



18 April 2008

Submissions

Garnaut Climate Change Review Secretariat
Level 2, 1 Treasury Place
East Melbourne VIC 3002

Dear Sir/Madam

CIF SUBMISSION: Emissions Trading Scheme Discussion Paper

The Cement Industry Federation (“the CIF”) welcomes the opportunity to submit comments to the Garnaut Climate Change Review. The CIF has found this discussion paper to be well considered and thought through covering many aspects of the future Australian emission trading scheme.

Background

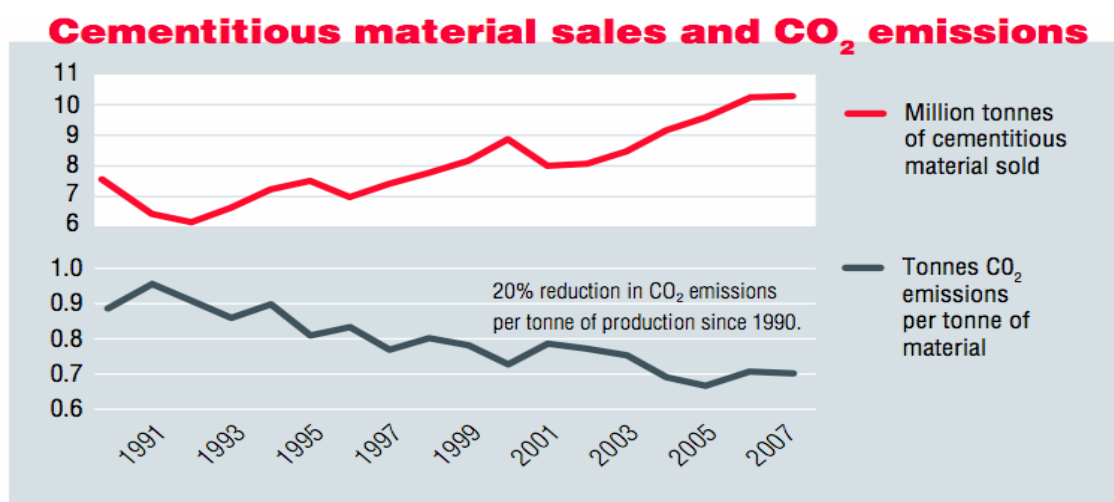
The Cement Industry Federation is the national body representing the Australian cement industry, and comprises the three major Australian cement producers - Adelaide Brighton Ltd, Blue Circle Southern Cement Ltd and Cement Australia Pty Ltd. Together these companies account for 100 per cent of integrated clinker and cement supplies in Australia.

Cement is a vital commodity for the Australian economy, not only as a critical input for Australia’s construction industry, but increasingly in resource recovery and reuse innovation – in both cases providing significant economic and social benefits.

The CIF aims to promote and sustain a world-class, internationally competitive Australian cement industry, positioned to take advantage of emerging market opportunities, and endorsed by a community licence to operate.

The Australian cement industry recognises the threat that climate change poses to our natural environment as identified by the scientific world. We have been working diligently on this challenge for well over a decade and have developed and maintained a verifiable emissions database extending back to 1990. Since that time the industry has maintained carbon dioxide emissions at 103% of 1990 levels while increasing production by 33 % and reduced the carbon intensity of its product by 20% per tonne.

Figure 1 – Cementitious material Sales and CO₂ emissions



The industry is continuing to seek out new opportunities to reduce carbon dioxide emissions through more energy efficient technology as well as addressing better energy efficiency within its transport sector.

From a global context the Australian industry, while small in size, has a high uptake of best technology and has remained price-competitive with our closest neighbours. Retaining this competitive position with our Asian neighbours remains a critical area of importance and is potentially the most difficult challenge for the development of any national emissions scheme. Since the inception of the European emissions trading scheme the Australian industry has closely monitored the experiences of the European cement industry which shows that carbon dioxide leakage has occurred due to inadequacies of trading scheme design that do not adequately address competitiveness.

Discussion Paper

The CIF is a member of the Australian Industry Greenhouse Network (AIGN) and fully supports the comments in their submission to the Garnaut Climate Change Review ETS Discussion Paper; with the exception of avoiding the setting of worlds best practice benchmarks.

