

The Resource Sector Perspective on the proposed ETS

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4 December 2008



- Who is the CME ?
- How did CME and its member companies formulate a response to the Commonwealth ETS Green Paper ?
- An overview of the CME's preferred ETS model; and
- Some likely impacts on the resources industries in WA and Australia.

Who are we ?



- The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia.
- 95% of people employed in the resources and energy sectors in WA work for CME member companies.
- The role of CME is to lead the way in having the resources sector recognised as a highly valued and strongly supported member of the Western Australian community.

Member companies?



- Some of the 192 member organisations of the Chamber include:



Western Australian Resources Sector

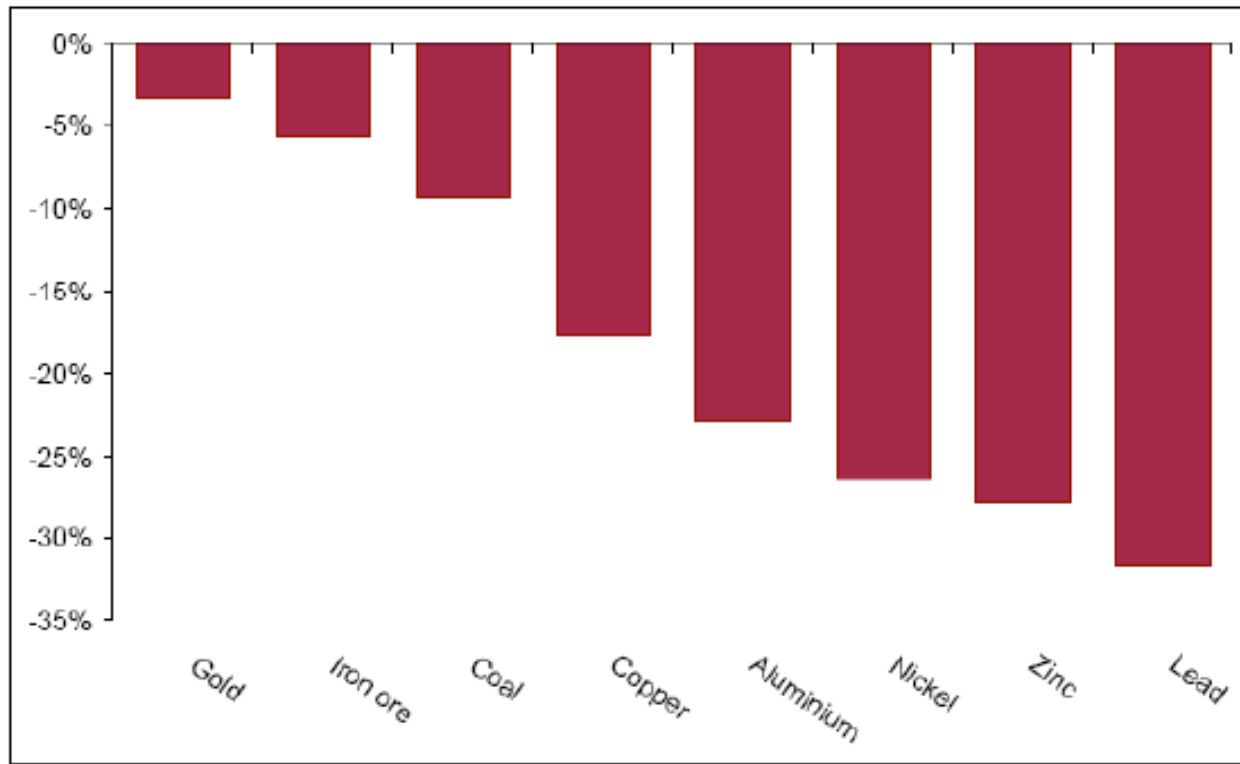
In 2006/07, Western Australia's resources sector accounted for:

- \$53.4 billion in production value
- 88% of total export income for WA
- Around 30% of WA's Gross State Product
- \$2.1 billion in State royalties
- Direct employment of 61,709
- Direct and indirect employment greater than 215,000
- More than \$95 billion of resources projects are either underway or planned in WA



Photo courtesy of Roche Mining

Change in Australia's Global Market Share, 2007 Versus 2002



Source: Access Economics

The CME established the Climate Change Reference Group (CCRG) to ensure that member companies are well informed of and engaged with the current State and Federal activities relating to Climate Change.

