



Submission to ETS Discussion Paper  
Garnaut Climate Change Review  
Secretariat  
Level 2, 1 Treasury Place  
East Melbourne Victoria 4000

via email  
[contactus@garnautreview.org.au](mailto:contactus@garnautreview.org.au)

18 April 2008

Brisbane Corporate Office

Susan Johnston  
Head of External Affairs

Direct Line +61 (0)7 3834 1930  
e-mail  
Susan.Johnston@angloamerican.com  
.au

Dear Professor Garnaut

Thank you for the opportunity to comment on the Emissions Trading Scheme (ETS) Discussion Paper prepared by the Garnaut Climate Change Review.

ACA strongly supports the introduction of the ETS and publicly advocated this position in 2007 as a member of the Australian Business Climate Group (ABCG). The ETS may however significantly impact our business if it requires us to acquire permits to cover our emissions, largely fugitive methane, of roughly 3.5 million tonnes of carbon dioxide (CO<sub>2</sub>) equivalent each year. In addition we will be exposed to operating cost increases and a potential loss of markets for our domestic coal mines.

This submission will focus on key areas of interest and concern to Anglo Coal Australia (ACA) rather than provide a comprehensive response to all areas raised in your discussion paper. We have however also contributed to, and generally endorse, the wider ranging submissions from the Australian Coal Association, Minerals Council of Australia, Queensland Resources Council and New South Wales Minerals Council.

#### **Permit allocation**

Although a number of options for allocation of permits have been canvassed, ACA supports the following approach:

- Allocation of permits to trade exposed emissions intensive (TEEI) industries to offset the loss of competitiveness arising from the costs of the ETS.
- One off allocation of permits to compensate strongly affected non-traded firms for any disproportionate loss in values caused by the introduction of the ETS.
- Auctioning of the remainder of permits, with revenues used to stimulate research, development and deployment of low emission technologies and to address other market failures such as increasing support for people on low incomes to offset the impact of the ETS.

Anglo Coal Australia Pty Ltd  
201 Charlotte Street Brisbane 4000 Australia GPO Box 1410 Brisbane 4001 Australia  
Tel +61 (0)7 3834 1333 Fax +61 (0)7 3834 1390 [www.anglocoal.com.au](http://www.anglocoal.com.au)

ABN 93 076 059 679

Ref

A member of the Anglo American plc group

A ring fencing arrangement is desirable for the revenue raised from the auctioning of permits to ensure monies are transparently allocated to address compensation for adverse impacts arising from the introduction of ETS and Australia's response to climate change. There is a risk that if permit revenue becomes part of consolidated government revenue it will be siphoned off for other purposes.

### **Trade exposed emissions intensive industries**

ACA supports allocation of permits to TEEI industries to avoid prejudicing international competitiveness until global competitors are exposed to similar emissions constraints. In terms of ongoing TEEI industry payments, permit revenue from auctioning should be utilised to fund such payments.

The Review's discussion paper gives limited information on how TEEI industries will be defined and whether the permits or payments will be granted on an industry, company or facility basis.

ACA considers that the criteria for determining TEEI status should take account of a number of factors, including:

- Whether the industry is highly trade exposed in terms of product prices being set by international markets.
- Whether the industry faces international competition from firms in countries that impose no comparable emission constraint.
- Whether the industry is highly emissions intensive in value terms.
- Whether the industry has the ability to pass through costs.

With regards to the granting of permits or payments, it is important to ACA that TEEI status be determined on a facility basis or company basis rather than an equally segmented industry basis. If status was to be determined on an industry basis it would be inequitable as permits would be over-allocated to coal companies with low emissions mines and under-allocated to companies with high emissions mines.

Our exposure to methane emissions is disproportionately large arising from the weighting of high emissions underground coking coal mines in ACA's portfolio - primarily because underground coking coal mines, in which we specialise, have very much higher methane emissions than other coal mines. It is therefore our view that coal companies with high emissions mines such as ACA should be characterised as a TEEI firm and be eligible for TEEI permits or payments.

### **Strongly affected non-traded industries**

We also support initial allocation of permits in recognition of the impact on strongly affected non-traded industries.

As a company ACA is disproportionately exposed to the adverse impact of emissions trading on domestic coal production arising from the weighting of domestic coal supply in our portfolio, particularly our Callide mine which produces high-ash low-

energy coal not favoured by the export market.

