

A large, stylized graphic of a leaf, composed of several overlapping leaf shapes. The outlines are in shades of grey and green. The leaf is positioned on the left side of the page, partially overlapping the text.

QRC
submission

Working together for a shared future

Submission in response to the Garnaut Climate Change Review's *Emissions Trading Scheme: Discussion Paper*

Garnaut Climate Change Review
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Contents

Introduction	3
Executive Summary	4
PART 1: QRC’s energy and climate change position	5
→ A national carbon plan.....	5
→ QRC’s position on emission trading	5
PART 2: Fundamental considerations for an efficient, effective and equitable ETS	5
→ Economic efficiency considerations	6
→ Environmental effectiveness considerations	6
→ Equity considerations	7
PART 3: Addressing industry priority concerns	8
→ The imperative to protect the competitiveness of trade-exposed energy-intensive industries ..	8
→ A simpler approach to emissions-intensive, trade-exposed industry transitional assistance	8
→ Streamline all imposed distortions into a single economy-wide carbon price.....	9
→ Unnecessary reporting and mandated compliance schemes	9
→ Addressing overlaps between the ETS and other policy measures	10
→ Development of appropriate planning approval guidelines	11
→ Compensation for the non-traded sector.....	11
PART 4: ETS policy design framework	13
→ Preferred emissions price-signal approach.....	13
→ Comprehensive coverage	13
→ Permit design	13
→ Emissions constraint	13
→ International linkages	14
→ Allocation of permits.....	14
→ Developing priorities for distributing revenues from auction revenues	14
Conclusion	15



Introduction

The Queensland Resources Council (QRC) is a non-government organisation representing companies that have an interest in exploration, mining, minerals processing, gas and electricity production. It is the resource industry's key policy-making body in Queensland, working with all levels of Government, interest groups and the community.

The Council works on behalf of members to ensure Queensland's resources are developed profitably and competitively, in a socially and environmentally sustainable way.

As the peak industry body for Queensland's mining and energy industries, QRC has been taking a keen interest in the development of energy and climate change policies which impact on Queensland's resources industries – particularly those which are energy and emissions intensive or trade-exposed to such policies. The broad range of industry interests represented by QRC's membership presents a unique cross-sectoral position in relation to energy and climate change policies.

QRC has already provided submissions to the Garnaut Climate Change Review (the Review), in terms of the general request for submissions and responding to the issues paper relating to research and development of low emissions technologies. QRC welcomes the opportunity to contribute further by means of this submission in response to the *Emissions Trading Scheme – Discussion Paper* dated March 2008 (the Discussion Paper). Developed in consultation with members through a formal QRC working group, this submission represents a consolidated Queensland resource perspective on the development of a national emissions trading scheme (ETS).

Given the importance of addressing the challenges associated with the transition to a low emissions economy, the QRC Board has endorsed a policy statement – *Position on Energy and Climate Change* – which outlines the Queensland resources sectors' preferred approach and clear policy priorities in relation to energy and climate change matters.

QRC considers that it is fundamental that a **national carbon plan** is developed and implemented in order to achieve a coherent set of energy and climate change policies that deliver a least-cost transition to a low emissions economy. This plan represents a suite of policies to manage emissions by integrating policies on energy efficiency, emissions trading, adaptation, and encouraging large investments in low emissions technologies.

The entire range of related market failures, externalities, and policy frameworks need to be addressed in order to generate certainty and promote a smooth market-driven transition to a low-emissions economy. As such, this submission has also been developed with a view to assisting the Review develop practical administrative and policy frameworks to promote an effective and efficiently designed ETS and identify the risks of the proposed ETS providing for unintended adverse policy outcomes – particularly relating to transitional assistance to trade-exposed and emissions intensive industries.



Executive Summary

A national carbon plan

- In order to deliver a least-cost transition to a low-emissions economy a national carbon plan must be developed and implemented in order to achieve a coherent set of energy and climate change policies.
- The imposition of a price-signal on emissions is an essential element of any proposed policy response to managing emissions. However, an emissions trading scheme (ETS) must operate to *complement* other essential policy areas in order to address other underlying market failures and operate removed of inefficient market distortions.