Advocacy:

- Submissions to Garnaut Report , Wilkins Review & Green Paper
- Workshops with Government, NGO's and Consultants
- Engaged with State and Commonwealth Government
- Assisted MCA on national, coordinated response to Climate Change
- Media Briefings

Overview

- The CME supports the decision to introduce an emissions trading scheme.
- An emissions trading scheme ahead of a global framework will harm, not benefit our most competitive exporters.
- An emissions trading scheme should be calibrated with the development of alternative low emissions technologies.
- Australia must demonstrate leadership, without getting too far ahead of global action.



Photo Courtesy of HWE Mining

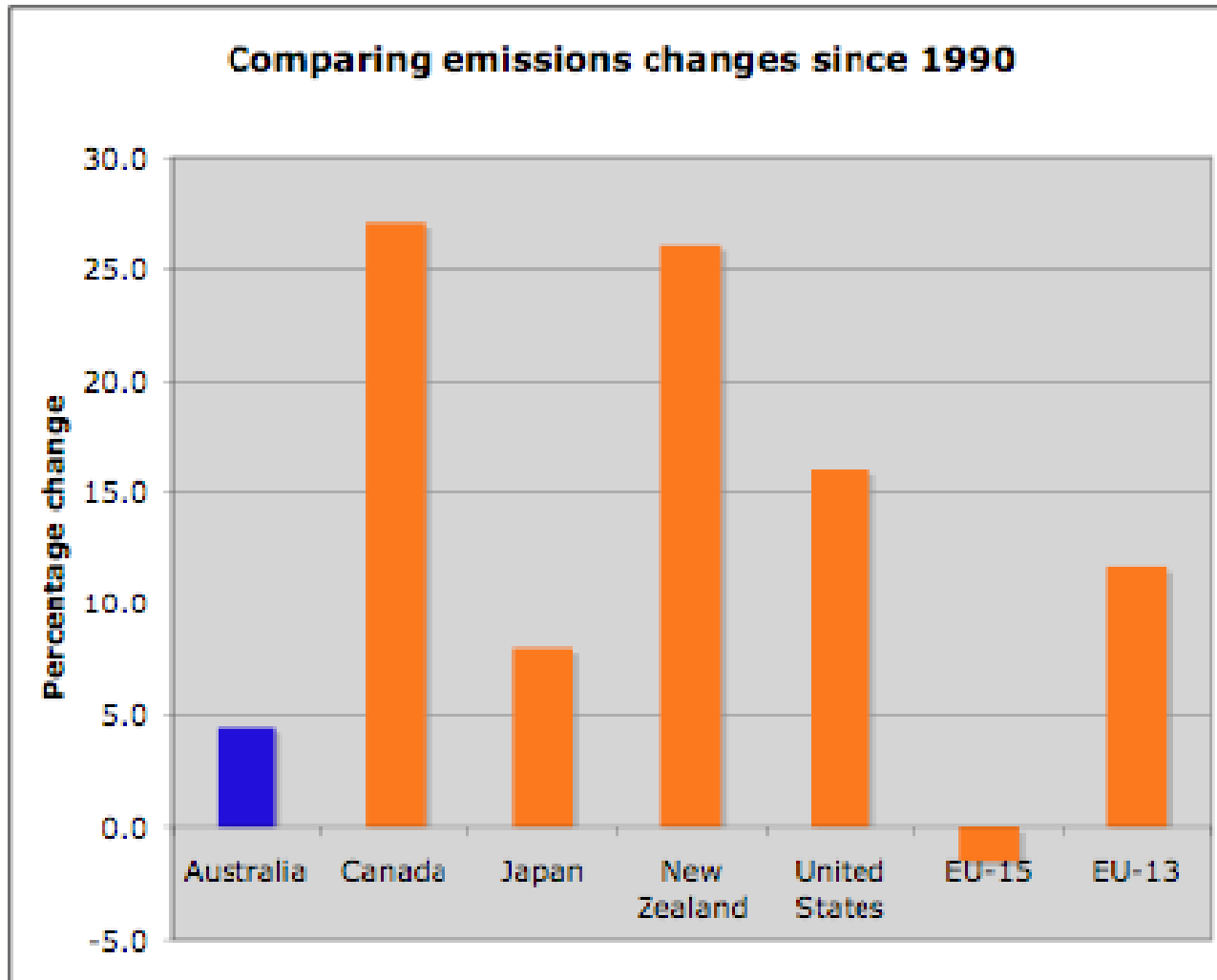
WA Perspective

Key features of the WA Resources sector

- The importance of the WA resources sector to the State economy
- Unusual structure of the WA Energy market
- Energy intensity of the WA economy
- International trade exposure and market characteristics
- Impact of sector on the WA economy, regional development, investment and employment
- Industry Case Studies



