AUSTRALIA

NATIONAL LIME ASSOCIATION

•RELY ON LIME• TESTED BY TIME

Senate Select Committee on Climate Policy

April 2009

The National Lime Association of Australia (NLAA) welcomes the opportunity to respond to the Senate Select Committee on Climate Policy.

The Australian Lime Industry

The NLAA is the peak body representing the Australian Lime Industry, comprising of both commercial lime manufacturers and integrated producers and users of lime. Commercial production is by:

- Adelaide Brighton Ltd
- Boral Ltd
- Cement Australia Ltd
- Unimin Australia Ltd

Dedicated or "tied" production is undertaken at industrial facilities, for direct use in:

- Iron ore smelting and steel manufacturing
- Alumina refining (Bayer process)
- Soda Ash production (Solvay Process)
- Paper manufacturing

Together the commercial production accounts for 75% of the 2.1Mt of Australian demand for lime. The industry operates 20 facilities across all the states of Australia and the Northern Territory, largely in regional areas.

Common to all lime production is:

- Preparation of a suitable grade of limestone supplied through mining that delivers a specific quality of feed for the kiln process.
- Crushing and blending of the limestone which is both energy intensive and a contributor to indirect Greenhouse Gas (GHG) emissions.
- Generation of high temperature (900C) in the kiln requiring energy intensive use of fossil fuels releasing 33% GHG emissions/tonne of lime.
- Calcination of the limestone in the kiln where calcium and magnesium carbonate are converted to oxides, releasing 62% of GHG emissions/tonne of lime.
- The product can be used directly, or processed further into Hydrated Lime.
- Plant operations that require rigorous physical and chemical process control to ensure product quality meets specifications including AS 1672 and to gain the greatest energy efficiency.
- 1.18 t GHG /t lime product is typically embedded making lime one of the most emissions intensive materials produced.

Lime facilities are required to participate in the National Greenhouse and Energy Reporting (NGER) program. All lime production facilities are licensed to state environmental protection standards.

Lime kiln technology is capital intensive and varies according to the mineralogical properties of the limestone resource. Plant equipment has a long service life, greater than 30 years, which requires long term steady resource supply and community relations.

The highly technical and sophisticated processes of world class technology, places high demands upon local service industries, and offers employment in a wide range of specialised skills for operators and professionals. Available resources in Australia have led to lime manufacturing being suited to the economy where markets for lime are established and expected to grow at 1.5%. Loss of lime manufacturing to off shore production would result in carbon leakage and an increase in global GHG emissions.

Emissions Trading Scheme

The Lime industry recognises the impact of Climate Change on the global community and that a suite of actions are required to mitigate the impacts of global warming. Lime manufacturing has a central role in this program while contributing to the economic growth and efficiency of Australia's resource and manufacturing industry.

The Lime industry has welcomed the government's efforts to understand our concerns in lead up to the release of the CPRS legislation and to provide active consultation with both the industry association and our members. We have prepared three reports for the Department of Climate Change (DCC) seeking to provide substantiated and independent information on the industry's emissions intensiveness and trade exposure. In the EITE Guidance Paper lime has been placed in the formal assessment stage of the EITE approval process.

The NLAA supports a trading scheme to be administered nationally and ultimately linked internationally to support the lowest cost abatement of GHG, and adequately address competitiveness issues for trade exposed industries.

The NLAA believe that addressing Climate Change is a global sustainability issue and can only be achieved effectively with equal global participation. Australia must, within its capacity, move towards establishing an economy and social structure for a carbon constrained future through the development of policies that position Australia favourably to integrate with international commitment.

Key issues for the industry's success in a carbon constrained Australian economy are:

- Quality, low emission product to supply the Australian lime market
- Industry certainty to maintain investment and production in Australian assets and prevent carbon leakage.
- Australian climate policy to recognise trade-exposed product and to ensure trading equity until such time as international action on GHG reduction re-establishes equitable trading environment within our region.

Competition for Lime comes from Australia's regional trading partners, in Asia and the pacific, countries where the expectation of equivalent GHG constraints in the foreseeable future is highly unlikely.