Fundamental considerations emissions trading scheme

- The design of an ETS needs to have regard to a range of matters surrounding economic efficiency, environmental effectiveness and equity considerations.

Protect the competitiveness of energy-intensive, trade-exposed industries

- The international competitiveness of Queensland's emissions-intensive, trade-exposed (EITE) industries should not be eroded for the benefit of international competitors (existing and potential) who are not exposed to the cost of comparable carbon constraints.
- The design elements of a national ETS should avoid exporting emissions simply by diverting new investment and existing production overseas in order to avoid a carbon price-signal.
- Until there is a truly international agreement that underpins carbon constraints on Australia's international trading competitors, then appropriate transitional industry assistance is critical.
- Addressing the consequential impacts of an ETS on EITE industries should be relatively simple, reflecting an administrative allocation of permits to cover the emissions that are embodied within trade-exposed products and costs associated with continuance of mandated energy schemes. Such assistance should be provided based on undertaking 'best in class' emissions performance.

Addressing market distortions

- Streamlining all imposed distortions into a single economy-wide carbon price is essential. The ability of the ETS to realise a least-cost solution is dependent on removing artificial barriers that distort the efficient operation of this market. This includes policies and schemes introduced by all levels of government to function as a pseudo-emissions price-signal (in the absence of an economy-wide transparent price-signal) and legislative provisions which seek to address matters that an ETS will effectively address.

The design framework must be carefully crafted

- A properly designed and implemented national ETS with appropriately calibrated operating requirements (coverage, permit allocation and design) and emissions constraints will be fundamental in determining the ultimate success, or otherwise, of the scheme. Least cost international linkages and use of permit auction revenues are particularly critical.

Significantly affected industries in the non-traded sector

- Where firms are unable to pass through a significant portion of the increased cost of production due to the introduction of an ETS, or where firms face a material reduction in the economic life – and therefore value – of their assets due to the introduction of a carbon price, then these strongly affected firms should be entitled to disproportionate loss compensation.



PART 1: QRC's energy and climate change position

In order to advocate effective and efficient policy responses to address the challenges associated with the transition to a low-emissions economy, QRC's *Energy and Climate Change Position* outlines the Queensland resource sectors' preferred approach to addressing these emerging policy frameworks.

A copy of the QRC's *Energy and Climate Change Position*, which outlines the essential policy requirements, is attached for your consideration (Attachment 1).

→ A national carbon plan

QRC considers that it is fundamental that a **national carbon plan** (as outlined in QRC's *Energy and Climate Change Position*) is developed and implemented in order to achieve a coherent set of energy and climate change policies that delivers a least-cost transition to a low-emissions economy. The explicit focus of the elements of this plan is to minimise and manage the impact of the costs associated with decoupling emissions growth from economic growth.

QRC notes that the imposition of a price-signal on emissions is an essential element of any proposed policy response to achieving proposed national emissions constraints. However, QRC maintains that an ETS must operate to complement the other important policy areas in order to reinforce the price-signal and address other underlying market failures.

Nonetheless, ensuring that the proposed emissions trading market is able to discover an efficient price (in terms of least-cost abatement while satisfying emissions constraints) requires attention to redressing market distortions inherent in a variety of existing and proposed emissions and energy reporting requirements, mandated targets and compliance programs. Furthermore, a range of legislative and policy matters impose artificial barriers that also need to be reconsidered in terms of their relevance after emissions trading commences in 2010.

