

**SUBMISSION TO THE JOINT SELECT COMMITTEE ON
AUSTRALIA'S CLEAN ENERGY FUTURE LEGISLATION
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SUBMISSION BY EXXONMOBIL AUSTRALIA PTY LTD

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ExxonMobil Australia Pty Ltd is a subsidiary of Exxon Mobil Corporation. ExxonMobil Australia Pty Ltd has a number of subsidiaries with assets and operations in Australia many with names that include ExxonMobil, Exxon, Esso and Mobil. For convenience and simplicity in this submission those terms and the terms corporation, company, our, we and its are sometimes used as abbreviated references to a specific subsidiary or groups of subsidiaries in the ExxonMobil Australia group of companies.

Summary

ExxonMobil shares the view that despite climate change remaining extraordinarily complex, scientific evidence increasingly points to the fact that rising GHG emissions present risks to society and ecosystems – and that these risks warrant action by governments, companies and citizens.

A range of strategies are available to policymakers to reduce GHG emissions. These include promoting energy efficiency (in energy supply and end-use) and ensuring wider deployment of proven emissions-reducing technologies through carbon pricing mechanisms. Additional strategies include supporting research and development of new technologies to dramatically lower emissions while ensuring energy availability and maintaining support for climate research, to inform policy and the pace of response.

Assessing the appropriate mix of these strategies requires policymakers to consider carefully their likely effectiveness, interaction, scale and cost – alongside other important priorities such as employment creation and economic development, international competitiveness, poverty alleviation and public health. The challenge for policymakers is selecting those strategies that reduce emissions most efficiently and at the lowest cost while not inhibiting the pursuit of these additional policy priorities.

Addressing the risks of climate change will require sustained effort over many decades and will entail great expense. Consideration of the most appropriate mix of emissions-reduction strategies will therefore be a complex, ongoing and long-term debate. Policymakers will naturally adjust to experience gained implementing existing policies, to advances in scientific knowledge and technology and to changes in the global economy.

A balance must be struck however between evolving policy approaches in pursuit of the most cost-effective emissions-reduction strategies and short-term interventions that disrupt the framework within which companies and others operate, potentially undermining the fundamental objective of a significant reduction in GHG emissions.

In short, strategies must be adopted for reducing emissions that are stable, sustainable, simple and transparent – and which encourage the greatest reduction in emissions at the least possible cost to society.

To date, ETS mechanisms have proven only partially effective in encouraging reductions in greenhouse gas (GHG) emissions. This is due to the unpredictability and volatility they inherently create in the price of carbon, which discourages the significant, long-term investments in energy efficiency and low carbon technologies required to materially impact GHG emissions levels.

ExxonMobil believes that a well-designed, revenue-neutral carbon tax mechanism would be a more cost-effective alternative for reducing GHG emissions: when combined with further advances in energy efficiency and new technologies spurred by market innovation, we are confident that a carbon tax could play a significant role in addressing the challenge of GHG emissions.

It is important to understand that mitigating global carbon dioxide (CO₂) emissions growth requires participation of the major developing economies in any policy response. The scope and scale of the emissions challenge cannot be met by Australia acting alone given our small contribution to global emissions (i.e. Australia's CO₂ emissions from fossil fuel combustion were ~1.4% of the world's total in 2005 and this share is forecast to decline.)

It is widely recognised that trade exposed Australian industries will be placed at significant competitive disadvantage if they bear the cost of an ETS, while competing industries within the international market are left unconstrained to emit greenhouse gases. ExxonMobil's view is that the regulatory scheme must treat trade exposed industries in a manner that recognizes this fact and maintains competitiveness of Australian industry until our international competitors face similar carbon costs.

ExxonMobil's view is that the Jobs & Competitiveness Program will provide only limited transitional assistance for emissions-intensive trade-exposed industries such as petroleum refining and LNG, and ensure that both industries face significant disadvantage against international competition.

An ETS should not be a goal in itself, but one of several alternative options for consideration to facilitate the achievement of a reduction in the global growth of greenhouse emissions. It is important to recognise that many companies in Australia advocating the adoption of an ETS are intending to pursue it as an active business in and of itself or have other significant commercial interests they wish to pursue in the development of such schemes. In contrast ExxonMobil uses emissions trading as a means to achieve its GHG obligations in an economically efficient fashion.

For these reasons we believe that if the government does proceed with the fixed price period of the Clean Energy Future legislation, it should not continue to the so called "flexible" (ETS) period.

About ExxonMobil Australia

ExxonMobil Australia Pty Ltd and its subsidiaries (ExxonMobil) have had a significant role in the development of Australia's oil and gas resources and have a business history in this country stretching back over 110 years.

ExxonMobil is one of Australia's largest oil and gas producers. Our activities cover exploration and production of oil and gas, petroleum refining and supply of fuels (including natural gas), lubricants, bitumen and chemical products.

ExxonMobil is a substantial investor in the Australian economy and a major contributor to the wealth of the nation. Annually ExxonMobil pays around A\$800 million in taxes to local, State and Federal Governments. Our cumulative investment in Australia exceeds A\$16 billion and we provide direct employment for around 1700 people and indirect employment for many thousands more.

