MINERALS COUNCIL OF AUSTRALIA

SENATE ECONOMICS COMMITTEE INQUIRY CARBON POLLUTION REDUCTION SCHEME BILL 2009

AND ASSOCIATED LEGISLATION

JUNE 2009

THE MINERALS COUNCIL OF AUSTRALIA

The Minerals Council of Australia (MCA) represents Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. MCA member companies produce more than 85 per cent of Australia's annual minerals output, and will account for about 60 per cent of Australia's merchandise exports in the year to June 2009.

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EXECUTIVE SUMMARY

- The minerals sector cannot support the passage of the legislation on the Carbon Pollution Reduction Scheme in its current form.

The 4 May changes did not address the basic flaws in the legislation...

- The revisions to the CPRS will not materially improve the environmental outcomes or reduce the economic impact of the scheme.
  - the 1 year delay represents little more than a temporary stay of execution for thousands of mining jobs and billions of dollars in investment.
  - the changes to EITE assistance were largely irrelevant to the minerals sector – 90 per cent of minerals exports will receive no shielding under EITE arrangements.

The Australian scheme will impose the world's highest carbon costs...

- The decision to auction the majority of permits contrasts with that adopted or proposed overseas, in Europe, New Zealand, and the proposed Waxman/Markey bill in the US.
- The CPRS will cost the minerals sector $25 billion in the first decade
  - the permit cost burden for the coal sector will exceed $5 billion by 2015, while the gold sector will face costs of more than $710 million over the same period.

The CPRS will slash forecast output in the minerals sector by 2020

- Independent modelling shows that projected thermal coal output will fall by 27 per cent by 2020, production of coking coal will fall by 12 per cent, non ferrous metals (gold, copper, lead and nickel) output will fall by 27 per cent, while brown coal production will fall by 41 per cent.

The CPRS will mean severe job losses in all States and the Northern Territory...

- There will be 23,510 <u>direct</u> job losses in the mining sector by 2020, and 66,400 by 2030.

The only way to maintain real employment levels will be for real wages to fall...

- The imposition of a cost on carbon ahead of other nations will impose additional costs on the Australian economy and reduce overall output
  - the only way to maintain employment levels when output is lower is for real wages to fall.

There is a simpler, better alternative …

- Australia should adopt the approach taken by other nations, including the European Union and the US, namely a phased approach to the full auctioning of permits.
- This approach will establish a carbon price signal without putting the economy into reverse
  - reward firms who reduce their emissions, and
  - raise sufficient revenue to ensure low and fixed income earners are not economically disadvantaged.

1. THE RECENT CHANGES TO THE CPRS WERE INADEQUATE...

- The changes announced on 4 May **do not address the central flaw** in this proposed emissions trading scheme (ETS) – the decision to embark on full permit auctioning from the outset of the scheme.
- These are **changes at the margin**. They will not materially improve the environmental outcomes or reduce the economic impact of the scheme:
  - the permit cost burden on the minerals sector over the first 5 years will be $9 billion instead of $10 billion.

One year delay

- The proposed one year delay amounts to little more than **a temporary stay of execution** for thousands of mining jobs and billions of dollars in investment, including in breakthrough low emissions technologies.

Changes to EITE arrangements

- The changes marginally raise the level of support for so-called emissions intensive trade exposed industries. But that shielding is still below that provided or proposed by other nations.
  - The changes are **irrelevant for 9 out of 10 minerals exports which receive no shielding** and will face the highest carbon costs in the world.
- The continued **arbitrary exclusion of coal mining** from compensation measures is **inexplicable**
  - coal mining meets the criteria of the Government’s CPRS yet has been unilaterally excluded.
  - the result will be a severe impact on the coal mining regions in Queensland and New South Wales and the inevitable increase in coal exports from Indonesia, Russia, Colombia and South Africa.