Trade exposed emission intensive industry

The discussion paper proposes an alternative method of avoiding distortion in trade-exposed, emissions-intensive industries (TEEIs) of industries compared to the Former Prime Ministers Task Group on Emissions Trading (TGET) and the National Emission Trading Taskforce (NETTS). The proposed price compensation formula detailed in the discussion paper, is a good theoretical approach; however the CIF believes it is unworkable in practice. In order to use the proposed formula the government would need the international commodity price (which is available for some industries but not all) and greenhouse gas emissions from all competing international operations (particularly those in developing countries). The CIF doubts the greenhouse gas emissions data exists and if it does it is certainly not transparently available. From our experience through the Cement Task Force (CTF) of the Asia-Pacific Partnership on Clean Development and Climate (APP) we know both China and the US do not measure their CO₂ emissions and indeed the first project of the CTF was to establish a status report detailing manufacturing CO₂ emissions. Two years on, both China and the US have been unable to complete this report.

Criteria for trade exposed emission intensive industries

The CIF is disappointed the Discussion Paper has not set out the criteria to determine TEEI industries. The Australian cement industry is an emissions-intensive, domestic industry producing 10 million tonnes of product each year. We are also a trade-exposed (import-competing) industry, competing with imports from Australia's south-east Asian and Chinese neighbours - neighbours with a manufacturing capacity well over 150 times that of Australia's. Appendix A includes data from the Australian Cement Industry's Action Agenda; the charts provide a useful representation of the relative scale of the Asian cement industry in terms of production and the surplus capacity in the region. Australian cement prices are constrained by import parity pricing (IPP). This constraint arises from actual or threatened imports of cement in bulk and bagged forms, and imports of clinker to be ground locally to produce cement.

To date the cement industry has been named as an example of TEEIs by many leading authorities on a potential Australian ETS. Professor Ross Garnaut's paper "Will climate change bring an end to the platinum age?" listed cement as TEEIs. The TGET report outlined a cement plant as an example of a trade exposed emissions intensive industry. On page 70 of the NETTS Final framework report on scheme design, both cement and steel are listed as import-competing industries who might meet the criteria of trade exposure and emissions intensity. Whilst it is comforting to be named as an example of TEEI by these reputable task groups, the CIF is anxious to determine the criteria for TEEI status to build industry certainty around the ETS.

Industry Benchmarking

In essence, it is our strong belief that the emissions trading scheme needs to incorporate some form of performance measure to guide allocation. The use of absolute (gross) emissions levels as the basis of measurement and performance is relatively unsophisticated and we would believe not in accord with the intent of an emissions trading scheme. The use of a comparative emissions intensity measure as the basis of performance measurement provides the following benefits:

- it provides to government the quantitative information that allows it to precisely target the under-performance of any emissions-intensive scheme participant;
- it sends a strong message to company Boards that investment to improve emissions performance is both necessary and financially prudent;
- it provides the quantitative information that Boards of companies require to justify capital investments to improve emissions performance;
- it is not distortionary - it does not unjustly punish domestic industry that is already at world's best practice; and thereby preserves the position of such businesses against less efficient competitors both domestically and overseas – in effect providing the only integrated measure recognising early action that has already been taken by companies on abatement measures.


For an industry such as cement, we believe that a workable benchmarking approach can be based on taking readily identifiable cement-sector key performance indicators (KPIs), and using available benchmarking information to identify an acceptable best practice benchmark. This benchmark is best set at a percentile level rather than some best-achieved level and, as indicated above the actual percentile level chosen is not critical in terms of differentiating between sectoral scheme participants. There are a number of sector-specific organisations and large corporations that hold sufficient data

to identify KPI benchmarks that do not compromise commercial-in-confidence concerns.

Critical for our industry is the issue of maintaining competitiveness in an import-competing environment whilst acknowledging that Australia imports about 10% of product to meet the current supply / demand balance. We believe that providing TEEIs with free permits to address this issue in an equitable and practical manner and urge government to explore options in a thorough and steadfast manner.

This submission has been prepared with consideration of the Terms of Reference set out for the Garnaut Climate Change Review by Australia's State and Territory Governments on 30 April 2007.

The CIF welcomes the opportunity to socialize our thoughts with the Garnaut Climate Change Review and we look forward to our further consultations on this matter.

A handwritten signature in black ink that reads "Robyn Bain". The signature is written in a cursive, flowing style.

