



22 August 2011

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

Dear Committee Secretary

RE: Inquiry into the Carbon Tax Pricing Mechanisms

Thank you for the opportunity to provide this submission to the Select Committee on New Taxes' Inquiry into the Carbon Tax Pricing Mechanisms.

The Association of Mining and Exploration Companies (AMEC) is the peak industry body for mineral exploration and mining companies within Australia. The membership of AMEC comprises over 330 explorers, emerging miners and the companies servicing them.

AMEC's strategic objective is to secure an environment that fosters mineral exploration and mining in Australia in a commercially, politically, socially and environmentally responsible manner.

It is in this context that AMEC provides its response to this Inquiry on Carbon Tax Pricing Mechanisms. AMEC has consulted its members and will continue to do so as the full impacts of the Clean Energy Future Plan are calculated by each company. Therefore the views expressed are of a preliminary nature.

Should you require clarification on any of AMEC's comments please do not hesitate to contact me. AMEC is also available to attend public hearings should the Committee require.

Yours sincerely

Simon Bennison
Chief Executive Officer

Attachment - AMEC Response to Clean Energy Future Plan, August 2011

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Response to Clean Energy Future Plan

August 2011

Contents

Contents.....	2
Introduction	3
Executive Summary.....	3
Recommendations.....	3
Global Economy	4
Exploration and Mining Investment	4
AMEC Principles of Good Climate Change Action Policy	5
Current Global Climate Change Action	5
Economic Impacts of the Clean Energy Future Plan	5
Clean Energy Future Plan.....	6
Clean Energy Future Plan Improvements	7
Fuel Tax Credits and Excises.....	7
The Terminology of Transport Fuels.....	11
Energy Intensive Trade Exposed Industries	12
General Comments on Clean Energy Future Plan.....	14
Increased Administrative and Compliance Costs.....	14
Coal Fugitive Emissions	14
Trading of Carbon Permits Post 2015	15

Introduction

1. The Association of Mining and Exploration Companies (AMEC) is the peak industry body for mineral exploration and mining companies within Australia. The membership of AMEC comprises over 330 explorers, emerging miners and the companies servicing them.
2. AMEC's strategic objective is to secure an environment that fosters mineral exploration and mining in Australia in a commercially, politically, socially and environmentally responsible manner.

Executive Summary

3. AMEC is strongly opposed to the measures in the Australian Governments Clean Energy Future Package and associated legislative instruments (CEFP), as they will severely undermine the Australian economy at a time of considerable global economic uncertainty.
4. Notwithstanding that view, AMEC continues to provide constructive input into the legislative process to improve the outcomes for its members.
5. AMEC's submission is not intended to be a detailed critique of the CEFP, but rather it concentrates on the key issues as they relate to the minerals exploration and mining sector. The submission provides an overview of the context for the key points of the submission including the global economic environment, the economic environment for mineral exploration and mining investment and status of global climate change action.
6. The submission concludes with AMEC recommending to the Australian Government improvements to the CEFP with the aim of minimising the significant impacts the measures will have on the mineral exploration and mining sector.

Recommendations

7. AMEC makes the following recommendations with respect to the CEFP:
 - 7.1 The Government should reconsider in full the introduction of the CEFP.
 - 7.2 Should this be unacceptable to the Government, it should make no changes to the current fuel tax credit and excise arrangements.
 - 7.3 Should this be unacceptable to the Government, all claimants should be exempt from the proposed changes to fuel tax credits and excises for the first ≈9.25 million litres of diesel used per annum (or CO₂-e equivalent other fuel).
 - 7.4 The Government investigates implementing a scheme similar to the Greenhouse Challenge Plus Programme where claimants using less than the above threshold will, in partnership with Government, endeavor to implement alternative means of reducing CO₂-e emissions in their businesses, and
 - 7.5 The Government should use the phrase "fuels used in all combustion" as opposed to "transport fuels".
 - 7.6 The policy framework for assessment of Energy Intensive Trade Exposed Industry (EITE) should be revisited. The framework should include the development of criteria for an analysis of the international market in which Australia's minerals and resources exports compete.

- 7.7 All previously assessed activities are reassessed against these criteria, particularly gold production.
- 7.8 The assessment of nickel and magnetite processing is expedited in light of the significant impact that the CEFP will have on existing operations and investment decisions for those businesses undertaking that activity.

Global Economy

8. There is significant commentary on the current status of the global economy, including from the Reserve Bank of Australia, such as the problems in the USA and the European Union. Fortunately, Australia has been shielded from most of this turmoil by the strong growth in Asia, particularly in China and its demand for Australia's raw materials¹.
9. However, the continued strength of the Chinese economy is uncertain² and due to Australia's close ties, so too is the Australian economy. In light of this, the introduction of the measures outlined in the CEFP seem to AMEC to be untimely, ill conceived and detrimental to Australia's interests.

