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Carbon Pollution Reduction Scheme Green Paper Submission
Department of Climate Change
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CANBERRA ACT 2601

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Dear Sir/Madam

Submission on the Commonwealth Carbon Pollution Reduction Scheme

The NSW Minerals Council (NSWMC) represents the State's $12.3 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 (MCA) and the Australian Coal Association (ACA).

NSWMC supports the introduction of an emissions trading scheme (ETS) as one part of a comprehensive policy response of moving to a carbon constrained economy. The introduction of an ETS is the most significant economic revolution in the Australian economy for a generation. The Australian ETS must be aligned with a global response to emissions reduction and the development and deployment of low emissions technologies. Without this alignment, the ETS will have negligible impact on global emissions but will have a substantial impact on the Australian economy.

There must be a measured transition to an ETS. NSWMC supports the MCA's preferred position of a phased approach to full auctioning of permits. No other ETS in the world has attempted full auctioning of permits from day one. For example, the world's most advanced ETS in the European Union (EU) will not move to full auctioning until 2020, the 15th year of their scheme. Even then, there will be mandated exceptions for emissions intensive trade exposed industries.

Proposed design principles in the Green Paper

NSWMC's position on the key design principles of an ETS is set out in the NSWMC Climate Change Policy which is attached. The preferred positions set out in the Carbon Pollution Reduction Scheme Green Paper have some serious shortcomings:

1. Emissions Intensive Trade Exposed (EITE) Industries

   - Because the export coal industry is comprised of a number of individual components with very different emissions intensities, EITE eligibility should be considered on an activity or locational basis (taking into account the methane concentration of the particular coal resource).

   - The Green Paper limits support for EITE industries in the non-farm sector to 20 per cent of permits. This limit is arbitrary and there is no economic analysis for this figure. The limit must be increased substantially to reflect the reality that a much higher share of the Australian economy is emissions intensive and trade exposed that in, for example, the EU.

   - The proposed metric for assessing EITE eligibility using revenue data from 2006-07 and 2007-08 does not account for commodity price cycles. If revenue figures are to be used, they should be based on 5 to 10 years average of revenues rather than a snapshot period which is clearly divergent from historical averages.

- Rather than a ‘once and for all’ classification of EITE eligibility, there must be a periodic review of eligibility to take account of changing commodity cycles.

- Consideration needs to be given to operations with special circumstances (remote location, limited access to grid power and/or energy sources) where these factors mean that emissions intensities are much higher than sectoral averages.

- New investment in EITE industries should be outside the cap. The global demand for minerals is predicted to grow over the next 12 years, particularly from developing nations such as China and India[1]. None of the minerals industry’s international competitors have an ETS in place. The Government’s preferred approach of including new investment in the cap threatens to become an effective limit on investment growth in Australia’s minerals sector.

2. Treatment of fugitive emissions

   - NSWMC supports the widest possible coverage of emissions sources in the ETS from its commencement.

   - No other ETS in the world includes fugitive emissions from any source. Fugitive emissions from coal mines are not covered under the EU ETS as methane is not a covered gas (even under Phase 3). Under the ETS proposed in the recently defeated Lieberman-Warner Climate Security Act of 2007, emissions from coal mines are exempt from the emissions cap. To ensure consistency with other trading schemes, fugitive emissions should be excluded from the Australian ETS until there is international agreement on its coverage. This will assist with alignment of Australia’s ETS with other schemes.

   - There are also issues with measuring fugitive emissions from open cut mines. The current methodology is not suitable for the emissions trading scheme as it does not provide reliable and accurate emissions data for individual mines. For example, the current default measure taxes the same non-gassy mine in NSW 2.6 times higher than the same mine in Queensland.

   - To address potential competitiveness and economic neutrality issues, open cut and underground coal mines should be included when there is coverage in comparable schemes and the measurement issues are resolved.

3. Strongly affected industries

   There are several coal mines in NSW which are tied to power stations via long term contracts. These ‘captured coal mines’ will be strongly affected by the ETS because:

   - Their product is sold only to the domestic market for power generation due to long term contracts

   - Their product is not traded due to lack of alternative markets (for example, non-export quality coal or lack of export and other infrastructure)

   - They do not have the ability to pass through cost increases (due to existing contractual commitments)

   - They have significant sunk capital costs

   - They have limited economically viable abatement opportunities.

