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Review of Climate Change Policies

Australian Government

Department of the Environment and Energy

Contact
Kane Moyle
k.moyle@cmewa.com

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About CME

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by its member companies who are responsible for most of the State's mineral and energy production and are major employers of the resources sector workforce in the State.

In 2015-16, the value of Western Australia's mineral and petroleum production was $88 billion. Iron ore is currently the State's most valuable commodity, accounting for more than half the State's production value at $48 billion. Petroleum products (including LNG, crude oil and condensate) follow at $18.4 billion, with gold third at $10 billion.

The sector is a major contributor to the state and the Australian economy. The estimated value of royalties the state received from the resources sector composed almost 34.8 per cent of estimated total state revenue in 2015-16, or around $4 billion (Iron Ore - $3.4 billion).

Recommendations

Australia's Paris Target

- **CME considers it is imperative the five-yearly national reviews are not used to reconsider already established targets, rather to set a target a further five years out.**
- **CME considers any future policy measures must safeguard our trade exposed sectors and ensure they do not face any unnecessary loss of global competitiveness.**

Sectoral Approach

- **CME recommends a climate change policy framework which includes the broadest possible range of emissions sources, sinks and low carbon energy options.**

Safeguard Mechanism

- **The threshold for a five-year baseline estimation period for large new facilities should be decreased from two million CO2-e tonnes to one million CO2-e tonnes.**
- **In applying the emissions intensity test, facilities should only have to demonstrate they have stayed below their initial intensity baseline, rather than have it reset every time the test is triggered for baseline variations due to incremental growth.**
- **The inherent emissions variability criteria should be broadened to capture mineral processing facilities which are not located alongside the extraction operation.**
- **The definition of exceptional circumstance should be widened to include "force majeure" circumstances such as a major equipment failure outside the control of the operator.**
- **Publication of information should be limited to publishing information on a per company basis rather than each individual facility.**

Complementarity of Policies

- **CME considers climate change mitigation measures are best administered under a consistent national scheme. The key policy area of focus for State and Territory Governments should be climate change adaptation.**

International Permits

- **Australia should complement its domestic efforts by allowing the purchasing of genuine emissions reduction units from elsewhere in the world.**

Context

CME welcomes the opportunity to comment on the Australian Government's Review of Climate Change Policies (the Review).

CME has consistently advocated for a measured transition to a low emissions global economy centred on the three key climate change policy pillars of global agreement, market based mechanism and substantial investment in low emission technology and abatement.

The 2015 Paris (COP 21) Agreement under the United Nation's Framework Convention on Climate Change (UNFCCC) presents a strong platform for the development of a global carbon market. This will be vital for Australia resources projects in gaining access to lowest cost abatement as the world works towards more ambitious future emissions reduction targets.

Australia's 2030 emissions reduction target of 26-28 per cent against 2005 levels has aligned well with other comparable nations, however, our increasing population and an economy largely driven through bulk commodity exports such as mineral resources will require significant effort to achieve the target.

Use of natural gas, ongoing consideration of the role for nuclear power, and deployment of renewable energy technologies should all play a role in meeting Australia's emissions reduction targets. Further research and development into alternate low emissions generation technologies are important for Australia's future energy security. This could include Carbon Capture and Storage technology as well as High Efficiency Low Emission coal-fired power plants.

The Review presents an important opportunity to refine aspects of the Australian Government's existing emissions reduction policies, in particular 1) the emissions reduction fund in providing incentives for emissions reductions; and 2) the safeguard mechanism in ensuring emissions abated through the procurement process are not negated by emissions above business as usual.

Australia's Paris Target

The Paris Agreement sets in place a framework for all countries to take action on climate change. Under the agreement, all countries have committed to try to keep global temperature rises "well below" 2°C, the level likely to limit risks and impacts of climate change. Furthermore, it also commits nations to "pursue efforts" to limit warming to 1.5°C.

In ratifying the Paris Agreement, the Australian Government has committed to reduce Australia's emissions by 26-28 per cent against 2005 levels by 2030. This emissions reduction target is in a similar range to those committed by the USA, Canada, Japan and New Zealand, but less than the more ambitious EU target.