→ QRC's position on emission trading

In responding to the Discussion Paper, the QRC reaffirms its position in relation to the development of a national ETS. Specifically to:

- Establish an **emission trading scheme** as the most efficient means of putting a market price on carbon. The adoption of any targets needs to reflect the best possible scientific and economic advice. Other features of an emissions trading scheme should seek to:
 - Recognise the imperative to protect the competitiveness of emissions-intensive trade-exposed industries.
 - Streamline all existing emissions and energy reporting requirements along with mandated targets and compliance programs into a single economy-wide carbon price.
 - Develop other policy mechanisms, as tested with industry, which provide an equal incentive for abatement where emissions trading will not be efficient – for example managing fugitive emissions and methane emissions from agriculture.
 - To ensure future investment and availability in generation capacity, existing assets need an explicit transition provision to offset the impacts of adverse policy changes.



QRC notes that the consideration of matters relating to economic efficiency, environmental effectiveness, and equity are essential to addressing appropriate design features of the ETS.

→ **Economic efficiency considerations**

- The scheme should take a long-term perspective in addressing the challenges of decoupling emissions growth from economic growth.
- Promote economic growth through the efficient allocation of resources.
- Provide sufficient protection to emissions intensive, trade-exposed industries that are subject to competition from markets not subject to similar emissions constraints – in terms of direct cost impacts and disincentives to invest in new projects.
- Determine an economy-wide emissions price that is unhindered by policies which distort the ETS.
- Appropriate transitional arrangements to facilitate the replacement of existing federal and state programs that become superfluous or were established to provide a pseudo-carbon price signal in the absence of an ETS – for example, the Mandatory Renewable Energy Target scheme.
- The ETS should provide a least-cost emissions price path that reflects the opportunity cost of marginal abatement.
- Emissions trajectories (and the corresponding emissions price path) should reflect the accessibility of commercial available technologies to realise the necessary abatement required.
- Ensure a substantial proportion of revenues collected by an ETS are invested (in addition to current Government commitments) into programs to support the commercialisation and deployment of low emission technologies – in order to achieve the long-term objective of reducing emissions in a least cost manner.
- Availability of information and processes to inform markets of the future value of emissions prices (functional secondary markets to provide investor confidence).
- Establishes an appropriate price signal on emissions that provides incentives for firms to implement proven commercialised low emissions technologies, in order to reduce financial liabilities associated with acquitting permits – representing a rational response to the price signal.
- Provide streamlined administrative arrangements that aim to minimise the deadweight costs to the economy associated with unnecessary transaction and compliance costs.

→ **Environmental effectiveness considerations**

- The ETS should assist in achieving desired emissions reductions – providing an inconsequential emissions price (or penalty charge) would result in the price-signal not achieving its intended impact on consumers or industry. Equally, providing an extraordinary emissions price would result in exceeding sought emissions targets, but at an exorbitant economic cost.
- Changes in Australian emissions should not provide for a net increase in global emissions due to locational production shifts – realising carbon comparative advantages (in terms of available technology, production processes and characteristics of resource endowments) is the fundamental requirement to reduce global emissions in a least-cost manner at an international level.
- Robust measurement processes which provide sufficient confidence in terms of emissions and abatement results.



→ **Equity considerations**

- The costs of imposing a price on emissions needs to affect the consumption of consumers and production methods of industry in order to influence behaviour – simply seeking to insulate one group will not achieve the intended purpose of an ETS.
- There are valid equity arguments in support of transitional assistance to low-income earners and compensating shareholders exposed to disproportionate asset value loss due to the introduction of the ETS.



PART 3: Addressing industry priority concerns

An ETS in isolation of the other policy measures will not enable a least-cost transition to a low emissions economy. There are clear market failures and market distortions that need to be addressed in association with the design features of the ETS. These include inefficiencies surrounding exposure to emissions-intensive, trade-exposed industries (EITE industries), mandated and voluntary schemes introduced by all levels of government to function as a pseudo-emissions price-signal (in the absence of an economy-wide transparent price-signal) and legislative provisions which seek to address matters that an ETS will effectively address.

→ The imperative to protect the competitiveness of trade-exposed energy-intensive industries

Queensland, with its significant energy reserves, growing energy exports, and emissions intensive industries, is particularly exposed to the risk of any hastily conceived (or implemented) ETS. The international competitiveness of Queensland's EITE industries should not be eroded for the benefit of international competitors (existing and potential) who are not exposed to the cost of comparable carbon constraints. Policies should avoid exporting emissions by diverting new and existing investment overseas; this includes the design elements of a national ETS.