Exploration and Mining Investment

10. AMEC continues to be of the view that a healthy and developing mining and mineral exploration sector provides significant economic and social dividends to the Australian economy, communities and families, and therefore should be encouraged and promoted at all times.
11. Australia does not have a monopoly on the earth's mineral resources. While it has enjoyed a prestigious position as one of the world's major producers and investment destinations, this position is fast being eroded by the entrance of new mineral producing provinces from emerging mineral producing countries. However, Australia is significantly under explored and for that reason still holds huge mineral potential.
12. There has been significant commentary from the exploration and mining sector about the impact current Government policy is having on Australia's sovereign risk status. For Australian mineral exploration and mining companies, sovereign risk manifests itself as the relative attractiveness to investors of their Australian assets and activities compared to international competition. AMEC members have reported increasing levels of questioning from international investors about Australia's mineral exploration and mining policy framework. Their experiences are supported by the credible Fraser Institute of Canada. Their Policy Potential Index (PPI) serves as a report card to governments on how attractive their policies are from the point of view of an exploration manager. For Australia, the average PPI score has fallen from 78.1 in 2006/07 to 64 in 2010/11. This has culminated in a declining appetite for Australian investments. In short, the investors are reluctant to invest in Australia due to significant Government policy changes that are eroding their returns, and creating significant uncertainty.
13. It follows then, that in the current uncertain policy environment, potential investors might look to more favorable mining jurisdictions. This is exactly the situation Australian mineral explorers and miners find themselves in. In the 6 months to September 2010, over 50% of funds raised in

¹ <http://www.rba.gov.au/monetary-policy/rba-board-minutes/2011/03052011.html>

² <http://www.rba.gov.au/monetary-policy/rba-board-minutes/2011/03052011.html>

Australia for exploration were directed overseas. This does not just result in Australia's capital being diverted overseas but also Australia's human and intellectual capital being employed to expand the resource industries in other countries in competition and at the expense of Australia's future industry.

14. In summary, the combined effect of increased direct and indirect costs, due to new Government policy, both State and Federal, (e.g. Minerals Resource Rent Tax, royalty increases, levies, stamp duty and now the CEFP) is severely disadvantaging the Australian exploration and mining sector and in AMEC's view jeopardising the long-term future of the industry.

AMEC Principles of Good Climate Change Action Policy

15. AMEC supports:

- 15.1 An integrated, orderly, phased transition to a low-carbon Australian economy,
- 15.2 The development and deployment of low emissions technologies, and
- 15.3 Government policy that would not significantly disadvantage trade exposed industries in comparison to their international competitors.

Current Global Climate Change Action

16. The Australian Government requested the Productivity Commission (PC)³ to investigate climate change policies and subsequent action by other key economies. In the context of the measures proposed by the CEFP, the PC's report shows that no other economy studied has taken the monumental step the Australian Government has by introducing an economy-wide carbon tax. In fact, of the policy measures undertaken in the other economies most are already occurring in Australia in one form or another, for example, renewable energy targets, subsidies for biofuels and regulations for combustion engine emissions.
17. AMEC considers that the Government's CEFP is out of step with global community action and it will subsequently result in significant harm to Australia's economic growth and prosperity.

Economic Impacts of the Clean Energy Future Plan

18. There has been significant commentary on the impacts the CEFP will have on the Australian economy, of note are the predicted impacts to the mining industry. While AMEC is not privy to the methodology used to calculate the impacts of the CEFP, the following commentary is provided to illustrate the scale and scope of the potential impacts.
19. The Australian Government Treasury Department reports a carbon price of \$23/t CO₂-e in 2012-13 will have a small one-off rise in the consumer price index of around 0.7 per cent⁴.
20. Deloitte modeling for the Victorian Government showed the Victorian economy would be about \$2.8 billion worse off in 2015 and \$3 billion worse off in 2030. It found that there would be 23,000 fewer jobs created across the state in 2015 as a result of the tax⁵.