Wrong type of certainty

- Business’ **need for certainty is not served by the kind of certainty** this scheme will deliver

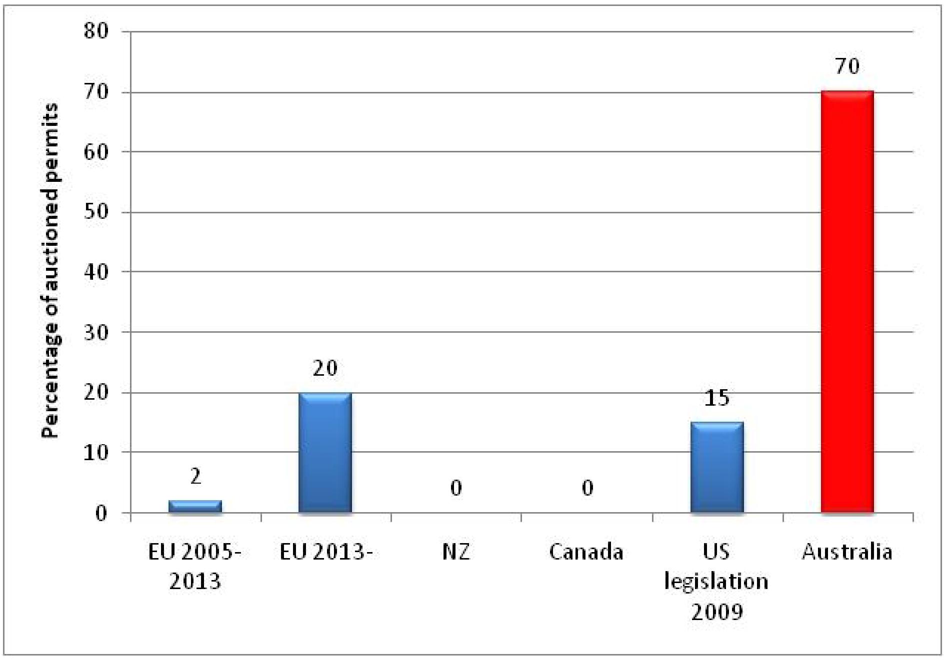
Amendments must address the basic flaws of the CPRS

- While the MCA welcomes the Government’s recognition that its CPRS needs amending, **change must be directed at the underlying fundamentals** not just tinkering at the margins.
- The proposed changes **fall well short of transforming the CPRS into a well-designed ETS** capable of delivering economic and environmental benefits over the longer term.

2. UNDER THE CPRS DESIGN, AUSTRALIAN FIRMS WILL PAY THE WORLD'S HIGHEST CARBON COSTS…

- In developing the CPRS, the Government decided that raising revenue was more important than establishing a sensible measured transition to an ETS.
  - o this is the opposite of approaches adopted overseas, in Europe, New Zealand, and proposed in the US and Canada.
- In the proposed CPRS, **70 per cent of permits will be auctioned** from the first full year.
  - o in the current draft of the US cap and trade legislation (known as Waxman/Markey), only 15 per cent of permits will be auctioned.
  - o it is worth noting too that in the European Union, only 2 to 3 per cent of permits will be auctioned in the first 8 years of that scheme.

OUT OF STEP WITH GLOBAL SCHEMES. SHARE OF AUCTIONED PERMITS IN INTERNATIONAL CAP & TRADE SCHEMES



This flaw in the CPRS will impose the world's highest carbon costs on the minerals sector…

- The **emphasis on revenue raising is at the core of the threat to job losses** in Australian industry
  - o Most minerals exports will receive no shielding from the full exposure to the highest carbon costs in the world.
- The CPRS will cost the mining industry an estimated **$9 billion in the first 5 years, and $25 billion over the first 10 years** - a cost none of our international competitors will bear.
  - o in the European Union ETS, **coal producers will bear no costs** – methane is excluded from the EU scheme

