil and gas production, on Floating Production Storage and Offtake Tankers (FPSOs), FSOs and support vessels. MUA members work on LNG tankers engaged in international LNG transportation.

2. The MUA position on climate change and an Emissions Trading Scheme

- 2.1 The MUA acknowledges that the globe is facing dangerous climate change unless action is taken urgently.
- 2.2 We acknowledge that we have an obligation to the workers we currently represent, as well as their families, and to those workers that will follow in the decades ahead to play an active part in reducing carbon pollution for the sake of the planet and to leave behind a stable and sustainable environment in which future generations can live and work in peace and security.
- 2.3 The Union is prepared and committed to work with the industries in which our members work as part of the inevitable structural adjustment process that will need to occur as the economy transitions to a lower carbon future. The MUA commitment is predicated on an industry commitment to fully engage and to ensure that high quality, high paid and rewarding jobs continue to be available for Australians, and that workers rights are not diminished in the structural adjustment process.
- 2.4 As a Union representing workers in globalised occupations and industries such as shipping and stevedoring, which are based on a global trading system, we are very conscious of the need for global solutions to tackle climate change.

- 2.5 As a Union representing workers in energy production and supply like LNG we are conscious of the carbon emitting characteristics of these industries and of the need to strike the right balance between reducing carbon pollution, delivering energy security to our nation and to the Asia Pacific region and to carefully manage the economic and investment impacts of carbon pollution mitigation measures such as an Emissions Trading Scheme (ETS) on these trade exposed industries.
- 2.6 We are also conscious of the significant contribution which the freight transport sector makes to carbon pollution in the Australian economy (estimated at around 6% of total emissions) and of the need for multi-modal solutions requiring adjustment by all three of the main freight transport modes - road, rail and sea transport.
- 2.7 We of course are strong advocates of the carbon pollution reduction attributes of shipping among the freight transport modes. Shipping is universally accepted as having the lowest energy and emissions intensity of any of the freight transport modes.
- 2.7 However, realistically there is and will always be an important role for all freight transport modes in the Australian freight task. In fact, with the projected increase in the Australian freight task over the next decade or two at least, there will be an opportunity for all freight modes to increase their market share, even with an ETS, though it is expected there will be some shift in modal share to rail and sea as a result of carbon pollution abatement measures.
- 2.8 The significance of that fact is that each mode is and will continue to explore a range of abatements methods suited to the peculiarities of the mode and the available technologies and operational systems.
- 2.9 The MUA is a strong supporter of the need for Australia to move forward to establish an Emissions Trading Scheme (ETS). We acknowledge that the Garnaut Draft Report 1 of July 2008, the Garnaut Draft Report 2 of September 2008 and the Government's Green Paper on a Carbon Pollution Reduction Scheme of August 2008 provide significant frameworks for the development of an Australian ETS. Despite the challenge of implementing an ETS when there is as yet no international agreement on an emissions reduction strategy post Kyoto, we are prepared to accept at this stage that there is advantage in Australia making progress now. It is the measures we adopt to cushion the impact on workers and families that will be the critical challenge.
- 2.10 It is our view that such a market based solution (an ETS) is only one measure that will be required to reduce carbon pollution in Australia. We believe that the ETS will need to be supplemented by a range of additional specific and targeted abatement measures tailored for application in specific industries, and available to households, if Australia is to seriously shift its current carbon trajectory in a direction that substantially tackles the negative impacts of climate change.
- 2.11 The industries in which MUA members work, such as shipping and hydrocarbons are already well advanced in implementing a range of abatement measures. The global shipping industry is working on improving

fuel quality, fuel efficiency and is adopting new operational procedures to reduce emissions. In addition, new hull designs are being utilised and complete new propulsion systems such as sail power are being trialled. In LNG, carbon extraction technologies have been in operation for some time.