In light of this, QRC welcomes the Discussion Paper's recognition of the need to provide transitional measures (until competitors are exposed to similar emissions constraints) to EITE industries. The Review's acknowledgment based on environmental and economic efficiency reasons is well understood and not controversial.

QRC appreciates the Review's acknowledgement of the need for government intervention to address 'carbon leakage' – that is, when production and emissions are both effectively exported to countries which are not exposed to a similar national carbon constraint in order to avoid a domestic carbon price-signal. The direct result of this 'carbon leakage' is foregone domestic economic activity with no global emissions benefit – in the worst case where a carbon comparative advantage exists in Australia, due to particular production processes or natural resource characteristics, global emissions would actually increase due to the introduction of a national ETS.

Until there is a truly international agreement that underpins carbon constraints on Australia's international trading competitors, then appropriate transitional industry assistance is critical.

→ A simpler approach to emissions-intensive, trade-exposed industry transitional assistance

In relation to the methodology outlined in the Discussion Paper, QRC's preference is for a relatively simple transitional mechanism to protect the competitiveness of EITE industries from international competitors (existing and potential) not exposed to similar emissions constraints. This must include the administrative allocation of permits to cover the:

- emissions that are embodied within trade-exposed (export and import) products; and
- costs associated with continuance of mandated energy targets (including the current Mandatory Renewable Energy Target or proposed Renewable Energy Target).

The remittance of permits would also be directly linked to firms achieving and maintaining benchmarked 'best in class' emissions performance in order to ensure that individual firms were not given the incentive to seek rents by undertaking less than the benchmark emissions performance threshold.



Given that international competitors without a similar carbon constraint are enjoying the classic carbon 'free ride', in terms of unpriced emissions within their traded goods and services, it is fundamentally important to ensure appropriate assistance (to overcome this inefficiency) is provided in order to address the challenges facing Queensland's EITE industries.

→ **Streamline all imposed distortions into a single economy-wide carbon price**

The purpose of introducing an ETS is to provide a price-signal on emissions. However, the ability of the ETS to realise a least-cost solution is dependent on removing artificial barriers that distort the efficient operation of this market – redressing such market distortions inherent in a variety of existing and proposed emissions and energy reporting requirements, mandated targets and compliance programs needs to be undertaken.

Furthermore, there is a range of legislative and policy matters that impose artificial barriers that Governments (at the state and federal level) need to reconsider in terms of their relevant after emissions trading commences in 2010. Policies, programs and legislation that do not directly address market failures and are related to energy and climate change policies need to be phased-out.

In order to streamline these distortions into a single economy-wide carbon price, QRC's views on these matters are addressed as below.

→ **Unnecessary reporting and mandated compliance schemes**

Streamlining reporting and mandated schemes creates administrative certainty, efficiency and reduces the deadweight compliance burden on industry. In order to achieve this, QRC urges the Review to assess the appropriateness of streamlining related national and state-based programs, with a view of consolidation. QRC acknowledges the current Wilkins strategic review of climate change policy of Commonwealth measures has commenced this process, although more work is needed in terms of the commitment to a coherent and streamlined set of climate change policies across all jurisdictions.

QRC notes that many of the economic models of the costs of moving to an ETS simply assume there will be a single streamlined reporting scheme. The awkward reality of a multitude of overlapping schemes cannot simply be assumed away and if not systematically addressed, risks eroding industry's support for an emissions trading scheme – as industry ultimately bears the significant costs of this unnecessary duplication.

QRC considers that streamlining in reporting should remove duplicative (or near-duplicative) reporting requirements – which currently exist or are proposed to be implemented by governments (state and federal). QRC strongly supports the immediate review of all duplicative reporting requirements so they can be consolidated within a national reporting scheme. This includes the consolidation of reporting requirements of relevant national and state-based reporting related programs.