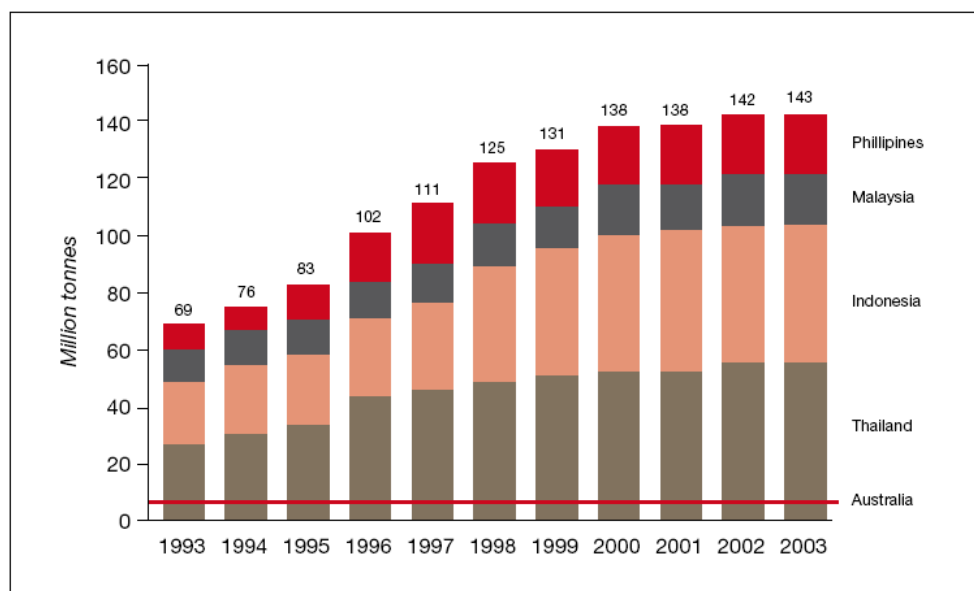
Robyn Bain
Chief Executive

Appendix A – Challenges from Asia

Excess Capacity in Asia

The capacity in four neighbouring countries doubled in the ten years from 1993 as shown in Figure 8.3 below.

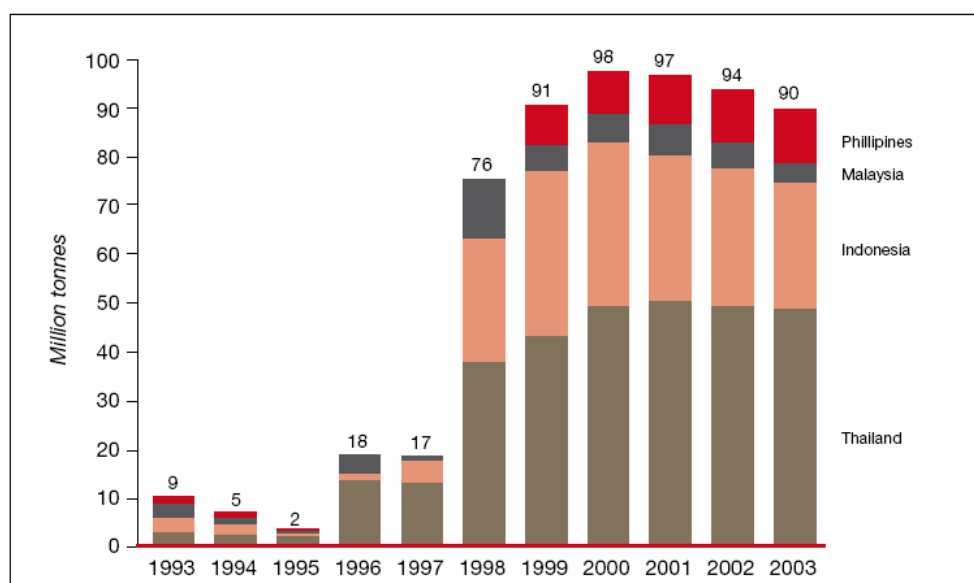
Figure 8.3: South-East Asian cement capacity 1993-2003



Source: Trade Working Group

Following the Asian crisis in late 1997, regional cement demand declined rapidly yet new capacity (already under construction) continued to be built. This created significant regional excess cement capacity. Some of the surplus capacity in the late 1990s was used to supply the booming economy of the United States. However, at the same time, the US was building its own additional cement capacity to reduce its reliance on imported cement. Currently, significant regional excess capacity that is not likely to be absorbed by South-East Asian domestic demand for a considerable period of time still exists, as shown in Figure 8.4.

