19 March 2009

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

CIF SUBMISSION: Inquiry into exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme

The Cement Industry Federation ("the CIF") welcomes the opportunity to submit comments on the Senate Inquiry into exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme.

The Cement Industry Federation is the national body representing the Australian cement industry, and comprises the three major Australian cement producers - Adelaide Brighton Ltd, Blue Circle Southern Cement Ltd and Cement Australia Pty Ltd. Together these companies account for 100 per cent of integrated clinker and cement supplies in Australia.

The CIF aims to promote and sustain a world-class, internationally competitive Australian cement industry, positioned to take advantage of emerging market opportunities, and endorsed by a community licence to operate.

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Legislation

The CIF is a member of the Australian Industry Greenhouse Network (AIGN) and supports the comments in their submission to the Senate Standing Committee on Economics Inquiry into exposure draft of the legislation to implement the CPRS.

The CIF response to the White Paper is focussed primarily around chapter twelve; *Assistance to emissions-intensive trade-exposed industries*. Whilst the CPRS White Paper claims to recognise the need to shield emissions intensive trade exposed (EITE) industries unable to pass the increased costs associated with the ETS to their customers, **the details tell another story**. The CIF finds the task of responding to the legislation in any substantive way very difficult without the presence of the activity definitions located in the regulation. The CIF reserves its right to comment on the design of the proposed assistance to EITE industries when the regulations are released.

CIF Position

The CIF supports:

- The commitments made by the Rudd Labor Government during the 2007 election to:
    - Ensure that Australia's international competitiveness is not compromised by the introduction of emissions trading
    - Consult with industry about the potential impact of emissions trading on their operations to ensure they are not disadvantaged
    - Establish specific mechanisms to ensure that Australian operations of emissions intensive trade exposed firms are not disadvantaged by emissions trading.
- A national ETS that balances economic, environment and equity objectives.
- Assistance provided to offset competitive loss of EITE industries, in the absence of a truly global scheme. Ensure no competitive disadvantage to existing operations and proposed new investment.
- A fixed level of EITE assistance per unit of output over time.
- The Government to duplicate the approach taken by Canada and provide 100 per cent assistance rate for fixed process emissions.
- Allocation to new EITE investment should be conditional of employment of international best practice.

- The Governments position to phase out and withdraw assistance to EITE industries in the event of a broadly comparable carbon constraint is introduced in key competitor economies.

The CIF opposes:

- The disaggregation of EITE activities. We consider the cement manufacturing process as an integrated process as **each activity does not occur in isolation**. The disaggregation of EITE activities will fundamentally thwart the stated shielding policy intent for EITE industries. The CIF opposes a clawback of the particular activities which make up an integrated manufacturing process defined as EITE.
- All EITE activities (excluding agriculture) should be limited to 25 per cent of available permits. The current level of emissions by EITE industries exceeds the 25 per cent allocation by the Government which indicates the Government is attempting to reduce the assistance rate to eligible EITE to enable all EITE industries to fit into the 25 per cent allocation pool by disaggregating activities. The CIF supports an assistance policy where all industries that meet the criteria set out for EITE status, receive the allotment regardless of the overall percentage of the national emissions.
- The decay in permit allocation for EITE industries over time. The decay of assistance rate will result in no new investment and gradual run down of existing plants forcing industry off-shore with no global climate change advantage. For example, assuming an initial permit price of $25 and the cement industry receives 90 per cent permit allocation covering the entire cement manufacturing process, in 2010 the initial cost of the scheme amounts to $18 million. By 2020, the 1.3 per cent decay in permit allocation increases the cost of the scheme to $46 million. This will obviously have a significant impact on the profitability of the sector which is trade exposed.

The Australian cement industry recognises the threat that climate change poses to our natural environment. We have been working diligently on this challenge for well over a decade and achieved, by voluntary measures, reductions in the carbon intensity of our product of 23% per tonne.

The Australian cement industry can only remain competitive if the assistance rate for EITE industries remains constant until a global scheme is implemented. The decay of the assistance rate will diminish the competitiveness of the Australian cement industry leading to the premature closure of production facilities and deter new investment which contradicts the commitment made by the government in the 2007 election campaign to not disadvantage EITE industries.

A decay in the assistance rate over time will make cement produced in Australia uncompetitive compared to imported cement. If this leads to lower output from, or even the closure of Australian cement plants, offshore plants would increase production – hence carbon leakage. Australia would more easily meet its Kyoto obligation, but global emissions would not change – hardly the actions of a responsible global citizen. Furthermore, an industry once lost to Australia might never be re-established, even if at some point in the future most countries impose a price on emissions.

We look forward to our further consultations on this matter.

Robyn Bain
Chief Executive