

## Chapter 4

### Emissions-intensive trade-exposed industries

4.1 Provision is made in the bills for partial exemptions from the costs of the RET schemes for industries that are both emissions-intensive and trade-exposed (EITE).

4.2 As discussed earlier in this report, EITE industries are granted partial exemptions from the RET scheme depending on the level of their emissions intensity. The exemption is either 90 per cent for the most emissions-intensive activities (such as aluminium smelting and zinc smelting) or 60 per cent for industries that are less emissions-intensive (such as ethanol production).

4.3 The primary exemption applies to renewable electricity generation that is additional to that required under the original Mandatory Renewable Energy Target of 9500 GWh. This means that EITEs firms must surrender 10 per cent or 40 per cent of RECs needed to meet the additional targets set by the enhanced RET.<sup>1</sup>

4.4 The bill would make only one change to the sections of the Act granting the partial EITEs exemptions. The bill specifies that the exemptions apply to both large and small scale liabilities.<sup>2</sup> That is, an EITE firm (or its supplier) will need to surrender only 10 or 40 per cent of the additional STCs and LRECs needed to meet its new target.

4.5 A secondary exemption applies to the 9500 GWh liability under the original MRET, under circumstances where the REC price increases above \$40. This second component of assistance is conditional upon passage of the Carbon Pollution Reduction Scheme (CPRS), recognising the cumulative cost impact of the CPRS and the RET.<sup>3</sup>

4.6 A more detailed explanation of the partial exemption arrangements for EITE activities is provided by the government's *Commentary on the draft regulations relating to partial exemptions under the Renewable Energy (Electricity) Act 2000*, of December 2009.<sup>4</sup>

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1 For example in 2020, the main exemption applies to the difference between the 41 000 GWh LRET and the 9500 GWh MRET.

2 Explanatory Memorandum, pp 10 and 29.

3 This second component is known in the Renewable Energy (Electricity) Regulations 2001 as the 'additional assistance percentage', regulation 22ZA.

4 Australian Government, *Commentary on the draft regulations relating to partial exemptions under the Renewable Energy (Electricity) Act 2000*, December 2009, [www.climatechange.gov.au/government/submissions/~media/publications/renewable-energy/RET-regs-commentary-pdf.ashx](http://www.climatechange.gov.au/government/submissions/~media/publications/renewable-energy/RET-regs-commentary-pdf.ashx), (accessed 4 June 2010).

## Effective rate of assistance

4.7 In its *Discussion Paper on Enhancing the Renewable Energy Target*, DCCEE stated that it is the government's intention to preserve the effective rate of assistance in respect of EITE activities provided for under the current RET.<sup>5</sup>

4.8 The Australian Industry Greenhouse Network (AIGN) submitted that proposing to retain an uncapped SRES and proposing that the LRET be increased to take up any shortfall in the SRES are inconsistent with that commitment.<sup>6</sup> AIGN argued that, taken together, these changes will increase the total cost of electricity for industry. In AIGN's view the levels of the exemptions in the Act would need to be increased to 94.5 per cent and 66 per cent to preserve the effective rate of assistance.<sup>7</sup>

4.9 The Australian Aluminium Council submitted that EITE industries should receive a 'true' 90 per cent exemption, (ie 90 per cent of an industry's total liability) stating that the exemption in its proposed form would amount to assistance of only 55 per cent.<sup>8</sup>

4.10 The Cement Industry Federation informed the committee that it supported the proposition that EITE assistance should be simplified by providing a uniform rate of assistance across all components of the RET, including the original MRET target.<sup>9</sup>

4.11 WWF-Australia expressed its concerns over the continuing exemption granted to the EITE industries. It submitted that the exemptions may impede the early establishment of transformational clean energy industries and long-term sustainable jobs in Australia.<sup>10</sup> WWF-Australia requested that the bill should be amended to require that this issue should be made the subject of particular inquiry into the scheme proposed for 2012.<sup>11</sup>

## Certain EITE industries

4.12 The aluminium production and alumina refining activities are eligible for the partial exemptions. The industry was represented at the committee's public hearing by the Australian Aluminium Council and a representative of Rio Tinto Alcan.

4.13 The Australian Aluminium Council stated that in its current form the bill would cost the industry in the range of \$0.7–1.4 billion over the next ten years and

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5 *Enhancing the Renewable Energy Target: Discussion Paper*, Commonwealth of Australia, March 2010, p. 20.

6 Australian Industry Green House Network, *Submission 43*, p. [3].

7 Australian Industry Green House Network, *Submission 43*, p. [4]. (The 94.5 and the 66 per cent figures refer to the government's announcement in May 2009 of an additional 'Global Recession Buffer' which will provide additional exemptions for EITE industries for the first five years of the CPRS.)

8 Australian Aluminium Council Ltd, *Submission 21*, p.1.

9 The Cement Industry Federation Limited, *Submission 14*, p. 3.

10 WWF-Australia, *Submission 13*, p. 2.

11 WWF-Australia, *Submission 13*, p. 2.

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that that is a significant cost exposure for an industry that sells into competitive international markets where it is a price taker.<sup>12</sup>

4.14 The committee asked the department to comment on the figures given by the Council. It did so, as follows:

The Australian Aluminium Council cost estimate of between \$0.7 billion and \$1.4 billion in the ten years to 2020 appears to include the cost impact of the existing 9,500 gigawatt-hour Mandatory Renewable Energy Target..., the expanded RET passed by Parliament in 2009 and the enhanced RET changes. The \$0.7 billion estimate is a reasonable measure of the total cost of the RET but not the policy changes for the enhanced RET.<sup>13</sup>

4.15 The Cement Industry Federation informed the committee that it had a particular concern that cement milling was excluded from the proposed EITE definition which covers only clinker production. It submitted that 48 per cent of its power consumption was for cement milling with 47 per cent for clinker production.<sup>14</sup>

### **Committee view**

4.16 EITE industries were not exempt under the MRET, but they were granted partial exemptions of 60 or 90 per cent of their additional liability when the expanded RET was legislated in 2009. The bill before the committee does not propose any change to the exemptions provided for in the Act.

4.17 The committee considers that there are no pressing reasons why EITE activities should receive additional assistance under the bill. In relation to the proposition that EITE activities should receive exemption for their liabilities under the former MRET, there was no evidence presented to the inquiry that the industries were significantly or disproportionately disadvantaged under that scheme. On that basis, there would seem to be no particular reason why they should now be exempted from liability for their share of the former target.

4.18 There was no evidence before the committee that EITE activities had suffered damage under the current RET scheme. The committee notes also that the bills establishing the RET were passed with the support of all parties as recently as August 2009.

4.19 However, given the concerns expressed by the aluminium and cement industries and the emissions intensity and export oriented nature of the aluminium industry in particular, the committee would expect that the matter of the exemptions for EITE activities will be covered in the 2014 statutory review of the scheme.

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12 Mr Miles Prosser, Executive Director, Australian Aluminium Council, *Proof Committee Hansard*, p. 27.

13 Department of Climate Change and Energy Efficiency, Answers to Questions on Notice, May 2010, p. 10.

14 Cement Industry Federation, *Submission 14*, pp 1–2.

**Recommendation 2**

**4.20** The committee recommends that, subject to the recommendation contained elsewhere in this report, the Senate pass the Renewable Energy (Electricity) Amendment Bill 2010 and two related bills during the 2010 winter Parliamentary sittings.

**Senator Anne McEwen**  
**Chair**