



Joint Select Committee on Australia's clean energy future

Clean Energy Bill 2011

The Australian Lime Industry in brief

The National Lime Association of Australia (NLAA) is the peak body representing the Australian Lime Industry, comprising of both commercial producers and lime manufactured for own use:

- Adelaide Brighton Ltd
- Boral Ltd
- Cement Australia Ltd
- Penrice Soda Holdings Ltd
- Sibelco Australia Ltd
- Bluescope Steel Ltd

Together the commercial production accounts for 75% of the 2.1Mt of Australian demand for lime. The industry operates 18 facilities across all the states of Australia and the Northern Territory, largely in regional areas and is a long term community member providing steady employment.

Lime production includes technically sophisticated high temperature processing conducted in kilns from selected sources of limestone. The industry has adopted world class technology, placing high demands upon service industries and offering direct employment in a wide range of specialised skills. Available local resources of limestone and energy in Australia lead to the manufacturing of lime being suited to the economy. Loss of lime manufacturing to off shore production would result in carbon leakage and an increase in global GHG.

The lime product is diversely used in Australia by industrial process for steel, aluminium, soda ash, paper, mining, construction, water treatment and air filtering, etc.

Environmental Performance

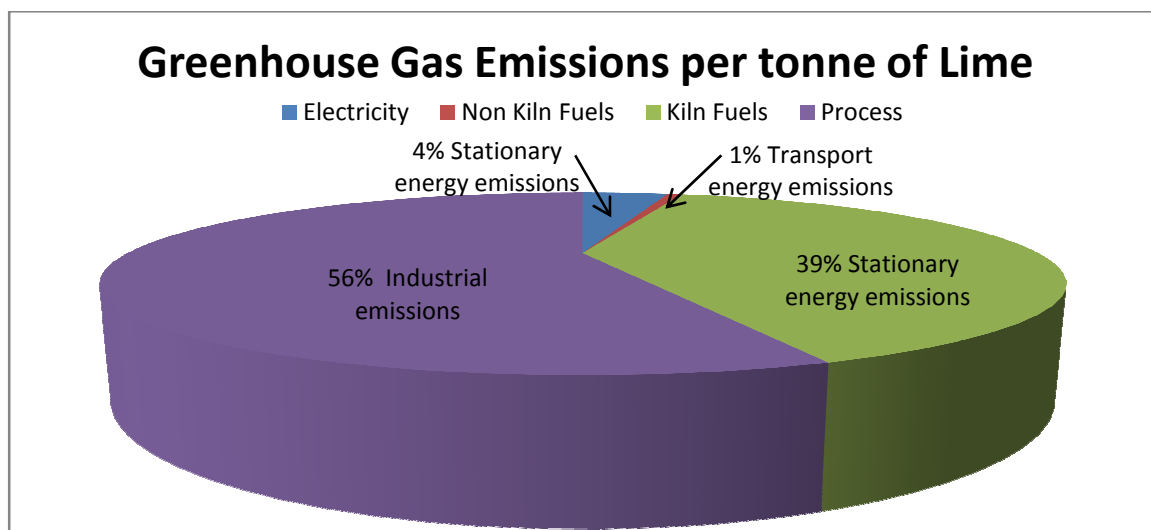
The industry is committed to reducing GHG emissions through technology and innovation. We have moved to change practises as technology and regional opportunities become suitable and commercially available leaving little opportunity for the sector to make significant change.

Energy is large portion of our costs and GHG emissions, and energy efficiency is key to remaining competitive.

