Australian
Coal Association

PO Box 9115
Deakin ACT 2600
Tel +61 2 6120 0200
Fax +61 2 6120 0222

info@australiancoal.com.au
www.australiancoal.com.au
ACN 11 095 274 472

Inquiry into the Clean Energy Future (CEF) Legislative Package

Thank you for the opportunity to appear before the committee to comment on the government's clean energy future legislation package.

The Australian Coal Association represents Australia's black coal industry. Its members represent almost 100% of Australia's coal exports and supply coal to domestic power generation, iron, steel, cement, manganese and other industries.

I want to state at the outset that the black coal industry is extremely valuable to Australia's prosperity, and one which should not be hindered by this proposed carbon tax.

Black coal is Australia's second largest export, (expected to earn $55 billion in 2011-12) and underpins the security, reliability and comparative low cost of Australia's electricity supply.

Our industry is a significant employer with more than 40 000 direct employees and a further 100 000 indirectly employed in companies, many of them SME's in regional Australia.

With figures such as these you could be forgiven for thinking we were large on the world stage and able to withstand imposts such as this carbon tax.

However, Australia accounts for less than 6% of world coal production; we might be a large exporter, however we are not a large producer against countries such as China and India. Any increase in taxes will increase our prices and erode our market share to the advantage of other countries able to supply our customers. Once lost, this market share will be extremely difficult to win back.

Our industry accepts the scientific evidence on climate change and recognises that coordinated international action to reduce global greenhouse gas emissions is necessary.

The ACA supports a carbon price as a means of reducing emissions provided it is consistent with sound policy principles, particularly relating to economic efficiency, fairness and maintaining coal industry competitiveness.

The industry has serious concerns about the efficiency, fairness and competitiveness impacts of the CEF legislation. The net impact of the proposed carbon tax will be to crimp coal industry jobs and investment. Because this is not a cost our coal competitors will face the outcome will have minimal impact on global emissions as coal production, and the associated jobs, will simply move offshore.

This is bad for Australia, particularly during these uncertain economic times. We have seen only yesterday further dire predictions from the IMF. These predictions include a slowing of the Australian resources boom. I am sure I do not need to remind members that the Australian resources sector, and in particular the black coal industry, protected this nation from the damaging effects of the Global Financial Crisis, which other countries are still reeling from.

The carbon tax is $18 Billion impost on the coal industry

Given the fragility of international negotiations on climate change and uncertainty about global economic growth it is vital that the Australian Government is careful about experimenting with the Australian economy. Australia's coal industry already faces various imposts not confronted by its competitors. The CEF scheme will introduce a new tax on fugitive emissions from coal mining as well as on key inputs to production. The scheme represents an $18 billion tax over the first ten years. **This means the black coal industry will be paying for about two-thirds of the estimated $25 billion wealth transfer to households, renewables and agriculture.**

The specific exclusion of the black coal industry from qualifying for trade exposed industry status amounts to blatant unfair treatment of the coal industry.

The Government acknowledges that coal is one of the most trade-exposed industries in Australia. In fact, under the earlier Carbon Pollution Reduction Scheme (CPRS) legislation coal was eligible for emissions-intensive, trade-exposed (EITE) transitional assistance using the Government's own rules. Nonetheless it is now unfairly excluded from such assistance given the bitter pill of blatant discrimination against the coal industry enshrined in the legislation before Parliament in Section 145 (3), which makes a negative special case of coal.

The carbon tax will undermine the black coal industry's international competitiveness, eroding market share and resulting in lost wealth and jobs to Australia.

Our members make business decisions based on the environments in which they operate - and many of them operate in several countries. They invest where those environments are more attractive, however what do they see in Australia? A series of imposts, the carbon tax being the latest, which consistently erode business confidence.

Our members are assessing the impacts on their business from a carbon tax that include:

- a permanent reduction in margins across the commodity cycle
- a competitive disadvantage relative to producers in Indonesia, Columbia, USA, Canada, Russia and South Africa and emerging competitors such as Mozambique and Mongolia
- reduced new project investment certainty
- uncertainty about committing sustaining investment at existing operations
- impacts on project valuation and business decisions forcing them to re-order the ranking of Australian projects in their investment pipelines.