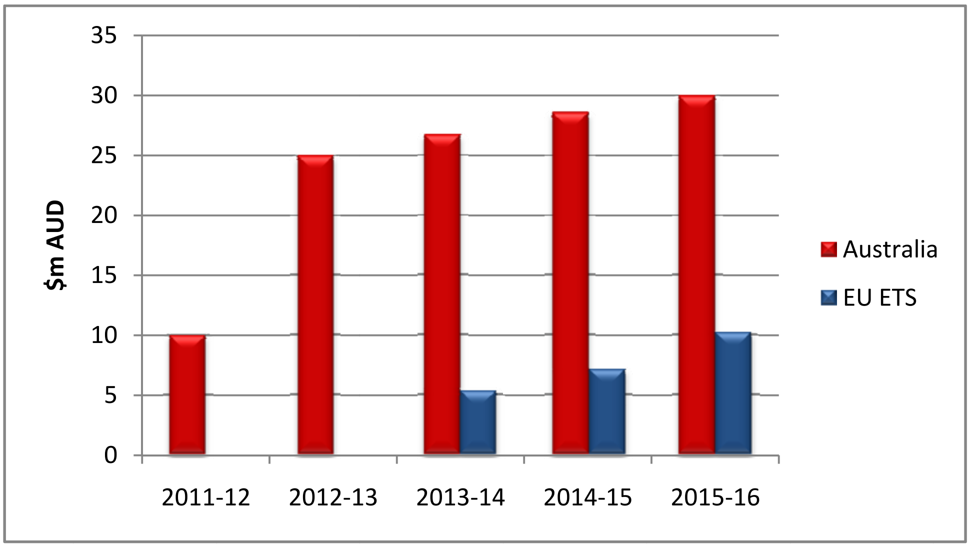
- minerals processing operations in the **EU and USA are unlikely to face any carbon burden until 2020 and 2025 at the earliest**.

- average Australian firms will have to **buy all their permits from 2011**. Under the EU scheme, EU firms will **not have to buy their permits until 2027**.

- The following chart **compares the carbon costs to be borne by an average Australian firm** over the first 5 years of the proposed scheme, compared with an EU firm in the same sector with the same emissions profile.

DIFFERENT TRANSITIONS: ECONOMIC BURDEN IN AUSTRALIA AND THE EU 2011-16

A comparative analysis of the carbon costs facing a firm emitting 1 million tonnes of CO_2e p.a.



Note: Australian permit costs based on capped price of $10 in 2011-12 then a starting carbon price of $25 in 2011-12 increasing by 4 per cent in real terms per annum. EU firms which do not receive EITE support will be required to buy 20 per cent of their permits from 2013. Based on closing EU ETS carbon price of 6 March 2009 of 11.66 Euro converted to AUD at rate of 1.98 AUD/Euro

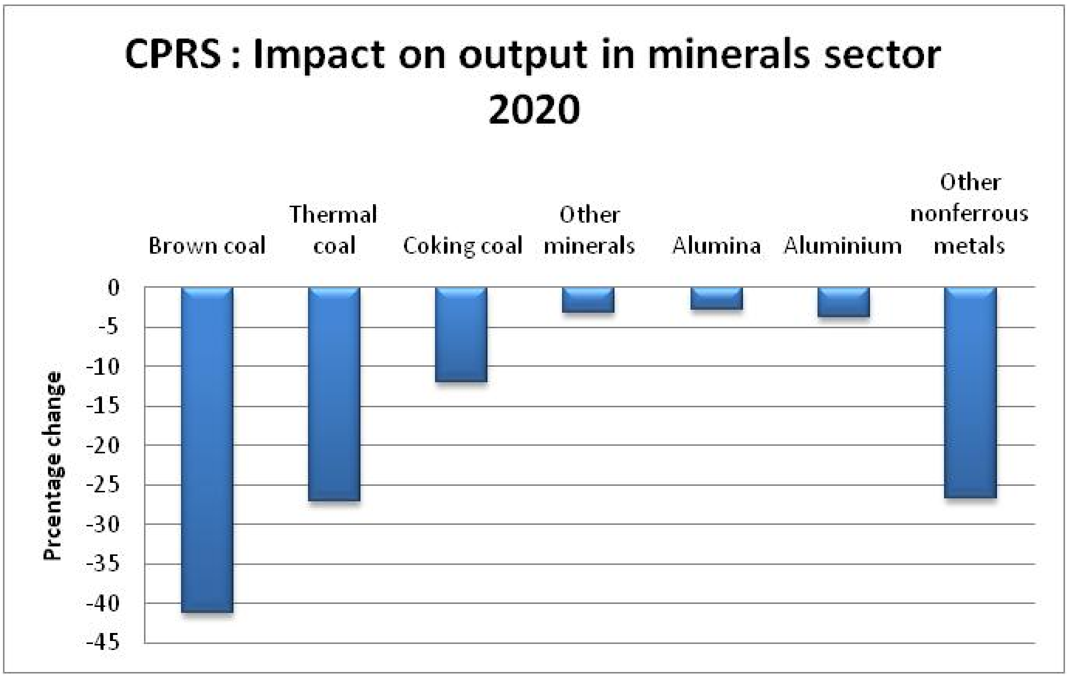
3. THE CPRS WILL SLASH FORECAST OUTPUT IN THE MINERALS SECTOR BY 2020 AND 2030

Independent modelling shows that scheme will sharply reduce forecast production in key minerals sectors by 2020.

