



22 September 2011

Committee Secretary
Joint Select Committee on Australia's Clean Energy Future Legislation
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Committee Secretary

RE: Inquiry into Australia's clean energy future

Thank you for the opportunity to provide this submission to the Joint Select Committee on Australia's Clean Energy Future Legislation's *Inquiry into Australia's clean energy future*.

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 into Australia's clean energy future*. 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

A handwritten signature in blue ink, appearing to read "Simon Bennison", with a long horizontal flourish extending to the right.

Simon Bennison
Chief Executive Officer

Attachment – AMEC Submission Inquiry into Australia's clean energy future September 2011

Association of Mining and Exploration Companies (Inc)

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Submission to

Joint Select Committee on Australia's Clean Energy
Future Legislation

September 2011

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Introduction

1. Thank you for the opportunity to provide this submission to the Joint Select Committee on Australia's Clean Energy Future Legislation.
2. 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.
3. 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

4. AMEC remains opposed to the Clean Energy Future Plan (CEFP).
5. AMEC also expresses its complete dissatisfaction in the manner in which this step-change legislation has been introduced. The timelines throughout the legislative consultation process have been extremely short, which has not allowed AMEC and its members any reasonable time to properly consider the finer detail of the legislation. This has necessitated AMEC to prioritise its commentary of a very complex set of legislative instruments to those areas of greatest interest to its members. In AMEC's view this is a sub-optimal outcome and will open the door for future unintended consequences from the legislation.
6. The 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 exploration and mining companies that are funding operations from limited equity. There is no doubt it will have financial consequences to the mineral exploration and mining sector.
7. Notwithstanding its opposition, AMEC has continued to provide constructive input into the legislative process on behalf of its members, including submissions to the Senate Select Committee on the Scrutiny of New Taxes Inquiry into Carbon Tax Pricing Mechanisms and the Public Consultation on Clean Energy Legislative Package. These submissions have included an alternative policy proposal for the Government's consideration with respect to the reduction in the diesel fuel tax credit.
8. This submission further expands the proposal outlined in AMEC's previous submissions including further analysis and consideration. Therefore, the submissions and this document may not exactly align, although the intent of AMEC's policy has not changed. This submission then outlines the amendments that need to be made to the proposed legislation to bring into affect AMEC's policy proposal.

Recommendations

9. AMEC recommends that the Government:
 - 9.1 exempt the minerals exploration and mining sector from the carbon cost applied to transport fuels (fuels used in combustion engines) in line with the exemption given to agriculture, fishing, forestry and heavy road transport, or

- 9.2 if it finds 9.1 unacceptable, introduces a diesel fuel threshold under which a user is exempt from the reduction to fuel tax credit. AMEC proposes that this threshold is ≈9.25 million litres of diesel per annum.

AMEC Principles of Good Climate Change Action Policy

10. AMEC supports:

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

Clean Energy Future Plan

11. In AMEC's view, the Government's Clean Energy Plan does not sufficiently meet any of the above principles described in paragraph 10 for the following reasons:

- 11.1 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.
- 11.2 Fuel credit reduction will capture many small to medium companies that are not in the Government's "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 latter albeit until 2014).
- 11.3 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 exploration and mining companies that are funding operations from limited equity.
- 11.4 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.
- 11.5 The administrative costs to industry and Government of the Plan will be significant and possibly underestimated by Government.

Background

12. The Clean Energy Future Plan (CEFPP) proposes phased reductions in the diesel fuel credit from its current 38.143 to 31.285 c/L in 2014-2015 through a carbon price equivalent. In 2012-13, this

amount is 6.21c/L, increasing to 6.858 c/L in 2015. Post 2015, the diesel fuel credit reduction will occur in six monthly adjustments in line with the carbon price in the market at the time.

13. Unlike other 'polluters' who fall below 25,000t CO₂-e there is no exemption or thresholds for diesel users. The carbon costs are worn from the first litre of diesel used.
14. The cost will be more burdensome for mineral explorers who are funding their operations from equity – by definition they are not in production, have no assessable income and therefore have a negative cash flow. To understand the impact it should be noted that Australian explorers commonly raise around \$5-10 million capital through Initial Public Offerings (IPO's) for exploration purposes. 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 programs. The cumulative result for Australia will be a significant and detrimental reduction in mineral exploration. Furthermore the increased cost will significantly impact emerging mining companies who often have tight or negative cash flows.

AMEC Alternate Policy Proposals

Alternative Proposal One

15. **AMEC proposes that the minerals exploration and mining sector is exempt from the carbon cost applied to transport fuels (fuels used in combustion engines) in line with the exemption given to agriculture, fishing, forestry and heavy road transport.**

Alternative Proposal Two

16. **AMEC proposes that the Government introduce a diesel fuel threshold under which a user is exempt from the reduction to fuel tax credit.**
17. This measure would provide significant relief to the exploration and emerging mining sector of the additional costs of the CEFP.
18. AMEC proposes that this threshold is ≈9.25 million litres of diesel per annum.

