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6 August 2008

NSW Energy Efficiency Trading Scheme
Department of Water and Energy
GPO Box 3889
SYDNEY NSW 2001

Dear Sir/Madam

Cement Australia Submission
NSW Energy Efficiency Trading Scheme: Discussion Paper

Cement Australia is the leading integrated manufacturer of cementitious products in Australia. The company holds 47% of the Australian market, and is an acknowledged leader in the Australian industry. The company's international shareholding provides best practice support on a range of technical, environmental and sustainability issues the industry faces.

Our strong links with global cement players provides us with real benefits including:

- global benchmarking of our operations;
- access to the latest in cement processing technology; and
- links to the World Business Council for Sustainable Development ("WBCSD") through our shareholders Cemex, Holcim and Heidelberg – all founding members of the Cement Sector Initiative - that provides an international focus on greenhouse issues, emissions reporting, and resource sustainability.

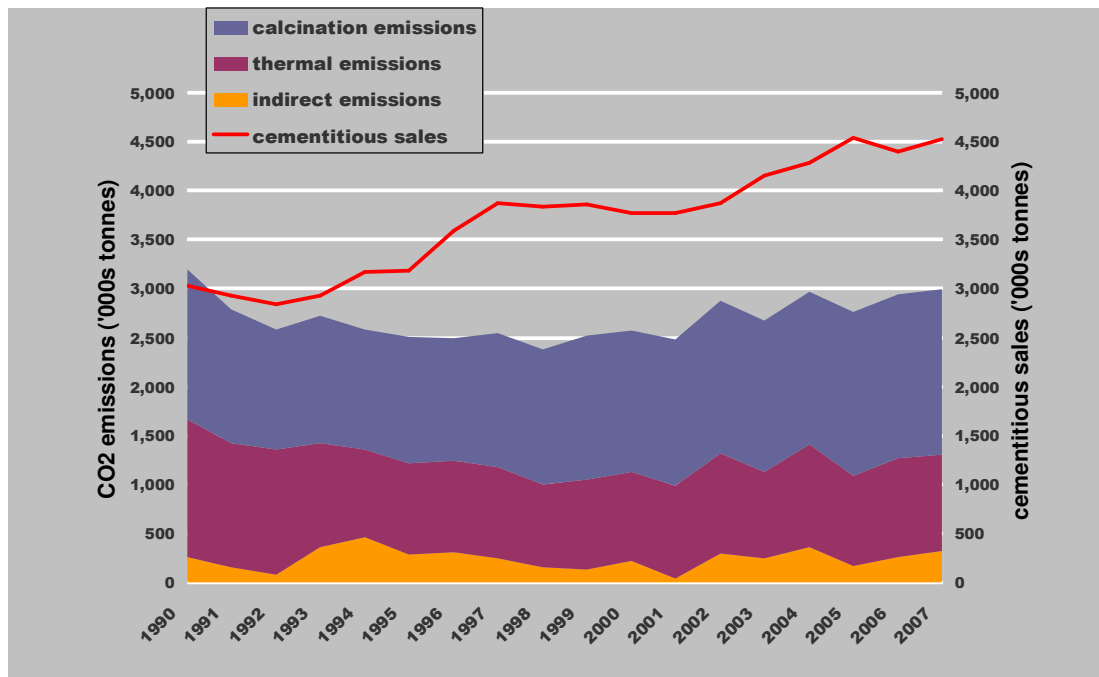
Cement Australia has an annual turnover of \$870 million dollars, through 4.2 million tonnes of cement sales as well as sales of lime products, fly ash and slag, on an asset base of \$1 billion dollars. We employ a fleet of transport assets and 1,420 employees. One of Cement Australia's major integrated clinker manufacturing assets is located at Kandos, west of Sydney and we operate a number of terminals and transport depots throughout NSW.

Cement Australia has the commitment and capacity to drive worthwhile sustainable outcomes in cement manufacture and sustainable materials, and has been actively involved over the last decade in responding to the climate change challenge:

- 1997: Cement Australia, through our peak industry body, the Cement Industry Federation (CIF), became an early signatory to the Greenhouse Challenge Plus program
- 1999: Holcim (a 50% shareholder of Cement Australia) embarks on the WBCSD Cement Sustainability Initiative which identifies climate change as a key sustainability issue for the industry
- 2004: Cement Australia participates in an industry-wide ‘Technology Pathway’ exercise to identify the likely course of technology investment and determine the resulting efficiency and CO2 savings
- 2006: Cement Australia collaborates in drafting the Cement Industry Action Agenda, which outlines government and industry recommendations to progress technology adoption/ CO2 emissions abatement.
- 2006: Ongoing and substantive involvement in the Cement Sector Task Force of the Asia-Pacific Partnership for Clean Development and Climate