The Paris Agreement provides for five yearly reviews of national targets, underpinned by a rules based system that will assess whether countries are meeting their commitments. **CME considers it is imperative the five-yearly national reviews are not used to reconsider already established targets, rather to set a target a further five-years out.**

The Australian Government has an important role in framing these future reviews to ensure they are always forward looking and not readdressing already established targets. For example, the review scheduled for 2020 must focus on establishing an emissions reduction target for 2035 and not amend the already established and agreed 2030 target. Likewise, the 2025 review should focus on setting the target for 2040 and so on. Stability and clarity of emissions reduction targets are crucial for investment and business certainty.

As an industry association, CME does not consider its role is to propose a specific long-term emissions reduction target. We consider this is the primary responsibility of government,

however, such a target should only be arrived at after comprehensive analysis that measures the economic impact on all major national industry sectors, and states and territories. Adopting a long-term emissions reduction target without such analysis could pose a serious risk to the Australian economy.

As a trade exposed economy, it is crucial this analysis carefully considers how such targets may impact on emissions-intensive trade-exposed (EITE) sectors. **CME considers any future policy measures must safeguard our trade exposed sectors and ensure they do not face any unnecessary loss of global competitiveness.**

Sectoral Approach

The Review has outlined a sectoral approach to how Australia should achieve its future emission reduction targets. Each sectors emissions, economic contribution and the current mix of policies in place to reduce future emissions have been described in the discussion paper. While each sector individually has mechanisms in place to reduce emissions, the costs are not currently evenly shared.

CME considers an economy wide scheme is the most economically efficient mechanism in achieving Australia's future emission reductions. For a sectoral policy approach to be effective and equitable, each sector must be carefully measured in the context of their economic impact and no disproportionate burdens placed on any sector.

In meeting future emission reduction targets, **CME recommends a climate change policy framework which includes the broadest possible range of emissions sources, sinks and low carbon energy options.** A broad-based scheme should ensure the costs involved in reducing emissions is distributed equitably across the economy.

Resources, Manufacturing and Waste

In Western Australia, emissions in the resources sector can change significantly due to geology, type and grade of resources, production levels, operational expansions and divestments or acquisition of new assets. Despite improvements which may be achieved in emissions intensity, the activity of resource extraction will generally see energy use increase over time.

Key factors for these increases over time include:

- Increasing emissions needed to extract ore over time as deposits become deeper and further away, often at lower ore grades.
- Changes to mine plans needed to adapt to the variability and geology and topography of the ore bodies being mined.
- An increase in below-water-table mining, as is currently occurring in the Pilbara. This will result in a material increase in energy used to pump water during the mining process as well as increased haul distances and processing of wet ore.
- Increased fugitive emissions at open-cut or underground coal mines as mining moves into gassier coal.

As a result of the above factors, previous emissions and energy data are not necessarily a reliable guide to future trends in the resources sector. Measures based on historical emissions could represent a substantial disadvantage to producers confronting lower quality and deeper ore grades.

Emissions Reduction Fund

The Emissions Reduction Fund (ERF) is the principal mechanism of the Australian Government's emissions reduction policy suite. A total of $2.2 billion has so far been

committed under the ERF, with a further $300million remaining for purchasing abatement in the budget until 2020.

A total of 435 projects have been contracted to deliver 185 million tonnes of carbon abatement at an average price of $11.83 per tonne of carbon. So far, resources sector abatement projects have not been attracted to the ERF auctions in the initial offerings. Some changes could be accommodated to make the ERF more viable such as:

- Allow for the aggregation of initiatives within a facility (a facility measure) or a sub-facility methodology. For example, where a boiler or compressor in a large facility was to be upgraded, a sub-facility method may be more appropriate in measuring a change in emissions.
- Reduce the compliance and administration burden on companies by making contracts more business friendly. Contracting terms for Industrial Electricity and Fuel Efficiency only has a 7-year maximum contracting period. This can be prohibitive to resources sector projects which have long term investment approaches.

The resource sector remains open to opportunities for low-cost emission reductions for sale into the ERF. Modifications to the crediting methods, and contracting terms and timeframes could assist in attracting more resources sector projects.

Safeguard Mechanism

The safeguard mechanism was designed as the complementary mechanism to the ERF to ensure emissions reductions procured through this method are not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy. Throughout the consultation phase of the safeguard mechanism, CME was well engaged and acknowledges the Australian Government genuinely listened to the resources sector concerns.

While overall supportive of the safeguard mechanism rules, CME consider there are a few remaining areas where further amendment is needed. These changes will ensure resources companies operating in Western Australia can remain internationally competitive and the cost-of-doing business is not increased through unnecessary administrative burden.