- 2.12 We acknowledge that the challenge of climate change and the introduction of abatement measures such as an ETS pose great challenges to the trade union movement, but also great opportunities. We will need to be creative and innovative in finding ways to represent our members not just as producers but also as consumers and citizens. The MUA has an established tradition of taking a whole of working life approach to the way it supports and represents its members. We are well placed therefore to engage with our members about the structural changes that will occur in industry as we move to a lower carbon economy and as we become more conscious of our role as consumers in creating carbon pollution. We are optimistic that with innovative industry, environmental and social policy that Australia can remain at the forefront of competitiveness in a low carbon future, and therefore deliver a productive economy where quality employment remains central.
- 2.13 The move to a lower carbon economy will pose a challenge to unions in developing wages and social policy responses to the new economic and industry circumstances, and particularly the inevitable higher costs of living, which need to be balanced against a new consciousness about our consumption habits and responsibilities to our communities.
- 2.14 We believe it will be incumbent upon Governments to ensure that the higher costs of living be ameliorated through measures such as massive investment in public transport to ensure workers can reduce their vehicle/fuel usage and hence their carbon footprint and still get to and from work with ease and at reasonable cost. In addition, there are a vast array of other abatement measures such as energy efficiency measures in the built environment that require Government arrangement and support, and that need urgent attention, despite the move to an ETS.

3. The MUA position on carbon targets and trajectories

- 3.1 The MUA supports the Government's commitment as outlined in the Green Paper of July 2008 to reduce Australia's emissions by 60% from 2000 levels by 2050.
- 3.2 We do not put a view on the 2020 target but support the ACTU proposal that targets should be set with the aim of keeping the global average surface temperature below 2.5 °C above pre-industrial levels, and preferably below 2 °C, and that this objective should be adopted as government policy.
- 3.3 We endorse the view put by the ACTU that as a wealthy developed nation with a lot to lose, Australia has a legal, moral and economic obligation to lead, in collaboration with other like nations, the global mitigation effort. We urge the government to take decisions on targets that put us in the leadership group internationally and subsequently allows us to drive business and social planning for a sustainable future.

4. Our key messages in response to the issues raised in the Green Paper

4.1 The MUAs key messages in response to the issues raised in the Green Paper are:

- i. Transport fuels should be included in an ETS from commencement of the scheme. We believe that the more comprehensive the scheme from day one the greater the chance of an ETS impacting to reduce carbon emissions. We support the proposal for scheme obligations to be applied to upstream fuel suppliers.
- ii. There is no economic or abatement enhancing justification for cutting fuel taxes (subsidising road freight operators) in the road freight transport industry when the benefit is not equally applied across all freight transport modes. In fact such a policy has the market distorting effect of creating competitive advantage to one mode when Government competition policy is and should be aimed at creating competitive neutrality among freight transport modes.
- iii. We strongly recommend that fuels used in all Australian domestic sea freight transport should be captured in Australia's ETS, whether the vessel is an Australian flagged or internationally flagged vessel. In particular we submit that ships bunkers (fuel) purchased by, or used in, foreign flagged ships granted both single voyage permits (SVPs) and continuing voyage permits (CVPs) to engage in the coasting trade under section 286 of the *Navigation Act 1912* should be accounted for in Australia by Australian business entities. To not do so will exacerbate the already competitive advantage that foreign flagged international ships have in Australia's domestic coasting trade as a result of the operation of the ships permit system. We therefore do not support the Government's preferred view at 2.4 that fuels used in all international transport be excluded from obligations under the ETS. Such a blanket exclusion will have the effect of encouraging the use of international ships in the Australian coasting trade which runs counter to the Government's objective to improve the role and competitiveness of the Australian coastal shipping industry.
- iv. We are concerned that under the ETS model proposed in the Green Paper, that Australia's LNG industry will not be eligible for support as an Emissions Intensive Trade Exposed Industry (EITEI), meaning it will not be eligible for free permits and other support measures that are likely to be available to other EITEIs.
- v. Our concern is not that the industry would be unsustainable or that profitability would evaporate if the cost of carbon pollution under an ETS was imposed without compensation. Rather, our concern is that the fluidity and mobility of capital investment in the global hydrocarbons industry would very likely result in a flight of capital away from Australian LNG projects where Australia implements an ETS without comparable global arrangements applying. One concerning impact is that an important transition fuel might be left stranded, resulting in a major erosion of Australia's emerging technological superiority and efficiency in the production, processing and transportation of LNG, with important employment and technological implications.

