# Cement Industry Federation
# Submission:
# RENEWABLE ENERGY TARGET REVIEW
# Issues Paper

*September 2012*

## Summary


- The cement industry, which is emissions intensive trade exposed, receives less than half of the cost impact of the Renewable Energy Target (RET) back through the issue of Partial Exception Certificates. This creates an issue for competitiveness against imports of cement;
- The administrative costs of managing the RET are significant when you consider the skilled staff and consultants required to understand the various exemptions and negotiate the value of PECs with electricity companies;
- Additional greenhouse gas reduction programs, such as the RET, will only distort the carbon pricing mechanism established by the Clean Energy Act 2011. The absolute, economy wide cap on carbon emissions has negated the need for additional greenhouse and energy efficiency measures;
- The RET review has incorrectly assumed that a National Energy Savings Initiative is likely to become Government policy;
- The RET and other electricity user pays schemes are not transparent policy instruments and disproportionally impact on large energy users and low income households;
- The RET is not a market mechanism, particularly given the numerous political interferences since its inception; and
- The RET has failed to prevent the creation of other state based schemes.



**The Cement Industry Federation Limited** A B N 59 008 468 639 ■ Level 1, 27 Manuka Circle Forrest ACT 2600 ■ PO Box 4178 Manuka ACT 2603

Telephone +61 2 6260 7222 ■ Facsimile +61 2 6260 7333 ■ www.cement.org.au

## Introduction

The Cement Industry Federation (CIF) welcomes the opportunity to respond to the issues paper on the Renewable Energy Target Review. The CIF believes it is important that Australia remains a low cost, high productivity economy to ensure business investment can continue.

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

Their operations are located in every state and territory, and include eight integrated cement manufacturing facilities as well as mines to service those facilities and a national distribution network which is heavily reliant upon coastal shipping to move raw materials, our intermediary product and finished product.

The industry employs over 1,600 people and produces over ten million tonnes of cementitious materials, with an annual turnover in excess of $2 billion.

As a manufacturing industry that is a significant user of purchased electricity, the cement industry is directly affected by the Renewable Energy Target (RET) through increasing electricity prices.

As a trade exposed industry also facing pressure from the high Australian dollar, increasing shipping costs, a new carbon price and a range of other pressures, the price pressure on electricity arising from RET, is of major concern.

## Trade Exposed and Emissions Intensive

The cement industry is eligible to claim partial exemption certificates (PECs) based on the ‘clinker’ definition of emissions intensive trade exposed activity. These certificates offset significantly less than half of the electricity price rises resulting from RET due to the fact that PECs are only provided for part of the Renewable Energy Target and within the narrowly defined activity definition.

The activity definition that can be accessed by cement manufacturers covers about half of the purchased electricity required to make the final product of cement, as milling is excluded from eligibility. The lack of PEC coverage ensures the competitiveness of cement manufactured in Australia decreases against the option to import cement as electricity price rises occur.

## Administrative costs

The administrative costs of managing the RET liability are significant and begin with the need to employ staff and consultants who can understand the various exemptions of the RET and the RET market for the purpose of negotiating the value of partial exemption certificates with electricity companies and to submit applications for those certificates.

The complex administrative arrangements of the RET have resulted in a significant unexpected electricity price impost for one CIF member company, resulting from a lower than expected number of partial exemption certificates being granted.

## The carbon cap under the Clean Energy Act 2011

The Clean Energy Act 2011 provides for an absolute, economy wide cap on carbon emissions. Any additional interventions such as energy savings initiatives, renewable energy targets and tax payer funded subsidy schemes for renewable energy serve only to confuse the carbon market and forward price path.

The forward price path for carbon certificates is perverted by the various government decisions (and unwinding of decisions) or the applicability of additional schemes to various technologies, further driving unnecessary costs.

For this reason, it is absolutely necessary the Australian Government justify on grounds other than greenhouse gas reduction why the RET is necessary. A goal to have renewable energy for its own sake is not sufficient justification as this goal is ultimately underpinned by a desire for lower greenhouse gas emissions.

The time for making decisions on the various additional programs are no longer necessary is now, while the carbon market is still establishing. Future interventions will reduce the effectiveness of the Clean Energy Act 2011 significantly.

