

Climate Change



Sustainability Research

In collaboration with

CARBON DISCLOSURE PROJECT

The ETS Spring

In contrast with ailing international climate change talks, twelve national or regional carbon pricing schemes are set to emerge by 2015-16, including in key economic areas such as China. We analyse their designs and assess the exposure of more than 100 companies based on the unique dataset provided by the CDP. With a large proportion of their carbon emissions in Australia and South Africa, we point out that global mining companies are particularly at risk of CO₂ costs.

■ New carbon schemes about to emerge

News flow on the development of carbon capping initiatives outside Europe has intensified in months, which contrasts with the gloomy prospect for the UN-led Kyoto Protocol, confirming our view that drivers for CO₂ regulations are now bottom-up. Most of the momentum comes from the Asia Pacific region while there are only scattered initiatives emerging in the Americas. All in all, we reasonably expect 12 such schemes to start up by 2015-16.

■ Australia and South Africa: high-impact policies

We review the key design elements of the policies launched or proposed in Australia, China, South Korea, India, South Africa, California and Quebec, as well as other local schemes. Designs differ widely hence the economic carbon price signal range (from USD4 in NZ to USD24/tCO₂ in Australia). With CO₂ prices set at AUD23/t and USD14/t, respectively, we see the greatest carbon risks in Australia and South Africa. Conversely, we view the reduction targets set under the Indian Perform, Achieve & Trade (PAT) policy as relatively mild.

■ Assessing exposure to new carbon-capping countries

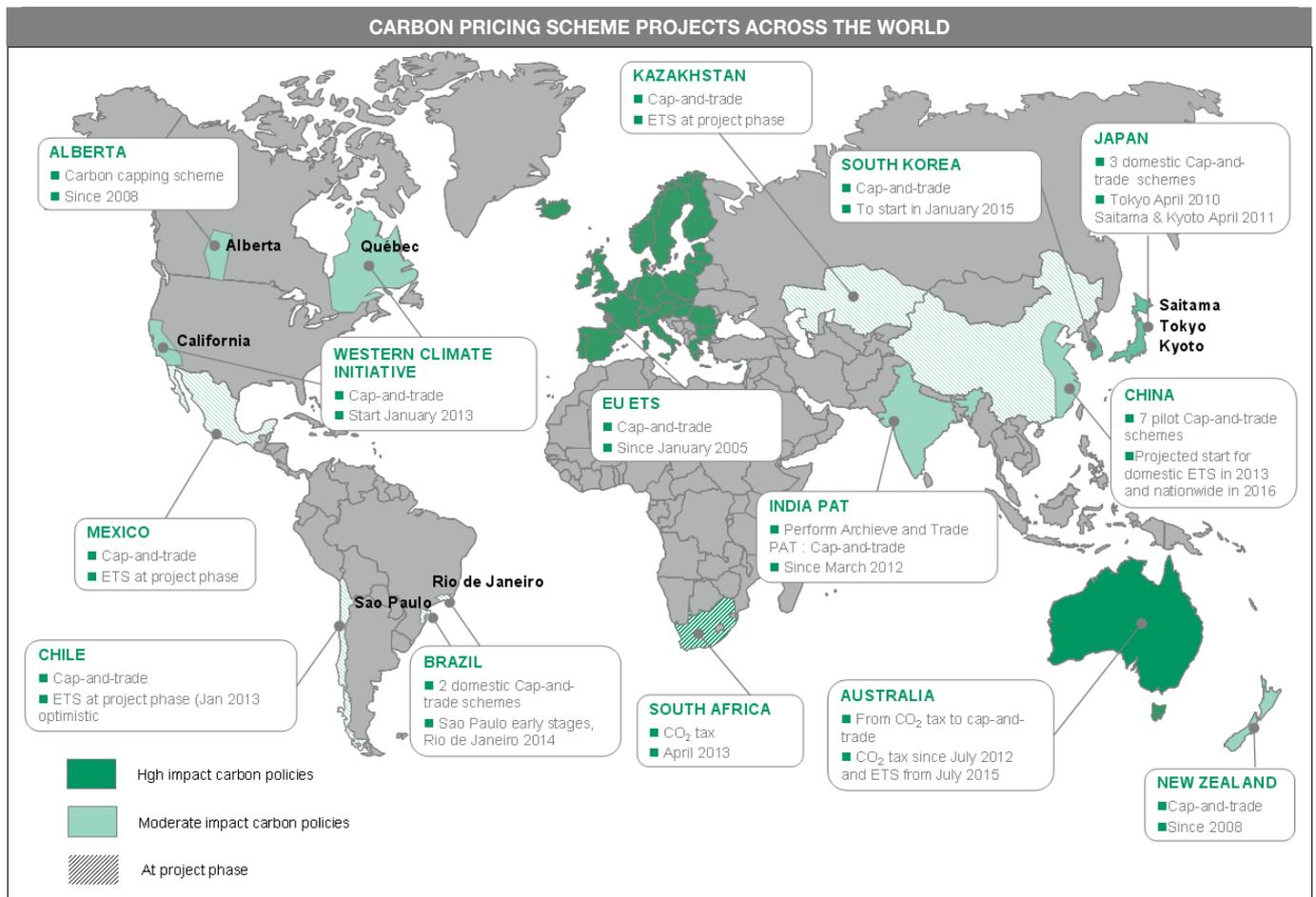
In collaboration with the Carbon Disclosure Project, we analyse the exposure to these regions of European companies in carbon-intensive sectors — Utilities, Metals & Mining, Building Materials, Oil & Gas, Pulp & Paper — and some of their global peers thanks to the unique CDP database of country-by-country carbon data.