The loss of the Australian lime industry to imports would largely affect regional employment as most lime plants are sited away from capital cities and centres. Abandoning such industries as Lime production in Australia will not reduced the global GHG emissions but weaken Australia's economy and standard of living.

NLAA commentary on CPRS issues:

NLAA supports the development of sound climate policy to ensure the most efficient, effective and responsible outcome by Australia to the reduction of global GHG emissions

- CPRS legislation requires further development and support in the following areas to ensure the competitiveness of EITE industry is not affected
    - Details on the EITE assistance program are not scheduled to be released until early 2010
    - Establishing inventory data collection and reporting to an acceptable standard for reliable emissions trading information, only one annual NGER report will have been completed by the proposed start of the CPRS.
    - Details of the auctioning process and use of revenue are unknown.
    - Details of acquittal of GHG liability through the excise for transport fuel
    - Details of the full impact on electricity generation and pass through costs will not be known until early 2010
    - Funding program for R&D to develop emerging low emission technology with 20 year horizons
    - Streamlining of Federal and State GHG and energy efficiency mandatory programs and reporting legislation is slow and currently ineffective
    - Strategies to manage the Global Financial Crisis and additional cost to industry and community of the CPRS have not been addressed
    - Details of tax implications
    - Review process of the CPRS as its implemented, setting of the emissions cap and gateways, and EITE status assessment have not been detailed
- A "soft start" to the CPRS will establish and develop the emissions trading market and prepare the community for a carbon-constrained economy.
    - The use of a "safety valve" on permits to control the volatility of the price as the market is establishing is an important mechanism. The proposed $40/t GHG is too high, this will accept the current full cost of the European Union permits linking Australia's price immediately.
    - The NLAA would prefer a phased in approach to the CPRS that will assist both industry and consumer transition, particularly through the current economic crisis.
    - Starting the CPRS scheme in 2010 is too early for quality production data to be reliable as trading market information. NGER data collection needs to be established and operating to standard to give confidence for compliance and emissions trading.
- International agreement on GHG reduction
    - International commitment to a global emissions trading regime is necessary before EITE assistance can be relaxed. The CPRS proposes removal of EITE assistance by 2020 and its progressive wind down from the start of the scheme using the carbon productivity contribution. The stated purpose of the EITE assistance program is to maintain the competitiveness of EITE industry such that carbon leakage does not occur. To achieve this purpose the EITE assistance program must remain fully functional until a global emission trading regime is in place.
    - Following the agreement of a globally uniform policy approach, comparative international reduction targets and actions need to be reviewed in context to determine the equivalent Australian commitment against both economic and environmental impacts.
    - The move to -15% GHG reductions by 2020 with "advanced economies taking on reductions compatible to Australia" would not support our concern with developing countries in our trading region unless "advanced" was related to GDP measures rather than the Kyoto Protocol definitions of "developed economies". "Compatible" should also be challenged as Australia's 5% reduction is more onerous on our economy without clean energy base load power generation accepted and well developed.

NLAA supports the EITE assistance program as necessary to maintain the competitiveness of EITE industry where an Australian carbon price is adopted.

- The process currently being used by the government to define EITE activities is flawed and must focus on the trade-exposed product. The intent of the EITE assistance program will be defeated through the manner in which activity definitions are currently being developed. The GHG emissions covered in the emissions intensive test and industry average factor for permit allocation should apply to emissions from the whole production process of lime manufacturing i.e. from raw material selection to where the product is despatched to a customer or another downstream process. The artificial boundaries proposed do not cover the whole process and require specific elements to be excluded. This is not aligned with,
    - The scope of the revenue coverage used in the test calculation
    - A company's financial or production data records
    - Any other government program boundary definitions i.e. NGER Operational Control or Diesel Fuel Rebate
    - International protocol for GHG accounting