In terms of mandated compliance schemes, it is not clear to the QRC the role of forced compliance in light of the introduction of an ETS. While certain mandatory and voluntary initiatives will effectively become superfluous upon the introduction of emissions trading, there may be advantages to certain firms of participating in a consolidated voluntary program. For example, the continuation of voluntary national-based industry energy efficiency program (refining the role the current Energy Efficiency Opportunities programme) would represent a more appropriate approach from government in relation to these matters in light of the introduction of an ETS.



→ **Addressing overlaps between the ETS and other policy measures**

Streamlining of programs (not only data collections) is a priority objective from an industry perspective. QRC considers that where federal and state schemes overlap with the policy intentions of the proposed ETS – establishing an efficient market to discover the least-cost price to reduce greenhouse gas emissions – then the role of these programs addressing the market-failure impacts also needs to be thoroughly assessed.

Numerous government initiatives need to be reconsidered in terms of their relationship with the ETS. However, QRC does not propose that all programs should be abolished, but rather the Review should undertake an independent consideration of the costs and benefits of the range of government programs that are related to greenhouse and energy policy more generally.

Detrimental differences, different reporting cycles, providing multiple copies of the same information, all have a material impact on compliance costs and should be systematically reviewed. This applies in particular to the role of mandatory government programs (state and federal) after a national emissions trading system is established. QRC suggests that after appropriate transitional arrangements for certain programs, the need for mandatory programs diminishes, as government's role becomes a facilitator of efficiency and assistance programs.

In order to highlight the extent of the numerous government programs/activities which need to be assessed for streamlining (either in part or full), both in the context of reporting requirements and emissions trading, QRC lists the following programs for consideration – these include, but should not be limited to:

- Commonwealth programs:
 - ABARE Fuel and Electricity Survey
 - Generator Efficiency Standards
 - Energy Efficiency Opportunities
 - National Greenhouse Gas Inventory
 - Greenhouse Challenge
 - Greenhouse Friendly
 - Mandatory Renewable Energy Target
 - Proposed Renewable Energy Target
 - National Framework for Energy Efficiency (Standardisation of government reporting)
 - National Pollution Inventory
- Queensland programs:
 - ecoBiz Queensland
 - 13% Gas Scheme
 - Proposed mandatory energy efficiency programs
 - Proposed renewable and low emission energy target
 - Smart Energy Savings Program

In particular, QRC notes that the imposition of a mandatory renewable energy target is not an economically efficient mechanism for achieving emissions abatement – as the abatement will not be least cost. In contrast, QRC recognises that there is a need for complementary policies to accelerate low-



emissions technology development and commercialisation as a priority. The imperative is to ensure the deployment of low-emissions technologies in order to accelerate cost reductions prior to the widespread commercialisation stage – this will reduce abatement costs in the future thereby minimising the overall costs to the economy of emissions abatement. QRC recommends that complementary policies be developed to accelerate low emission technology development – these should be based upon a rigorously designed low emission technology strategy.

→ **Development of appropriate planning approval guidelines**

Currently there are a range of legislative requirements which operate (or have the potential to operate) as proxy emissions constraint mechanisms. These effectively provide for legal processes for parties to object to project approvals made by government agencies (for example, grant of mining tenements and environmental approvals for projects).

QRC considers that energy generation and emissions intensive industries require appropriate planning approval guidelines to be reviewed in terms of the introduction of an ETS. An emissions price-signal should replace the need for any emissions related project approval requirements. Furthermore, project based emissions conditions, in addition to a market price for emissions, also risks reducing investor uncertainty and promotes vexatious litigation.

The introduction of an ETS will effectively enable emissions to be priced according to the emissions constraints determined by Government – this will remove the need for legal claims to avoid, reduce or offset emissions of greenhouse gases that are likely to result from production, transport or incidental (fugitive emissions) to an appropriately approved project.