³ <http://www.pc.gov.au/projects/study/carbon-prices/report>

⁴ <http://www.treasury.gov.au/carbonpricemodelling/content/overview/page8.asp>

⁵ <http://www.heraldsun.com.au/business/gillard-governments-carbon-tax-to-cost-23000-jobs-in-victoria/story-fn7j19iv-1226116987957>

21. A NSW Treasury review found the carbon tax would cost at least 31,000 jobs, particularly in regional areas, and cut \$3.7 billion from the annual output of the NSW economy by 2020, rising to \$9.1 billion by 2030. It also showed an increase in electricity prices of between 10% and 15%⁶.
22. The Western Australian Treasury Department reports that significant amounts of income (estimated at \$56.9 billion in 2050) will be transferred from Australia to other countries⁷.
23. An ACIL Tasman report showed that 2,700 Queensland coal workers would be out of jobs by as early as 2018 owing to the premature closure of both gassy and low margin mines. In addition it predicted a loss of royalty revenue to the Queensland Government of at least \$1 billion⁸.

Clean Energy Future Plan

Recommendation

24. **AMEC recommends that the Government should reconsider in full the introduction of the CEFPP.**

Discussion

25. In AMEC's view, the Governments Clean Energy Plan does not sufficiently meet any of the above principles described in paragraph 15 for the following reasons:
 - 25.1 The CEFPP will add significant costs to doing business, including those in the mining and mineral exploration sector and those that service them, for little or no global environmental gain. The cost will be borne disproportionately by the mineral exploration and mining sector because companies will have little opportunity to reduce costs through alternative energy sources.
 - 25.2 Fuel credit reduction will capture many small to medium companies that are not in the Government's so-called "Top 500 Polluters" group because they will be effectively paying a carbon tax. This is out of step with other exemptions provided by the Government to agriculture, fisheries and forestry and heavy on-road transport (the later albeit until 2014, subject to The Greens support).
 - 25.3 Proposed phased reductions in the diesel fuel credit from 6.21 c/L to 6.858 c/L (in 2014-2015) and thereafter additional six monthly adjustments, is a significant investment disincentive for mineral explorers and mining companies that are funding operations from limited equity.
 - 25.4 The policy framework of assessment for assistance for energy-intensive trade-exposed (EITE) industries has exposed many businesses that do not meet the criteria to significant cost increases. Because these businesses are often price-takers in international markets the CEFPP will create a significant advantage for their competitors not exposed to a carbon price.
 - 25.5 The administrative costs to industry and Government of the Plan will be significant and possibly under estimated by Government.

⁶ <http://www.smh.com.au/environment/climate-change/carbon-tax-will-cost-31000-nsw-jobs-20110803-1ibrp.html>

⁷

http://www.treasury.wa.gov.au/cms/uploadedFiles/Treasury/Publications/Preliminary_Assessment_Impact_Proposed_Carbon_Tax_on_WA_August2011.pdf

⁸ https://www.grc.org.au/dbase_upl/ACA%20Report%2010%2006%2011.pdf

Clean Energy Future Plan Improvements

26. Notwithstanding AMEC's opposition to the CEFP, the remainder of this submission proposes a number of improvements to the design of the CEFP to minimise detrimental impacts on the mineral exploration and mining sector. The two main areas highlighted are changes to fuel tax credits and excises and the policy framework used for assessing EITE activities. In addition AMEC has also made some general comments on the overall CEFP.

Fuel Tax Credits and Excises

Recommendations

27. AMEC recommends:

- 27.1 **The Government should make no changes to the current fuel tax credit and excise arrangements.**
- 27.2 **That should this be unacceptable to the Government, all claimants are exempted from the proposed changes to fuel tax credits and excises for the first ≈9.25 million litres of diesel per annum (or the CO₂-e equivalent for another fuel), and**
- 27.3 **The Government investigates implementing a scheme similar to the Greenhouse Challenge Plus Programme where claimants using less than the above threshold will, in partnership with Government, endeavor to implement alternative means of reducing CO₂-e emissions in their businesses.**

Issue

28. It is obvious that fuels play critical roles in mining and mineral exploration operations. Not only is diesel used for heavy vehicles, but it is currently the major fuel type used for on-site power generation, although use of liquefied natural gas (LNG) and compressed natural gas (CNG) is increasing. However, the decision to use LNG and CNG is heavily dependent on whether or not the operation has access to the appropriate infrastructure, either a population centre for distribution or a gas pipeline. For many operations, they are simply too remote to even consider alternatives. Regardless, the widespread use of LNG or CNG in the mining industry for heavy vehicles is still some 5 to 10 years away⁹.
29. Nonetheless, under the CEFP, all fuels will have a cost increase. The cost will be more burdensome for mineral explorers who are funding their operations from equity – by definition they are not in production and therefore have a negative cash flow. To understand the impact it is worth noting that Australian explorers commonly raise around \$5 million capital through Initial Public Offerings (IPO's) for exploration. Exploration by its very nature uses fuel; the increase in fuel costs will come at the expense of the number and geographic range of exploration holes drilled. The cumulative result for Australia will be significant reduction in mineral exploration. Furthermore the increased cost will significantly impact emerging mining companies who often have tight or negative cash flows.