Rationale for 9.25 million litres

19. The rationale for ≈9.25 million litres of diesel is that this is the equivalent of 25,000t CO₂-e, the threshold a company must reach before it is required to purchase carbon trading permits under the CEFP.
20. This figure is calculated by knowing that ≈2.7kg CO₂-e is produced per litre of diesel. Therefore 25,000t divided by 2.7 equates to 9,259,259 litres of diesel.

Impact on Government Revenue

21. To illustrate the revenue impact, AMEC has projected Government tax credits to the mining sector for diesel in Table 1. (5% increase in diesel use per annum using the most recent ATO figures¹ (2009/10 as the base)

¹ http://www.ato.gov.au/content/downloads/cor00268761_2009FUEL1.pdf

Alternative Proposal One

22. Table 1 shows that the projected fuel tax credits provided to the exploration and mining sector by the Government in 2012-13 will be around \$136 million. Therefore the cost to the Government from AMEC's policy will be around \$136 million.

Alternative Proposal Two

23. The exact amount of lost revenue to the Government of this policy proposal cannot be determined. This is because the Australian Tax Office only releases data on the number of claims and dollar value made by the exploration and mining sector. It does not release the number of claimants and how many litres they are claiming.

24. Therefore the cost to Government through reduced savings of AMEC's proposal would be something less than \$136 million shown in Table 1. As highlighted, the exact figure cannot be determined based on publically available data.

Table 1

| Sector | 2012-13 | 2013-14 | 2014-15 |
|---|------------------------|------------------------|------------------------|
| Coal mining | \$716,091,192 | \$751,895,752 | \$789,490,540 |
| Oil and gas extraction | \$79,929,036 | \$83,925,488 | \$88,121,762 |
| Metal ore mining | \$929,406,224 | \$975,876,535 | \$1,024,670,362 |
| Construction material mining | \$20,970,275 | \$22,018,789 | \$23,119,728 |
| Other non-metallic mineral mining and quarrying | \$101,529,969 | \$106,606,467 | \$111,936,790 |
| Exploration | \$144,900,327 | \$152,145,343 | \$159,752,610 |
| Other mining support services | \$9,215,212 | \$9,675,973 | \$10,159,772 |
| Total Diesel Fuel Tax Credit | \$2,084,979,150 | \$2,189,228,108 | \$2,298,689,513 |
| Fuel Tax Credit Reduction (\$/L) | \$0.0621 | \$0.0652 | \$0.0686 |
| Total Saving to Government from Credit Reduction | \$135,951,065 | \$149,874,556 | \$165,574,606 |

Proposed Legislative Amendments

Amendment One

25. Amendment One gives effect to AMEC's Alternative Policy Proposal One

*Extract from Amendment to Clean Energy (Fuel Tax Legislation Amendment) Bill 2011 43-8 (4)
page 7*

The *amount of **carbon reduction** that applies to the fuel is nil to the extent that:

- a) the fuel is *covered by the Opt-in Scheme; or
- b) you acquire, manufacture or import the fuel for use in:

- (i) *agriculture; or
 - (ii) *fishing operations; or
 - (iii) *forestry; or
 - (iv) mineral exploration and mining²; or
- c) you acquire, manufacture or import the fuel for use in a vehicle with a gross vehicle mass of more than 4.5 tonnes travelling on a public road; or
- d) you acquire, manufacture or import the fuel for use otherwise than by combustion of the fuel.

Amendment Two

26. Amendment Two gives effect to AMEC's Alternative Policy Proposal Two.

Extract from Amendment to Clean Energy (Fuel Tax Legislation Amendment) Bill 2011 43-8 (4) page 7

The *amount of **carbon reduction** that applies to the fuel is nil to the extent that:

- a) the fuel is *covered by the Opt-in Scheme; or
- b) you acquire, manufacture or import the fuel for use in:
 - (i) *agriculture; or
 - (ii) *fishing operations; or
 - (iii) *forestry; or
- c) you acquire, manufacture or import the fuel for use in a vehicle with a gross vehicle mass of more than 4.5 tonnes travelling on a public road; or
- d) you acquire, manufacture or import the fuel for use otherwise than by combustion of the fuel; or
- e) your annual diesel fuel consumption is less than 9,259,259³ litres

² As defined by the Australian and New Zealand Standard Industrial Classification

³ Calculated at 25,000t divided by 2.7 CO₂-e kg/L of diesel