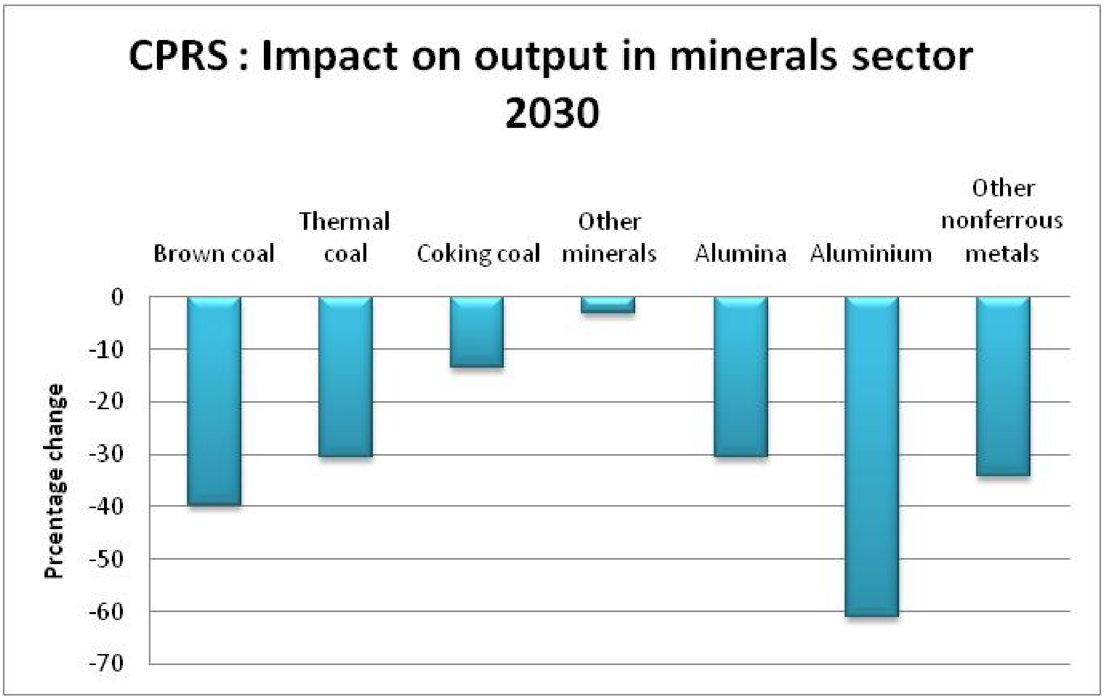
- Despite the scale and gravity of the CPRS reform, **Treasury modelling fails to provide detailed forecasts of the scheme's short and medium term** impact on output and employment.

- That is why the MCA commissioned Dr Brian Fisher – Australia's most respected economic forecaster – to assess the impact of the CPRS on the minerals sector and the communities in which we operate.

- The report demonstrates that the **CPRS will have a severe adverse impact on output** in the minerals sector by 2020
  - projected thermal coal output will fall by 27 per cent,
  - production of coking coal will fall by 12 per cent,
  - non ferrous metals (gold, copper, lead and nickel) output will fall by 27 per cent, while
  - brown coal production will fall by 41 per cent.