- vi. That carbon capture and storage (sequestration) is the critical technology where large scale commercial application must be quickly achieved, as the key to the retention of energy extraction and production as a vital component of the Australian economy. We support the Government's preferred position at 2.9 that carbon that is transferred to carbon capture and storage facilities be netted out of the originating entity's gross emissions.
- vii. We support the Government's commitments for assistance to households as proposed in Chapter 8. However, we put the view that part of the support package should involve a significant infrastructure investment in public transport as a measure to help reduce household dependence on fossil fuels and to provide genuine alternatives for workers to travel to and from work. We submit that increasing investment in rail and clean bus transport would constitute an economy wide transformational carbon pollution reduction measure.
- viii. We support the Government's preferred view that around 30% of carbon permits be allocated to emissions intensive trade exposed industries. We are concerned that to accept a higher proportion of free permits will unduly distort the availability of finances to support the countervailing measures of the impact of an ETS, in areas such as support for households and support for research and development of new clean technologies.
- ix. We support the establishment of the Climate Change Action Fund to assist business transition to a cleaner economy.
- x. However, we submit that all assistance measures to business and industry be provided under a social compact agreement (for which the framework should be proved for in the legislation) that commits the supported business or industry to implement a package of complementary measures such as infrastructure development, technological development and workplace change aimed at sustaining Australian levels of participation in all aspects of the business or industry. These commitments must be transparent, benchmarked and audited, and focus on the employment retention/generation opportunities and related skill development.
- xi. In relation to the LNG industry, we submit that any assistance which the LNG industry receives under an ETS must be accompanied by industry commitments to greater Australian participation in all phases of LNG projects from exploration through to transportation to markets.

5. An ETS and Australian coastal shipping

Inclusion of freight transport fuels in an ETS – a necessary requirement but a partial solution

- 5.1 As already stated, the MUA strongly supports the inclusion of emissions from transport fuels used in freight transport in a national emissions trading scheme (ETS), and that inclusion occur from day one of the operation of a national ETS.
- 5.2 However, on the basis of the best available Australian data (derived from a report prepared for the MUA by the Australia Institute, Macintosh, *A Climate*

Change and Australian Coastal Shipping, P61, supported by ACIL Tasman, Garnaut Forum, February 2008) a low to mid range carbon trading price in the order being considered as the likely price in the Australian context, at least initially, would only increase the price of transport fuel by around 4-7 cents a litre. Given that fuel prices are relatively inelastic, a fuel price increase in the range of 4-7 cents a litre is unlikely to result in either a reduction in overall freight carried in Australia, or a significant mode shift to more emission efficient transport modes, even in highly contestable freight markets.

- 5.3 The Australia Institute study found that introducing a carbon price alone is not likely to result in a significant shift to the shipping mode, which is the optimum policy objective. However, as there are other compelling reasons why Government policy might be directed to ensuring modal shift, like reducing urban congestion or improving the efficiency of sea ports, the Report found that there would be a considerable greenhouse benefit from adopting such complementary policies.
- 5.4 A price increase in fuels arising from an ETS is likely to result in a gradual shift to more fuel efficient road transport vehicles, trains and ships and to improved design technologies within each mode. Such change would be a good thing and a worthwhile policy outcome. However, given the predicted growth in demand for freight transport, which suggests for example a tripling in Australia's container freight trade over the next 12 years to 2020 (see Meyrick and Associates, *International and Domestic Shipping and Ports Study*, May 2007, produced for the Australian Maritime Group), an ETS by itself does not appear to provide the complete solution to reducing Australia's emissions from freight transport in the decades ahead.
- 5.5 The MUA believes there are a number of important complementary abatement measures that will be required in the Australian context to ensure that freight transport contributes to greenhouse gas emission reductions. We address in the following sections, the measures and opportunities relating to shipping.

Inclusion of emissions by international shipping permitted to operate in the Australian coasting trade

- 5.6 The Kyoto Protocol (Article 2, Paragraph 2) excludes emissions from shipping (marine bunker fuels), arising from the global nature of shipping and the difficulty in assigning ship sourced emissions to economic activities of specific countries. The Kyoto Protocol recognised that ship sourced emissions are most appropriately dealt with through the International Maritime Organisation (IMO).
- 5.7 So although bunkers purchased in Australia or used in Australia by international shipping is currently excluding from the accounting requirements in accordance with the Kyoto Protocol, the MUA submits that ships bunkers purchased by, or used in, ships granted both single voyage permits (SVPs) and continuing voyage permits (CVPs) to engage in the coasting trade under section 286 of the *Navigation Act 1912* should be accounted for in Australia by Australian business entities.
- 5.8 We put this view because the granting of such permits in effect brings those ships and therefore their operations within the realm of the Australian coastal

shipping industry, and for all intents and purposes, those ships are part of the Australian freight transport system while operating under permit.