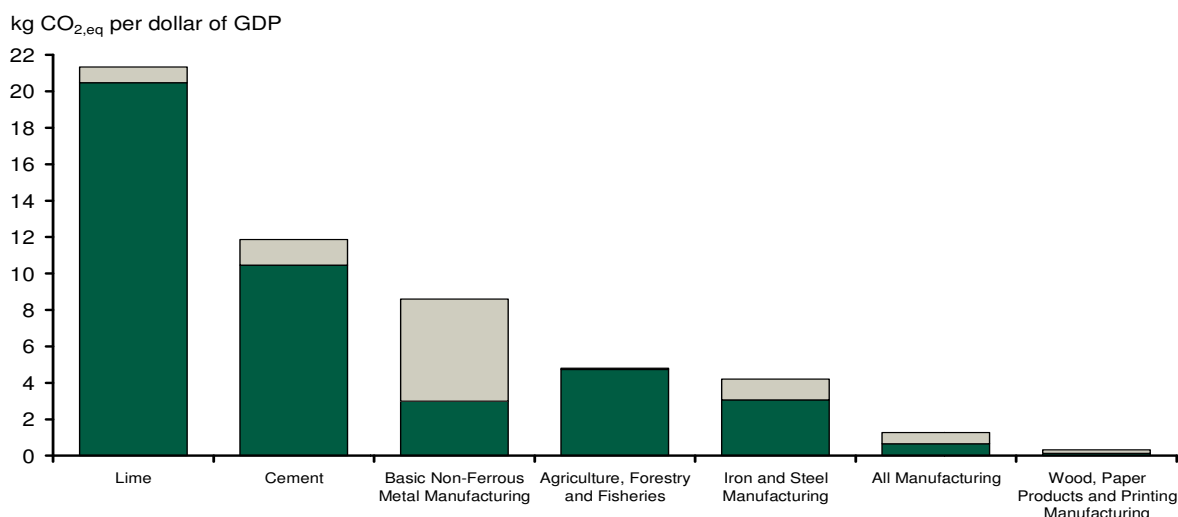
All companies are required to implement Energy Efficiency Opportunities programs, National Pollutant Inventory reports, operate to Environmental license conditions amongst other state requirements.

The industry's GHG emissions profile shows,

- 56% are from the conversion of the raw material, limestone, to lime. These emissions are unrelated to energy or energy efficiency as they are a direct result of the chemical transformation occurring in production.
- 38% from energy used to fire the kiln operation



Lime is a low cost emissions intensive product which particularly makes it vulnerable to a carbon price.



Key issues for the proposed Clean Energy Future Policy

Detailed below in commentary are the key issues of the NLAA on the Clean Energy Future Policy announced in July 2011. Also included are specific references to the Clean Energy Bill tabled in parliament last week.

The NLAA are concerned that the timing of this significant introduction of production cost to Australian manufacturing, is of concern given the unusual situation of the Australian dollar, and the impact of the lack of certainty and preparation in the policy on 2012 budgeting and financial systems due to the start date being 1 July 2011.

Australia’s current commitment to addressing GHG reduction

- On the preface that Australia is falling behind other OECD countries in its response to climate change the Productivity Commission report to the MPCCC identified 230 policies in Australia aimed at reducing GHG emissions.

- The Productivity Report further identified Australia as participating “midfield” with other countries from Asia, Europe and the USA
- Australia is one of the few Kyoto Protocol Annex 1 countries that will achieved its binding target in the first reporting period 2008/12, many other countries exceeding their targets by more than 20%.
- The USA, Canada and Japan have postponed their carbon pricing schemes.
- China and India’s emissions will continue to grow significantly despite their GHG efficiency improving, due to Annex1 countries contributing technology and funds to carbon efficiency projects.

Lowest cost Carbon Pricing abatement to be economically affective

- A starting price of \$23/tGHG, is 50% above the world trading price of \$15/tGHG.
- Stage 1 and 2 (first 6 years) of the CEF will not allow the benefit of international market carbon price by
 - Fixing the price for the first 3 years
 - Collaring the price for the next 3 years and
 - Restricting the use of international permits during the first 6 years.
- Applying an average carbon market price to Fuel Credits to cover GHG emissions removes the market advantage for consumers to reduce their liability, effectively taxing all petroleum fuels.
- The EU ETS in the first 6 years collected \$4.9b (Centre of International Economics, July 2011), the Treasury modelling of the Australian CEF in the first 6 years will raise \$71b. The proposed scheme will be the most costly carbon scheme in the world.