The carbon tax will be applied to fugitive emissions from coal mining in addition to other mining inputs such as fuel, transport and electricity. The lack of technologies to abate the fugitive emissions from mining – particularly methane from ventilation air and from surface mining – means that there is little the industry can do to avoid paying the tax and the only way to significantly reduce emissions is to close mines.

Coal jobs package doesn't add up

In June 2011 independent, mine-by-mine modelling by consultants ACIL Tasman concluded there would be important adverse consequences for production, employment and investment in coal mining from the Government's proposed carbon pricing scheme. The results were provided in an interim study, *Impact of the Proposed Carbon Price on Black Coal Mining*, which was made public.

Following the release of the Australian Government's policy document, *Securing a Clean Energy Future,* and accompanying Treasury modelling, the ACA asked ACIL Tasman to include the actual carbon pricing scheme proposed by the Government and assess the impact of its Coal Sector Jobs Package.

Preliminary advice from ACIL Tasman is that the Coal Sector Jobs Package achieves only a deferral of four mines (out of a total of 21 projected premature mine closures in the first 10 years of the carbon tax). In each case the deferment would be for only one year.

Moreover, the Package covers only a portion of the carbon costs of a relatively small number of existing “gassy‟ mines and only for a short period. Due to this limited coverage the Package will not avoid the negative effects of the carbon price on other existing trade-exposed coal mines and prospective new projects.

The Package has no impact on potential new mine developments, which by definition are ineligible. ACIL Tasman’s preliminary advice also suggests new mining development job opportunities will be reduced by 27%. This reduction also represents over $25 billion in lost revenue for Australia over the next ten years. About half of that relates to Queensland projects and half to NSW ones.

ACIL Tasman further advises that adverse effects on coal production and employment result from effects at the margin of extraction and the margin of investment. Consequently assessing the effects of carbon pricing based on average cost per tonne is highly misleading and inaccurate. Unfortunately the Government has based its policies on such estimates.

In the context of an $18 billion tax then the transitional assistance of only $1.3 billion over only five years is neither a fair nor proportionate treatment of the coal industry.

Australia’s efforts to put a price on carbon and reduce emissions make sense only if there is substantial progress towards global action by both our trade partners and trade competitors. But that is manifestly not the case. In fact, global action is patchy and inconsistent.

Given that countries worth 85 per cent of global emissions have other plans it is hard to see how our scheme will provide business with confidence. Unless there is credible comprehensive action on a global scale why should Australia impose such a tax?

It is of deep concern that the non-transparent or “black box” Treasury modelling on which the scheme is based does not undertake any sensitivity analysis based on realistic assumptions about international abatement action.

Such analysis should have been undertaken both to assess if the Government’s proposal is in fact efficient or least cost and whether it is desirable for Australia to impose such a tax if many other countries, including the world’s largest emitters and our coal export competitors, do not.

The ACA suggests that this Committee commissions systematic and transparent modelling of alternative policy scenarios by the Productivity Commission. This modelling should address questions such as:

- what are the costs to Australia of a unilateral carbon pricing scheme operating with patchy and uncoordinated international abatement action until 2020 rather than credible, comprehensive action on a global scale?
- what is the risk of a unilateral tax on Australian resource exports encouraging our coal and other resource competitors to stay <u>out</u> of any global agreement?

- what are the risks on taxpayers of implementing the proposed scheme before the global outlook is clear?
- is the proposed scheme the most efficient way of meeting Australia's Copenhagen Accord pledge given the structure of Australia's economy and the nature of its export profile?
- is imposing a unilateral tax on our main source of comparative advantage the most efficient way of meeting the environmental goal of the CEF legislation?
- what would be the implications of alternate carbon price trajectories?
- what would be the implications if a large proportion of international abatement was not available or if international abatement proved to be more costly than expected?

Careful consideration of such questions will enable the Committee to assess whether it makes sense for Australia to implement the CEF carbon pricing mechanism at a time of manifest and continuing uncertainty about the extent and nature of the international abatement effort and the global economic outlook.

There is a better way to price carbon and we have been consistently proposing this to the government with no success.

We believe 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 emissions 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 safe, reliable, deployable equipment and processes at commercial scale.**

The coal industry would be pleased to work constructively with the Committee to assist it in its work and develop a better and less economically damaging approach to pricing carbon.

John Pegler
Chairman
27.9.11