CME makes the following recommendations for amendment to the safeguard rules:

- **The threshold for a five-year baseline estimation period for large new facilities should be decreased from two million CO2-e tonnes to one million CO2-e tonnes.** CME considers the current threshold is too high and will only provide assistance to new oil and gas facilities. A reduced threshold of one million CO2-e tonnes will ensure coverage of important mineral processing facilities currently under construction in Western Australia.
- In order for baselines to be varied for incremental growth, the emissions intensity test requires a continuous improvement in intensity e.g. each time a facility uses the test, its intensity needs to have decreased, not maintained at current levels. **In applying the emissions intensity test, facilities should only have to demonstrate they have stayed below their initial intensity baseline, rather than have it reset every time the test is triggered for baseline variations due to incremental growth.**
- The inherent emissions variability criteria make provision for facilities where the extraction of a natural resource is the principal activity which constitutes the facility. CME is concerned this definition arbitrarily excludes mineral processing facilities which can be located separately from the extraction operation and therefore their own facility. **The inherent emissions variability criteria should be broadened to capture mineral processing facilities which are not located alongside the extraction operation.**

- **The definition of exceptional circumstance should be widened to include "force majeure" circumstances such as a major equipment failure outside the control of the operator.** This will bring the policy in line with commercial contracts companies enter into.
- **Publication of information should be limited to publishing information on a per company basis rather than each individual facility.** This will ensure commercially sensitive information is not published and utilised by competitors and market speculators looking to restrict the supply of Australian Carbon Credit Units (ACCU).

Any evolution of the safeguard mechanism such as the introduction of declining baselines to meet more ambitious emissions reduction targets will need to be developed in close consultation with industry. CME is concerned the safeguard mechanism disproportionally impacts upon the resources sector with its limited coverage and shouldn't be relied upon to deliver future emissions reductions in isolation to other sectors.

Complementarity of Policies

Climate change mitigation policies should be administered through a consistent national approach which delivers long-term policy certainty and allows for emission reduction targets to be achieved in an efficient and cost-effective manner.

A number of state governments have in recent times pursued state-based renewable energy target in excess of the national scheme which currently mandates a 23.5 per cent target by 2020. Separate state administered targets can come at a significant economic cost to industrial energy users and in the case of Western Australia could disproportionately impact the resources sector as a large proportion is off-grid and relies on self-generation.

With key responsibilities in providing public infrastructure, health and safety services, land-use planning and natural resource management, state and local governments have a role to play in climate change adaptation. Adaptation measures are also best coordinated and implemented at the state and local level because the impacts of climate change are primarily dependent on a number of local and regional factors, including geography, local climate and local characteristics.

CME considers climate change mitigation measures are best administered under a consistent national scheme. The key policy area of focus for State and Territory Governments should be climate change adaptation.

International Permits

Given climate change is a global issue, **Australia should complement its domestic efforts by allowing the purchasing of genuine emissions reduction units from elsewhere in the world.**

Allowing access to the international trading of emissions units will allow companies to purchase enough abatement to remain below their nominated baseline of the safeguard mechanism at the lowest-cost. International units have historically been seen as a source of low cost compliance for firms faced with a liability under Australia's climate policy of the day. With the Paris Agreement now in force and many more countries committed to emissions reduction targets this may not always be the case.

Research, Development, Innovation and Technology

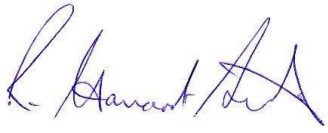
Climate change is a multi-faceted challenge and research, development, innovation and technology must form part of the solution. The resources sector will continue to play an important role in this regard with two key areas of mitigation potential in energy efficiency improvements and low carbon power generation. Future technology advancements should

focus on renewable energy integration and control challenges, such as intermittency, balancing and forecasting.

Conclusion

CME appreciates the opportunity to contribute to the 2017 Review of climate change policies. The WA resources sector would support any moves to common political ground on economy wide decarbonisation measures. The volatility in Australian carbon policy over the past decade has done little for investment confidence which seeks stability and reliability of policy measures.

If you have any further queries regarding the above matters, please contact Kane Moyle, Manager – Natural Resources, (08) 9220 8511 or k.moyle@cmewa.com

Authorised by	Position	Date	Signed
Reg Howard-Smith	Chief Executive	10 May 2017	
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