



Carbon Tax Repeal Submissions
Carbon Tax Repeal Taskforce
Department of the Environment
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MAGNETITE NETWORK - SUBMISSION ON THE REPEAL OF CARBON TAX BILLS

Thank-you for this opportunity to lodge a submission. The Magnetite Network (MagNet) supports the repeal of the carbon pricing laws that currently exist.

MagNet would like to acknowledge the professionalism of the executives from the former Department of Climate Change and Energy Efficiency (DCCEE) that have liaised with us in the past.

Since 2009, MagNet has endeavored to work constructively with all policy-makers and legislators to develop an emissions reduction solution that both addresses the emerging magnetite industry's concerns and protects the integrity of any reduction model or prospective emissions trading scheme as provided by legislation.

MagNet and its members look forward to continuing to work with the Department of Environment, its Carbon Repeal and Direct Action Taskforces, the new Government and all legislators to find a constructive solution to reduce emissions while supporting the magnetite sector given its role in global emissions reduction.

MagNet acknowledges the current Emissions Reduction Fund Consultation and will lodge a submission.

Background

Until recently magnetite was not viewed favourably in Western Australia due to its low ore grade, but now at least 24 projects based on mining and processing magnetite iron ore are proposed, approved, under construction or currently producing in Western Australia.

MagNet was formed in 2009 and now represents five of the emerging magnetite companies with two of its members now producers. It has had up to eleven members from four States in the past. Current members are:

- Atlas Iron Ltd;
- CITIC Pacific Mining Ltd;
- Extension Hill Pty Ltd;
- Gindalbie Metals Ltd; and
- Iron Ore Holdings Ltd.

Gindalbie Metals – AnSteel Joint Venture – Karara project located in the MidWest region (about AUS\$3 billion Capex) has been exporting shipments of magnetite concentrate since January, 2013 and is still in commissioning phase. The official opening of the project occurred on 9 April, 2013.

CITIC Pacific Mining’s Sino Iron project located south west of Karratha in the Pilbara region (US\$ 8 billion Capex) recently announced that Production Line 1 of its planned 6 Production Lines has moved from Commissioning into a Production Phase, with Production Line 2 currently in Load Commissioning.

For the purposes of this submission these 2 projects will be referred to as the new West Australian producers.

Stated Aims of this Consultation

The purpose of this consultation process is to:

- ***identify any technical issues with the draft carbon tax repeal bills; and***
- ***identify and manage transitional issues for liable businesses and other entities.***

In Principle Support and Comments

MagNet supports the repeal of the current carbon pricing laws.

It supports the repeal bills and notes the complexity of the task given the number of pieces of legislation involved.

MagNet notes that the current liabilities for liable producers are intended to cease as at 30 June 2014 even if the repeal bills do not pass until after this date and that the Government is committed to repealing the carbon tax as soon as possible.

Given that some due dates for liabilities may occur after 1 July, 2014 MagNet seeks clarity as to how these payments may be deferred should that be necessary. Presumably were payments made that were later to be refunded that would occur in a timely manner.

The true-up process is supported. MagNet also supports the continuation of industry assistance provided under the Jobs & Competitiveness Program (JCP) and the Energy Security Fund to continue in the financial year 2013-14 for the purpose of meeting carbon tax liabilities.

MagNet is keen to see transparency and commercial certainty as a result of the repeal and in its transitional period in order to maximise investment attraction opportunities as well as to assist the existing producers.

Should there be a delay in these repeal bills passing the Federal Parliament then there may be some issues and the sector would welcome further dialogue with Government as to how best to manage these transitional issues.

Two of its member companies are eligible for permits under the Jobs and Competitiveness Program so this is a good example of where there is a need to define precise detail of transitional arrangements to provide commercial certainty and MagNet accepts that this can occur in due course.

Key Points about the Magnetite Industry and Existing Legislation

MagNet generally supports the development of a global mandated scheme for carbon emissions reduction but has been concerned with several aspects of the current laws, especially the failure to fully protect trade exposed industries. Some industries were able to secure more generous industry assistance than others – outcomes were not equitable especially when assessing new entrants to production such as the new West Australian producers.

MagNet has consistently raised its objections to the existing legislation and refers to its member companies' key concerns about the existing scheme, as follows:

- The unintended consequence of penalising emerging industries in general due to the rigid setting of activity definitions and allocative baselines with no real mechanism for assessing new entrants other than the cumbersome ad-hoc review process that involved the Productivity Commission;
- The failure to provide laws that took in to account that new Western Australian projects would have different circumstances than the then existing producers and therefore higher emissions;
- The failure to fully recognise the trade-exposed nature of magnetite in the absence of an international carbon pricing mechanism given that magnetite exists all over the world in large amounts;
- The failure to recognise the global carbon savings in steel-making from magnetite concentrate when compared to hematite iron ore (Direct Shipping Ore - DSO); and
- The current difficulty in securing investment for the development of new projects at a time of rising global demand for steel and steel-making products.

Carbon Emissions and the Magnetite Industry

- The production of magnetite concentrate and pellets in Australia is energy and emissions intensive as well as trade exposed.
- While some other countries do have carbon reduction legislation many other countries that produce magnetite concentrate or have significant greenfields magnetite resources do not.
- The use of magnetite in global steel making results in lower overall carbon emissions when compared to the use of traditional Direct Shipping Ore (DSO) or hematite iron ore. This is when compared from a mine to steel making life cycle.
- The Crucible Group (in research commissioned by MagNet) identified a total system benefits (from ground to steel) of magnetite when compared to DSO fines as net savings of greenhouse gas emissions of 108 kg CO₂ emissions per tonne of magnetite concentrate. See its report dated June 2011 at: <http://www.magnetitenetwork.com.au>
- Magnetite (Fe₃O₄) and DSO (Fe₂O₃) have different chemical compositions.

