

5 May 2011

Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Committee Secretary

SUBMISSION ON PROPOSED CARBON TAX

The Chamber of Minerals and Energy of Western Australia (CME) appreciates the opportunity to comment on the proposed carbon tax as announced by the Australian Government on 24 February 2011. The intent of this submission is to provide a broad overview of CME's understanding of the architecture and design of the tax, including core issues, and is not intended to be exhaustive.

CME is working closely with the Minerals Council of Australia (MCA) and other state resource bodies on this issue. To date, the MCA has released a number of reports, endorsed by CME, which are referenced in this submission. Further, the resource industry will be submitting a comprehensive joint submission on the proposed carbon tax to the Federal Government under the consultation framework. This is expected to be lodged on or prior to 10 May 2011.

CME AND THE WA RESOURCES SECTOR

CME is the peak resources sector representative body in Western Australia. It is funded by its member companies who generate 90 per cent of all mineral and energy production and employ 80 per cent of the resources sector workforce in the state.

The Western Australian resources sector is diverse and complex covering exploration, processing, downstream value adding and refining of over 40 different types of mineral and energy resources and also incorporates power generation.

Western Australia's economy has rebounded strongly from the Global Financial Crisis (GFC). Despite economic growth slowing to 0.7 per cent in 2008-09, it grew by 3.75 per cent in 2009-10 and is forecast to grow by at least 4 per cent over the forward estimates.¹

The strong performance of the resources sector underpins these results. In 2009-10, the value of Western Australia's minerals and petroleum production reached \$70.9 billion, slightly below the record figure of \$71.3 billion in 2008-09. Exports of these products in 2009-10, accounted for 89 per cent of Western Australia's total merchandise exports, and 37 per cent of Australian merchandise exports. Furthermore, royalty payments to the state government totalled \$2.8 billion² in 2009-10 alone. These payments are expected to climb to \$4.05 billion³ for the 2010/11 year.

¹ Government of Western Australia, 2010-11 Government Mid-year Financial Projections Statement, December 2010

² Department of Mines and Petroleum, Western Australian Mineral and Petroleum Statistics Diary 2009/10

³ Government of Western Australia, 2010-11 Government Mid-year Financial Projections Statement, December 2010.

MINERALS SECTOR - CLIMATE CHANGE PRINCIPLES

The minerals industry in Australia acknowledges that sustained global action is required to reduce the scale of human induced climate change. The design of any new carbon pricing scheme must be principles-based, and meet key criteria including that is economically efficient, environmentally effective and does not compromise international competitiveness and energy security.

In order to support the process to achieve this, the industry has developed a set of climate change principles which are shown below. These principles have been endorsed by all the key mineral sector peak bodies of Australia being CME, the MCA and affiliated state divisions, the Queensland Resources Council, the New South Wales Minerals Council, the South Australian Chamber of Mines and Energy, the Tasmanian Minerals Council, the Australian Uranium Association and the Australian Coal Association.

A measured transition to a low emissions global economy will require the alignment of three key policy pillars:

a global agreement for greenhouse gas emission abatement that includes emissions reduction commitments from all major emitting nations;

market-based policy measures that promote the abatement of greenhouse gas emissions at the lowest cost, while minimising adverse social and economic impacts, including on the competitiveness of the internationally traded sector;

substantial investment in a broad range of low emissions technologies and adaptation measures.

In the absence of a global agreement in the near term, the imperative for all nations is to sustainably reduce the production and consumption of greenhouse gas emissions without compromising international competitiveness, energy security and economic growth, improved living standards and poverty alleviation.

A measured transition to a low carbon economy can be accomplished by a variety of policy mechanisms that integrate all of the following design features:

Clear, predictable and long-term price signal – ensure that carbon price signals influence producers and consumers such that emissions and carbon consumption are reduced, and the focus on low carbon technologies is increased.

Broad based – cover the broadest possible range of greenhouse gas emission sources, sinks and low carbon energy options.

Internationally competitive – progressively reduce emissions without distorting trade and investment flows or compromising the international trade competitiveness of Australian industry.

Revenue neutral – the objective is to establish a carbon price signal to change behaviour not raise revenues – if revenues are raised, they should be used to provide assistance to individuals and firms adversely affected by the policy measures, not be diverted into general revenue.

Simple and effective – to achieve sustainable emissions reductions at least economic cost, and be simple to implement.

Measured, equitable transition – to avoid adverse economic and social consequences, ensure continued energy security and provide equitable treatment of existing investment and greater certainty to new investment. Transitional measures to maintain trade competitiveness should be non-discriminatory.

Technology – encourage the adoption of the most efficient low emissions technologies through a carbon price signal, and fiscal measures where market failure can be demonstrated.