  This makes historical data discovery and assurance difficult and erroneous.
- The annual carbon productivity contribution (decline of allocated permits by 1.3% per annum) is unacceptable and undermines the fundamental reason for supporting EITE industry. Energy-intensive, trade-exposed industries are, by their nature, focused on maintaining international competitiveness and reducing energy demand. This leaves little opportunity for further efficiency gains; the continuous decline in assistance without international commitment is unjustifiable.
- EITE status should be maintained in full until trading countries have "compatible GHG constraints" with Australia's CPRS e.g. permit cost, commitment to GHG targets and GHG coverage. Not the proposed wind down of assistance over the first 10 years of the program.
- Baseline GHG inventory data from 06/07 and 07/08 will not have achieved NGER standard as the regulations for NGER were not released until mid 2008. This provides only one set of compliant annual data (08/09) to inform the emissions trading market before the start of the CPRS program. This is a concern to NLAA as current NGER boundaries are not conforming to the requirements of the CPRS.

NLAA supports consistency in the scheme's assistance to EITE industries

- Allocated permits for electricity use are calculated with a single national factor (tGHG/kWh) and the power use of the facility (kWh). Procurement of power supplied at less than the national factor will pass on a benefit to the facility encouraging the use of renewable power over the traditional power from the mains source. It also gives recognition for facilities that have engaged non-traditional power sources as the industry average is based on energy use not the GHG associated with the power. Recognition by the CPRS to support the choice of renewable power is inconsistent with the way direct GHG emissions from the site are dealt with. All direct GHG emissions are calculated specifically using emission factors selected to match the fuel and raw materials in use. By allocating permits on the basis of actual GHG emissions from the industry the same incentive to adopt renewable fuels or alternative low emission raw materials is not offered. Such resources are not reliable long term supplies as they tend to be supplied from industry by-products and waste. It is entirely possible that these sources will change through cleaner production improvements or go to higher value uses with development of recycling, returning the Lime plant to traditional resources and causing the industry average GHG emissions to increase. NLAA recommends that industry average GHG emission (tGHG/t product) be calculated on traditional fuels and raw materials emission factors to align the direct emissions methodology with the power permit calculation methodology and encourage innovation in the use of non-traditional resources.

NLAA supports 20-year market price signal

- The Kyoto Protocol is flawed in its shortsighted five-year horizons, which encourages only immediate solutions. For business to be able to have certainty around agreed reductions and commitments the CPRS must project out 20+ years by,
    - Permits auctioned over 10 vintages to allow management of industry cycles.
    - CPRS cap trajectory defined for 20+years by fixed annual caps with gateways so Australian industry growth can be built in to support for capital intensive investment decisions

NLAA supports consistent treatment of CPRS costs to other business costs

- Tax implications to be addressed
    - Tax neutral for liable parties
    - Scheme costs equally treated as business expenses
    - Secondary market involvement by liable parties
    - Application of Stamp duty, GST, FIFO methods

NLAA supports robust and streamlined complementary actions

- National Greenhouse and Energy Reporting (NGER), Energy Efficiency Opportunities (EEO), Greenhouse Challenge Plus (GCP), and the CPRS are a group of mandatory policies introduced by opposition governments to address the GHG reductions. The mixture of legislation must be rationalised to support streamline inventory collection for the CPRS and unburden industry with programs. This reinforces the lack of sound data for the CPRS inventory.
- Renewable Energy Target (RET) as for the point above duplicates the CPRS
    - doesn't meet the CoAG principles for Climate Change mitigation
    - Will add substantial costs to the industry in addition to the CPRS
    - Was not supported by Garnaut or the Productivity Commission reviews of the CPRS
    - will become a higher percentage of consumed power due to the reducing electricity demand expected from the CPRS, and making the program more costly.

NLAA supports an efficient administration of the CPRS

- Appeals and review processes are needed from the introduction of the CPRS to develop a transparent, robust and efficient scheme that achieves the outcomes of its design. Specifically,
    - EITE applications process is subjective to the government's approval without appeal
    - Determination of the annual cap and gateway reviews have no process or criteria for decisions for assessment
- Allocation of the funding for research, development and commercialisation of emerging low emission technologies that will significantly change the emissions of GHG intensive processes is critical to meeting the 2050 deep cut target.
- Annual trajectory target is subject to market forces e.g. the current global financial crisis will deliver lower GHG inventory. The NLAA supports budget periods for the targets than can be averaged such as the first Kyoto Protocol period offered managing short term market fluctuations.