- In addition to the two new West Australian major magnetite projects in production (in the Pilbara and MidWest) with total estimated capital expenditure of about \$11 billion many more are either planned or seeking capital investment or in advanced pre-construction stages across regional Western Australia. Our 5 members have Stage One projects with a proposed Capex in excess of \$16 billion.
- Magnetite is a value adding, long term, jobs intensive industry with massive regional development benefits.
- MagNet does not support any emissions reduction model that fails to recognise the direct contribution made to global carbon emission reduction by magnetite production and therefore would put this new industry at a competitive disadvantage with producers in other countries that do not have legislated carbon pollution reduction regimes.
- A further objection in failing to recognise the contribution to global emissions reduction is that it will create a competitive disadvantage with domestic DSO producers given their low domestic emissions.
- Magnetite has lower global carbon emissions and will enjoy competitive advantage if there is an established global carbon trading scheme.
- Magnetite is emissions intensive and trade exposed and was formally recognised as an Energy Intensive Trade Exposed Industry (EITEI) and subject to industry assistance under the existing legislation.
- The existing magnetite concentrate activity definition was formalised in October, 2010.
- At the time the existing activity definition and allocative baseline were set decisions were based exclusively on the two existing producers at that time. Grange Resources Savage River in Tasmania and Arrium (formerly OneSteel) in South Australia.
- Each has small tonnages when compared with the new West Australian projects. The new wave of magnetite producers are planning production on a much larger scale and have vastly different technical specifications so the current benchmarking does not reflect the data of new projects.
- The two West Australian producers did qualify for assistance under the existing legislation.
- It is against the national interest to penalise an emerging industry that cuts global emissions while delivering new long term jobs in regional Australia and substantial on shore value adding.
- It is vital to provide a mechanism to protect and consider emerging industry.
 - DoCC previously assessed **existing producers** only
 - Savage River in Tasmania and OneSteel in South Australia – neither is a very large producer either in tonnage or export terms when compared with the 2 new West Australian producers
 - WA magnetite is much lower grade than the average reached when looking at these two producers so the allocative baseline to be set will penalise all of our members
 - No mechanism to vary 'allocative baseline' for permits for new market entrants
 - No mechanism under CPRS to assess new or emerging industries as EITE
 - Some processes not used by current producers and therefore preclude consideration e.g. the large desalination plant that CITIC Pacific Mining has installed.

Some of these issues will need to be resolved in any consideration of emissions outputs under the Emissions Reduction Fund.

Further Background

Can be found at www.magnetitenetwork.com.au

Member companies' projects alone will create about 9,000 jobs during construction and 2,750 direct operational jobs. Unlike traditional DSO, magnetite requires significant downstream processing in Australia before it can be exported. As well as creating significant flow-on economic and employment benefits, this will also result in investment in major new infrastructure. For example, the Sino Iron project includes a new port (the first in the Pilbara in 40 years), a 450 MW combined cycle gas-fired power station, and a 51 GL water desalination plant. In addition the construction of the 300kVA power line from Eneabba to the Karara minesite as part of the Karara project in Western Australia constitutes a key element of the infrastructure required for the WA State government MidWest Energy Plan (MWEP) to deliver a reliable and efficient 330kVA electricity supply to Geraldton and the greater Mid-West region of Western Australia. The Karara project together with the other proposed MidWest region magnetite projects will ultimately underpin the development of the proposed new Oakajee Port. When compared to DSO this downstream processing results in increased greenhouse emissions in Australia, however magnetite has a further benefit in that when it is used in steel making it more than offsets these emissions on a whole life cycle basis due to its improved efficiency and different chemical composition, meaning it has an overall emissions reduction benefit. This is the value adding industry successive governments have sought to encourage onshore.

Technical Issues

For context setting, the magnetite concentrate production process involves the crushing and grinding of the raw ore, mixing of water during the grinding process, the separation of magnetite mineral grains in the ore from other mineral grains in the ore using electromagnets, then the removal of the excess water from the magnetite mineral grains, to produce saleable magnetite concentrate. This final step is an essential and integral part of the magnetite concentrate production process, whether for export or for use as feedstock for a domestic pellet plant (as is the case for the longstanding Grange Resources and OneSteel projects).

Therefore it is essential that desalination of water and filtration are deemed to be part of the magnetite concentrate activity, and/or part of the magnetite pelletisation activity.

Given that all of our member companies projects either ore are or plan to be exporting product as concentrate or pellets it is critical for this portion of the production process to be recognised.

The crushing and particularly the grinding of magnetite ore require a large amount of energy. For example the Sino Iron project is constructing six mill lines to process its ore. Each of these mill lines will require 44 MW of electricity. The Sino Iron project also has energy requirements associated with desalinating water.

Given that the goal of new legislation will be to encourage a reduction in greenhouse gas emissions in Australia as a part of addressing the challenge of global climate change MagNet submits that magnetite can be part of this solution by providing a lower carbon pathway to steel production.

It would be a perverse outcome to impose a competitive disadvantage and potentially stifle the development of on an emerging industry with more Australian jobs, more Australian value adding processing and lower global emissions.

It is therefore in the public interest to ensure that the existing EITE industry assistance provided as part of the current carbon pricing laws continues through to the repeal date.

To maintain competitive neutrality this assistance would need to remain in place at least until magnetite's global lifecycle benefits can be rewarded in any global carbon trading scheme.

Process going forward

MagNet welcomes this consultation and the clear consultation timetable for the Emissions Reduction Fund and will lodge a further submission to that consultation.

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Dated 4 November, 2013

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