OVERVIEW OF PROPOSED CARBON TAX

Details of the proposed carbon tax were announced on 24 February 2011 by the Federal Government. The two-stage plan for a carbon price mechanism will start with a fixed price period for three to five years before transitioning to an emissions trading scheme. A high level summary of the architecture and design of the proposed tax, as CME understands it, is show below:

- Start date – The proposed start date of the carbon tax is 1 July 2012, subject to the legislation passing through both houses of Parliament this year.
- Length of fixed price period - The fixed price phase is expected to be between three and five years.
- Fixed price – No detail has been provided on the expected initial fixed price for year one of the scheme but it is believed it will be in the order of \$20 to \$30. The initial fixed price will increase for each subsequent year in accordance with a predetermined rate of indexation yet to be announced.
- Transition arrangements – At the end of the fixed price period, the intention is for the scheme to convert to a flexible cap and trade emissions trading scheme. The Federal Government has stated that the transitional arrangements must promote business certainty and a smooth transition between the fixed price and cap-and-trade schemes.

Further, an option could exist to defer the commencement of the flexible price arrangements. A decision on whether to exercise this option could be taken at least 12 months before the end of the fixed price phase and, if chosen, a review of the fixed price and/or escalation rate could be undertaken.

- 2020 reduction target – The 2020 reduction target over 2000 levels has not been announced. The Federal Government has indicated that this target would be set no later than 12 months before the end of the fixed price phase unless there is a deferment.
- Coverage – The scheme is expected to cover the six greenhouse gases listed under the Kyoto Protocol from a broad range of emissions sources as listed below (emissions from sources covered under the proposed Carbon Farming Initiative will be excluded):
 - the stationary energy sector
 - transport sector
 - industrial processes sector
 - fugitive emissions (other than from decommissioned coal mines)
 - emissions from non-legacy waste.
- International linking – Parties may only use qualifying international emission units during the flexible price phase and not during the fixed price phase.
- Assistance – The Federal Government has stated that assistance will be provided to those households, communities and industry sectors most impacted by the tax. While there is no detail on the assistance, the Minister for Climate Change, the Hon. Greg Combet, has stated more than 50% of carbon price revenue will be used to assist households and the assistance will be permanent.

The Federal Government has also acknowledged the need for measures to address the impacts of the carbon tax on Australia's energy security and competitiveness of Australian industries.

- Other matters - Ways to promote the environmental effectiveness of the scheme and to support technological innovation are still to be developed by the Federal Government.

There is still a significant lack of detail around the architecture and design of the proposed carbon tax. Further, CME understands, given the limited time frame to introduce the legislation into Parliament for a 1 July 2012 start date, the carbon tax design/architecture will borrow heavily from the original Carbon Pollution Reduction Scheme (CPRS).

CONSULTATION WITH INDUSTRY

A range of measures have been put in place for industry to consult with the Federal Government on the proposed carbon tax. Principally, these measures are managed by the Multi Party Climate Change Committee (MPCCC), consisting of Hon. Julia Gillard MP, Hon. Wayne Swan MP, Hon. Greg Combet AM MP, Senator Bob Brown, Senator Christine Milne and regional independents Mr Rob Oakeshott MP and Mr Tony Windsor MP. Consultation sub-groups of the MPCCC and additional initiatives are listed below:

- Business Round table (established 18 October 2010) - principal vehicle for industry and the community to consult with the Federal Government on the proposed carbon tax. The Roundtable is co-chaired by the Deputy Prime Minister and Treasurer, Wayne Swan and includes representatives from a broad range of industries including the resources sector.
- Industry Transitional Assistance Working Group (established 23 March 2011) - this sub-group of the Business Roundtable primarily provides industry feedback to the Federal Government on transitional assistance requirements for emissions intensive, trade exposed industries.
- The Energy Sector Working Group (established 23 March 2011) - this sub-group of the Business Roundtable provides industry feedback to the Federal Government on appropriate transitional arrangements for the energy sector to ensure energy security and reliability is maintained.
- Climate Commission (established 10 Feb 2011) – this commission was established to provide independent expert information on climate change science and impacts, global responses to climate change and the operation of the carbon tax to the Australian community. Professor Tim Flannery has been appointed as Chief Commissioner.
- Garnaut Climate Change Review - In November 2010, Professor Ross Garnaut was commissioned by the Federal Government to provide an independent update to his 2008 Climate Change Review. This 2011 update is nearly complete with the 8th paper, “Transforming the electricity sector” released on 29 March 2011. The final report will be delivered to government by 31 May 2011.

CME has been actively involved in the consultation process with the Federal Government, primarily through the MCA. As mentioned above, the MCA will be lodging a joint industry submission on the carbon tax with the Department of Climate Change and Energy Efficiency prior to close of business 10 May 2011

CME has two established working groups, being the CME Tax Working Group and the CME Climate Change Reference Group, to work with its membership on this important policy area. These working groups provide input and feedback into the MCA’s Climate Change Committee.