- 5.9 We believe the permit applicant (or the Australian client of the permit applicant) in such circumstances should be required to include the fuel used by, or purchased for such ships, in their emissions reporting.
- 5.10 It should be noted that the international ships to which permits are granted to trade on the Australian coast are invariably ships from Flag of Convenience (FOC) registries, and that they are often flagged in those registries, which are globally recognised as the weakest regulators, for the very purpose of avoiding compliance with new International Maritime Organisation (IMO) greenhouse emissions abatement and other measures.
- 5.11 In other words, such vessels will invariably be the worst polluting ships. We put the view that as part of Australia's commitment to the international task of reducing emissions, that it require ships engaged in the coasting trade to comply with the ETS regime that is identical to the regime applying to freight transport on the mainland, and that to the extent Australia has legislative reach over its coastal waters, it exercise such power to reduce emissions in Australia's coastal shipping industry.

The strong carbon reducing credentials of shipping

- 5.12 The Australia Institute report, *Climate Change and Australian Coastal Shipping*, found that coastal shipping has the lowest emission intensity of the three major non-urban freight transport modes (road/rail/sea). The low emission intensity of shipping is illustrated by the data in Table 1.
- 5.13 The Report found that shipping is an energy efficient and relatively green transport mode, yet due to past Australian policy neglect it has lost market share to less efficient freight transport modes, which is increasing emissions from freight transport.

Table 1: Energy and emission intensity of freight transport modes, 2005

Mode	Energy intensity (MJ-FFC/tkm)	Emission intensity (g CO ₂ -e/tkm)
Road transport		
Light commercial vehicles	21.07	1,532
Rigid trucks	2.95	209
Articulated trucks	0.98	71
Rail		
Hire and reward	0.32	24
Ancillary	0.09	6
Coastal shipping	0.17	15

Source: Macintosh A, *Climate Change and Australian Coastal Shipping*, Australia Institute, October 2007

- 5.14 The Australia Institute study found that a shift from road to sea freight would deliver cleaner environmental outcomes and assist Australia meet its greenhouse reduction targets. The report found that while shipping accounts

for 22 per cent of the domestic freight task it accounted for only four per cent of emissions.

- 5.15 It is vitally important in our view that shipping regulation creates and maintains a level playing field (i.e. competitive neutrality between modes) in order to provide the conditions for a market based modal shift to shipping in the domestic freight market, as one means of reducing freight transport emissions.
- 5.16 The Australia Institute report also found that the decline in Australian shipping has resulted in an aging of the fleet and that as its market share has become depleted, the potential for the industry to contribute to emissions reductions in the transport sector has been severely diminished.
- 5.17 The current Parliamentary Inquiry into Australian coastal shipping policy and regulation, due to report to Parliament in October 2008, provides a unique opportunity for Government, in partnership with shipping industry stakeholders, to reverse the decline in Australian shipping, both its domestic and international dimensions.
- 5.18 Evidence before the Inquiry shows that with contemporary policy and regulatory settings, there will be major new investment in Australian shipping. This will have a number of effects that will dramatically increase the opportunity for modal shift to a less carbon intensive freight transport system in Australia. First, it will result in a replacement of older polluting ships with state of the art fuel efficient ships; second, it will result increased availability and suitability of licenced vessels to perform Australia's coastal freight task, thereby introducing genuine mode options for shippers. The clear freight price advantage of shipping will undoubtedly lead to a mode shift to clean ship transport, particularly on the long haul inter-capital city routes.
- 5.19 Genuine modal choice under a competitively neutral market system is the key to improving the carbon pollution reduction contribution in the freight transport industry.
- 5.20 Unlike other freight transport modes, shipping requires no built infrastructure and therefore no infrastructure expenditure (though we acknowledge that it often requires more complex terminal facilities than road, and to a lesser extent, rail). The significance of this fact is that there are no fugitive emissions derived from the expansion of shipping.
- 5.21 Despite this fact, shipping currently attracts no transport infrastructure or industry policy program support in Australia (or countervailing support in lieu of the fact that it does not require built infrastructure). Unlike road and rail infrastructure in Australia, shipping has not to date been included in the Auslink program, yet in the bulk commodity trade for example, it is really an alternative pipeline or part of the supply chain infrastructure.
- 5.22 The absence of shipping in Australian transport infrastructure funding, combined with infrastructure charging policy has resulted in shipping being placed at a relative competitive disadvantage in the modal mix. The MUA believes that this situation will need to be addressed as part of the new arrangements for infrastructure funding under *Infrastructure Australia* to ensure that the shipping industry is not at a competitive disadvantage relative

to other transport modes, and therefore can attract the investment necessary to ensure it plays a key role in emission reductions from freight transport activity.