Exxon Mobil Corporation

Globally, Exxon Mobil Corporation — the parent company of ExxonMobil Australia — is the world's largest publicly traded international oil and gas company, providing energy that helps underpin growing economies and improve living standards around the world. An industry leader in almost every aspect of the energy and petrochemical business, we operate facilities or market products in most of the world's countries and explore for oil and natural gas on six continents.

We hold an industry-leading inventory of global oil and gas resources. We are the world's largest refiner and marketer of petroleum products. And our chemical company ranks among the world's largest. But we are also a technology company, applying science and innovation to find better, safer and cleaner ways to deliver the energy the world needs.

ExxonMobil's Position

ExxonMobil is of the view that the most effective emission-reduction strategies are those that:

- Ensure that any cost of carbon is uniform across the economy and is predictable (as uniformity ensures economic efficiency in achieving the greatest reduction in emissions at the lowest cost, while predictability facilitates investment in technologies needed to reduce emissions);
- Let market prices drive the selection of solutions and aid rapid adoption of successful initiatives;
- Promote global participation and consider the priorities of the developing world;
- Minimize complexity and administrative costs;
- Maximize transparency to companies and consumers; and
- Provide flexibility to adjust to ongoing understanding of the economic impact and evolving climate science.

Given the need for selected emissions-reduction strategies to be inherently stable and predictable to encourage the investments in energy efficiency and low carbon technology and the behavioural changes required, these principles have led ExxonMobil to believe that a well-designed, revenue-neutral carbon tax is a more cost-effective mechanism for reducing GHG emissions than other alternatives – including ETS schemes. When combined with further advances in energy efficiency and new technologies spurred by market innovation, ExxonMobil believes a carbon tax could play a significant role in addressing the challenge of rising GHG emissions.

A Carbon Tax as an Alternative

While not specifying an annual quantitative reduction in GHG emissions to be achieved, a tax on emissions, either directly or through taxing the carbon content of fuels, is supported by most economists as the most efficient means of reducing GHG emissions.

A notable study is that conducted by the United States Congressional Budget Office (CBO)¹ that examined the efficiency of a carbon tax in comparison to an ETS. The paper concludes that a

¹ "A CBO Study: Policy Options for Reducing CO₂ Emissions", Congress of the United States Congressional Budget Office (February 2008).

tax would be a more economically efficient policy for reducing CO₂ emissions than an ETS with an inflexible cap (meaning a cap, such as the one in the ETS whose level was not affected by the price of emission allowances). A range of empirical studies support the CBO conclusions.² The CBO study concluded that the net benefits of a tax-based system could be roughly five times those of an inflexible cap – assuming both policies were designed to balance expected costs and benefits.

Viewed another way, any long-term emission-reduction target could be met by a tax at a fraction of the cost of an inflexible ETS cap-and-trade program. These cost savings stem from the fact that a tax avoids the economic inefficiencies created by the cost fluctuations of an ETS. With an ETS, organisations are incentivized to forego lower cost opportunities to reduce emissions when the market prices are relatively low and to take higher cost steps to reduce emissions when the market prices are higher. A tax trajectory gives a steady, predictable incentive to take the lowest cost reduction steps at all times. Additionally, a tax trajectory can be adjusted over the long-term to enable the achievement of a long-term emission target.

The Challenge of International Competitiveness

The international reality post-Copenhagen is that a unified international emissions-reduction strategy is unlikely for two reasons: the inherent difficulties of governance and enforcement across regions; and the fact that regions are at different stages of their national development and therefore approach emissions-reduction with a different balance of priorities. Post-Copenhagen, a 'mosaic' of national and regional approaches is emerging.

The implication of this reality is that countries with significant carbon prices on domestic emissions (such as Australia) risk exporting jobs, investment and carbon emissions to those without such costs.³ Trade exposed, energy intensive businesses including refining and LNG are especially vulnerable. As part of the development of Australia's GHG reduction policies, a fundamental consideration should be whether the current basis of assessing progress based on emissions produced in the country is appropriate or whether a system based on carbon consumption (i.e. reflecting the net carbon content of goods consumed in the country) would be more appropriate. We do not underestimate the difficulty or complexity of such an approach, but we see it as imperative in a world where different regions and countries are proceeding at different paces to address the risk of GHG emissions.

² See, for example, William A. Pizer, "Combining Price and Quantity Controls to Mitigate Global Climate Change," *Journal of Public Economics*, vol. 85 (2002), pp. 409–434; Michael Hoel and Larry Karp, "Taxes and Quotas for a Stock Pollutant with Multiplicative Uncertainty," *Journal of Public Economics*, vol. 82 (2001), pp. 91–114; and Richard G. Newell and William A. Pizer, "Regulating Stock Externalities Under Uncertainty," *Journal of Environmental Economics and Management*, vol. 45 (2002), pp. 416–432.

³ See for example, "Greener, Cheaper", Policy Exchange (July 2010).