QRC considers that there is a need to adopt sensible legislative amendments to a range of Queensland and Commonwealth legislation to ensure that the ETS operates without unnecessary distortions and industry is able to operate with certainty as to legislative obligations surrounding greenhouse emissions. The imposition of a price-signal will provide a financial incentive to project proponents to implement best practice environmental management to mitigate emissions and the establishment of the ETS will ensure that emission obligations are acquitted using a least-cost approach to abatement.

→ **Compensation for the non-traded sector**

Emissions trading will reduce the future income (and consequently asset value) of a whole portfolio of sunk investments in long-life generation capacity and other emissions intensive mining and mineral processing industries, which may be unable to be recovered by means of cost pass-through arrangements – the scope of this depends largely on the design features to be employed. Clearly, trade-exposed industries will be unable to pass-through costs due to price-taker characteristic of international markets. To this end, the ETS policy framework needs to be capable of providing transitional assistance to industries, including the generation sector, exposed due to the inability to pass-through costs.

In relation to the non-traded sector, where firms are unable to pass through a significant portion of the increased cost of production due to the introduction of an ETS, or where firms face a reduction in the economic life – and therefore value – of their existing assets due to the introduction of a carbon price, the shock to those firms can be expected to create costs for investors which will be revealed to the broader economy over the short to long term in the form of higher energy prices and possibly sub-optimal investment patterns. Examples of the ways in which the costs could manifest in a market subject to significant value driving regulatory change include increases in the costs of debt and equity for new investment, and, where firms' options for obtaining value are suddenly extremely limited, short run



behaviour in the electricity market which seeks to increase price volatility so that returns are obtained much more quickly. However, as the cost of a shock to current investors manifests, it will unnecessarily increase the cost of the transition to a lower emissions economy. To ensure a smooth transition path, then these strongly affected firms should be entitled to disproportionate loss compensation.



PART 4: ETS policy design framework

→ The importance of the emission trading design framework

QRC emphasises that Queensland, with its significant energy reserves, growing energy exports, and energy intensive industries, is particularly exposed to the adverse consequences of inefficient design features being incorporated within the schemes design.

The operation of a national ETS is critical to ensure the costs and benefits of such a trading regime realise the least-cost price to emissions in order to achieve Government emissions trajectories. A properly designed and implemented national ETS with appropriately calibrated operating requirements and emissions constraints will be fundamental in determining the ultimate success, or otherwise, of the scheme.

The following design features of an ETS are outlined along with QRC's preferred policy positions.

→ Preferred emissions price-signal approach

- An emission trading approach, based on a 'cap and trade' model, which is comparatively simple in design is required to achieve the desired outcomes.
- Equitable in terms of providing transitional assistance.

→ Comprehensive coverage

- Broadest possible sectoral coverage.
- Inclusion of all internationally recognised greenhouse gases.
- Transitional measures (either delayed or backdated entry) for industries subject to measurement and outstanding policy issues.
- Uncovered sectors able to generate 'offset credits', until entering the scheme – subject to cost of reporting not exceeding the benefits of inclusion within the ETS.
- Ability for individual firms to acquire unlimited accredited international 'offset credits'.

→ Permit design

- Emissions permits to be issued with a significant life of operation to reflect investment horizons in long-life assets and supported by appropriately strong property rights to the holder.

→ Emissions constraint

- Adoption of any national emissions constraint needs to reflect the best possible scientific, technology and economic advice – and be reflective of international political, environmental and economic circumstances.
- Reflect the comparative and competitive advantages of the structure and resource endowments of the Australian economy.
- Total emissions constraints should be the net result of the baseline plus accredited offsets.
- Targets and trajectories based on long-term targets – in order to provide greater investment certainty to emissions sensitive investments with long asset lives.
- Targets and trajectories to reflect the timing of deploying proven commercial low emissions technologies to ensure order is maintained and markets for essential services such as electricity are not disrupted.



→ **International linkages**

- To be determined on basis of least-cost linkages to consistent international schemes and effectiveness of agreed international efforts.