Commitment to the purpose of Carbon Pricing means addressing the sources of GHG

- More than 50% of the revenue from the CEF will be directed to tax reform and household assistance (CPRS 33%), and will not support any approach to reducing the national GHG footprint.
- A scheme committed to addressing GHG affecting climate change would put a higher portion of funding towards reducing the emissions covered by the CEF, investing in strengthening the economy long term.
- Carbon pricing funds collected from lime production diverted households will serve no relevant assistance for the increases in the cost of living as lime is used in manufacturing and mining.
- Compensating consumers for a carbon price on utilities and excluding domestic transport reduces the opportunity to change consumer’s choices and habits.

Clean Energy Future Policy should not apply to process emissions

The CEF will cover GHG emissions from process sources (raw materials releasing GHG) clearly not the intent of the policy. 60% of GHG emissions in lime production are sourced from the raw materials. These emissions do not have any relevance to energy consumption or energy efficiency. Applying a price to these emissions can only be described as a tax, which cannot be abated by a price on carbon emissions.

2020 environmental benefit objective will not be met by pricing carbon

Treasury modelling shows the CEF addressing only 38% of Australia’s 2020, -5% target, leaving 62% to be sourced from purchasing international permits and possibly Carbon Farming Initiative offsets. The default cap is set to place the full burden of the 2020 reduction onto the CE scheme.

Assistance to protect EITE industry from carbon leakage

- The assistance program fails to give adequate support to the lime industry as allocated permits are,
 - only be applied to a portion of the process for lime manufacturing (activity definition)
 - covering only 94.5% of the portion of the process for the first year
 - declining at 1.3% pa
- Pricing carbon is to create incentives for investment, EITE assistance should be guaranteed so adequate time is provided for benefits to be recovered
- Failure of the assistance package to protect EITE industry until an international “level playing field” is established will result in carbon leakage, and failure of the environmental objective to reduce global GHG and avoid climate change impacts.
- Defining criteria for EITE activities and assessing specifically foreign competition’s equivalent action against the total of carbon reducing policy in Australia is required.

Treasury modelling assumptions include international commitment by 2020

- Given the failure of the Kyoto Protocol to deliver on binding commitments, and the lack of enthusiasm of Australia’s major trading nations to commit to absolute reduction in GHG, the NLAA has no confidence in the predicted economic outcome.
- The modelling shows the scheme, despite the direct cost imposed on industry and the community will not be budget neutral in the first 4 years.

The CEF legislation provides no certainty to industry

- The CEF is described in 3 stages implemented over 7 years. In the first stage 3 comprehensive reviews by the Productivity Commission will influence the CEF’s direction and conditions. This places EITE industry with no more than 5 years of assistance certainty and even less certainty in the scope of the overall scheme.
- The Lime industry is capital intensive and has long associations with its location and technology. 3 to 5 year horizons are short term planning insufficient for business investment certainty.
- The CEF legislation in draft and without regulations 9 months before the program start has seriously jeopardised 2012 budgets for the industry and gives no time for systems to be implemented to manage the complexity and impact of the change.
- Energy security is critical for long term EITE industry. The CEF creates concern within the power generation sector on the ability to maintain supply

Inefficient legislation structure adds further complexity for industry

- There has been no streamlining of the 230 GHG reduction policies currently in action in Australia. The proposal of the Clean Energy Future Policy adds, without consolidation or collaboration, another approach to driving change. This is another burden to industry, and a disincentive to continuing operations.
- Compounding legislation pricing carbon in trading markets such as Renewable Energy Certificates is adding complexity to daily operations and budgeting.
- Implementing the CEF through changes to 13 pieces of legislation adds significant complication to the scheme and the time it will take industry to adjust.