A global scheme - Australia and the Lime industry

- A Global scheme is unlikely to be achieved through the current structure of the Kyoto Protocol. More success could come from a unilateral global approach for GHG reduction (suggested by Garnaut), a phased in approach where regions and sectors can gain advantage for participation, and minimise trade exposure issues.
- Adding an operating cost to industries that compete with imported product will equate to an inequitable impost as trade exposed product is competitive with

international standards of manufacturing and has little scope to reduce emissions without emerging technologies becoming commercially viable.

- Australia's economy with strong dependence on fossil fuel and resources is more emissions intensive than other members of the Kyoto Protocol. Our trade exposure to developing countries (as defined in the Kyoto Protocol) makes Australia's position in international progress towards an international level playing field more challenging than Europe's developed countries. The determination of equivalent reduction targets must take these issues into account.
- 62% of emissions from lime production are due to the conversion of limestone in the calcination in the kiln, the remaining 38% are due to energy use. While energy efficiency in production has improved, over the past 2000 years of manufacturing technology the raw material source is the same. A 5% GHG reduction per tonne of lime will require a 12.5% reduction in all energy use in the process.
- The expectation that a price on carbon will encourage higher levels of efficiency relies on such a gain being commercially available. Modern competitive industry such as lime has no significantly new technology to utilise and does not expect a "breakthrough" in the next 10 years or more. The effect of the CPRS will be to tax the industry rather than drive significant GHG reductions.

The Treasury modelling does not adequately assess the current CPRS proposal

- The modelling focused on intervals greater than 5 years in the economy, therefore missing the significant impact of the current economic down turn and the transition to the CPRS
- The model did not include the cost of skilling and shifting the economy structure from manufacturing to service industries and the creation of a new market base.
- The assumption that as the economy has always grown at an average rate over the last 20 years it will continue (ultimately) to grow at that rate, and therefore a 1.1% loss to the economy with the introduction of CPRS will on average not cause disadvantage, however apply the CPRS during a market down turn and the impact on the economy will be greater.
- The model doesn't investigate the CDM price impact, or the "safety valve" at $40/t
- GHG economic implications for Australia are tied to the international negotiation on commitment to GHG reduction, which has yet to be determined.
- China is assumed to adopted a GHG reduction target by 2015 and full global commitment is expected by 2020
- The model states that carbon leakage will be insignificant. Yet the modelling reports clearly that developing countries delaying their adoption of carbon constraints are expected to increase their carbon footprint and experience an increase in investment. This is directly linked to manufacturing moving offshore from countries that impose a higher production cost through a price on carbon.
- To meet the -5% target CDM permits will be required to be purchased by Australia in increasing volumes as Australian's capacity to decrease to meet the 2050 target becomes more reliant on lower cost reductions in other countries. Australia's economy is expected to fund the shortfall for these permits. Any GHG emissions saved by industry or the community will be a reduction in the imported permits.
- The Australian economy will be dependent on the world price of CDM permits, reductions in GHG permit cost will not be based on emission reductions in Australia.

EITE assistance will not add a burden to the community

- EITE assistance will shift the cost of the CPRS from industry to the consumer - EITE by its trade exposed nature cannot pass full cost of GHG to consumers.
- EITE allocation will increase the price of permits – international CDM permit price and the "safety valve" will determine the Australian permit price

- EITE industries have less incentive to reduce GHG – all sectors under scheme will be required to purchase GHG permits, all wearing the same cost driver. EITE industry will have to buy permits and will seek to minimise this cost.
- Industry is the GHG polluter and should cover the costs – 45% of Australian GHG emissions are from industry (including power generation), the remainder is from government, commercial and domestic activity.

The NLAA welcomes further consultation on the details of the scheme and is prepared to make representation to the committee. Please contact the undersigned to arrange a convenient time.

Yours sincerely

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