Opening Statement to Senate Select Committee on the Scrutiny of New Taxes
Michael Roche, Chief Executive, Queensland Resources Council
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Thank you for the invitation to provide the views of the Queensland Resources Council (QRC) on the impact of the Australian Government’s carbon tax plan on the Queensland resources sector.

By way of introduction, the QRC is the peak industry association representing the commercial developers of Queensland’s minerals and energy resources. The QRC works to secure an environment conducive to the long-term sustainability of minerals and energy sector industries in Queensland.

The current QRC membership covers 100 percent of Queensland’s coal production, about 85 percent of the state’s base and precious metals production; all of the gas majors and several other oil and gas companies; mineral processors, electricity generators and minerals and energy explorers.

To provide a context for the sector, directly and indirectly it contributes 21% of Queensland’s Gross State Product, and some 13% of the state’s total employment. The biggest mining town in Queensland is in fact here in Brisbane, where almost 23 percent of the workforce – or 137,000 people rely on the resources sector for their livelihoods. (These figures come from a research team assembled by the Eidos Institute and Central Queensland University).

It is also a sector ready, willing and able to capitalise on the opportunities stemming from the rapid urbanisation and industrialisation of developing economies in the Asia-Pacific region – our part of the world. My member company CEO’s are looking to government for improvements in the operating environment, not further roadblocks, in order to deliver a pipeline of investment in excess of $100 billion. This carbon tax impost therefore could not come at a worse time.

The QRC and its members are committed to striking a balance between steps to reduce greenhouse gas emissions while sustaining economic growth and maintaining access to reliable and affordable energy.

The QRC supports action on climate change.

The QRC also supports use of market-based mechanisms to address climate change.

However, the introduction of a carbon price ahead of major emitting countries and ahead of our competitors is a substantial structural change to the Australian economy. Without sufficient transitional assistance, its impact will be felt across the Australian economy, but particularly by the resources sector.

Perverse economic outcomes – with little, to no, attendant environmental gain – is a real and immediate risk of the path we are currently on.

It is imperative therefore, that we get the design of the scheme right.

The QRC has a number of serious concerns with the Federal Government’s carbon tax plan. Before taking your questions, I would appreciate the opportunity to set out our concerns and provide a preliminary assessment of the impact of this policy on my member companies.

Our own analysis and the analysis of our member companies across the full breadth of our membership can be summarised as follows:
• Our member companies who will have to pay this tax report a lack of abatement possibilities (and so for trade exposed companies the tax will be a hit straight to their bottom line)

• The in-built year by year reduction of assistance for trade exposed firms is an issue for those fortunate enough to get some transitional assistance

• Our member companies report that none of their offshore competitors face comparable carbon costs and many of these competitors are already below Australian operations on the global cost curve

• For those able to do so, there will be a strong cost pass through – especially from electricity costs, subject to the operations of the National Electricity Market

Our concerns in more detail are as follows:

• At $23, Australia will have the highest carbon price in the world.

• Put simply, we are imposing the highest carbon costs of any government in the world and on an economy whose future growth is strongly linked to the continuing competitiveness of resource businesses which have limited capacity to pass costs on in global resource markets and which also have limited abatement possibilities.

• The Government appears to hold the misguided belief that via some remarkable price induced transformation, the resource sector's technology frontier can be radically moved and carbon costs mitigated without cost. Our member companies report that in reality most of their operations cannot be significantly retrofitted or re-engineered. Abatement will typically come from premature shutdowns of resource company operations – that is before the end of their economic life.

• We are told the tax will transition to emissions trading after 3 years, but scheme caps for years 2015 to 2019 will not be not agreed until May 2014, and the 2020 emissions reduction target will not be settled until mid 2016. This lack of certainty about future carbon prices can only be a drag on investment.

Compared to the 2009 CPRS, there is no improvement in industry support for the trade exposed, emissions intensive (or EITE) sectors – meaning our competitiveness will be truly tested. The reality is that for Queensland firms that qualify for EITE assistance – be that alumina, aluminium, copper, zinc, LNG or cement – this assistance will be withdrawn at the rate of 1.3 per cent per annum and only apply to a small percentage of an operation's greenhouse gas emissions. Not only that, but this assistance is guaranteed for only 5 years, pending a Productivity Commission review. This introduces another layer of uncertainty.

• Most of my members operate in competitive global markets, characterised by increasing competition and substantial fluctuations in demand, prices and exchange rates. While prices today for coal, base and precious metals and other minerals and energy commodities are generally buoyant because of strong demand and global supply shortages, leading forecasters expect these prices to remain cyclic and continue to fall in real terms as additional global supply comes on line.
• Even in the absence of a carbon tax, the Queensland resources sector’s ongoing competitive advantage in global markets will continue to be tested by expected real commodity price decreases, a significant reliance on liquid fuels (with the attendant fluctuations in global oil prices), declining resource grades, deeper mining levels, and additional imposts such as high labour costs and resource rent tax charges.