■ Metals & mining companies in the viewfinder

Mining companies, which are barely exposed to the EU ETS, appear the most concerned by these initiatives, due to their high exposure to Australia and South Africa: the lion's share of Xstrata, AngloAmerican and BHP Billiton's carbon emissions are concentrated in these two regions. Based on the design of the current schemes, we estimate potential CO₂ costs for these players of USD180m, USD130m and USD210m p.a. respectively.

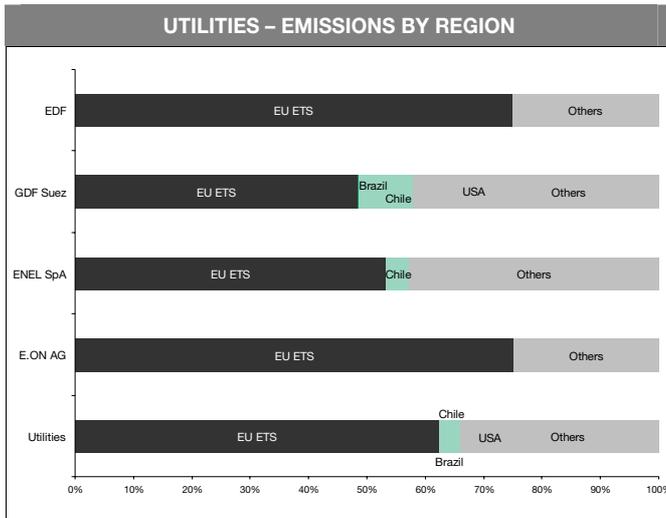
Erwan Créhalet
 Climate Change Analyst
 ecrehalet@cheuvreux.com
 (33) 01 41 89 75 18

With the collaboration of
Alexandre Castelnau

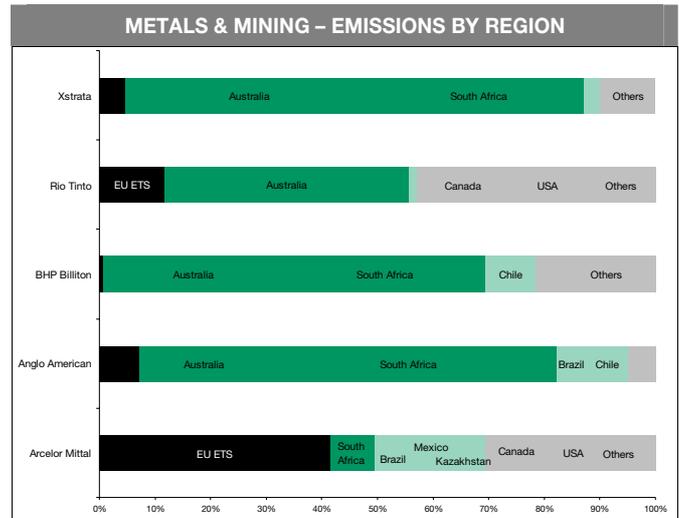


Source: CA Cheuvreux

Apart from utilities and pure European players, European companies with a global footprint in carbon-intensive sectors had only a minority of their carbon emissions regulated under cap-and-trade schemes. With the emergence of other carbon schemes outside Europe, we highlight that companies such as Xstrata, Anglo American and BHP Billiton in the metals and mining sector are facing the biggest leap in terms of scope of regulated emissions, notably due to the exposure to Australia and South Africa. The charts below clearly highlight this.



Source: Carbon Disclosure Project, CA Cheuvreux



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ESTIMATES FOR COMPANIES' EXPOSURE TO AUSTRALIA'S CARBON TAX SCHEME

	Direct carbon emissions (mtCO ₂ -e)	Indirect CO ₂ emissions	Total carbon emissions	Type of operations in Australia	Tax impact at 94.5% assistance rate, in m USD (at AUD23/tCO ₂)	As % of group EBITDA 2010	Tax impact if no assistance for coal operations, in m USD (AUD23/t)*	As % of group EBITDA 2010
Mining and diversified operations								
Rio Tinto	9.74	8.99	18.73	Three aluminium smelters, alumina plants, iron ore, coal, copper	25	0.2%	106	1.1%
BHP Billiton	12.99	3.58	16.57	Aluminium, coal, iron ore and manganese, petroleum	22	0.1%	95	0.5%
Xstrata	8.95	2.24	11.19	Coal, zinc, copper, nickel	15	0.2%	110	1.8%
Anglo American	3.38	0.57	3.95	Coal	5	0.1%	50	1.3%

* Our cost estimates in the case of non-assistance for coal mining operations are based on reported data or own estimates of carbon emissions specifically due to companies' coal mining operations in Australia. We have applied a 0% assistance rate for coal operations and maintained the 94.5% for the remaining carbon emissions. Source: CA Cheuvreux, companies, CDP

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