⁹ http://www.cleanenergyfuels.com.au/lng/lng_applications.phtml

30. The dilemma for the mining and mineral exploration sector is that there are few short to medium term low-emission or renewable fuel alternatives for diesel powered vehicles – the source of the majority of mining related CO₂-e emissions (see Case Study - Biofuels in Mining Operations).
31. Thus while the intended policy outcome is for lower CO₂-e emissions from the mining and mineral exploration industry, in reality, companies will be burdened with extra cost with little ability to reduce emissions. Overall, there will be little change in emissions intensity as a result of the measures in the CEFPP.

Case Study - Biofuels in Mining Operations

32. Biofuels and specifically biodiesel, will not be a readily available fuel substitute for large scale use by the mining and mineral exploration industry for three major reasons:

32.1 Supply limitations: it is estimated that Australia's biodiesel production will be around 609 million litres in 2015¹⁰. Extrapolating the 2005-06 Australian Taxation Office¹¹ statistics on the volume of diesel subject to diesel fuel rebate claims made by the mining industry by 3% p.a. would suggest that around 5 billion litres will be required in 2015. That is, biodiesel could perceivably replace 12% of the industry's needs. However, this does not factor into account other sectors needs.

32.2 Supply availability: while Australia's biodiesel production capacity is centred in the eastern states, its major mining provinces are in the remote north and west. Thus whatever potential carbon tax savings there might be, they will be quickly removed by transportation costs.

32.3 Use in engines: diesel engine manufacturers recommend that the diesel contains no more than 20% biodiesel (so-called B20 fuels), meaning there will still be a significant demand for diesel.

Discussion

33. The exploration and mining sector has always been a recipient of fuel rebates/credits in recognition that the majority of its fuel use was in off-road environments. According to the Australian Tax Office 2009-10 statistics, the exploration sector claimed \$181 million in credits¹². However, since 2000 when the fuel excise no longer was indexed to the consumer price index (CPI), in real terms the value of the excise has declined as fuel prices have increased¹³, see Figure 1.

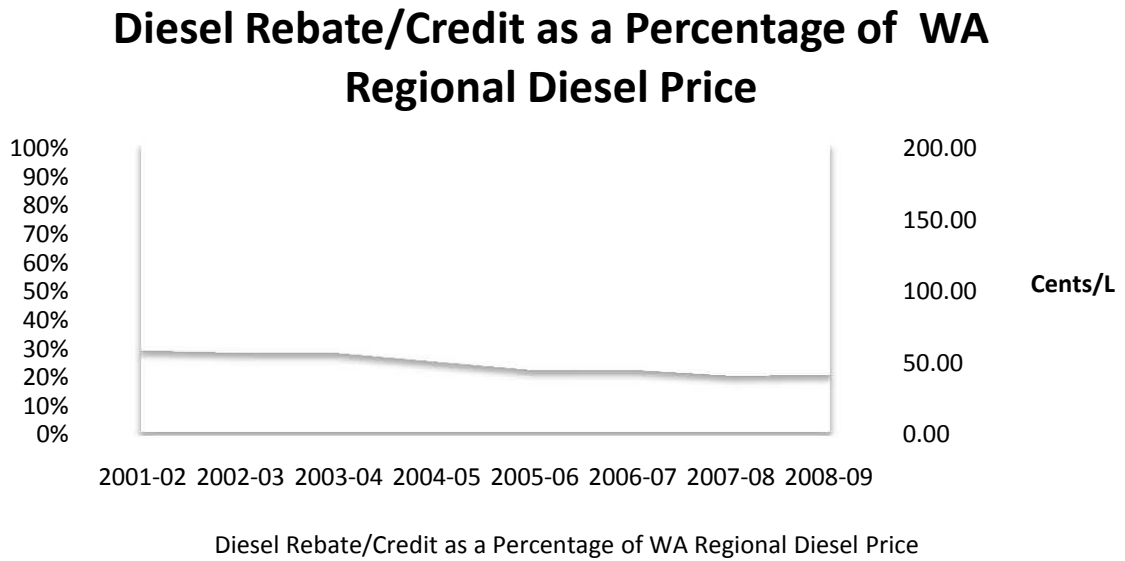
¹⁰ Australian Biofuels 2009. APAC biofuel consultants

¹¹ <http://www.ato.gov.au/corporate/content.aspx?menuid=0&doc=/content/00268761.htm&page=20&H20>