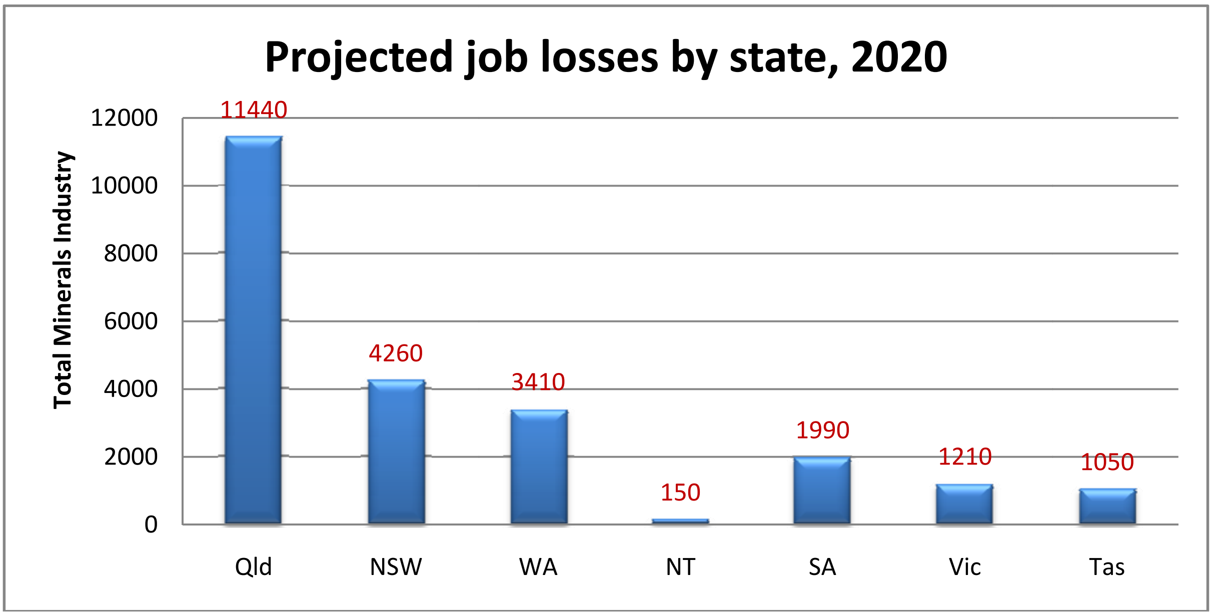
- By 2030, the impact on output in the minerals sector will be even more severe, with the impact on minerals processing intensifying
  - projected thermal coal output will fall by 31 per cent,
  - production of coking coal will fall by 13 per cent,
  - bauxite production will fall by 16 per cent
  - alumina production will be 31 per cent lower
  - aluminium production will be slashed by 61 per cent
  - non ferrous metals (gold, copper, lead and nickel) output will fall by 34 per cent, while
  - brown coal production will fall by 40 per cent.



Concept Economics.

4. THE CPRS WILL HAVE A SEVERE IMPACT ON EMPLOYMENT IN THE MINERALS SECTOR…

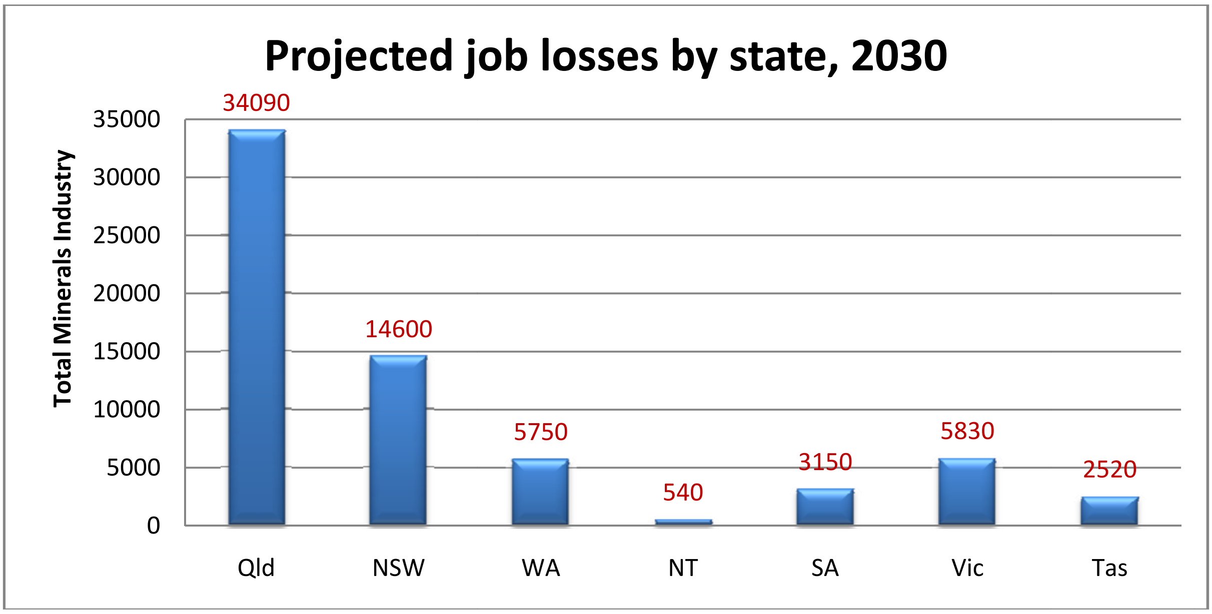
- The Concept Economics analysis shows that the CPRS will have a **severe impact on employment in the minerals sector** over the next 2 decades.



