24 February 2014

Mr Trevor Power
Emissions Reduction Fund Submissions
Department of the Environment
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CANBERRA, ACT 2601

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Dear Mr Power

EMISSIONS REDUCTION FUND GREEN PAPER

CME is the peak resources sector representative body in Western Australia (WA) funded by its member companies who generate 95 per cent of the value of all mineral and energy production and employ 80 per cent of the resources sector workforce in the State.

The Western Australian resources sector is diverse and complex covering exploration, processing, downstream value adding and refining of over 50 different types of mineral and energy resources.

In 2012-13, the value of Western Australia's mineral and petroleum production was $102 billion, accounting for 89 per cent of Western Australia's total merchandise exports and thus representing the majority of Western Australia's 47 per cent contribution to Australian merchandise exports. Furthermore, royalty payments to the state government totalled $ 4.87 billion in 2012-13.

Western Australia remained the nation's leading mining investment destination in 2012–13 attracting 51 per cent of total capital spending by the industry in Australia valued at $95 billion.

CME appreciates the opportunity to comment on the Emissions Reduction Fund (ERF) Green Paper. CME notes the ERF is a key element of the Australian Government's proposed Direct Action Plan (DAP) intended to replace the carbon tax and related legislation.

CME's climate change policy position has consistently been to support a measured transition to a low-emissions global economy centred on our three key climate change policy pillars. This includes a global agreement, a market based mechanism, and substantial investment in low emission technology and abatement.

The design premise of the ERF is constructed around the procurement of lowest-cost domestic abatement opportunities. In the absence of a global agreement on emissions reduction, CME considers the ERF is consistent with our climate change policy pillars without imposing an unnecessary competitive disadvantage on the resource sector.

The ERF Green Paper outlines three key design principles of lowest-cost emissions reductions, genuine emissions reductions and streamlined administration. These principles are supported by CME, particularly moves to ensure an administrative streamline processes under the ERF and existing reporting structures such as the National Greenhouse and Energy Reporting Scheme (NGERS).

In reviewing the ERF, CME considers it to comprise two discrete elements 1) the crediting and purchasing of emissions reductions; and 2) the safeguarding mechanism to ensure emissions abated through the procurement process are not negated by emissions above business as usual.

The crediting and purchasing of emissions reductions through the ERF should be designed to allow for these key elements:

- Serve as a practical financial incentive, on an opt-in basis, for those seeking to reduce emissions.
- Emission reductions from a wide range of sources at lowest cost and be technology neutral.
- 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.
- Additionally rules should be simple, flexible and in tune with broader commercial realities.
- Impose the lowest possible compliance and administration burden on companies and government regulators.
- Provide policy certainty as an ongoing national scheme to promote a measured transition to a low carbon economy.

The resource sector remains open to opportunities for low-cost emission reductions for sale into the ERF. Before considering projects to bid into the ERF, greater clarity on the distinction between an Activity Method and a Facility Method and how these may operate in practice is required.

While broadly supportive of the approach outlined in the Green Paper for crediting and purchasing of emissions, CME considers there is still a significant amount of additional information required on the design and operation of the safeguarding mechanism.

This key element of the policy involves the setting of baselines to business-as-usual emissions. In Western Australian, business-as-usual operations in the resource sector can result in significant fluctuations in emissions profiles in any given year.

In designing such a model it is important issues specific to the resource sector are adequately considered to not provide an anti-competitive cost burden on industry. In particular, the safeguarding mechanism should allow for flexibility in the setting of baselines and not solely rely on NGERS historical data.

For example, emissions intensity can change significantly due to life of mine changes in geology, type and grade of resources, production levels, operational expansions and divestments or acquisition of new assets.

Simply averaging the historical reported emissions data for a facility fails to address the issue of business-as-usual variability and would by definition imply that a facility operating normally may exceed the baseline around half of the time. This is inconsistent with the design objective of not imposing additional costs on operators of facilities operating under business-as-usual.

Key issues which relate to the resource sector and affect emission profiles from an absolute business-as-usual 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.
- Transitioning from open-cut to underground mining, where underground mining is characterised by reduced diesel use but a potential for increased electricity use.

- 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.
- Inability to set baselines for new 'greenfield' mines. This would require a period of exemption from the safeguarding mechanism for new projects
- Incremental 'brownfield' expansions of existing mines.

The treatment of new investments is an issue which requires detailed consideration in establishing the safeguard mechanism. In the Green Paper, the stated intent of applying the safeguard mechanism to these entities is to establish a framework that supports 'best practice'. Defining 'best practice' in the resource sector would be inherently difficult and dependent on a range of factors such as the location of the mine, the geology of the ore body, the amount of processing required, and the distance to major transport infrastructure.

CME considers defining 'best practice' to be problematic and recommends new 'greenfield' developments and 'brownfield' expansions be excluded from the safeguarding mechanism. Entry under the safeguard mechanism should only be applicable at a point of reaching a specified percentage of nameplate capacity and/or when there is at least five years of representative NGERS data from first production.

The wide range of design options for the ERF and business-as-usual baseline mechanism and the potential for adverse impacts on the Western Australian resource sector, CME considers it is crucial Government careful consider resource sector specific issues. Further consultation with resource sector representatives through technical working groups should allow these specific issues to be further explored.

Government statements around DAP have explicitly stated the intention of the scheme is not to impose costs on business-as-usual operations, CME considers it is important this intent is reflected in the design and operation of the safeguarding mechanism.

Given the specific issues of the two discrete elements of the ERF, CME recommends they be approached in two tranches of legislation. The first tranche and priority should be establishing the crediting and purchasing of emissions reduction through the ERF. The second and more complex should be the safeguard mechanism.

In reviewing the ERF Green Paper, CME has contributed to and supports the Minerals Council of Australia (MCA) submission. Further technical details on the resource sector's preferred design elements of the ERF are outlined in the MCA submission.

CME welcomes the opportunity to provide further input through the forthcoming Direct Action White Paper process. If you have any further queries regarding the above matters, please do not hesitate to contact Kane Moyle, Manager – Environment, on (08) 9220 8511 or k.moyle@cmewa.com.

Yours sincerely

PV **Reg Howard-Smith**
Chief Executive