[1] Access Economics, ‘Global Commodity Demand Scenarios’, Report by Access Economics for the Minerals Council of Australia, May 2008.

On energy security[2], investment clarity and equity grounds, transitional allocation of permits and other regional adjustment assistance is essential to compensate strongly affected assets (generators and captured black coal mines) for demonstrable disproportionate loss in net present values due to the introduction of an ETS. Transitional measures would also involve a combination of:

- Legislating to allow captured coal mines and other suppliers under long term contracts to pass on the impact of the ETS where contractual arrangements do not otherwise allow for such pass-through

- Permit allocation under the Electricity Sector Adjustment Scheme or as a separate strongly affected category in itself

- Measures to provide compensation for the impact on the captured coal mine where the life of the power station is shortened by the advent of the ETS with roll on effects to the mine.

4. Other design principles

- There must be a sensible price cap in the first 5 years of the scheme. The price cap should not be set so high to make its use unlikely. A credible price cap will provide price stability and predictability. This will promote investment, reduce the economic shock of introducing a carbon charge as well as the risk of speculative market activity.

- The Government must announce an interim target range as soon as possible. The interim target must be realistic. It must take account of Australia's expected economic and population growth which will increase Australia's energy consumption.

- There should be no artificial limits (currently capped at 5%) to borrowing of future dated permits

Impact on the NSW mining industry

The mining industry has a strong case for EITE treatment. The mining industry is a price taker on international markets. For example, gold is bought and sold at the global gold spot price and there is no market differentiation of product. None of the minerals industry's competitors have an ETS in place, and most are developing countries which are not even considering emissions reductions. In the thermal coal export sector, for example, key competitors include Indonesia, Colombia, Russia, China and South Africa. In the copper sector, major producers include Chile, Russia, the USA, Canada and Peru. In the gold sector, developing nations account for 68 per cent of global production. The unilateral addition of a carbon cost on the Australian minerals sector will have an impact on its sustainability and future growth.

The Green Paper's current approach to EITE industries will impact on the existing and future growth of the mining industry in NSW. The NSW mining industry generated 32% of the State's export income in 2006/07. The mining industry has the potential to dramatically increase its contribution to the State and regional communities. Under a 'Vision Scenario' modelled by ACIL Tasman in a report prepared for the NSW Minerals Ministerial Advisory Council[3], NSW coal exports could be 50% higher than the business-as-usual (BAU scenario) and other mining and minerals processing production could be 25% higher than BAU. The potential economic contribution of the mining industry in 2020 to NSW would be:

[2] Coal supplies 90% of NSW's electricity generation.
[3] A tripartite body (representatives from industry, unions and Government) that reports to the NSW Minister for Mineral Resources.

Key indicators	Units	2006(p)	BAU 2020	Vision 2020
Value of production	2006 $million			
Mining		11,592	15,200	21,300
Minerals processing		10,200	12,900	15,500
Total		21,792	28,100	36,800
Exports	2006 $million			
Mining		6,857	9,400	13,200
Minerals processing		3,251	5,900	7,100
Total		10,108	15,300	20,300
Employment	Persons			
Mining		21,000	24,000	30,400
Minerals processing		26,000	32,000	34,000
Total		47,000	56,000	64,400
Employment created in NSW in other sectors	4.5 multiplier	211,000	252,000	290,000

Source: ACIL Tasman[4]

According to recent ABARE forecasts[5], the NSW mining industry has over $9 billion worth of major projects either under construction, committed or undergoing feasibility studies:

	$million
Black coal projects	2,676
Black coal infrastructure projects	3,231
Gold	2,065
Crude Iron and Steel[6]	504
Lead/Zinc/Silver	260
Mineral Sands	230
Coal seam methane	155
Titanium	85
Total	**9,206**

In addition to this large capital investment, the direct and indirect employment positions supported by mining and the proceeds from royalties and taxes, will be jeopardised without a proper transition to the ETS.

The ETS will have a more pronounced impact in regional NSW where most EITE industries are clustered. For example, the coal mining industry is the backbone of the Hunter and Illawarra region. The mining industry directly employs nearly 4,000 people in the Hunter region and 2,000 people in the Illawarra and South East region. In these two regions, the mining industry indirectly supports the employment of approximately 25,600 people. The metalliferrous industry is the backbone of the Central West and Far Western region, directly employing more than 4,000 people and supporting up to 18,500 jobs.