Concept Economics

All mining regions in all States and the Northern Territory will suffer direct job losses…

- An estimated 23,510 direct jobs will be lost from the industry by 2020, and 66,400 by 2030.
- **Queensland** is projected to bear the largest job losses of any state or territory with **11,440 projected job losses by 2020**, and 34,090 by 2030.
- **New South Wales** experiences the second highest level of job losses in Australia, losing **4260 direct jobs by 2020**, and 14,600 jobs by 2030.
- **Western Australia** accounts for **3,410 job losses by 2020**, and 5750 by 2030.
- **Victoria** will **lose 1210 jobs by 2020** and 5830 by 2030.
- **South Australia** will **account for 1990 job losses by 2020** and 3150 by 2030.
- **Tasmania** will lose **1050 jobs by 2020** and 2520 by 2030.
- **North Territory** is projected to **lose 150 direct jobs by 2020** and 540 by 2030.



Concept Economics.

In leading mining regions, job losses will <u>not</u> be absorbed by so-called green jobs...

- The Concept Economics analysis does not assess the potential stimulus to regional employment from the renewable energy sources.
    - It is worth noting, however, that a recent study published by the Climate Institute assessed the potential contribution of renewable energy to employment in regional Australia.
    - Closer analysis of these studies serves to highlight that in key regions of the nation, **<u>so-called green jobs are unlikely to match the loss of jobs in the minerals sector</u>**.
- Under the conservative projections in the Concept Economics study, there will be 8000 to 9000 jobs <u>lost</u> by 2020 in the mining and minerals processing region which stretches from Gladstone to Mackay, and west to communities like Blackwater, Moura and Moranbah.
    - These are real jobs in real mining operations in real communities.
    - on the other hand, the Climate Institute study identified 83 permanent jobs that will be created between Proserpine in North Queensland and Brisbane.
- In other words, in the Central Queensland mining region that means **<u>approximately 1 green job 'created' for every 100 lost</u>** in the minerals sector and associated sectors.

<u>Regional impacts</u>

- The Concept Economics analysis also examined the impact on employment in key mining regions in Queensland, NSW and Western Australia.

Queensland

- **the Fitzroy region** (Central Queensland) will lose **<u>1950 direct jobs by 2020</u>**, and total job losses between 3900 and 4180 by 2020.
- **the Northern region** (Townsville) will lose **<u>1870 direct jobs by 2020</u>**, and total job losses between 3590 and 3750 by 2020.
- **the Mackay region** will lose **<u>2600 direct jobs by 2020</u>**, with total job losses in the region between 4200 and 5190 by 2020.

- **the North West** (Mt Isa) will lose **<u>390 direct jobs</u>**, with overall job losses between 690 and 770 jobs by 2020.

New South Wales

- **the Hunter region** will lose **<u>2410 direct jobs by 2020</u>**, with total job losses between 4300 and 7000 by 2020.

- **the Illawarra region** will lose **<u>720 direct jobs by 2020</u>**, with total job losses between 1440 and 3870 by 2020.

- **the Far West region (**Broken Hill etc**)** will lose **<u>75 direct jobs by 2020</u>** with a total impact of between 150 and 230 jobs by 2020.

- **the North West region** will lose **<u>235 direct jobs by 2020</u>** with a total impact of between 420 and 1050 job losses by 2020.