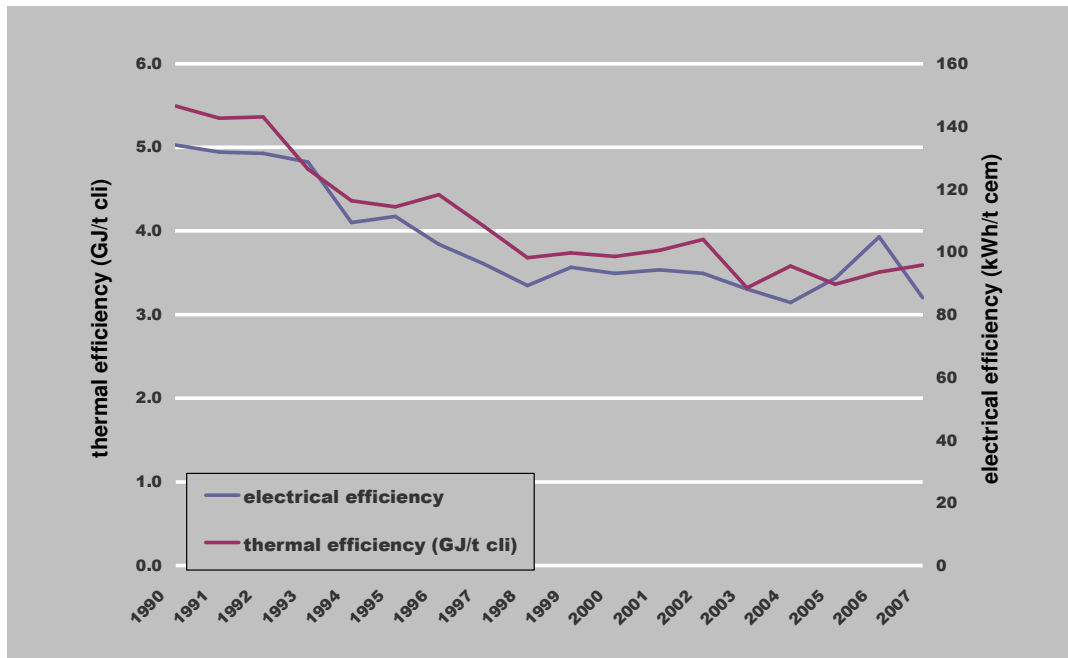
Through early and concerted action, Cement Australia has maintained total carbon dioxide emissions at less than 1990 levels while achieving cementitious sales increases of over 49% (Figure 1).

Figure 1: Total carbon dioxide emissions and cementitious sales since 1990.



This has resulted in a significant improvement in the emissions intensity of our products, but also our overall thermal and electrical efficiency (Figure 2).

Figure 2: Thermal and electrical efficiency improvements since 1990.



Relevant aspects of cement manufacture

Making cement is an energy and resource intensive process. It requires a precise combination of lime, silica, alumina, and iron that are fused together during the mixing and cooking process in the kiln. The raw materials are initially heated to 1000°C, heating the calcium carbonate in limestone to calcium oxide and releasing carbon dioxide, a process usually referred to as calcination. This contributes to approximately 50% of our total carbon dioxide emissions (refer Figure 1). This calcination process is unique to cement and highlights the importance of focussing on emissions rather than energy when discussing climate change policy.

Within the rotary kiln, the materials are mixed and further heated to about 1450°C causing a high-temperature sintering reaction to occur, forming a calcium silicate matrix called 'clinker'. All of the materials fed into the kiln become part of the clinker, forming an intrinsic matrix which, once cooled, is then ground with small amounts of gypsum and other minerals to produce the grey powder commonly recognised as cement.

Manufacture of the intermediate product – clinker, is responsible for about 90% of carbon dioxide emissions. Clinker is also a much easier material to transport than cement with most global trade occurring in this form.

Cement manufacture is also capital intensive with economically efficient increases in capacity being substantial in comparison with Australia's market size. For optimum energy and economic efficiency, kilns must operate at full production typically undergoing a maintenance shutdown over four weeks per year.

Cement manufacture is predominantly domestic, requiring access to limestone, energy supplies and markets. Demand shortfalls are made up from imports.

General comments in relation to climate change policy development

Cement Australia is pleased to have this opportunity to comment on the Discussion Paper for the NSW Energy Efficiency Trading Scheme (“the Discussion Paper”).

Cement Australia has participated constructively through the various consultation processes associated with the development of climate change policy and programmes at both the Australian and state government levels.

We believe that it is critically important our governments understand the potential impact of climate change policy and programmes on emissions-intensive and trade-exposed industries such as cement manufacture. To this end we attach to this submission a paper that our representative industry body, the Cement Industry Federation, has recently prepared in relation specifically to the issue of trade-exposed, emissions-intensive industries.

Given the global nature of climate change, we believe action is best coordinated at the global level or, if this cannot be achieved, at a national level. We support the Australian Government's policy to introduce an emissions trading scheme in the form of the Carbon Pollution Reduction Scheme (CPRS), where such a scheme demonstrably addresses competitiveness-at-risk issues that have a significant impact on trade-exposed, emissions-intensive industries.