¹² <http://www.ato.gov.au/youth/content.aspx?menuid=39514&doc=/content/00268761.htm&page=20&H20>

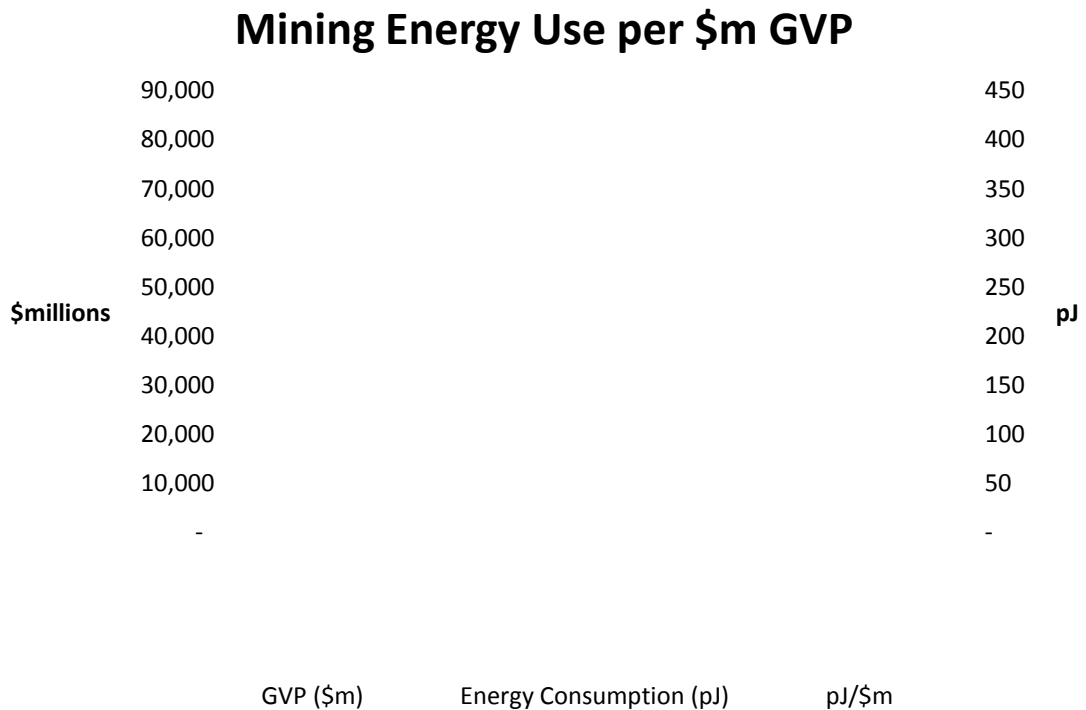
¹³ <http://www.fuelwatch.wa.gov.au>

34. **Figure 1. Diesel Rebate/Credit as a Percentage of WA Regional Diesel Price** (WA used for illustrative purposes)



35. In part, this has lead manufacturers and users of exploration and mining equipment to find ways to improve fuel efficiency as a mechanism to reducing costs. The result of this cost saving exercise is the exploration and mining industry has reduced its energy intensity despite increasing its production over the last decade^{14,15} (see Figure 2).

