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The Renewable Energy Sub Group Secretariat
Renewables, Offsets and COAG Branch
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COAG Working Group on Climate Change and Water: Discussion Paper – Treatment of electricity-intensive trade exposed industries under the expanded national Renewable Energy Target scheme

Dear Sir/Madam

The Minerals Council of Australia welcomes this opportunity to comment on the above discussion paper. The 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 mineral output.

Australia's minerals sector is both a significant producer of energy resources and a large scale consumer of electricity consuming approximately 476 petajoules (PJ) of gross energy in 2006/07. Over 92 per cent of this gross energy requirement was derived from natural gas, diesel and electricity sources. It is also important to note that Australia's coal sector has committed \$1 billion to the development and deployment of low emissions technologies including carbon capture and storage.

This submission has two main elements:

- the MCA's broad concerns with the mandatory Renewable Energy Target.
- specific comments on options identified in the *Discussion Paper*.

1. Five fundamental concerns with the Renewable Energy Target

The MCA opposes the expansion of a mandatory Renewable Energy Target for 5 reasons including that it will:

- distort the operation of a well-designed emissions trading scheme
- achieve no additional abatement
- raise electricity costs
- have a negative effect on jobs in the overall economy
- exacerbate concerns about the reliable and uninterrupted supply of energy.

First, the 20 per cent RET threatens to contradict, distort and complicate the operation and purpose of the centrepiece of the Government's domestic policy response to climate change, namely the development of an emissions trading scheme. While the emissions trading scheme is technology-neutral in seeking to reduce emissions at least cost, the RET will require the deployment of particular (and in many cases) more expensive renewable energy technologies. In the case of the RET, the

imperative is not lower emissions, but the expanded deployment of a particular sub-set of energy technologies.

These competing objectives will have real and adverse consequences. The final report of the Garnaut Review noted:

Implementing the expanded MRET alongside the emission trading scheme means that these two policy instruments with their differing objectives will be interacting in the electricity market. This clash of objectives will potentially be detrimental to electricity users (households and businesses) and electricity producers (incumbent and new providers).¹

In 2008, the then head of the *Strategic Review of the Australian Government's Climate Change Programs*, Roger Wilkins highlighted how specific energy targets will distort the effective operation of an emissions trading scheme:

If you set up an emissions trading scheme and you want it to produce the lowest cost reductions, then you should generally avoid distorting the market by requiring the use of certain sorts of technology.²

Second, a mandatory RET will achieve no additional abatement of greenhouse gas emissions. As the Productivity Commission has indicated:

An MRET operating in conjunction with an ETS would not encourage any additional abatement, but still raise additional administration and monitoring costs.³

Third, while achieving no additional emissions abatement, and increasing administration costs, the RET will also substantially raise the costs of electricity to business and householders. This has been confirmed by an array of analysis including the following:

- the Garnaut Review estimated that the additional costs imposed by the scheme will be around \$750 million to \$1.1 billion per annum by 2020.⁴
- analysis by CRA International estimated that a mandatory RET would cost Australia \$1.8 billion more in 2020 than a pure emissions trading scheme in terms of economic welfare (GNP) losses CRA International estimated that electricity prices will rise at least 6 per cent more than would be the case of an ETS alone⁵.
- modelling undertaken by McLennan Magasanik Associates (MMA) for the Department of Climate Change has also highlighted the costs resulting from the proposed RET.⁶ Analysis by the Australian Industry Greenhouse Network of data contained in the MMA report suggests that the RET could reduce the international competitiveness of trade exposed mining and manufacturing industries by \$340 million in 2010 and \$700 million in 2020
- analysis conducted by COAG itself has identified the additional costs on electricity imposed by mandatory renewable energy targets. In its 2002 study, *Energy Market Review: Towards a*

¹ The Garnaut Climate Change Review, *Final Report*, Commonwealth of Australia. 2008. p.356

² quoted in 'Pressure builds for renewing of energy targets', *The Weekend Australian*, May 24-25, 2008, p1

³ Productivity Commission, 'What role for policies to supplement an Emissions Trading Scheme?', *Submission to the Garnaut Climate Change Review*, May 2008p.xvii.

⁴ Garnaut Review, *op cit*, p356

⁵ CRA International, 'Implications of a 20 per cent renewable energy target for electricity generation', *Report prepared for APPEA*, November 2007, p.4.

⁶ McLellan Magasanik Associates, 'Benefits and Costs of the Expanded Renewable Energy Target', *Report to the Department of Climate Change*, January 2009.

Truly National and Efficient Energy Market, COAG estimated that the annual electricity cost of the current MRET scheme in 2010 at between \$323 million and \$543 million.⁷

The Productivity Commission has also pointed to the additional cost impact that the mandatory Renewable Energy Target will impose:

To the extent that the MRET is binding it would constrain how emissions reductions are achieved – electricity prices would be higher than otherwise and market co-ordination about the appropriate time to introduce low emissions energy technologies would be overridden.⁸

Fourth, the MRET will have a net negative impact on employment. The CRA International report cited above estimates that the MRET will result in the loss of an additional 3600 full-time equivalent jobs (FTE) in 2020:

Contrary to the popularly held belief that such mandated targets generate jobs, the overall effect on the economy is the generation of less jobs than otherwise would have occurred and a loss of output in the economy as a whole compared to the outcome with a well-designed emissions trading scheme.⁹

In similar vein, Roger Wilkins has argued that there are better ways to support particular industry sectors like the renewable energy sector.

