Senate Select Committee on Fuel and Energy

Opening Statement

Peter Coates

Chairman, Minerals Council of Australia Standing Committee on Climate Change

Mr Chairman

We welcome the opportunity to appear before the Committee on behalf of the Minerals Council of Australia (MCA).

The MCA is the peak body for Australia's exploration, mining and minerals processing industry, with member companies producing more than 85 per cent of Australia's annual minerals output. As you are aware, Australia's minerals sector is a major contributor to the Australian economy:

- accounting for more than 7 per cent of annual GDP
- employing 130,000 Australians mostly in regional and remote areas
- providing half of Australian exports, and
- contributing nearly $20 billion in tax receipts in 2007-8.

Our remarks will focus on the Committee's consideration of the impact of an emissions trading scheme on Australia's minerals and energy sector.

The MCA supports the introduction of an emissions trading scheme as part of an integrated policy approach which includes:

- a global protocol involving commitments from all major emitters
- the development and deployment of low emissions technologies, and
- a measured transition to an ETS, with resultant cost burdens comparable with schemes being developed by our competitors.

The development and implementation of these policy tools must be closely synchronized. If we move too fast on an ETS without progress on a global protocol or technology solutions, then the policy simply won't work.

The Australian economy will suffer, and the environmental impact will be negligible, and possibly even negative. For example, a unilateral 20 per cent reduction in Australian emissions by 2020 will impose real pain on the Australian economy but reduce global emissions by only 0.2 per cent.[1] Under such a scenario, global emissions would 'plummet' from 57.2 Gt CO_2-e to 57.06Gt CO_2-e.

Key concerns with the Green Paper approach

[1] Treasury modelling projects global emissions (under the reference case) to reach 57.2 gigatonnes of CO_2-e by 2020. A 20 per cent cut on Australian emissions by 2020 would reduce global emissions from 57.2 Gt CO_2-e to 57.06Gt CO_2-e.

The lack of alignment of the three policy pillars is at the core of our concerns with the proposed ETS approach. The proposed ETS is not calibrated with the two other elements of an affordable and effective climate change policy.

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

The proposed ETS is **out of step** with schemes being developed around the world. It goes further and faster than any comparable scheme either in existence or being contemplated. It is the world's most aggressive ETS.

The scheme proposes full auctioning other than 20 percent of free permits for a small proportion of Australia's trade exposed sector.

The result is that Australian businesses will pay the **highest carbon costs in the world** by a very wide margin. No other emissions trading scheme has ever embraced full auctioning of permits, let alone from the start of a scheme. For example, for the first 8 years of the EU scheme, more than 98 per cent of permits will be issued free. Only after 2103 will *some* EU firms have to buy *some* of their permits.

An average Australian firm emitting 1 million tonnes of CO_2 per annum will face carbon costs of nearly **$100 million over the 4 years 2010-14**. Over the same period, **an EU firm with the same emissions profile will pay less than $6 million**. Identical firms located anywhere else in the world – in the US, China, Brazil and other key competitors - are likely to face **no carbon constraint** over this period. Even firms classified as emissions intensive and trade exposed (EITE) will pay much more than their international competitors. By comparison, an EU firm classified as emissions intensive and trade exposed will pay no carbon costs until 2020 at the earliest.

I should also add that methane – the gas generated by fugitive emissions from coal mining - will not even be covered by the EU scheme before 2020, at the earliest.

In other words, most nations are taking a measured, cautious approach to the introduction of emissions trading. **All** of the emissions trading schemes in operation or being developed adopt a **phased approach to auctioning**. *(We would be happy to provide the Committee with more detailed data on the detail of other schemes being developed around the world.)* We continue to be surprised and disappointed that the Government has not adopted a similar approach.

It is very hard to see how the Government can deliver a soft start to the scheme with the design it has developed. The interim targets under discussion will be extremely difficult to achieve. After all even a 5 per cent reduction on 2000 levels by 2020 will mean a 250 mtpa CO_2-e reduction on BAU projections. To put this into context, Australia's total current electricity generating industry produces about 200mt CO_2-e p.a.

Finally, the lack of flexibility in the proposed ETS means it is ill-suited to adjust to sudden global economic downturns, like the one confronting Australian business today, and which will likely continue well into 2009 and 2010.

In the minerals and energy sector, demand is contracting, prices are falling sharply, and competition for market share is more intense than ever. The sudden addition of billions of dollars in new costs on the sector is not sensible. The adverse impact on our competitiveness will be obvious. The nature of this competition is such that Australia actually *lost* market share in the 8 top traded commodities in the last 5 years.

In summary, the minerals sector supports the introduction of an emissions trading scheme as part of an integrated approach to climate change.

Unfortunately, we do not yet have the 3 key policy pillars in place.

First, we do not have a global protocol and we won't really know whether we will get one until December 2009 at Copenhagen.

Second while the Government has made some positive steps forward on the development of low emissions technologies, there are still some practical and funding obstacles still to be overcome.

Third, the proposed ETS is not measured. We need to look again at ways to calibrate the scheme with international developments. A phased approach to auctioning is the most obvious way to achieve that.

While these pillars are not aligned, there can be no certainty for business investment. Until we know whether or not we have a global protocol, investment decisions will continue to be deferred. If we move too fast without a global protocol, energy intensive businesses will adjust by either shutting or moving off-shore. If we move too fast without access to the technologies solutions we'll be simply imposing a tax on the most competitive parts of our economy.

Thank you for your attention.

8 December 2008