36. **Figure 2. Mining Energy Use per \$m Gross Value of Production (GVP)**

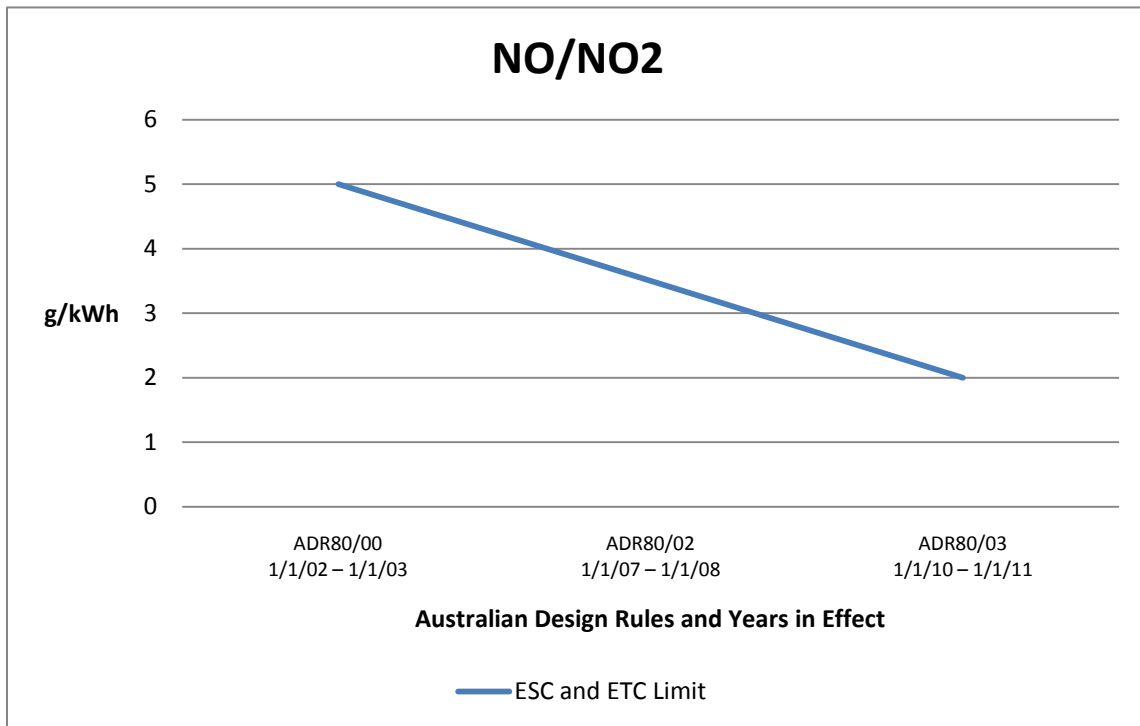


¹⁴ Australian Commodity Statistics 2010. ABARE

¹⁵ 4604.0 - Energy Account, Australia, 2008-09. ABS

37. Also a part of the reason for the reduction in emissions has been the introduction and enforcement of the Australian Design Rules which have successively reduced allowable emissions from diesel engines over the last decade^{16,17}. To illustrate, Figure 3 shows the regulatory reductions in nitrogen oxides, which are Kyoto gases. Regulatory reductions have also been made for other atmospheric pollutants such hydrocarbons, carbon monoxide and particulates (i.e. is smog)

38. **Figure 3. Nitrogen Oxides (NO/NO2)**



39. This shows that in conjunction with the assistance of the heavy vehicle manufacturing industry and Government regulation, the exploration and mining sector has reduced its emissions intensity while having sustained economic growth.

40. AMEC therefore sees no reason to penalise the sector any further, especially in light of the considerable actions already underway, both voluntary and regulatory driven.

41. Notwithstanding this view, AMEC proposes an alternative policy option for the Government’s consideration which it believes will provide some relief from the reduction in the fuel tax credit while also contributing to the Government’s objective.

AMEC Alternative Policy Option for the Governments Consideration

42. AMEC’s alternative policy option builds on a previous Government program called the ‘Greenhouse Challenge Plus Programme (GHCP)’. The objectives of the GHCP were to encourage abatement; improve greenhouse gas management; improve emissions measurement and monitoring; and strengthen government/industry information sharing. The GHCP ceased on 1 July 2009¹⁸. As a part of the GHCP, companies that claimed over \$3 million in fuel tax rebates/credits had to join the

¹⁶ <http://www.infrastructure.gov.au/roads/environment/impact/index.aspx>

¹⁷ European Stationary Cycle (ESC) and the European Transient Cycle (ETC). <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2000:044:0001:0155:EN:PDF>

program and commit to reducing CO₂-e emissions from their operations through a formal action plan lodged with the Government.

43. AMEC proposes a variation to the GHCP that will provide some relief to low users of transport fuels. In line with the Government's 25,000t CO₂-e threshold policy, AMEC proposes that the first ≈9.25 million litres of diesel per annum (the equivalent of 25,000t CO₂-e (≈2.7kg CO₂-e/L diesel or equivalent volume of other prescribed fuels) for all claimants be exempt from changes to fuels credits and excises. This measure would provide significant relief to the exploration and mining sector of the additional costs of the CEFPP.
44. Using the proposed ≈9.25 million litre threshold, AMEC recommends the Government investigate a similar scheme to the GHCP for those companies falling below the threshold. AMEC recommends the scheme have a floor threshold in order to prevent very low users from the requirement.
45. Noting that the introduction of the carbon tax is unlikely to result in a significant reduction in the emissions intensity of the exploration and mining sector from fuel use, the objective of the scheme would be to provide financial relief from the carbon tax for low users, while at the same time providing the Government with a policy mechanism to reduce the emissions from the sector. AMEC would be pleased to provide further details on how such a scheme may work.