→ **Allocation of permits**

- Periodic allocation of permits to EITE industries is supported in order to avoid prejudicing their international competitiveness as a result of the costs from the introduction of ETS until global competitors are exposed to similar emissions constraints.
- Initial allocation of permits in recognition of the impact on strongly affected industries (discrete allocations for certain energy and emissions intensive industries) unable to pass-through the total impact of the emissions price.
- Auctioning of remaining permits, with revenues clearly ring-fenced from consolidated government revenues (refer below).

→ **Developing priorities for distributing revenues from auction revenues**

QRC considers that the substantial revenues raised by virtue of auctioning emissions permits (and revenue from penalty fees) needs to be clearly ring-fenced and used to address related energy and climate policy priorities. In the first instance, QRC does not support ETS revenue being received within government consolidated revenue accounts, but rather within a fund under the direct control of the proposed Independent Carbon Bank. Similar to the operation of the Reserve Bank which controls significant funds in order to achieve agreed policy outcomes, the Independent Carbon Bank should maintain a primary position as both regulator and fund manager of the streams of 'carbon cash' which this policy will generate over time.

The independence of the proposed Independent Carbon Bank should be maintained in terms of receiving revenues and distributing them through appropriately determined Government priorities and programs to address market failures and realise positive externalities.

In terms of priorities, the distribution of the funds should be used to address the following priority areas:

- Industry assistance to EITE industries.
- Investing in approved low emissions research, development and deployment projects.
- Complementary policy measures to ensure the timely commercialisation of low emissions technologies, including financial incentives.
- Transitional assistance for low-income earners and recipients of limited genuine welfare payments to reduce the cost impacts of introducing a carbon constraint.
- Complementary measures that are cost-effective in addressing market failures – possibly energy efficiency programs for consumers.
- Acquiring international credits to satisfy international obligations as required by the regulator.



Conclusion

QRC welcomes the opportunity to participate further in the Review's consultation process and present a further contribution in terms of the matters related to the Discussion Paper.

This submission has also been developed with a view to assisting the Review develop practical administrative and policy frameworks to promote an effective and efficiently designed emissions trading scheme – this includes removing unnecessary distortions which will impact on the proposed scheme by streamlining all existing emissions and energy reporting requirements along with mandated targets and compliance programs into a single economy-wide carbon price.

Furthermore, there is a range of legislative and policy matters that impose artificial barriers that Governments (state and federal) need to reconsider in terms of their relevance after emissions trading commences in 2010.

Responding to climate change ultimately means redressing two major market failures, both of which are global in scope – the negative externalities which stem from carbon being unpriced and the positive externalities which result from research, development and deployment of new generation technologies. The development of an efficient and effective ETS is critical to ensuring a least-cost emissions price-signal is discovered by a market sufficiently free of distortions from irrelevant Government policies and programs.

Should you wish to discuss this submission or QRC involvement in further Review processes, please contact Russell Silver-Thomas, Industry Policy Adviser, on (07) 3295 9560.

→ **The role of Queensland Resources Council (QRC)**

QRC is a non-government organisation representing the interests of companies involved in exploration, mining, minerals processing, gas and energy production in Queensland. QRC will focus on policies to secure the least-cost transition to a low emissions economy by:

- Promoting industry's achievements on issues such as energy efficiency, funding research, deploying demonstration projects and reducing greenhouse emissions.
- Encouraging continual improvements in the management of energy and emissions within Queensland's resource sector.
- Working to achieve practical legislative and administrative frameworks for industry that minimises the cost of policy uncertainty or surprises.

→ **Queensland's contribution to a global challenge**

Reconciling energy security with climate change management is one of the greatest challenges confronting the global and Queensland economies. Managing climate change requires a global solution that is (a) environmentally effective, (b) economically efficient and (c) socially acceptable.

QRC suggests that there are three principal climate change challenges to address:

1. Generating certainty by ensuring a smooth market-driven transition to a low-carbon economy – there are real economic costs when policies create surprises or uncertainty.
2. Managing emissions to ensure that the economy stays on the least-cost transition path.
3. Developing a national carbon plan – a coherent set of complementary policies to manage emissions by integrating policies on energy efficiency, emissions trading, adaptation, and encouraging large investments in low emission technologies.

