The Chamber of Minerals & Energy Western Australia

7th Floor, 12 St Georges Terrace
Perth, Western Australia 6000
Locked Bag N984
Perth, Western Australia 6844
Telephone: (61 8) 9325 2955
Facsimile: (61 8) 9221 3701
Email: chamber@cmewa.com
Website: www.cmewa.com

25 March 2009

Mr John Hawkins
The Secretary,
Senate Standing Committee on Economics,
PO Box 6100,
Parliament House,
CANBERRA ACT 2600

Via email: economics.sen@aph.gov.au.

Dear Mr Hawkins

RE: INQUIRY INTO THE EXPOSURE DRAFTS OF THE LEGISLATION TO IMPLEMENT THE CARBON POLLUTION REDUCTION SCHEME

The Chamber of Minerals and Energy of Western Australia (CME) appreciates the opportunity to provide the Senate Standing Committee on Economics with comment on the Australian Government's exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme (CPRS).

The CME is the peak resources sector representative body in Western Australia funded by its member companies who generate an estimated 95 per cent of all mineral and energy production in the State. The sector is diverse and complex covering exploration, processing, downstream value adding and refining of over 40 different types of mineral and energy resources across the State.

Western Australian exports of both minerals and oil and gas was worth around $56.6 billion in 2007-08. The resources sector is also the largest private employer in regional and remote Australia, and the largest private sector employer of Indigenous Australians.

Whilst the CME appreciates the opportunity to input into the deliberations of the Senate Committee, the CME is concerned that only eleven working days have been provided to comment to the Committee on the exposure draft legislation, consisting of six separate Bills. This period of consultation, whilst appreciated, is inadequate given the complexity of the proposed CPRS and its potential ramifications on the Australian economy.

The CME comments will therefore be limited to general comments on the CPRS Bill. The CME will continue to review the draft legislation in detail, with a view to preparing a submission to the Department of Climate Change by 14 April 2009.

It should also be noted that key sections of draft legislation, such as Part 8 relating to the Emissions-intensive Trade-exposed (EITE) assistance program contain little detail, leaving a substantial amount to be set out in the regulations, not planned for release until later in 2009.

Australian Government Commitments – December 2007

When ratifying the Kyoto Protocol in Bali in December 2007, Prime Minister the Hon Kevin Rudd MP also committed to the following:

- Setting a target to reduce greenhouse emissions by 60 per cent of 2000 levels by 2050;
- Short to medium term targets be framed based on the outcomes of the Garnaut Review.
- Establishing a national emissions trading scheme by 2010;
- Increasing the proportion of renewable energy to 20 per cent of national electricity supply by 2020.

Committments were also given to:

- Foster further research and development initiatives
- Ensure that Australia's international competitiveness is not compromised by Australia's response to climate change.
- Ensure that Australian operations of emission intensive trade exposed firms are not disadvantaged by emissions trading.

Part 8, Division 1, Section 165 (b) of the exposure draft legislation states that one object of the EITE package is to "reduce the incentives for such activity to be located in, or relocated to, foreign countries".

This represents a significant weakening of the commitments to ensure that the CPRS does not compromise the competitiveness of Australian industry, or disadvantage it.

CME Position

The CME acknowledges the Federal Government's plans to introduce an Australian CPRS by 2010.

The CME, in consultation with its member companies, has contributed to the discussion on the design of such a scheme through submissions to the Garnaut Review, Green Paper and other relevant Government and Opposition inquiries and reviews, as well as generally engaging with all relevant parties in respect of the proposed scheme.

Throughout this consultation the CME has supported a market based mechanism, such as an emissions trading scheme, as one of the key elements in any strategy to assist in reducing greenhouse gas emissions.

However in supporting such a mechanism, CME has argued strongly that such a scheme should not be fully implemented until:

- There is a global commitment from all major emitters.
- The scheme is aligned with an international response to ensure cost burdens are comparable with competitors.
- There has been significant progress in the development and deployment of low emissions technology.

The CME has consistently argued, in line with our national collegues though the Minerals Council of Australia (MCA), a phased approach to auctioning as the most effective transition to an emissions trading scheme claibrated with the actions of other major nations and competitors.

The Government must ensure that trade exposed industries are not disadvantaged when compared to their international competitors. In order to achieve this level playing field the design of the proposed scheme must be altered to significantly increase the percentage of permits administratively allocated to trade exposed industries.

The design of the proposed scheme and the rate of its implementation are key issues for industry given the potential for a significant impact on:

- Employment (and therefore communities)
- Investment
- Competitiveness

The CPRS in its present form presents a real risk of carbon leakage and therefore job loss. It is clearly in the national interest to ensure these risks are managed and mitigated.

The current world economic situation will simply exacerbate the impacts on these factors. Already the resources sector in West Australia has experienced:

- Significant job losses as a result of the global recession;
- A signifcant drop in estimated export revenue for 2009/10.

These are compelling reasons to ensure the proposed scheme can deliver:

- Reduced emissions at the lowest possible cost to the domestic economy.
- Investment certainty.
- A slow and measured start to provide the opportunity for adjustment and international alignment.
- Adequate protection and assistance for the trade exposed sector from the additional costs imposed relative to international competitors.

It is questionable, in the time frame given, to determine if the draft legislation can effectively be amended to reflect these required changes and safeguards.

Australia's proposed CPRS, as presented in the Federal Government's draft legislation, would represent the worlds toughest emissions trading scheme.

Under the proposed approach around 70 percent of permits will be auctioned.

No emissions trading scheme anywhere in the world has ever auctioned more than a small proportion of its permits, especially in the early phases of the scheme

This means that, individually, many Western Australian companies will be paying millions of dollars in permit costs every year from the outset of the scheme – significantly more than their international competitors.