The revitalisation of Australian shipping will reduce emissions from the freight transport sector

- 5.23 One of the most important implications that will arise from a revitalisation of the Australian domestic shipping industry is that it will result in the decommissioning of old, inefficient vessels in the domestic fleet and their replacement by state of the art efficient vessels. Ship engine technology and hull design have advanced dramatically in the last decade, such that fuel efficiency is up to 30-40% better today than just 10-15 years ago.
- 5.24 A second important implication to arise from the revitalisation of Australian shipping is that it will potentially provide shippers with a reliable and service oriented alternative to other transport modes.
- 5.25 Genuine choice of mode in a competitive environment will be the critical factor in the success of an ETS in reducing emissions in the Australian freight transport sector.
- 5.26 It is clear from research undertaken by the National Institute of Economic and Industry Research for the MUA (Manning I, *Australian Coastal Shipping: Its Future Role*, June 2007 Ch 5) that shipping is highly competitive, despite the inequities in infrastructure pricing across all freight transport modes and the exclusion of shipping from the scope of Government infrastructure programs such as Auslink. Manning found that in certain corridors in relation to hauls greater than 1,000 kms, which in the Australian context, includes most of our inter-capital city freight routes, that shipping operates at a significant freight cost advantage. The report found that coastal shipping is currently undertaken at marginal cost and can therefore offer domestic rates at a discount to rail of up to 50% between Melbourne and Perth, and Melbourne and Brisbane and at a significantly greater discount compared to road.
- 5.27 The Meyrick report, *International and Domestic Shipping and Ports Study*, also identified a set of factors that will be necessary to underpin the success of shipping as an alternative transport mode for shippers. Meyrick noted that coastal shipping can become a viable option for significant annual freight volumes if the critical mode choice factors of price, reliability, availability and transit times are pushed towards market competitive levels relative to rail.
- 5.28 Through natural advancement in shipping technologies, ship transit times are likely to be reduced. Mode share tends to be highly correlated with transit times which is seen as a significant point of current differentiation between rail and sea. Meyrick concluded that shipping can realise substantial mode share through minor streamlining in transit times of 10 to 20%. This means in practice deploying vessels with service speeds of around 21 to 25 knots instead of the more standard 18 to 20 knots.

Fuel types for shipping

- 5.29 The MUA fully endorses the submission of the Australian Institute of Marine and Power Engineers (AIMPE) that proposes assistance measures for shipping to transition to lower emission fuel systems.
- 5.30 The AIMPE submission notes that there are a variety of fuels used for shipping in Australia and internationally. The four types that are readily identifiable are coal, heavy fuel oil, marine diesel and LNG. The use of coal is restricted to four ships which carry bauxite from Weipa to Gladstone as their primary trade. LNG is used as fuel by the gas tankers which carry LNG as a cargo from the North-West Shelf to Japan. Marine diesel is used by some smaller ships however heavy fuel oil is a cheaper, dirtier form of petroleum and is the dominant fuel type used by larger trading vessels.
- 5.31 The fuel used almost exclusively by international shipping is heavy fuel oil.
- 5.32 AIMPE said that if the CPRS was to be implemented as indicated in the Green Paper then there could be a perverse consequence that a more intensive greenhouse gas emitting fuel type could expand in market share on the Australian coast. We agree with this conclusion.
- 5.33 AIMPE submits that Government should give consideration to providing capital assistance to Australian flag shipping operators to upgrade or replace their existing vessels with more fuel efficient vessels. The *Ships (Capital Grants) Act 1987* was enacted by the previous Federal Labor Government to provide a 7% taxable grant to the operators of new and modified Australian registered ships. This was repealed in 1996.