There are forms of industry assistance that will distort the market and forms of industry assistance that will not. If governments want to assist industry, they should opt for the latter. Otherwise, they endanger the integrity of and confidence in the market.¹⁰

The MCA agrees that there are more efficient and less distortionary ways to promote investment in renewable energy technologies. Options worthy of consideration include incentives, including taxation incentives, for investment in low emissions technology research, development demonstration and deployment. The Productivity Commission has highlighted the advantages of such policy approaches:

Advantages of investment support policies are that they can be technology neutral and that investing firms can be made to share the risk, leading to self-selection of viable projects.¹¹

Fifth the distortions to the stable energy market caused by the competing imperatives of the Carbon Pollution Reduction Scheme PRS and RET will add to existing concerns about potential disruptions to the reliable supply of energy over the next decade. In assessing the impact of these policy changes on electricity markets, the Australian Energy Market Commission (AEMC) recently stated:

If the [power generation] plant type has only a short term future as a result of the CPRS (e.g. it is brown coal) then investment may not be forthcoming to restore it to service.¹²

The AEMC added:

⁷ Cited in Productivity Commission, *op cit*.

⁸ Productivity Commission, 'What Role for Policies to Supplement an Emissions Trading Scheme?' *Submission to the Garnaut Climate Change Review*, 2008. p.xvii.

⁹ CRA International, *op cit*, p.4.

¹⁰ quoted in 'Pressure builds for renewing of energy targets', *The Weekend Australian*, May 24-25, 2008, p.1.

¹¹ Productivity Commission, *op cit*, p.24.

¹² Australian Energy Market Commission, 'Review of Energy Market Frameworks in light of Climate Change Policies', *First Interim Report*, 23 December 2008.

The expanded RET will, in the medium term, result in significant increases in installed volumes of wind generation capacity. This type of generation technology delivers energy but not reliable capacity...It cannot be relied upon to be available at peak times.¹³

In summary, MCA opposes the expansion of current arrangements to a mandatory RET.

In the event that the Government decides to proceed with a Renewable Energy Target, it should be revised to a Clean Energy Target that does not grant preferment to one low emissions technology ahead of others (low emissions coal technologies).

If there is to be a mandatory low emissions target, it should not discriminate - or grant preferment – between technologies with the same or similar environmental impact. It is clear that a more broad-ranging definition of clean energy should form the basis for any mandatory energy targets by 2020. It makes no sense to exclude the development of carbon capture and storage of CO₂ emissions – a technology in which Australia has both a demonstrated expertise and a comparative advantage – from such a target.

2. Specific comments on the proposed treatment of electricity-intensive trade exposed industries.

The economic analyses cited above demonstrate that the mandatory Renewable Energy Target will increase the price of electricity for all users. For trade-exposed businesses unable to pass on the costs to their customers, these additional costs will adversely impact their competitiveness. This reality is acknowledged by COAG which proposes a two-stage test to determine which firms should be shielded from this impact. This two-stage tests include that:

- that only eligible activities classified as emissions intensive and trade exposed under the CPRS would be potentially eligible
- a second, so-called ‘materiality’ test would also apply. Under such a test, only those firms with an electricity-intensity above a certain threshold would receive assistance. In particular, the *Discussion Paper* proposes a threshold of 5000 MWh per million revenue.

Under such an approach, support under the scheme would be limited to the aluminium sector only.

The MCA has two concerns with this approach.

First, the MCA welcomes COAG’s *in principle* recognition that trade exposed firms should be shielded from the full impact of the higher costs resulting from the RET. The MCA is concerned however, that the eligibility rules contained in the CPRS White Paper to identify emissions intensive and trade exposed (EITE) firms are arbitrary and inadequate. Some sectors, notably coal, are unilaterally excluded from EITE despite meeting the eligibility criteria. Under the White Paper approach, it is likely that less than 10 per cent of Australia’s minerals exports will be eligible for EITE treatment.

If the White Paper EITE model is adopted without amendment, producers of 90 per cent of minerals exports will pay the world’s highest carbon costs ahead of their international competitors (through the CPRS) as well as higher electricity costs (courtesy of the CPRS and the RET). The adverse impact on the competitiveness of Australia’s most important export sector will be both obvious and substantial.

Second, the proposed materiality test is similarly arbitrary. The reality, acknowledged by COAG, is that the RET will impose additional costs on trade exposed industries with little ability to pass through

¹³ Ibid.

these costs. There is no justification for relief from these extra costs to be 'rationed' according to an secondary, arbitrarily-imposed materiality threshold. Under such a proposal, the extractive mining sector which accounts for 10 per cent of final electricity consumption will be exposed to the full impact of higher electricity costs resulting from the RET. This will require significant changes from the current proposal for the classification of EITE firms set out in the White Paper. The MCA is ready to work with the Government to develop a more balanced approach to EITE eligibility

In sum, the MCA supports one simple eligibility test for shielding from the higher electricity costs resulting from the RET scheme on electricity. All firms assessed as trade exposed should be exempted from the impact of the RET.

Form of assistance

The *Discussion Paper* canvasses 4 options for the provision of compensation to the affected firms including:

- that none be provided
- that compensation be provided by legislative exemption
- free issue of renewable energy certificates, or
- cash payments.

Adopting the first option – no compensation- would contradict the COAG's own analysis, numerous economic impact studies and pose substantial risks to current and future investment in trade exposed mining and manufacturing in Australia. The free issue of renewable energy certificates would shift the burden onto taxpayers. The provision of cash payments would be problematic, not least because it would be difficult to adjust the payments to the fluctuating price of renewable energy certificates

The MCA considers that the simplest and most transparent form of support would be provided by legislative exemption, an approach adopted in the Victorian legislation. Moreover, consistent with the NSW and Victorian schemes, the share of electricity consumption exempted from the scheme should be netted out from the national target to ensure that the burden is not shifted to the broader community.

Please do not hesitate to contact me on 6233 0630 if you have any queries relating to the above.

Yours sincerely



Brendan Pearson
Deputy to Chief Executive