- **the Central West region (**Orange and Cowra) will lose **<u>420 direct jobs</u>** with a total impact of between 840 and 1780 job losses by 2020.

Western Australia

- **the Pilbara** region will lose **<u>520 direct jobs by 2020</u>**, with total job losses between 690 and 1040 by 2020.

- **the South Eastern** region (Kalgoorlie) will lose **<u>400 direct jobs by 2020</u>**, with total job losses between 690 and 800 by 2020.

- **the Central region** will lose **<u>130 direct jobs by 2020</u>**, with total job losses between 260 and 490 by 2020.

- **the South West region** will lose **<u>560 direct jobs by 2020</u>**, with total job losses between 1130 and 1760 jobs by 2020, and

- the Kimberley will lose **<u>40 direct jobs by 2020</u>**, with total job losses between 80 and 190 by 2020.

5. TO MAINTAIN EMPLOYMENT LEVELS, REAL WAGES WILL HAVE TO FALL…

Under the proposed CPRS, lower national output will mean fewer jobs or lower wages…

- The imposition of a cost on carbon ahead of other nations will impose additional costs on the Australian economy.
  - as a result, Australia will be less competitive and, by definition, **national output will be lower**.
  - in specific terms, the scale of output reductions in the minerals sector have been spelt out above, and ranges from a 12 per cent fall in coking coal output, to a 27 per cent slump in non-ferrous metals production, and a 27 per cent fall in thermal coal output.
- The **Treasury modelling acknowledges that output will be lower** under the proposed CPRS.
  - this reflects the fact that it is not possible to impose additional costs in a competitive global economy without decreasing output.
- This will have inevitable **consequences for employment and real wages**
  - the only way to maintain employment levels when output is lower is for **real wages to fall**.
    - with lower national output it is simply not possible to have the same number of jobs at the same wage rates.
  - the **only alternative to lower real wages** in an economy with lower output is **higher unemployment**.

6. A SIMPLE ALTERNATIVE THAT IS COMPARABLE WITH EUROPEAN AND US APPROACHES…

- The minerals sector has long sought to play a constructive role in the debate over Australia's response to climate change.
  - that is why the MCA put forward **an alternative approach to the CPRS model**.
- That approach is simple. That we do what other nations concerned about climate change have decided to do, namely that we adopt a **phased approach to the full auctioning of permits**.
  - Such a **transition is critical for those sectors of the economy which are trade-exposed**, namely those firms unable to pass on these costs because their foreign competitors (either in overseas markets or the domestic market) will not confront similar carbon costs.
- A phased approach to full auctioning of permits will establish a carbon price signal without putting the economy into reverse.
  - it will reward firms who reduce their emissions.
  - it will also raise sufficient revenue to ensure low and fixed income earners are not economically disadvantaged.
  - there is no need for special treatment or compensation for certain sectors – the burden of the new scheme would be spread evenly across the economy.

The decision to allocate a large share of permits at the outset will not affect the environmental rigour of ETS...

- A key design question in any cap and trade emissions trading scheme is the share of permits to be allocated (i.e. provided without charge) or auctioned (with revenues going to government coffers).
- The **decision to initially allocate all permits, auction all permits or a mix of the two will have no impact on the environmental effectiveness of a proposed scheme**.
- Allocating permits without charge will not make a scheme less environmentally rigorous than if all permits are sold.
- As the Pew Center on Global Climate Policy has correctly noted:
  - "It is important to remember that a comprehensive cap-and-trade program generally can achieve environmental and economic objectives regardless of how allowances are allocated. Because total emissions are capped the allocation of allowances does not affect the environmental integrity of the scheme."[1]

It will however, influence the economic impact of the scheme...

- The decision to auction or allocate will, however, **have a significant impact on the cost impact borne on firms** affected by the scheme.
  - Providing a large share of allocated permits in the initial stages of a scheme will help mitigate costs and competitiveness concerns for affected firms.

[1] Pew Center on Global Climate Change, Greenhouse Gas Emissions Allowance Allocation, *Congressional Policy Brief,* Fall 2008.

- Alternatively, **a decision to auction most permits** – as proposed in the Carbon Pollution Reduction Scheme (CPRS) – **will impose a severe economic burden on Australian firms**.