I want to now drill down in some detail on the impact on the coal industry which today accounts for two-thirds of the value of production of Queensland resources sector.

• Despite being eligible for EITE assistance of 66 per cent free permits, black coal has been arbitrarily excluded from EITE assistance. We estimate that black coal mines will instead have to purchase $18 billion in carbon permits over the first 10 years, over half of that from Queensland mines. In return the black coal sector will receive a package of $1.3 billion over 6 years. Significantly, new mines and expansions of existing mines are excluded from assistance. Instead of 66 per cent assistance, the effective rate of assistance in that first 10 years will be 7 per cent.

• The impact on current and proposed coal investments of the carbon tax was the focus of a recent ACIL Tasman analysis for the Australian Coal Association which anticipated the features of the Federal Government’s announced package. This analysis is being updated to include the details of the Government’s announced package.

• The ACIL Tasman analysis looked at a sample of 41 current coal operations in Queensland, accounting for 85 per cent of coal production. This study looked at the impact of a carbon price starting at $20 per tonne of CO2-e and increasing at a price trajectory necessary to achieve a 5 per cent reduction in emissions by 2020. These 41 mines provided detailed financial data, enabling ACIL Tasman to identify likely premature mine closures where the carbon tax meant that revenues would no longer cover operating costs.

• As early as 2018 it is estimated that 2,700 Queensland coal workers would be out of a job due to the premature closure of both gassy and low margin mines. Assuming a four times indirect employment multiplier, this means the loss of 13,000 Queensland jobs. I have not seen ACIL Tasman’s updated results but I would expect that at best the assistance package for gassy mines may delay, but not prevent, their premature closure.

• For the Queensland Government the foregone royalties of these coal mine shutdowns will be significant. ACIL Tasman estimate that the cumulative reduction in Queensland coal production by 2020/21 will be 120 million tonnes of coal. That equates to a loss of $1 billion in coal royalties. I must admit I don’t understand why our State Government is not highlighting this impact on the State’s finances.

• The ACIL Tasman analysis also identified a likely negative impact on the viability of proposed Queensland coal projects, with the loss of 4,200 direct and indirect jobs across the Queensland economy.

• These negative impacts for the Queensland coal industry can be pinpointed to the decision of the Federal Government to apply the carbon tax to the so-called fugitive emissions from coal mining. This is the methane released as a by-product from the extraction of coal.

• Recent work by the Centre for International Economics found that none of Australia’s coal export competitors applies a carbon price on fugitive coal mining emissions. The Australian black coal sector would like to see a phasing in of the application of any carbon price to coal
mine fugitive emissions, in step with Australia’s coal export competitors. Ideally this would be over a time frame consistent with the development of accurate measuring techniques and fugitive abatement technologies.

- The reason why no other country taxes coal mining fugitive emissions is because they can’t be measured accurately nor effectively abated. Fugitive abatement technologies are currently in their experimental stages and have quite some time to go – some say 10 years – before they are safe, reliable, and deployable at commercial scale.

I mentioned at the start of my remarks that QRC represents electricity generators.

- There is no doubt that my members in the gas fired generation business will benefit from the carbon tax, but this will be at the expense of my members generating electricity using black coal.

- The Federal Government’s carbon tax plan will provide $5.5 billion in free carbon permits and cash until 2016-17 to certain electricity generators, depending on their emissions intensity. The emissions intensity test is expected to mean that no Queensland black coal fired generator – public or private – will receive compensation for their reduction in profits, equity and asset value loss associated with meeting their carbon permit liabilities.

- There are varying views as to the capacity of the generators to pass these costs on. Even with 80-90% cost pass through, it is estimated that the asset values of the Queensland taxpayer-owned black-coal generation assets will decrease $1.7 billion from $7.1 billion to $5.4 billion – roughly a quarter drop in value.

- For Queensland taxpayers, they will experience a loss of asset value in the generators they own of some $400 per person. In addition they can forget ever again receiving dividends from these generators – indeed, they may in fact be called on to inject equity funding into these taxpayer-owned companies.

  QRC member InterGen, operator of the Millmerran Power Station, is on the public record as saying the carbon tax plan ignores the plight of their Australian assets and that their future in Australia is now under a cloud.

- The only real abatement option for these black-coal fired generators is carbon capture and storage, which incidentally, did not receive any additional funding in the funding package accompanying the carbon tax announcement.

Let me reiterate. The QRC does believe in action on climate change and does support Queensland and Australia doing its fair share of the heavy lifting. We do not however support the carbon pricing package currently before the Australian public.

The QRC supports the adoption of a phased approach to the auctioning of emissions permits for trade-exposed industries – just like the Europeans do it. This scheme applies a simple non arbitrary test of trade exposure that, if met, shields trade exposed companies.

In Europe they have no intention of cutting emissions by cutting jobs in trade exposed industries. For the life of me, why aren’t we using this as our guiding principle in Australia. I am happy to take your questions.