[4] ACIL Tasman, "The Contribution of the Minerals Industry to the NSW Economy", Report by ACIL Tasman for the Minerals Ministerial Advisory Council, December 2006.
[5] ABARE, Minerals and Energy: Major development projects – April 2008 listing, April 2008.
[6] Two Bluescope steel projects, Port Kembla Blast Furnace No 5 reline and Sinter plant and raw material yards upgrade. Steel making in NSW is heavily dependent on coking coal from the Southern Coalfields.

The substantial economic and social contribution of the mining industry, particularly to regional NSW, must be recognised with assistance provided to the industry to remain economically viable under the ETS.

Yours sincerely

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NSW MINERALS COUNCIL CLIMATE CHANGE POLICY

The NSW Minerals Council (NSWMC) represents the State's $12.3 billion mining industry, providing a single, united voice for mineral producers, operators, explorers and extractive material producers operating in NSW, as well as associated service providers.

The mining industry in NSW directly employs 47,000 people in mining and minerals processing, and indirectly, employs 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.

NSW mining industry's response to climate change

- The NSW mining industry accepts that climate change is a challenge that must be addressed. The mining industry recognises that anthropogenic carbon dioxide is a contributor to the climate change challenge, and that coal fired power generation is a source of this carbon dioxide.

- The mining industry has long accepted its role in responding to climate change. The COAL21 Fund is a $1 billion fund over 10 years to support research, development and demonstration of low emission coal technologies to combat climate change. The NSW mining industry has actively supported and implemented measures to reduce its emissions (see Annexure 1).

- NSWMC strongly believes that Australia's response to the challenge of climate change requires a suite of policy measures that balance the need to ensure energy security, ongoing economic growth and international competitiveness and actual reduction in global emissions. This includes:

    - An efficiently designed emissions trading scheme

    - Investment and incentives for accelerated research, development and demonstration of all low emission technologies including low and zero emission coal technologies and renewable technologies

    - Comprehensive demand management policies

    - Adaptation policies to enable Australian society to adjust to the changes from climate change

    - Systematic and coordinated programs that secure energy efficiency savings across the economy from households to major businesses and industries.

Emissions Trading Scheme

- There is an urgent need for details of the scheme, including interim target and emission caps, to be released. This will enable the mining industry to plan for the scheme consequences in order to ensure that the industry continues to be a key contributor to the NSW economy, and support for regional communities.

- The introduction of an ETS is the most significant economic revolution in the Australian economy for a generation. There must be alignment between the Australian ETS, international action to reduce emissions and developments in low emission technologies.

- There must be a measured start to the scheme, with appropriate transition arrangements that contain the impact on the Australian economy and community living standards, and maintains the international competitiveness of Australian industry. Without such transition arrangements, the competitiveness of emissions intensive trade exposed industries (such as the mining industry) will reduce and lead to a decline in investment, relocation of activity to countries that may not have the same environmental requirements as Australia and potential closure. The impacts of these outcomes will not only be borne by companies, but will be felt by current and future employees, their families and the regional economies depend on those industries.

- Eligibility for emission intensive trade exposed status should be assessed:
  - On a sub-sector basis in the coal industry to reflect the wide variation in emissions intensity across the industry
  - Using revenue data that reflects commodity price cycles
  - Subject to a periodic review take account of changing commodity cycles.
- Fugitive emissions from coal mines should be covered only when comparable international schemes include this source and when suitable measurement techniques are available across the underground and open cut sectors.
- The NSW mining industry supports a phase in to full auctioning of permits as the most measured transition for the Australian economy as it:
  - Ensures all businesses share the costs of the introduction of the trading scheme
  - Enables better alignment with other key pillars of an effective response to climate change, namely a comprehensive global agreement on carbon reduction and the development and commercialisation of low emissions technologies
  - Represents world's best practice as it is still more comprehensive than the European Union ETS (see Annexure 2).
- There is a need on energy security, investment clarity and equity grounds for transitional allocation of permits to strongly affected industries to compensate for disproportionate loss in net present values those firms suffer upon the introduction of an ETS.
- NSWMC supports the use of a credible price cap in the initial stages of the scheme in order to avoid excessive volatility in the carbon price.
- The interim national targets and trajectories must reflect the availability, and deployment, of low emission technologies.
- There must be a single national climate change policy framework. The existing numerous NSW Greenhouse policies, including the NSW Greenhouse Plan and the Energy Savings Action Plan, must be streamlined. NSW market based programs such as the Greenhouse Gas Reduction Scheme (GGAS) and the Energy Efficiency Trading Scheme must be discontinued.