Queensland's world-class endowments of both research capability and energy sources positions the State to make a disproportionate international contribution to reducing emissions. Queensland's world-first demonstration projects exemplify the confluence of the state's wealth of scientific and resource endowments – including industry's direct funding for the demonstration of oxy-fuel retrofitting and integrated gasification combined cycle coal-fuelled geosequestration projects. These landmark projects are essential to achieve substantial future reductions in carbon emissions.

→ **Queensland's trade-exposed and emissions intensive industries**

With major energy reserves, growing energy exports, and energy intensive industries, Queensland is particularly exposed to the costs of any hastily implemented energy and greenhouse policies.

The international competitiveness of Queensland's trade-exposed emissions and energy intensive industries should not be eroded for the benefit of international competitors (existing and potential) who are not exposed to the cost of comparable carbon constraints. Policies should avoid exporting emissions by diverting new and existing investment overseas.

→ **We need ALL low emissions technologies**

Global energy forecasts point to a doubling of demand for electricity in twenty years; so existing fuels such as coal, gas and uranium are going to play an increasingly important role alongside, rather than in competition with, renewable technologies.

Queensland has good potential for both geothermal energy and underground storage of carbon dioxide. Queensland's population distribution also offers bright prospects for the adoption of solar generation as costs fall. Queensland's uranium reserves represent an important energy source for the world's growing demand for low emissions energy.

→ **National carbon plan – key policy components**

A national carbon plan is required to ensure that the economy continues to grow without a concomitant growth in emissions. This fundamental restructuring of the economy will involve significant costs whose incidence will be unevenly distributed. The national carbon plan provides an explicit focus on minimising and managing the impact of these costs, including industry's role in governance structures. This plan requires a coherent set of policy settings across the following six key policy areas:

1. Establish an **emission trading scheme** as the most efficient means of putting a market price on carbon. The adoption of any targets needs to reflect the best possible scientific and economic advice. Other features of an emissions trading scheme should seek to:
 - Recognise the imperative to protect the competitiveness of trade-exposed energy-intensive industries.
 - Streamline all existing emissions and energy reporting requirements along with mandated targets and compliance programs into a single economy-wide carbon price.
 - Develop other policy mechanisms, as tested with industry, which provide an equal incentive for abatement where emissions trading will not be efficient – for example managing fugitive emissions and methane emissions from agriculture.
 - To ensure future investment and availability in generation capacity, existing assets need an explicit transition provision to offset the impacts of adverse policy changes.
2. Establish clearly defined **carbon offset mechanisms** that recognise opportunities in other jurisdictions (both domestic and international).
 - There is a particular need for government to provide market certainty by ensuring that the accreditation and verification of *any* offsets is as robust as possible.
3. Fund the research, development and deployment (RD&D) of **all low-emission technologies** – creating future reduction opportunities in energy generation and emissions intensive production processes. This RD&D needs to be carefully coordinated with international efforts.
 - This will require an enduring program of funding as an emissions price alone will not provide sufficient stimulus to drive the long-term RD&D task.
 - Implement a fuel and technology neutral policy focused on emission performance to realise the most efficient solutions while also recognising the need to transition away from the distortions from existing mandatory targets for gas and renewable energy.
4. Systematically secure **energy efficiency** savings across the economy to defer the need to construct new generation capacity until low emission technologies are commercialised.
 - Incentives, policies and programs to promote energy efficiency and conservation – this should extend from household savings through to energy use by major commercial and industrial businesses.
5. Development of appropriate **planning approval guidelines** for energy generation and emissions intensive industries.
 - An emissions price signal should replace the need for any emissions related project approval requirements. Project based emissions conditions, in addition to a market price for emissions, also risks reducing investor uncertainty and promotes vexatious litigation.
6. Implement **adaptation policies**, in consultation with local governments, to enable Australian society to adjust to changing circumstances and conditions resulting from climate change.