Such allocations should not be deemed "free" or "assistance" as they would only be allocated to companies suffering above average asset value loss and would assist in minimising carbon leakage.

We acknowledge that the Review is not in favour of providing compensation to non-traded sectors and that an adverse impact on domestic coal production is an intended outcome of the ETS. Whilst structural adjustment assistance may be considered for individual sectors and communities impacted by inflexible production structures, a key issue for ACA is whether and how shareholders as well as affected communities will be compensated.

We therefore support the view that permits should be allocated to compensate strongly affected existing assets for the disproportionate loss in values that shareholders will suffer from the introduction of the ETS.

### **Low emission technologies**

ACA supports the Garnaut Review's view that permit revenue be utilised to fund payments to new technologies and support for public infrastructure. We certainly agree that first-of-kind commercial scale low emission plants will need financial support as well as carbon pricing. That was the central theme of the ABCG report "Stepping Up".

ACA itself has contributed significant funds to develop the coal to liquids and carbon capture and storage technologies needed for our joint Monash Energy project with Shell. We also contribute 20c per tonne of saleable coal to the coal industry's voluntary AUD1 billion COAL21 Fund which supports deployment of low emission technologies.

Along with the research development and deployment funding however another key challenge for large scale low emission technology projects, such as our Monash Energy project, is funding for development of the necessary infrastructure, for example CO<sub>2</sub> pipelines. We therefore support the use of ETS revenue to provide funds for the development of infrastructure need to fully deploy low emission technologies.

In addition, ACA supports the broader coal industry argument that the Mandatory Renewable Energy Target (MRET) is at odds with the aim of the ETS and should be reconsidered. MRET hinders the ability to deliver least cost abatement through carbon pricing by favouring one group of low emission energy technologies (renewables) over all others. If MRET is retained however ACA may consider supporting it as a transitional measure that is expanded to a Clean Energy Target which includes all low emissions technologies, including carbon capture and storage.

### **Fugitive emissions**

ACA supports the Review's position that the scheme should include all greenhouse gases and wide coverage of sectors where emissions can be accurately measured.

The Discussion Paper does acknowledge the measurement challenges facing fugitive methane emissions from open-cut coal mines however it nevertheless includes coal mining as a sector covered by the trading scheme.

In light of this, we strongly recommend a phased in approach to the introduction of sound, science based emissions methodology for estimating fugitive emissions from open-cut coal mines.

There is broad consensus that the open-cut greenhouse gas emissions estimation standards in use are highly unreliable. The current "state average" Australian Greenhouse Office factors used mask a considerable degree of variation in emissions intensity among the open-cut mines operating in Australia. The estimation of emissions from underground coal mines is more reliable, although there is likely to be considerable variation between mines regarding the methodologies used - leading to inconsistency of measurement.

The practical issues do appear to be resolvable but further technical work needs to be undertaken. This is mainly because, unlike fugitive emissions from underground coal mines, open-cut fugitive emissions are dispersed over a wide and "unconfined" area and releases to the atmosphere will vary over time as mining progresses.

The Australian Coal Association Research Program has been undertaking a study into improving the method of collection of emissions data from open-cut coal mines. However obtaining the data set is likely to take several years and cost the coal industry around \$75 million. Consideration is also being given to a review of the variability of measurement methodologies used in underground mines. We suggest government and industry work together on these initiatives to ensure accurate measurement of emissions.

### **Planning approvals legislation**

Although not specifically covered in the discussion paper, ACA would like to further explore the possibility of amending planning approvals legislation to ensure objections and legal challenges to projects on the grounds of greenhouse gas emissions are not entertained by governments and courts.

We believe the ETS is the appropriate way to manage emissions rather than ad hoc approaches via litigation which singles out particular companies. Legislation to reflect this view would ensure third parties could not seek additional constraints above those imposed by the ETS. We will be seeking the Commonwealth Government's views on this proposal.

ACA looks forward to further consultation on the development and implementation of the ETS. Please do not hesitate to contact me on 07 3834 1930 or [susan.johnston@angloamerican.com.au](mailto:susan.johnston@angloamerican.com.au) to discuss any of the issues raised in this submission.

Kind regards

A handwritten signature in blue ink, appearing to read 'S. Johnston', is positioned at the top of the page.

Susan Johnston  
Head of External Affairs  
Anglo Coal Australia Pty Ltd