The Terminology of Transport Fuels

Recommendation

46. **The Government uses the phrase “fuels used in all combustion” as opposed to ‘transport fuels’.**

Issue

47. During the course of consultations with its members AMEC has identified that the Government's use of the term ‘transport fuels’ has created significant confusion as it relates to whether a business will be required to participate in the carbon market.
48. When the term ‘transport fuels’ is used in the mineral exploration and mining sector it is generally understood to mean fuel used in vehicles. However, the CEFPP discusses transport fuels being used for other purposes – in the exploration and mining sector most commonly on-site power generation.
49. We understand that an effective carbon charge will apply to these fuels when they are not used for transport purposes, for example, when they are used for on-site power generation or in other pieces of plant, equipment and machinery. Further, the carbon charge will not apply if the fuels are not used for combustion.

Discussion

50. Many of AMEC's members use significant amounts of fuel in their operations, mainly in vehicles and power generation. In many instances the emissions from this fuel usage will pass the 25,000t CO₂-e threshold. The confusion arises in that some businesses are of the understanding that because they pass the 25,000t CO₂-e threshold they will be required to participate in the carbon market. To add to the confusion, those companies that have previously been reporting to the National Greenhouse Emissions Reporting Scheme (NGERS) are also of the understanding that they are required to participate in the carbon market, even though the majority of their emissions are probably the result of transport fuel use.

51. Careful reading and a good understanding of the CEFPP is required to determine that this is not the Government's intention. As AMEC understands, the Government's intention is that the emissions from the combustion of 'transport fuel' are excluded from the Scope 1 emissions for the purposes of the carbon market. The 'carbon cost' is captured under the changes to the fuel tax credits and excises.

Energy Intensive Trade Exposed Industries

Recommendations

52. **AMEC recommends:**

- 52.1 The policy framework for assessment of Energy Intensive Trade Exposed Industry (EITE) should be revisited. The framework should include the development of criteria for an analysis of the international market in which Australia's minerals and resources exports compete.**
- 52.2 All previously assessed activities are reassessed against these criteria, particularly gold production.**
- 52.3 The assessment of nickel and magnetite processing is expedited in light of the significant impact that the CEFPP will have on existing operations and investment decisions for those businesses undertaking that activity.**

Issue

53. Australia does not have a monopoly on the earth's mineral resources. While it has enjoyed a prestigious position as one of the world's major producers, this position is fast being eroded by the entrance of new mineral producing provinces from emerging mineral producing countries. Further, in a global market where producers are price takers, Australian producers have no ability to pass on domestic cost increases to buyers.
54. Many of Australia's leading trading partners – the USA, Canada and Japan – have rejected or postponed plans for carbon pricing schemes. Our major competitors in our key metal commodity markets – such as Brazil, Chile, and a number of rising African countries - have not imposed a carbon price on their industries. As previously mentioned, as a price taker, Australian producers are unable to pass on the carbon cost.
55. Through the introduction of a carbon tax the Government has added an extra and unique cost to Australian companies that few of our international competitors have. This has created an uneven playing field, heavily favoured to our competitors. The Government therefore has an obligation to shield those companies from some of the costs of the carbon tax in order to maintain their international competitiveness.
56. AMEC considers the Government's framework for assessment of EITE activities has excluded some important and/or emerging Australian minerals and resource activities which seriously undermines their ability to effectively compete in the market. The emerging magnetite industry is a good example of this (see Case Study - Magnetite).
57. Highlighting this discrepancy is the level of protection the European Union (EU) has provided its industries. The EU's assessment policy framework is more generous than the Australian Government's in that it captures 164 specific industries compared with Australia's 32. Whilst it

could be argued that the EU's economy is far more diversified - Australia does not have many of the industries that the EU has listed - the point is that the EU has recognised the importance of certain industries to the economies of its member states and as such has afforded them shielding. The Australian Government's policy framework does not account for this in an Australian context.

58. The exploration, mining and related industries is a case in point. It is widely recognised the importance of the industry to the Australian economy. Thus, the level of shielding for Australia's mining and related activities should be commensurate with their economic and social importance.

Case Study - Magnetite

59. Magnetite ore has lower iron content, around 35% (compared to ≈65% for hematite) and must be upgraded to make it suitable for steelmaking.
60. Because it has lower iron content than hematite, magnetite has been regarded in Australia as a less attractive proposition for mining.
61. Also, iron ore grades are declining globally and impurity levels are rising while the demand for quality, premium steel from China and India is continuing to increase. With hematite grades declining, high-grade magnetite concentrate is becoming an increasingly sought-after product.
62. Magnetite ore is suitable for processing into iron ore pellets for use in modern steel production and currently accounts for approximately 50% of global iron ore production. The magnetic properties of magnetite enable it to be readily refined into an iron ore concentrate. However the process is energy intensive and produces significant quantities of CO₂-e emissions. The final product is a high iron grade magnetite concentrate (+65% Fe), with typically very low impurities.

