

# Industry Alert

## Kyoto Protocol comes into force

*While it is expected to reduce the level of greenhouse gasses by just one percent, the Kyoto Protocol is regarded by its members, which comprise most of the developed economies, as a small but essential step in curbing global pollution. There will not be a 'big bang' from the implementation of the Protocol. Nevertheless, it adds weight to the need for global businesses to become more environmentally focussed; and, although Australia is not a signatory, this applies to Australian businesses as well.*

### Australia remains outside the Kyoto Protocol

The Kyoto Protocol, which sets binding targets for the reduction of greenhouse gases by member countries, comes into force on 16 February 2005. This follows a 90-day waiting period from the time Russian ratification was received by the UN. Russian ratification provided the Protocol with the critical mass necessary for the UN to activate it.

Australia is one of only two developed economies that refuses to sign the Protocol (the other being the USA). The basis for the refusal by both countries is that without the participation of developing economies the agreement is fundamentally flawed, and so would harm their respective economies while adding negligible benefit to the reduction of carbon emissions. Nevertheless, the Australian Government has announced its intention to achieve the containment of greenhouse emissions, which it initially negotiated as part of the Protocol, (to 108% of 1990 levels) – largely through land management.

A logical question would then be, why not sign the agreement, if Australia is on track to adhere to the target anyway? One reason is that the expected future development of high pollution resource-based industries may make it more difficult to hold to that commitment. In the end Australia's non-participation likely reflects a judgement that the potential for economic disadvantage in the near term outweighs the risk of environmental (and consequently economic) damage to Australia in the medium to long term. Or put another way it is a balancing of the need for near term resource development against the future risk to Australian agriculture and tourism from global warming.

### Implications for business only starting to emerge

There are arguments and counter-arguments about the implications for Australian business from the Kyoto Protocol, but at this stage there is a large element of speculation involved. What is clear is that globally, businesses are recognising and factoring into their business planning the need to contain carbon emissions as much as possible.

Moreover, the implementation of Kyoto opens up opportunities for member countries to be involved in

carbon trading, which are not currently available to Australian businesses. In addition, Australian businesses are unable to tap the investment potential in developing economies for lower-pollution technologies under the Protocol's "Clean Development Mechanism." Australia also may miss out on investment, which might otherwise be attracted by the carbon credits produced by the establishment of local forest plantations.

Despite the USA not being a signatory more than half of the States in the USA reportedly have some form of carbon trading scheme either operational or under development. Now, some Australian States are developing their own carbon credit mechanisms. Reportedly, electricity retailers and other large carbon emitters in NSW are already subject to a cap on their carbon emissions and are required to buy abatement certificates for excess emissions. At the same time Victoria appears to be considering a State-based carbon trading system, which would eventually link with similar schemes in US States.

An important consideration for many Australian businesses is whether or not Australia's non-participation in Kyoto is going to prove an impediment to them taking advantage of the growing need for development of environmentally friendly technologies. Also, the inability to acquire tradeable carbon credits in a global market place can be a disadvantage, since the Protocol places obligations on most of Australia's non-developing nation trading partners. It is expected that the Japanese, who are in danger of not reaching their target, will be taxing products that produce emissions and in fact have announced plans to tax producers and importers of major fuels.

Another clear implication for business is that investors, recognising that governments' concerns about carbon emissions will not go away, are increasingly factoring in an environmental element into their assessment of suitable investments. Even if companies are not subject to controls on their emissions today, they may well be tomorrow.

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