

Opening Statement – Senate Select Committee on Scrutiny of New Taxes, 9.6.11

Thank you for the opportunity to appear before the Committee to comment on the Government's proposed carbon tax.

1. Industry Profile

The Australian Coal Association represents Australia's black coal industry. Its members represent 99 per cent of Australia's coal exports and supply coal to domestic power generation, iron and steel, cement, manganese and other industries.

Black coal is Australia's largest export (expected to earn over \$60 billion in 2011-12) and underpins the security, reliability and comparative low-cost of Australia's electricity supply. Over 54 per cent of Australia's electricity comes from black coal; with the addition of brown coal that figure rises to 76 per cent. The industry employs over 40,000 Australians directly and supports a further 100,000 jobs indirectly, with many of these in regional Australia.

The Australian coal industry recognises that usage of coal in Australia is one of the largest sources of greenhouse gas emissions and the industry has long been proactive in investing in solutions to reduce emissions from the utilisation of coal. In 2006 the ACA established the COAL21 Fund which is raising \$1 billion over 10 years from a voluntary levy on black coal production to support the demonstration of low emission coal technologies for coal-fired power generation and subsequent application in other industries.

2. Acting in step with international action

The black coal industry supports introduction of a carbon price as part of the efforts to reduce Australia's greenhouse gas emissions, provided this is consistent with sound policy principles and the national interest.

But Australia must act in step with, not ahead of, our major trade competitors and partners.

The reality is that Australia can expect only slow progress by other developed and developing countries in adopting binding emission reduction targets over the next decade.

The Government's proposed carbon pricing timetable will have Australia moving ahead of its competitors, involving significant risks to our economy. Australian action on climate change too far ahead of global action, particularly by competitors in developing countries, would be costly and without benefit to the global climate. For example, coal not produced here as a result of the carbon price would simply be replaced with production by overseas competitors none of whom have or plan to have a similar tax on coal mining – a classic case of carbon leakage.

It follows that whatever the carbon price policy mechanism adopted, it must include measures to preserve the competitiveness of Australia's trade-exposed industries, including coal mining.

These measures should also address the impact of pricing carbon on coal mines that face contractual rigidities preventing them passing on costs of emission permits to power station customers.

It has been suggested to us by the Government that many coal producing countries are implementing direct carbon pricing policies (such as carbon taxes or trading schemes) or have in place other policies specifically designed to abate greenhouse gas emissions.

Examples cited include the US Regional Greenhouse Gas Initiative and suggestions that the US Environment Protection Agency is about to implement emission regulations on coal mining; the European Union's Emissions Trading Scheme; Chinese Government taxes and regulations; and proposals in South Africa and Indonesia to place a tax on coal production. However, an independent study by the Centre for International Economics, that I would be pleased to table today, finds:

- no major coal producing country currently imposes a direct climate policy constraint on fugitive coal mining emissions; and
- no other export competitor has in place or has committed to introduce a tax on coal mine fugitive emissions.

3. Policy should be effective over the long term

Mr Chairman, climate change is a global challenge for which global mitigating policies must remain effective over the very long-term.

The design of the proposed carbon tax assumes that current, historically high resource prices will persist in the future and avert any major deleterious impacts on mining investment and employment. However, coming as it would on top of the Mineral Resource Rent Tax and recent increases in state coal royalties, and given the cyclical nature of commodities markets, this is an erroneous assumption.

It is certain that current extraordinary high coal prices will not be sustained in the medium to long term. Further, the cost of production of Australian coal has increased significantly in recent years and is expected to rise further due to increases in energy costs (even before a carbon price), labour costs, input costs, development costs, etc, and generally less favourable mining conditions.

By way of illustration, one needs only to consider the very different position of the Australian steel industry today compared to 2009. In two short years, the CPRS design has failed the steel industry due primarily to the rise in the Australian dollar. The lesson here is that it is not possible to predict with certainty future commercial conditions, so any carbon policy must be designed to accommodate the full range of these conditions.

As proposed, the CPRS-based carbon tax would fail this test and, inevitably, fail other export and import competing industries.

4. Constraints to measurement and abatement of coal mining fugitive emissions

Mr Chairman, let me now turn to the critical question of further abatement of fugitive emissions from coal mining.

The Government has asserted that coal and LNG fugitive emissions are the most rapidly growing components in Australia's greenhouse gas inventory and because of this they must be included in the proposed carbon tax.

This is wrong.

Since 1990, Australian coal production has more than doubled. However, fugitive emissions associated with coal mining have risen by less than 50 per cent. This is partly due to the move to more surface rather than underground mining, which tends to be less emission-intensive. It is

also due to the application of best practice approaches to reducing fugitive emissions from coal mining.

70 per cent of Australia's coal mine fugitive emissions come from underground mining activity. Since 1990 around 20 per cent of current net coal fugitive emissions have been removed through pre-drainage of gassy mines and use of the methane in beneficial activities such as power generation. There have also been other improvements in reducing greenhouse gas emissions including through flaring rather than venting methane.

In addition, the industry is investing in new, improved technologies. However, there is nothing prospective to deal with about 75 per cent of the industries fugitive emissions and there are also problems with measurement. I will deal with these two issues in turn.