Specific reference to the Clean Energy (CE) Bill

The proposed changes to existing and the introduction of new legislation is extensive, adding complexity to CE program and even more GHG reducing legislation to Australia's already overwhelming list. NLAA calls for other legislation to be removed as part of the introduction of the CE Bill, relieving industry of cost and administrative burdens.

Reference	NLAA Proposed Changes & Comments
S5	<p>“associated provision” The “associated provisions” defined in the CE Bill do not include state legislation addressing GHG reduction and reporting.</p>
S14	<p>Carbon Pollution Cap Review of the Carbon Cap should also consider the progress of Government programs to deliver GHG reductions from Carbon funding.</p> <p>Review should not consider GHG emissions not covered by this Act, cf (2) viii</p>
S15, S17, S18	<p>Default carbon pollution cap Carbon Cap default would put the entire responsibility of the -5% at 2020 target on the CE Bill, covered by only 60% of the national GHG footprint. Treasury’s modelling supports only 38% can be achieved through the CE Bill. The default targets should be reduced to 12,000kt (38,000kt) in 2012, and 7,000kt (12,000kt) in later flexible years to reflect the capacity of the CE scheme.</p>
S30	<p>Covered emissions from the operations of a facility GHG emissions from process should be excluded as the Bill is specifically focused on GHG from energy</p>
S100	<p>Issue of carbon units for a fixed charge 2 year ends every 12 months to reconcile liability is a burden to industry.</p>
S108, S111, S112	<p>Issue of carbon units International carbon units will have a big impact on the Australian price. To ensure the lowest cost scheme access to acquit liability should be encouraged.</p>
S123	<p>Surrender restrictions CDM projects may have their carbon permits rejected as ineligible before the benefit of the investment can be fully realised. This is an issue of sovereign risk.</p>
S143	<p>Aims & objectives (2)a refers to identifying EITE activities, there is no other reference to what an EITE is. This must be defined in the Bill not the regs as EITE assistance is accountable to the PC reviews and to give business certainty.</p> <p>“associated provisions” has a defined meaning shouldn’t be changed (2)f.</p> <p>(2)f is in conflict with S156(3)a where 70% of competing countries are recognised as a measure of trade exposure, not the substantial majority of the world’s emissions.</p>

S145	<p>Jobs & Competitiveness Program (JCP) (c) ii - 3 years notice for changes to the industry assistance program is too short for manufacturing industry have certainty on investment (CPRS 5 years)</p> <p>The Lime business has no certainty that there will be forecast changes to the CE program over 10 year. There are 2 weaknesses in the CE/JCP review process</p> <ul style="list-style-type: none"> • the CE program can change significantly, and does 3 times in the first 7 years and • the JCP reviews occur 3 times in the first 5 years challenging the suitability of the sector for assistance
S155	<p>Productivity Commission (PC) inquiries</p> <p>(1) Every review has a focus to test EITE assistance and its relevance to the CE Act, reviews occur 3 times in the first 5 years of the CE scheme</p> <p>(2) EITE assistance should be tested across the whole of Australia’s current GHG reduction policies state and federal. The associated provision shouldn’t be restricted to the list in this Act and the exclusion of state schemes</p>
S156	<p>Matters to which the PC must have regard</p> <p>There is an extensive list of 15 items for consideration, consider refining the focus or using “may”.</p> <p>(1) The items challenge the JCP assistance.</p> <p>(b) refers to “best practise” would prefer “best in class” given the wide range of Lime production technologies</p> <p>(b/e/g) suggests the industry average used to calculate assistance could be revised. Any change in assistance would stop the incentive of EITE to improve their GHG efficiency as soon as possible.</p> <p>(d) foreign countries should read “foreign competition”</p> <p>(d/e) “associated provisions” refers to the extensive legislation addressing GHG reduction in Australia</p> <p>(h) it should not be expected or discourage that EITE industry should seek to grow in Australia</p> <p>(3) is in conflict with the Aim in S143 (2)f</p>