ISSUES WITH THE PROPOSED CARBON TAX

CME and the minerals industry has a broad range of issues with respect to the proposed carbon tax which it will not attempt to cover in this submission. Rather, CME has focussed on two core issues relevant to the resources industry. Firstly, the failure of the scheme to provide business certainty. Secondly, adequate assistance to ensure Australia’s trade exposed industries remain internationally competitive.

Failure on investment certainty

While the minerals sector has no in-principle objection to a transitional fixed price phase, the hybrid approach, as proposed, will result in substantial volatility in carbon prices, and will compromise investment certainty. The decision by the Federal Government on whether Australia will be taking on a 5 per cent, 15 or even 25 per cent emissions reduction target for 2020 (against 2000 levels) until mid-2014 or mid-2016 will create significant uncertainty about the level of the carbon price once the ‘fixed’ price phase ends.

The scale of this uncertainty is highlighted by the economic modelling by the Centre of International Economics (CIE), commissioned on behalf of the MCA, which canvasses carbon price scenarios

after a 4 year fixed price phase (the midpoint between a 3 to 5 year fixed price phase). The CIE modelling shows that Australia's businesses face significant uncertainty on the cost of carbon once the fixed price phase ends depending on which reduction target is selected: a \$49 carbon price (on a 5 per cent target), a \$71 carbon price (on a 15 per cent target) or even \$93 (on a 25 per cent reduction)⁴.

To overcome this flaw, the Government should immediately fix Australia's 2020 target at 5 per cent below 2000 levels.

Further adding to this uncertainty is the scheme's failure on least cost abatement. The proposed prohibition on access to international offsets (and lack of clarity about access to domestic offsets) during the fixed price phase will simply raise the economic cost of the scheme and increase the adverse impact on the economy.

Trade Competitiveness

Proposed measures to ensure the continued competitiveness of Australia's export and import-competing mining industries under the proposed carbon scheme are vastly inferior to those developed for their European Union (EU) competitors under the EU Emissions Trading Scheme (ETS).

The MCA commissioned SFS Economics to conduct empirical analysis of the coverage of the 'trade competitiveness' provisions of the EU ETS and the proposed Australian carbon pricing scheme. The analysis assumed that the provisions of the Australian scheme will be based on the Emissions Intensive Trade Exposed (EITE) model developed for the CPRS. The highlights from this analysis are shown below:

- **Coverage of industry sectors**

European Union: the EU ETS carbon leakage provisions will apply to 164 industry sectors from 2013 including Europe's sugar, dairy and wine sectors, coal mining, lead, zinc, tin, copper and iron ore producers, textiles clothing and footwear production as well as watch-making, ship building, weapons and ammunition manufacturing as well as scores of other sectors.

Australia: 33 'activities' have been classified as 'emissions-intensive and trade exposed' under the CPRS program. These include parts of the production processes of aluminium, petroleum refining, tissue paper, methanol, glass containers, newsprint, synthetic rutile and cartonboard.

- **Coverage of merchandise exports**

European Union: 73 per cent of merchandise exports from the EU will be allocated up to 100 per cent free permits for their emissions.

Australia: Goods that account for between 16 and 19 per cent of Australia's merchandise exports will receive a share of free permits under CPRS EITE program.

- **Coverage of manufacturing value-added**

European Union: 48 per cent of the EU's manufacturing sector value added will be covered by the EU ETS competitiveness provisions

Australia: Only 20 per cent of the Australian manufacturing sector's value-added will be covered by the CPRS EITE provisions.

- **Coverage of employment**

European Union: EU carbon leakage provisions cover 42 per cent of manufacturing employment in the EU, and 52 per cent of mining sector employment.

Australia: CPRS EITE provisions cover just 8 per cent of employees in the manufacturing sector. CPRS EITE provisions cover minimal employment in the mining sector.

⁴ Nominal figures

CONCLUSION

In summary, while CME acknowledges the need for sustained global action on climate change, the design of any new carbon pricing scheme must be principles-based, and meet key criteria including being economically efficient, environmentally effective and does not compromise international competitiveness and energy security. Unfortunately the proposed carbon tax, as announced on 24 February 2011, fails to meet these objectives.

CME is keen to work with the Federal Government during the consultation period to ensure the proposed carbon scheme meets its core principles, including provision of business certainty and ensuring the ongoing international competitiveness of our resources industry.

Further, CME appreciates the opportunity to discuss issues surrounding additional policy measures, which should be genuinely complementary, and continued public sector investment in low emissions technology.

If you have any queries, please do not hesitate to contact either James Edwards, Executive Officer, Economics and Tax (08 9220 8534, j.edwards@cmewa.com) or Regina Flugge (Executive Officer, Environment and Land Access, (08 9220 8527, r.flugge@cmewa.com).

Yours sincerely

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