First, regarding the availability of technology:

- Technologies to abate emissions from open cut mines have not been commercially proven. These mines are the source of around 30 per cent of coal mine fugitives emissions.
- With regard to underground mine fugitives, more than 60% are emitted through ventilation air for which abatement options are complex, costly, limited in their application and above all unproven.
- The most likely options for potentially abating these emissions require the ventilation air to be heated to about 1,000⁰ Celsius. Before widespread deployment of any such apparatus can be contemplated, time must first be taken to identify, design and test the protections required to mitigate the intolerable risk of catastrophic incident arising from a potential flashback explosion.
- There is no evidence of technology being applied at commercial scale anywhere in the world to mitigate fugitive emissions from coal mine ventilation air methane or "VAM".
- VAM fugitive abatement is at the research and development stage, with ready-to-implement commercial scale technologies and systems still being, we estimate, ten or more years away.
- Viable technologies for pre- and post-drainage of rich coal seam gas have been developed by the coal industry and utilised in gassy mines to improve mine safety and efficiency and to reduce fugitive emissions.
- However, it does not follow that increased gas drainage could significantly reduce fugitive emissions from coal mines generally, beyond the level of abatement already achieved. The industry is continuing to undertake research and development of enhanced gas recovery, but additional abatement will have to meet economic and technical tests of feasibility, safety and operability.

Despite these difficulties, and in the absence of a carbon price, Australia is leading the world in research into the measurement and abatement of coal mine fugitive emissions. We have been working assiduously on these issues. However, more time is essential to continue the task of development and assessment of safe and effective designs and to trial these improvements. During that adjustment period, it is vital that the industry has full access to transitional measures to prevent the erosion of its international competitiveness.

This is not news for the Government of course - the coal industry has made these points clearly and cogently on numerous occasions in the last two years. Therefore, if they continue to be ignored, the coal industry can only conclude that Government has decided to specifically single out this industry for a revenue raising tax on production, rather than a genuine environmental levy designed to modify behaviour.

I will now turn to outline some of the measurement issues because these are also important.

One of the basic tenets of any carbon pricing arrangement should be that emission sources are taxed only if they can be measured with reasonable certainty. This is not the case with coal mine fugitive emissions.

Open cut coal mine fugitive emissions cannot be reliably measured. The “default” state-wide formulae for open cut mine fugitive emissions, on which the Government proposes the industry relies in the absence of a direct estimation methodology, are out-dated, crude and inequitable in their effects.

While the Australian coal industry has developed a methodology for direct estimation of open cut fugitive emissions no mine is able to use that approach at this stage. We are working with officials to develop an industry guideline for the application of the methodology that can be used by mining companies, auditors and regulators. Once that is acceptable there will be a rollout of the methodology to the coal industry and this will take time and involve a compliance burden of over \$60 million.

While current underground mine gas monitoring technologies exist for monitoring gas concentrations for safety purposes in underground mine atmospheres, these are inadequate for measuring gas quantities on a consistent and reliable basis for taxing that segment of the industry. Coal industry research in the last three years has identified improved underground emissions measurement practices, but before these can be implemented, monitoring equipment will need to be redesigned and approved by the state regulatory bodies for safe use underground. Unavoidably, this will be a costly, lengthy but absolutely vital process.

5. Reduced investment in coal mining and the risk of sterilisation of coal resources

Mr Chairman, given that there is no technology likely to be available within ten years to reduce fugitive emissions from coal mining, the full weight of this tax will simply be added to its already rising cost of production.

Australia already faces increasing cost disadvantages compared with its international competitors. Analysis of trends in cash costs by country reveals Australia’s coal mining costs have been rising faster than our overseas competitors in recent years. Both the MRRT and the proposed carbon tax will exacerbate this trend as they involve taxes that our international competitors do not face.

The CPRS will impose an \$18 billion tax on coal mining by 2020 – a cost our competitors in North America, China, Europe, Indonesia, Russia, Colombia, South Africa, Kazakhstan, Vietnam, Mozambique and elsewhere would not face. In their report “Economic Assessment of CPRS’ Treatment of Coal Mining – May 2009” consultants ACIL Tasman showed that the CPRS would result in premature mine closures and significant job losses, without any detectable benefit to the global environment. Those results are consistent with results modelled by the Federal Treasury and by Access Economics for the Council of Australian Federation, which projected job losses compared to business as usual – particularly in regional Australia.

Mr Chairman, the Government has made it clear it is committed to introducing a price on carbon into the Australian economy modelled on the deeply flawed Carbon Pollution Reduction Scheme (CPRS) approach.

It is perplexing that the Government has arrived at variations on its old proposals previously shown to deter investment, reduce Australian competitiveness and destroy Australian jobs in favour of enhanced opportunities for overseas competitors for no environmental gain.

ACIL Tasman is finalising a comprehensive, new analysis of the impact of this approach on the Australian coal mining industry. The modelling is based on a comprehensive data set based on 82 mines covering over 85 per cent of Australian black coal production and employment. The results of this work will shortly be available and we will make the report available to the Committee.

In short, the analysis finds that the Government commitment to reintroduce the Carbon Pollution Reduction Scheme model will not address the competitiveness impacts on trade-exposed industries, including coal. Nor does it address the contractual rigidities preventing passing-through by mines of costs of emission permits to power station customers in Australia.

There are two simple changes that could be made to the proposed tax that will have a significant impact on the trade-exposed coal industry and which will also have widespread community support.

These are:

- adopting a phased approach to the auctioning of emissions permits for trade-exposed industries; and
- phasing in the inclusion of coal mine fugitives in step with Australia's coal export competitors and over a time frame consistent with the development of fugitive abatement technologies from their current experimental stages to reliable, deployable equipment at commercial scale.