Support for low emission technologies

- There needs to be strong investment in all low emission technologies as these technologies will be critical to lowering the costs of abatement. The investment is urgently needed given the significant lead time of wide scale commercial deployment of these technologies.
- Australia has an opportunity to be a leader in the development, and export, of low emission technologies. This is critically important given that developing countries, in particular China and India, will continue to be reliant on fossil fuels for their economic development. For example, the International Energy Agency predicts that China will account for nearly half of the world's coal consumption by 2030. There will be no significant reduction in global emissions without a technological solution to the emissions from the burning of coal globally.
- It is vital that nationally consistent and efficient legislative and regulatory framework to support the development of carbon capture and storage technology is implemented, as it is the only technology that can significantly reduce greenhouse gas emissions from fossil fuel generation. Such legislation must recognise that long term liability will be a significant impediment to investment in carbon capture storage technology.

Annexure 1

How is the NSW mining industry reducing its carbon footprint?

- The COAL21 Initiative is a world first voluntary industry levy and partnership between coal producers, State and Federal Governments, the research community and electricity generators. The COAL21 Fund is a $1 billion fund over 10 years to support research, development and demonstration of low emission coal technologies to combat climate change. The COAL21 Fund also leverages several billion dollars more in funding already committed by governments and individual companies towards the development and deployment of low emission coal technologies.

- The NSW mining industry has been a strong supporter and participant in the NSW Greenhouse Gas Reduction Scheme (GGAS). The mining industry has made significant investment in abatement activities primarily through the abatement of coal seam methane emissions by power generation and flaring.

- The mining industry in NSW is leading the world in technology development to reduce emissions from coal mining. For example, one of the largest mine-methane power generation plants in the world is located in the Southern Coalfield. This innovative plant creates enough power to generate electricity for 60,000 homes every year and saves up to 2.5 million tonnes of greenhouse gas emissions every year. Another world first technology that generates electricity from methane, is the WestVAMP project in the Illawarra. This technology utilises methane at concentrations of less than 1% to generate power for 4,500 homes per annum with an associated reduction of 0.25 mlllion tonnes CO_2-e per year.

- The NSW mining industry has also invested in biosequestration as another way of offsetting greenhouse gas emissions associated with mining. For example, through an intensive rehabilitation scheme, a single mine has planted over 180,000 trees which saves approximately 560 tonnes of CO_2-e during one year.

- The NSW mining industry supports, and is an active participant in reducing electricity use through energy efficiency measures. For example, many NSW mining companies participate in the Australian Government's Greenhouse Challenge Plus program. Participants in the program are required to monitor their greenhouse emissions and integrate greenhouse issues, including energy use, into business decision making.

- The NSW mining industry actively participates in a number of energy efficiency programs aimed at increasing efficiency associated with energy use, thereby reducing demand and greenhouse gas emissions. In one year alone a NSW mining company saved about 13, 700 GJ of electricity with an associated greenhouse gas reduction of at least 3,700 tonnes of CO_2-e equivalent annually.

Annexure 2

Comparison of Australia's proposed ETS with the European Union scheme

- The scheme design set out in the Federal Government's Carbon Pollution Reduction Scheme Green Paper has more ambitious targets, covers more sectors, has a stricter permit allocation system and will be developed and implemented more rapidly than the European Union Emissions Trading Scheme (EU ETS).

- Under the European scheme, there will not be full auctioning of permits until 2020 (and even then trade exposed sectors will get up to 100% of their permits free). In 2013, only the power sector will be subject to full auctioning. Industries outside the power sector will receive 80 per cent of their permits free, which will be phased down over the period to 2020. The proposed Australian scheme will have full auctioning from the start of the scheme on 1 July 2010.

- The EU scheme currently only covers 40% of emissions. This will expand to 60% of emissions in 2013 but will not cover transport (except aviation), housing, agriculture and waste sectors. The Australian scheme proposes to cover 70% of emissions from 1 July 2010.

- The first and second phase of the EU scheme (2005-2013) only covers carbon dioxide. From 2013, the EU scheme proposes to include nitrous oxide and perfluorocarbons. The proposed Australian scheme will cover all 6 greenhouse gases under the Kyoto Protocol, including methane, from 1 July 2010.