Discussion

63. AMEC considers that the circumstances in which the 2009 development of the EITE assessment policy framework have significantly changed. This necessitates the need for the criteria to be reconsidered. AMEC and its mineral explorer and miner members could not have envisaged the global business environment and impacts the carbon tax would have on their business to engage meaningfully and constructively in the process.
64. AMEC supports the current suite of activities designated as EITE and subsequently provided some protection by the Government. AMEC's concern is that the criteria and level of analysis is not sufficient in so much as the determination does not include an analysis of Australia's mineral and resource exports position in the global market.
65. AMEC recommends the Government develops criteria for the assessment of the exposure Australian commodity's have to international markets and that those previously assessed activities are reassessed. Gold production from ore to metal is an excellent example.
66. The exclusion of gold production from the EITE list is of considerable concern to AMEC and its gold producing members. Gold is produced in more than 90 countries¹⁹ and sold on a global commodity

¹⁹ British Geological Survey, World Mineral Production 2005-2009, 2011

market in which Australian producers have no capacity to influence the price. As global deposits are depleted, the grade of ore bodies is steadily declining, making gold harder to extract, thus increasing the emission intensity of extraction. As a consequence, the exposure to carbon costs will become an increasingly important factor influencing investment choices between competing nations.

67. The current EITE assessment framework has defined the extraction of gold as a separate process from that of processing. This artificial and contrived division of the gold production process resulted in the overall emissions intensity fall below the trigger for assistance under the EITE assessment.
68. The current record prices for gold should not be used to judge its eligibility. The real (i.e. 2011 Australian dollars) gold price has averaged less than A\$800 per ounce for much of the last 20 years, only consistently breaking above A\$1000/oz in the last three years in response to the global economic uncertainty and gold's traditional role as a store of wealth. Furthermore, the costs of producing gold in Australia are rising faster than the global average. The ABN/AMRO Gold Mine Cost Report of June 2011²⁰ shows that the global average gold mine cash costs was US\$620/oz, an increase of \$11/oz or 1.8% from the previous quarter. In Oceania (which includes Australia), compared to the previous quarter, cash costs rose by 9%, to a record US\$778/oz, second behind South Africa at US\$869/oz.
69. AMEC understands that nickel processing and magnetite production are currently being assessed. These assessments should be expedited in order to provide certainty for those businesses undertaking these activities.

General Comments on Clean Energy Future Plan

Increased Administrative and Compliance Costs

70. AMEC considers that the CEFPP will be inefficient, extremely complex and not simple to administer. This is in addition to the increase in the size of the bureaucracy through the increase in the number of Government agencies. Accordingly, compliance will be a significant issue for industry and Government with the result that there will be high administrative, compliance and resource imposts on all parties. The industry participants will need to obtain urgent advice / decisions / Taxation Rulings prior to investment and business decisions being made. The workload on industry and government will become enormous, noting the complexity of the proposed carbon market, and the general lack of available expertise to deal with queries and issues of concern.

Coal Fugitive Emissions

71. AMEC considers the Government's inclusion of fugitive emissions from coal mines in the CEFPP will significantly disadvantage Australian coal producers. There is little opportunity for abatement of fugitive emissions from coal mining and it will be at least five years before it is possible to accurately estimate fugitive emissions from Australia's open cut coal mines. Based on currently available information, none of the major coal exporting countries either currently, or has concrete plans to, impose a direct or indirect constraint on fugitive emissions from coal mining.

²⁰ <http://www.virtualmetals.co.uk/pdf/ABNGCQ111.pdf>

Trading of Carbon Permits Post 2015

72. The potential for immature and dysfunctional carbon markets around the globe post 2015 when the Australian companies and market move to a flexible pricing mechanism is of extreme concern to AMEC. This is centered on the likely uncertainty of the market and the financial risks Australian companies may be exposed to at this time. The Western Australian Treasury Department considers the Australian Government Treasury modeling assumption of unlimited international permits from 2015-16 is considered unrealistic, given that no global market for emissions permits currently exists²¹.
73. This period will need to be carefully managed by the Government to prevent unnecessary price shocks and significant price differentials resulting from price manipulation. Furthermore, the transition may cause the many Australian industries to suddenly lose their international competitiveness should the carbon price be too high.

21

http://www.treasury.wa.gov.au/cms/uploadedFiles/Treasury/Publications/Preliminary_Assessment_Impact_Proposed_Carbon_Tax_on_WA_August2011.pdf