

5 October 2012

Senator Mark Bishop
Chair
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Bishop

The Australian Coal Association (ACA) welcomes the opportunity to make a submission to the Inquiry into the Clean Energy Amendment (International Emissions Trading and Other Measures) Bill 2012 and related bills.

The ACA represents Australia's black coal industry. Our members account for over 95 per cent of Australia's coal exports, and it is Australia's second largest export industry. ACA members also supply coal for domestic power generation and for the manufacture of iron, steel, alumina, manganese, mineral sands and cement. Currently, black coal is Australia's primary source of electricity generation. It fuels 51 per cent of electricity produced in Australia for public consumption, including 90 per cent of electricity in NSW and 77 per cent in Queensland.

At the heart of the Bills before the Committee's inquiry is the linkage between the Australian emissions trading scheme (ETS) and the European Union ETS and, potentially, other schemes that satisfy necessary integrity requirements. This linkage, and the related removal of the Australian floor price, is a welcome sign that the government remains open to amending the scheme. However, it fails to address the fundamental flaws in Australia's carbon pricing scheme, as outlined below.

Costs

Despite the changes proposed in the Amendment Bill, Australia will still lock-in the world's highest economy-wide carbon tax for the next three years. While the EU permit price is currently around AUD\$9 a tonne, the carbon tax locks in fixed carbon prices, starting at \$23 a tonne and rising to \$25.40 plus inflation over the next three years. This cost is simply not borne by competitors to Australia's coal export industry.

During the carbon tax debate, the coal industry argued that the tax would damage the Australian industry's competitiveness, which some critics said was unjustified given the strong market conditions that prevailed at the time. However, recent dramatic changes in the market have brought into sharp focus the issues of costs and competitiveness and their impact on the future growth of the industry.

Fugitive emissions

Australia is the only coal exporter in the world to impose a tax on coal mine fugitive emissions, putting us at a significant disadvantage to our global competitors in nations such as Canada, Indonesia, the United States, Colombia and South Africa, who bear no such impost.

There are no technological quick-fixes to abate fugitive emissions from coal mining, with available technologies only able to deal with up to 40 per cent of coal mine fugitive emissions. The carbon tax will cost the Australian coal industry around \$17 billion in the first ten years, with about \$15 billion of that accounted for by the tax on fugitive emissions.

Restrictions on international trade in permits

If the Australian economy is to maintain its comparative advantage in low cost energy sources, then energy and emissions reduction policies must work together to drive efficient markets that encourage the most cost-effective greenhouse reduction and energy solutions. As the Productivity Commission has pointed out, the most effective solution will involve international trading in permits:

*“Crucially — and this point seems not to be widely understood — it will not be efficient from a global perspective (let alone a domestic one) for a carbon-intensive economy, such as ours, to abate as much as countries that are less reliant on cheap, high-emission, energy sources.”*¹

In other words, if Australian coal producers are to reduce their emissions at least cost, they must be allowed unrestricted access to international permits.

However, under the Amendment Bill before the Committee, businesses can still only use international permits to acquit 50 per cent of their carbon tax liability. This restriction has been made more onerous by limiting the use of low-cost Kyoto carbon units to 12.5 per cent.

Linking Australia's system to the EU ETS also poses the little-acknowledged problem of the imbalance in buyers and sellers. Australian firms need to have access to permits from countries that need to sell them, such as in Asia. But Australia is linking with the EU ETS, which, like us, needs to buy permits.

Exclusion from transitional assistance

The Australian coal industry has been excluded from transitional assistance under Section 145 (3) of the principal Act. This is regardless of future market conditions or future reviews of the assistance measures by the Productivity Commission. This is a dramatic shift from the previous CPRS legislation, which left open the inclusion of coal mining at a future date should conditions in the industry change.

In contrast, the EU ETS involves substantial assistance to industry. In the EU the majority of permits have been, and continue to be, allocated without charge to the traded sector during a lengthy transitional period. The linkage with the EU ETS highlights the disadvantage imposed on Australian coal producers.

¹ Gary Banks (2011), *Comparing carbon prices internationally: the “challenges”*, presentation to the Australian Industry Greenhouse Network-Business Council of Australia Carbon Pricing Forum, Parliament House, Canberra, 23 March, p 10.

The global coal market is extremely competitive. Imposing an additional cost on Australia's coal industry in the form of a carbon tax that is not imposed by our trade competitors simply diminishes our competitive advantage. Similarly, having put a unilateral carbon pricing mechanism in place, then imposing a quota on international traded units reduces access to least cost greenhouse reduction opportunities.

Any loss in coal supply from Australia will be made up by one of our competitors in countries such as Canada, Colombia, Indonesia, Mongolia, Mozambique, Russia, South Africa and the US. Given world demand is set to continue to increase for several decades, Australia risks losing investment, export and taxation revenue and jobs, without actually realising the concomitant reduction in global emissions.

The coal mining industry continues to highlight the industry's large contribution to the economy and to government revenues in Australia under existing tax and royalty arrangements, and the need for stable and internationally competitive fiscal settings.

The bills before the Senate do not achieve such settings as they do not address the fundamental flaws in the design of the Australian carbon pricing mechanism. Discriminatory treatment of the Australian coal industry under the current design of the carbon tax damages the long-term competitiveness of the sector.

The ACA would be pleased to provide the Committee with additional information if required. Please contact Mr Peter Morris, Director, Economic Policy, on _____ or _____

Yours sincerely

Dr Nikki B. Williams
CHIEF EXECUTIVE OFFICER