6. International shipping should remain outside the post Kyoto protocol – Provides for an industry sectoral process that includes and commits the developing countries

- 6.1 The MUA believes that international shipping, as is currently the case under the Kyoto Protocol, should remain outside the post Kyoto Protocol. We submit that this should be the Australian Government position in the post Kyoto climate change negotiations.
- 6.2 We put this view because the IMO is actively developing an international scheme to reduce emissions from ships in line with Kyoto targets so as to ensure global reduction in ship emissions, and we believe this process should be given every opportunity to progress its work. Given the ownership and operational arrangements in international shipping, and the likely scenarios for reaching international agreement addressed in the Garnaut Draft Report 2, we believe it is far preferable to allow the IMO process to proceed separately.
- 6.3 We believe that one of the demonstrable advantages of retaining international shipping in a process managed by the IMO but outside the post Kyoto framework is that the developing nations are already involved and part of a consistent global process – a process that is making progress towards cleaner shipping. This sector activity could be a demonstration model that suggests that there ought to be scope in any post Kyoto international agreement for sector specific global abatement strategies.

The IMO initiatives for international shipping

- 6.4 At the First Intersessional Meeting of IMO's Working Group on Greenhouse Gas Emissions from Ships held in Oslo from 23 - 27 June, 2008 the focus was on developing the technical basis for the reduction mechanisms that may form part of a future IMO regime to control greenhouse gas (GHG) emissions from international shipping, and a draft of the actual reduction mechanisms themselves, for further consideration by IMO's Marine Environment Protection Committee (MEPC).
- 6.5 The Oslo meeting also address market-based, operational and technical measures. These will include the development of a mandatory CO₂ Design Index for new ships and the completion of a CO₂ Operational Index, as well as further development of mechanisms with GHG-reduction potential for international shipping, *inter alia*: a global levy/hybrid mechanism; emissions trading schemes and/or so-called clean development mechanisms. The meeting also undertook a review of best practices for voluntary implementation.
- 6.6 When the MEPC meets in London later this year (6 - 10 October) it is expected to approve the reduction mechanisms developed by the Oslo Intersessional Meeting. These mechanisms will form part of a coherent and binding IMO instrument applying to all ships. MEPC 58 is also expected to consider the regulatory and legal aspects and decide whether the GHG regulations should form part of an existing instrument or an entirely new instrument should be developed and adopted.

7. An ETS and the Liquefied Natural Gas (LNG) industry

- 7.1 The MUA is concerned that under the ETS model proposed in the Government's Carbon Pollution Reduction Green Paper, that Australia's LNG industry will not be eligible for support as an Emissions Intensive Trade Exposed Industry (EITEI) – it will not be eligible for free permits and other support measures.
- 7.2 Unless the LNG industry is among the industries which are eligible for support as an EITEI there is a strong prospect that capital investment in Australian LNG will be diverted to oil and gas projects in other nations – it will result in a capital flight from Australian hydrocarbons projects. There are two serious implications if that occurs:
- i. The development of Australia's gas industry, which is on the cusp of a \$100 Billion expansion phase, will be stalled, with major economic consequences for the nation; and
 - ii. The production of a clean, transition energy source will not be as readily available to energy users – our nation and key Asian nations will remain dependent on more emission intensive energy sources.
- 7.3 It is important that the LNG industry be considered as a unique case in designing an ETS because:

- i. The use of LNG in the domestic economy or in the economies of developing nations with whom we trade, such as China, results in replacement of higher carbon emitting energy sources, and so helps lower emissions at home and abroad.
 - ii. The inputs to production of LNG i.e. underground gas, cannot be moved offshore to produce LNG, so producers are bound to remain part of the Australian economy, and should be supported to remain and retain/attract investment in Australian LNG.
 - iii. Australian LNG pricing is locked into long term supply contracts with Japanese, Chinese and Korean buyers, so there is little opportunity to pass on domestic cost increases – and gas cannot be stored or stockpiled.
 - iv. LNG is pioneering carbon capture and storage technology, which will be critical in the quest to produce cleaner energy.
- 7.4 We are concerned that a stalling of investment in the LNG industry will have major consequences for employment and jobs in the resources sector, at the time when major LNG projects such as Gorgon and Browse, and the emerging coal seam gas projects in Qld are entering critical investment decision phases.
- 7.5 We submit that the Government needs to quickly identify its preferred option for assisting the LNG industry following the Prime Minister's statement that he does not want the industry threatened by an ETS.
- 7.6 The MUA submits that any assistance which the LNG industry receives under an ETS must be accompanied by industry commitments to greater Australian participation in all phases of LNG projects, from exploration through to transportation to markets.

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