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**CONTACT**

Seb Henbest

Bloomberg New Energy Finance

+61 2 9777 8619

shenbest@bloomberg.net

**AUSTRALIAN CARBON PRICE TO DROP IN 2015-16, LOWERING THE COST OF EMISSIONS TRADING TO THE ECONOMY**

**Bloomberg New Energy Finance forecasts that Australia's carbon price will fall to AUD 16 in 2015-16, as scheme participants seek least-cost abatement from the international carbon market.**

*Sydney and London, 25 August, 2011* – The Australian carbon price is likely to decline from AUD 25 in 2014-15 to AUD 16 in 2015-16 with the start of the traded market, according to new research from Bloomberg New Energy Finance. The carbon price from this point is likely to track the system's price floor, which rises gradually to AUD 17.50 in 2020.

This result contrasts with modelling by the Federal Treasury, which suggests the carbon price will rise to AUD 29 in 2015 and further to AUD 38 by 2020, and means that the effect of the carbon price on electricity prices, businesses and households is likely to be weaker than expected.

Seb Henbest, manager of carbon research in Australia for Bloomberg New Energy Finance, said: *"The way the system has been designed means that from 2015-16 the Australian carbon price is likely to be driven by the cost of buying credits from the international market. As demand from the EU ETS slows however we expect the international carbon price to fall below the Australian price floor."*

Bloomberg New Energy Finance's research carries a number of important ramifications for Australia:

1. The lower carbon price trajectory means the scheme will cost households and businesses less than the 0.7% of GDP estimated by Treasury.
2. Lower international prices will mean the government will also collect less revenue from the auction of allowances to fund its clean energy programmes and assistance measures.
3. The lower the international carbon price, the more international offset credits will be imported for compliance in Australia. Our initial estimates suggest this could be up to 75% of Australia's abatement effort – 15 points higher than Treasury's estimate of 60%. Additional demand from Australia will only have a relatively small influence on the prevailing international price.
4. A lower carbon price reinforces the need for complementary measures in the Clean Energy Future Package to achieve domestic emissions reductions and the Large Scale Renewable Energy Target to promote renewable energy sources.

Bloomberg New Energy Finance's analysis is driven by medium-term and fundamental modelling of the international carbon market from which Australian firms can purchase up to 50% of the credits they

need for compliance.<sup>1</sup> Other buyers in the international market will come from the European Emission-Trading System (EU ETS), EU member states, Japan, New Zealand and South Korea. Certified Emission Reduction credits are forecast to fall in price from around AUD 19 in 2014 to AUD 7 in 2020, as buyers from the EU ETS reach their import limit. This will then make way for other demand centres with a lower willingness to pay. This result assumes that the US and Canada do not join the international carbon market.

Matt Cowie, head of carbon market research at Bloomberg New Energy Finance, commented: *“There remains a large amount of uncertainty about how the international market will evolve post-2012 and the modelling we do at Bloomberg New Energy Finance aims to capture this full complexity.”*

On 10 July, the Australian government released long-awaited details of its new carbon pricing mechanism. Draft legislation is currently undergoing public consultation before being introduced to Parliament in September. In Bloomberg New Energy Finance's view, the government with the support of its minority partners is likely to succeed in passing this legislation through both houses of parliament before the end of 2011.

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BNEF Insight Services provide deep market analysis to investors in wind, solar, bioenergy, geothermal, carbon capture and storage, energy efficiency, and nuclear power. The group offers Insight Services for each of the major emerging carbon markets: European, Global Kyoto, Australia, and the US, where it covers the planned regional markets as well as potential federal initiatives and the voluntary carbon market. Bloomberg New Energy Finance's Industry Intelligence Service provides access to the world's most comprehensive database of investors and investments in clean energy and carbon. The News and Briefing Service is the leading global news service focusing on clean energy investment. The group also undertakes applied research on behalf of clients and runs senior-level networking events.

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<sup>1</sup> Note the difference between *abatement effort* and *liability*. Liability reflects the total emissions of all firms in the economy, whereas abatement effort is the reduction that must be done to reduce emissions to the scheme cap.

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