## COAG Taskforce to rationalise carbon reduction and energy schemes

The CIF is a strong supporter of the COAG remit for a taskforce to rationalise carbon reduction and energy efficiency schemes as there are a range of imposts facing emissions intensive and trade exposed manufacturing industries which are unnecessary in the presence of a cap on carbon emissions because they share similar goals.

Carbon reduction alone can no longer be used as a justifying objective for other schemes such as the Renewable Energy Target and the National Energy Savings Initiative or its state sponsored forms.

In our view, the RET issues paper has not adequately dealt with the question of whether the scheme (LRET and SRES) are required following the implementation of the Clean Energy Act 2011.

It would seem the issues paper is a good place to start in reviewing the justification for the RET as against the COAG Taskforce remit for assessment of additional greenhouse gas reduction measures.

## Interaction between the RET and carbon price

The RET issues paper covers the benefits of the RET in the context of a carbon price (Page 17) but makes no mention of the potential consequences of the ‘close’ interaction between the RET and the carbon price. This is of significant concern to the CIF and should be addressed as a main priority in the discussion paper due to be released in October. Such consequences include the potential to deter investment in other forms of low cost abatement and the effect of RET regulations discriminating against certain forms of abatement, such as the use of industrial waste heat as a way of lowing greenhouse gas emissions.

## Energy Efficiency Schemes

The CIF is further concerned that the National Energy Savings Initiative (NESI) is being mentioned in this issues paper as a likely Government policy.

To date, the need for a NESI has not yet been justified or agreed to by any Government, state of federal. The only commitment made by the Australian Government to the NESI is to examine its potential usefulness with a discussion paper having only just been released.

The CIF strongly believes that energy efficiency schemes at state level should be eliminated as they also share a goal with the Clean Energy Act 2011. If Governments believe there is a need (other than for greenhouse gas reduction) for such policies, then a direct subsidy approach should be considered more appropriate.

## Transparency of electricity user pay's policy

The Cement Industry Federation does not believe that schemes such as the RET or NESI are transparent ways of delivering a subsidy to encourage a particular technology.

A direct subsidy from Government, funded via the tax system is far more transparent and a less distortionary approach in the long term.

The lack of transparency with user pay's schemes results from the difficult to model price increases, the impact on the carbon and electricity markets and the complex certificate systems that are at arm's length from Government.

These policies enable politicians to point to support for renewable energy or energy efficiency without having to declare the costs and who is paying for these promises. Such policies impact on individuals and entities that have electricity as a relatively large portion of their total costs. This means energy intensive industry and low income households will carry a disproportionate burden of the costs of such schemes.

The most perverse interaction of feed-in tariff's and the RET is that those who cannot afford the upfront cost of the capital are the ones who pay the largest proportion of the subsidy to those who can. This is done through rising electricity prices.

The electricity price rises are a result of energy companies being forced to buy the Renewable Energy Certificates created and pay the generous feed-in tariffs mandated. The price must also rise as a result of the reduced demand for electricity, which has the effect of increasing supply charges as a proportion of electricity used.

## RET not a market mechanism

To date the RET has delivered no further 'certainty advantage' than would have a government commitment to use its budget to subsidise specific technologies because the Parliament has thus far not been able to leave the 'market' alone.

The RET has been defined by Parliamentary interference since its inception.

The inclusion of hot water systems (a demand side energy efficiency measure) in the RET has contributed to the obvious failure of the policy to generate the desired investment in large scale renewable energy.

Other examples have been state based feed-in tariffs, the Australian Government's solar credit scheme and a range of other direct subsidies.

Each of these policy interventions in the market for renewable energy supply and demand has resulted in an unpredictable and undesirable effect on the RET.

The RET in turn will have an unpredictable and undesirable impact on the carbon market established by the Clean Energy Act 2011, for which the Australian Government has strived so hard to establish.

## RET failure to prevent other state schemes.

The nationalisation of renewable energy schemes has not succeeded in preventing a plethora of differing state government renewable energy schemes, rather it has encouraged them.

State Government's have piggy backed off the generation of renewable energy certificates by announcing generous feed-in tariff's. The complexity of the interactions has determined that costs are not easily identified by consumers.