Photo Courtesy of Barrick (Kanowna) Ltd



Selected European nations and Kyoto targets

Country	2005 emissions compared with 1990 levels ²⁴	Relationship to Kyoto target ²⁵
Austria	18.1 per cent increase	27.9 per cent above Kyoto target.
Spain	52.3 per cent increase	41 per cent above Kyoto target.
Portugal	40.4 per cent increase	20.1 per cent above Kyoto target.
Italy	12.1 per cent increase	17 per cent above Kyoto target.
Ireland	25.4 per cent increase	15.6 per cent above Kyoto target.
Greece	25.4 per cent increase	6.6 per cent above Kyoto target.
Denmark	7.8 per cent below 1990 levels	8.0 per cent above Kyoto target.

- Assumptions underpinning the modelling are too optimistic and do not reflect current industry estimates.
- The report shows little evidence of carbon leakage.
- The recent economic downturn has not been factored into the modelling.
- There is no reference or guide to the scale and timing of binding emissions reduction by other leading economies.

TABLE 2: FIRM WITH EMISSIONS OF 1 MILLION TONNES OF CO₂ PER ANNUM

Year	Green Paper	Green Paper (with EITE classification i.e. 60 per cent free permits)	Phased transition to full auction (10 to 20% for 5 years)#	If firm was included in EU ETS	EU ETS with a 50% higher EU carbon price*
2010-11	\$20m	\$8m	\$2m to \$4m	No cost	No cost
2011-12	\$29.4m	\$11.76m	\$2.9m to \$5.88m	No cost	No cost
2012-13	\$38.41m	\$15.36m	\$3.8m to 7.68m	No cost	No cost
2013-14	\$47.05m	\$18.82m	\$4.7m to \$9.4m	\$9.41m	\$14.11m
Total	\$134.9m	\$53.94m	\$13.5 to \$26.9m	\$9.41m	\$14.11m

i) Based on an identical carbon price of \$A20 in 2010-11, which increases by \$10 per annum each year to reach \$50 by 2013-14.

ii) Assumes an annual 2 per cent reduction in emissions from 1 million tonnes in 2010-11.

* In other words, assumes a carbon price of \$A75 in 2013-14.

Under a phased approach to auctioning, all firms would buy 10 to 20 per cent of their permits. Extremely emission intensive firms may get free permits.

A simpler solution - our preferred approach



- Green paper assumes all Australian businesses are trade exposed - except electricity, domestic gas and transport sectors.
- All trade exposed industries should be subject to a phased introduction of auctioning, starting at 10% or 20% of permits
- Remainder of permits should be free allocated, as they are in the rest of the world,
- Fixed for 3-5 years,
- Subject to review as other trading nations undertake binding emissions reduction commitments.
- Electricity sector not internationally trade exposed - should pass through additional costs. Compensation available.
- What about domestic gas and transport ?

This phased approach to full auctioning under an emissions trading scheme provides a more effective and equitable national response to climate change by ensuring better alignment with

- the development and deployment of low emissions technologies and
- the responses from other nations.

If the Australian Government does not favour a phased approach to full auctioning a number of changes to the design of the proposed scheme will be required to avoid adverse impacts on the Australian Economy.



- Increasing the cap on (non-farm) Emissions Intensive Trade Exposed (EITE) industries.
- Providing for new investment in EITE industries outside the proposed cap.
- Reviewing the metric used for assessment of eligibility for EITE industries.
- Making greater provision for operations with special circumstances not accommodated in current scheme design based on commodity sectors.
- Implementing an effective price cap in the first 5 years.
- Including mining and energy sectors in fuel tax compensation arrangements.

Key advantages of a phased introduction to full auctioning:

- Economically efficient
- Socially responsible
- Environmentally effective
- Comprehensive
- Aligned
- Targeted
- Demonstrates global leadership
- Simple and equitable



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