We advocate that an emissions trading scheme is not a ‘silver-bullet’ approach to climate change action. We are concerned that the multiplicity of policy measures that across governments may pose the threat that policy and programmes being implemented will compete for the same objective, substantially affecting the efficiency and effectiveness of these measures while multiplying the net cost to industry.

We have also strongly advocated that energy and greenhouse reporting requirements be streamlined into a single efficient reporting and disclosure system. It is our understanding that the Council of Australian Governments (COAG) is pursuing this. However there remains a significant number of programmes at all levels of government that include energy and greenhouse reporting provisions yet to be streamlined, and we are very concerned where new legislation is tabled that this may add to the current plethora of duplicative reporting requirements.

In principle, we consider that the National Greenhouse and Energy Reporting System (NGERS), which has been established to support the proposed CPRS, should be the only energy and greenhouse inventory reporting system to which industry is to comply.

In principle, we consider that the case for streamlining needs to address not just the energy and greenhouse *reporting* requirements contained within various Commonwealth Government and State Government legislation, but also the streamlining of the *programmes* themselves. Such streamlining is necessary to reduce the substantial administrative burden on business caused by duplicative and competing legislation, and the potential confusion of reporting arising from different boundary requirements. Where existing mandatory Commonwealth and State measures overlap with and duplicate the national emissions trading scheme, they should be phased out from 2010.

We support the COAG communiqué of 3 July 2008, which stated, under the heading of climate change:

“COAG noted the significant progress being made on the climate change agenda, including on developing the National Renewable Energy Target Scheme, options for feed-in tariffs and measures to accelerate energy efficiency enhancements. COAG noted the extensive consultations being undertaken by the Commonwealth in relation to the Emissions Trading Scheme (ETS) and that all jurisdictions are assessing the complementarity of their existing climate change measures.”

Cement Australia welcomes the Wilkins Strategic Review of the Australian Government’s climate change programmes and particularly the intent for the review to develop principles and processes to assist in the assessment of policy measures to determine their level of complementarity to an emissions trading scheme. While recognising the review is limited to Commonwealth measures, it would appear logical that the findings of the review, in line with the COAG communiqué of 3 July, should also be applicable for State and Territory governments in assessing their various policy measures and schemes.

For Cement Australia, which operates in every State and Territory, it is becoming increasingly complex and costly to stay abreast of new legislation and compliance requirements that effectively require us to operate multiple compliance and reporting systems with no net addition to the climate change abatement that we are already undertaking and are continuing to undertake.

Comments specifically in relation to the Discussion Paper

We note the reference in the Discussion Paper to the findings of the Owen Inquiry into Electricity Supply in NSW which identifies a number of market failures and barriers that prevent the full uptake of commercial energy efficiency opportunities through the use of an emissions trading scheme – the simple purpose of which is to provide a financial incentive to reduce carbon dioxide emissions. We are not sure how the implementation of an additional trading scheme also designed to “provide a financial incentive for firms” will any better address these market failures and barriers.

We would question whether the NEET scheme, which proposes a coverage that competes with the proposed CPRS coverage is, in fact, complementary, but more particularly we would question whether this determination can be properly made given the current development status of the CPRS. We can see value where the proposed scheme applies specifically to sectors not covered by the CPRS. We note that the Discussion Paper refers to the Victorian Energy Efficiency Target (VEET) and South Australian Residential Energy Efficiency (REES) schemes but fails to point out that coverage in both of these programs is restricted to households. As such these two schemes would appear to be consistent with the proposed CPRS. Our brief scan of the various international schemes cited in the Discussion Paper suggests a similar finding with respect to coverage.

We are also concerned as to where the proposed NEETS fits within the National Framework for Energy Efficiency, which we understood to be the agreed framework through which the Federal, State and Territory governments progressed energy efficiency measures within Australia. We would also note that the Energy Efficiency Opportunities Act already provides a national program focussed on energy efficiency.

We are concerned at the brevity of Section 6 of the Discussion Paper, which refers to the cost impact of NEETS. We hope, given the length of operation of the DSA component of GGAS, that cost information would be available to provide an indication of the marginal cost of abatement of the energy efficiency measures that have been created by GGAS. We also hope that this would comprise key information upon which legislators should be basing decisions around the implementation of such schemes.

For Cement Australia, our operations in NSW do not meet the large user criterion of GGAS and as such we incur a cost pass-through from our electricity retailer, which amounts to up to 6% of our electricity bill – regardless of the energy efficiency programs we undertake. We would therefore assume that, as a trade-exposed, emissions-intensive industry, and therefore exempt from the proposed scheme, that this cost component would cease as of January 2009.

In summary, Cement Australia believes that the development and implementation of climate change legislation should be stalled pending finalisation of the CPRS legislation currently being prepared by the Australian Government, to ensure that truly complementary legislation is developed that addresses climate change in an effective and efficient manner.

Cement Australia welcomes the opportunity to provide input and we look forward to further consultations on this matter.

A handwritten signature in black ink, appearing to read "Stuart Ritchie".

Stuart Ritchie
National Sustainability Manager