Work commissioned by the MCA shows that an average Australian firm emitting 1 million tonnes of CO_2 per annum will face carbon costs of nearly $111 million over the 4 years 2010-14 (see Figure 1).
Over the same period, a European Union (EU) firm with the same emissions profile will pay less than $6 million. Identical firms located anywhere else in the world – including competitors in Russia, South Africa, Qatar, Brazil and other locations- are likely to face no carbon constraint over this period.

Even firms classified as EITE will pay much more than their international competitors. Australian EITE firms will be eligible for some of their permits to be allocated at no cost however the precise allocations are yet to be determined. At best they will be required to purchase no more than 10% or 40% increasing by 1.3 percent every year. However, notably not all of their emissions will come from activities deemed to be eligible for EITE assistance. By comparison, an EU firm classified as EITE will pay no carbon costs until 2020 at the earliest.

This high cost impost poses a real risk of investments moving offshore resulting in an economic loss to the Australian economy without any net environmental benefit as any emissions would merely shift elsewhere.

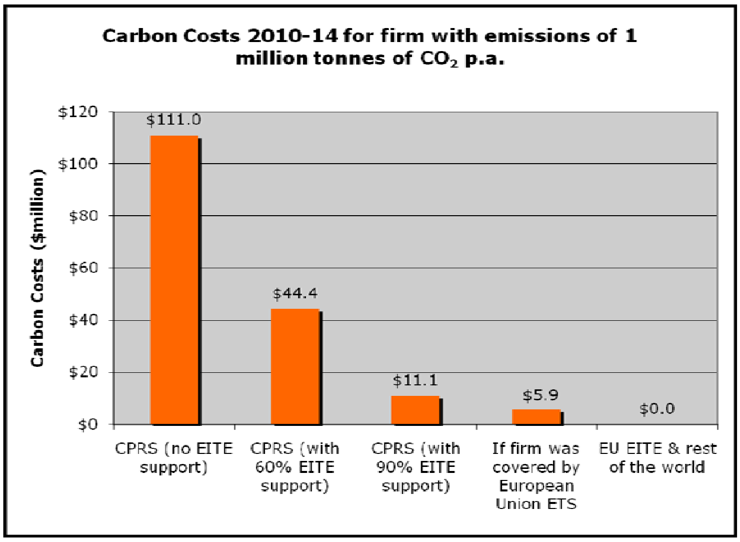

Figure 1 (Source: MCA)

The cost burdens imposed by the CPRS are not comparable with, or linked to, actions by other major emitters, and take no account of the limited availability of low emissions technologies.

Data provided by the MCA indicates that the proposed White Paper model will impose net carbon costs on the Australian business sector of $14.5 billion in the first two years alone, and more than $30 billion over the first 4 years.

This figure takes account of the assistance to EITE firms, strongly affected industries and other firms and will be imposed irrespective of whether there is a global agreement achieved in Copenhagen in December 2009.

It is likely that firm commitments from other major emitting nations – even developed nations – will take a number of years to emerge.

Many of Western Australia's resource companies will receive no assistance under the emissions trading scheme proposed in the exposure draft legislation.

If the CPRS approach is adopted, Western Australian exports of both minerals and oil and gas, worth around $56.6 billion in 2007-08 will face the full impact of the world's highest cost emissions trading scheme.

In practice, that means that a high percentage of Western Australia's resources exports will confront billions of dollars in permit costs many years before any of their competitors – most of whom are located in developing nations - face any comparable carbon burden.

Even the firms producing the exports that may receive EITE support under the proposed scheme will pay higher carbon costs than competitors.

As a consequence, the scheme will pose a serious risk to jobs and economic development in regional and remote areas.

The resources sector is the largest private employer in regional and remote Australia, and the largest private sector employer of Indigenous Australians.

CPRS Design

The CME supports amendments to the design of the proposed scheme to provide for a phased approach to auctioning to reduce the potential adverse impact of the scheme on the trade exposed sector. This could be achieved by:

- Basing eligibility for assistance on trade exposure only;
- Increasing the percentage (90 to 100 per cent) of administratively allocated permits to trade exposed industries providing opportunities for greater calibration with the actions of other major nations and competitors.

The CME is keen to ensure any scheme is aligned to a global response and in step with other world schemes. The allocation of permits can be adjusted in response to commitments from international competitors.

As noted earlier, it is not clear if the draft legislation, as presented, can be adequately amended to reflect these required changes.

Other specific issues with the CPRS design include:

- Decay Rate: There should be no erosion of EITE permits until major international competitors adopt a comparable carbon price.
- Renewable Energy Targets (RET): The RET will distort the ability of the CPRS to deliver "least cost abatement" and should be removed once the CPRS in operational.
- Effective Price Cap: A cap set for exceptional circumstances is counter to the objective of limiting financial damage. The cap should encourage behavioural change without damaging the economy and investment.

In the absence of substantial amendment to the exposure draft legislation to take account of the above, any reference to assistance for EITE activities needs to consider:

- Definition of Process and Activity: The Government must ensure that eligibility criteria for EITE assistance takes into account a full range of factors that influence the emissions intensity of a particular 'activity'. These factors should include, but are not limited to, access to a power source and the nature of the ore body.
- Electricity Factor (EF): The EF must be varied to account for real on-ground contract situations. This can easily be achieved by extending the very large electricity user provision to new contracts where demonstration of no practicable alternative is shown.

The CME is also concerned with the high level of duplicity between the Federal Government's proposed CPRS and other State and Federal Government policies. Renewable energy targets and offsets are just two examples.

Please contact Aileen Murrell, CME Assistant director, on (08) 9220 8507 or a.murrell@cmewa.com if you wish to discuss any of the matters raised in this submission.

Yours sincerely

Nicole Roocke
Director