Figure 8.4: Asian excess capacity 1993-2003



Source: Trade Working Group

Figure 8.5 shows how Asian capacity is tightening; however, it will require consistent growth in consumption before excess capacity is reduced.

Figure 8.5: Excess capacity for Asian cement producers 2003

<u>Regional Excess Capacity 2003</u>				<u>Growth expectations</u>	
Million tonnes				Percent	
	<u>Capacity</u>	<u>Consumption</u>	<u>Exports</u>	<u>Total excess Capacity</u>	<u>FY03E growth forecast**</u>
Indonesia	43.8	27.2	8.1	16.6	5-8%
Thailand	56.1	24.2	16.4	32.0	18%
China	700.0*	660.0	4.0	40.0	?
Japan	83.3	62.0	6.5	21.3	?
Malaysia	17.8	13.7	1.7	4.1	6%

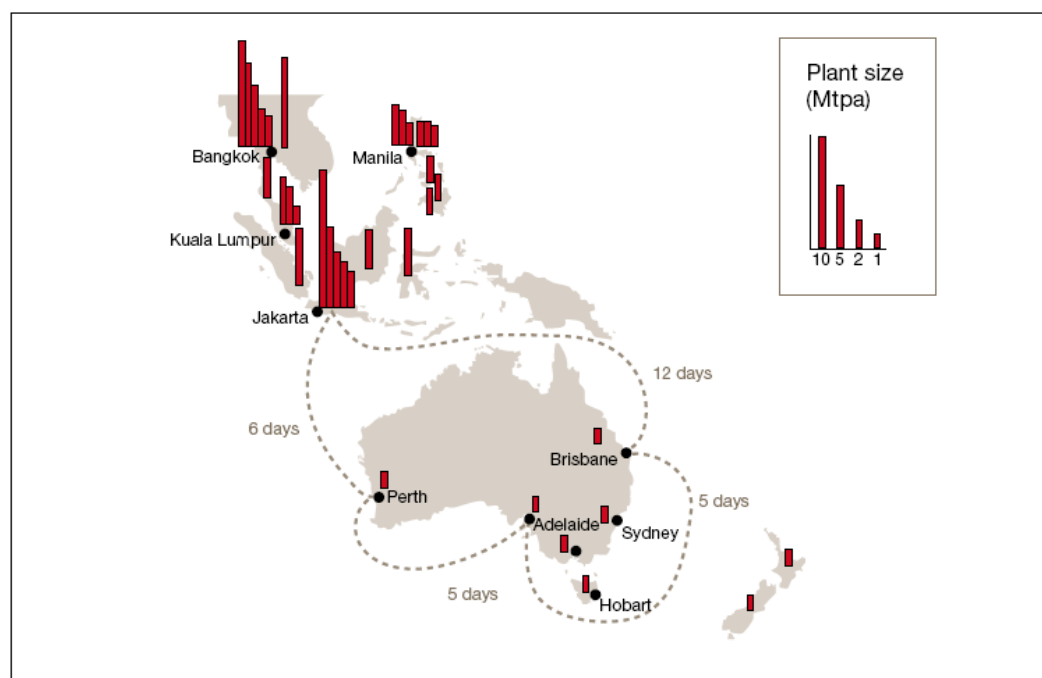
* Approximation of China's production capacity
 ** Asia Trade Link estimates from JP Morgan research on Holcim and Lafarge; UBS estimates; lower in current years
 *** Assumes 90% of capacity is the maximum 'practical' production level

Source: BCSC; JP Morgan December 2002; UBS Indonesian Cement Industry Aug 2003

Capacity to supply

Asia's capacities could easily service Australia's total demand for cement. Shipping times, as illustrated in Figure 8.6 below, are no bottleneck. The majority of Australian ports can be reached from Indonesia within 14 days, enabling imported cement and clinker access to the Australian market with relatively short notice.

Figure 8.6: South East Asian capacity and shipping time to Australia



Source: Trade Working Group

South-East Asian cement plants (as shown by the red bars in the above figure) are four to ten times larger than the main Australian cement plants. The shipping time from Jakarta to Perth is six days (one day longer than shipping times from Adelaide to Perth) and from Jakarta to Brisbane is 12 days (seven days longer than from Adelaide to Brisbane). Australian plant operations must compete against the Asian plants' advantages of scale and relatively proximity.