

18 April 2008

Professor Ross Garnaut, AO
Climate Change Review
Level 2, 1 Treasury Place
Melbourne VIC 3002

Dear Professor Garnaut

Submission to the Garnaut Review's Emissions Trading Scheme Discussion Paper

The NSW Minerals Council (NSWMC) represents the State's \$12.5 billion mining industry, directly employing 47,000 people in mining and minerals processing, and indirectly, the employment of more than 200,000 in businesses supporting the mining sector. The industry also comprises 32 per cent of the State's export income and contributes around \$1.5 billion annually to Government revenue in royalties and taxes. Being a state based organisation, NSWMC is not providing a full submission. NSWMC is writing in support of the submissions made by the Minerals Council of Australia, the Australian Coal Association and the Australian Industry Greenhouse Network.



Key Design Principles for an Emissions Trading Scheme

NSWMC supports the following key design principles for an Australian Emissions Trading Scheme (ETS):

- In addition to an efficiently designed emissions trading scheme, NSWMC believes that a suite of complementary policies are required to ensure a smooth transition to achieving significant reductions in greenhouse gas emissions. In particular, there must be investment and incentives for accelerated research, development and demonstration of low emission technologies.
- NSWMC absolutely supports the widest possible coverage of all sectors of the economy in the ETS from its commencement. However currently, there are major technical difficulties in measuring fugitive emissions from open cut and underground coal mines. Considerable work is underway to develop methodologies that will deliver more accurate emissions measurement. One practical option is to delay the application of the ETS to the coal industry, until these measurement issues are resolved with a view to ensuring that anomalies are not created by covering for example, underground mines but not open cut mines.
- NSWMC supports the use of a price cap or emissions fee to avoid excessive volatility in the carbon price, particularly in the initial stages of the scheme.
- Where a domestic emission trading scheme is being implemented ahead of global action, it is essential that trade exposed emissions intensive (TEEI) status is considered. A scheme that reduces the competitiveness of Australian firms, leads to their closure or relocation abroad and/or the expansion of production in other locations, or renders Australia uncompetitive to new investment in particular sectors is neither economically efficient nor environmentally effective. The ETS must identify how the support for TEEI's will apply and provide guarantees that such support will remain in place for as long as the competitive disadvantage (introduced by the ETS) continues. NSWMC supports the methodology proposed by the ACA.
- The minerals industry must be accorded TEEI status. The minerals industry is a price taker on international markets. The minerals industry is also a price taker for diesel fuel and bulk carriers, which are both vital for mining operations and for which there are no substitutes. Most of the minerals industry's competitors are in developing countries which are not currently considering

emissions reductions. In the thermal coal export sector, for example, key competitors include Indonesia, Colombia, Russia, China and South Africa. The minerals industry is also emissions intensive due to substantial energy use. The substantial economic and social contribution of the mining industry, particularly to regional Australia, must be recognised with assistance provided to the industry to remain economically viable under an emissions trading scheme.

- NSWMC supports, on equity grounds, compensation for disproportionate loss where a firm is unable to pass on a significant portion of the increased costs of production of non-traded sector products due to the ETS and also faces a reduction in the economic life of their asset due to the introduction of a carbon price. NSWMC supports the calculation for compensation set out in the Australian Industry Greenhouse Network's submission.

Transitioning from the NSW Greenhouse Gas Reduction Scheme to an ETS

The GGAS was one of the world's first mandatory greenhouse gas emissions trading schemes. There has been significant investment by "early adopters" to reduce greenhouse gases through GGAS which has enabled many projects to be economically viable. Under GGAS, the mining industry generates GGAS abatement activities through the abatement of coal seam methane through power generation and flaring.

The NSW Government has committed to the GGAS ceasing operation when NETS is introduced as both schemes impose a price on greenhouse gas emissions associated with energy consumption. There must be a carefully managed transition process that addresses the following general principles:

(a) Full compensation for existing property rights

Holders of unused abatement certificates at the cessation of GGAS must be provided with the certainty that their property rights will be preserved. This is important to promote investor confidence and sustain the credibility and integrity of the GGAS in the remaining years of the scheme.

(b) Early action should not be penalised

There must be fairness in the transition from GGAS to NETS. Minerals industry project justifications are typically assessed over a minimum of a ten year period. Hence, there are issues generated by the straddling of the two schemes - GGAS in the short term and NETS in the longer term. In the past year, there has been a significant collapse in the NGAC market due to the uncertainty introduced by an impending NETS. It is important that investor confidence is restored and not further eroded. It is crucial that the value of abatement certificates being delivered to capital projects are properly protected in a transition to NETS in order to minimise the overall financial risk and viability of projects.

(c) Incentives for waste mine gas energy projects

The NSW coal mining industry has commissioned innovative, world class investments over the past ten years in relation to fugitive methane emission abatement and utilisation projects supported by a number of state and federal greenhouse gas reduction programs such as the Australian Government's Greenhouse Gas Abatement Program and the ongoing revenue stream from GGAS. In order to ensure ongoing reductions of greenhouse gas using waste mine gas, complementary policies are needed to support this technology development. The market alone will not deliver adequate incentives for the research and development of the technology needed in the short to medium term.

The introduction of the ETS provides an opportunity to remove anomalies created by various Government policies introduced over the last 10-15 years to reduce greenhouse gases. For example, under GGAS Category A generation activity, the value created by the abatement activity is claimed by a "deemed retailer" rather than the generator. In order to encourage further reduction of greenhouse gas emissions by abatement, abatement activity should properly be recognised at the point of creation.

NSWMC supports the implementation of an efficiently designed emissions trading scheme as part of Australia's response to the challenge of climate change. NSWMC strongly believes a range of complementary measures are required to ensure that economic activity and energy security is not jeopardised in the transition to a reduced greenhouse gas emission footprint. In particular, there must be investment and incentives for accelerated development, demonstration and deployment of low emission technologies in Australia.



For further information please contact Sue-Ern Tan, NSWMC Director Strategy & Policy on 9274 1416 or stan@nswmin.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Nicole B Williams". The signature is fluid and cursive, with the first name "Nicole" and last name "Williams" clearly legible, and a large, stylized initial "B" in the middle.

Dr Nicole B Williams
CHIEF EXECUTIVE OFFICER

