

# Trade Exposed Emission Intensive Industries Summit

## Minister for State Development Ian Macdonald MLC

### Acknowledgements

- Professor Fred Hilmer – today's facilitator
- Valued guests from industry

### Speaking Points

- Thank you for coming today.
- As Minister for Energy, Primary Industries, Mineral Resources and State Development I have the privilege of being an economic advocate for this great state.
- In fact if I was to distill my role down into a single phrase it would be this:
- ....**JOBS, JOBS AND MORE JOBS** – for the people of NSW
- NSW is an industrial powerhouse – The lemma Government is determined that it remains so, and indeed continues to grow.

- Everyone in this room contributes to the economic success of our State.
- **You represent the industries that sustain families and towns across regional NSW.**
- **The industries that have made Sydney the best place to do business in Asia.**
- **And the industries that will keep our vital export trade strong in the decades to come.**
- That is why today's summit is so important.
- In today's political and social climate – **green issues are now economic issues.**
- Industry has been raising these issues with us for some time, but we need to maintain the role of industry in the debate. Now is the most important time of the debate.
- I have facilitated today's Summit to ensure that an important dialogue can take place.
- Industry must continue to speak loud and clear against uninformed propaganda and dogmatic pronouncements.

- The needs of the environment and the needs of industry are not mutually exclusive.
- One does not have to suffer for the other to thrive.
- The NSW Government supports the need for a national emissions trading scheme. That's why we've been calling for a national scheme for several years and started the work of the National Emissions Trading Scheme - the NETS.
- However, the wrong policy framework could be disastrous for the economic prosperity of this state and indeed, the country.
- Today you will face a range of important questions regarding emissions trading. For instance,
  1. How the emissions trading scheme, as well as similar international emissions trading schemes, may affect NSW and business?
  2. What strategic options are available in the face of these risks?
  3. What can, and should, the NSW Government do to help industry transition to the new regulatory environment? AND
  4. What insights can be gained from overseas experience with similar schemes, such as the European Union Emissions Trading Scheme or even our own Greenhouse Gas Reduction Scheme.

- The answers we develop will be crucial to the economic future of NSW.
- Despite having different perspectives and strategies industry must share information and **speaking in one clear – loud voice** to achieve a workable national carbon abatement scheme

### **NSW GOVERNMENT: LISTENING TO INDUSTRY**

- The NSW government is listening. We've heard your concerns and we will work with you to confront this challenge.
- We recently provided input into the Garnaut Review papers and have been actively involved in COAG working groups.
- NSW also led the development of the States' National Emissions Trading Taskforce. The Taskforce delivered a paper highlighting the importance of providing adjustment assistance to trade-exposed, energy-intensive industries.
- Furthermore NSW is engaging a consultant to undertake modeling to assist the development of NSW Government greenhouse abatement policies. The modeling will provide a better understanding of the implications of a national emissions trading scheme and the expanded Mandatory

renewable energy target or MRET, on NSW energy consumers and NSW producers and industry

- The consultant's work will assess various scheme alternatives for their impact on NSW industry sectors in terms of output, employment, investment and industry returns in the major industry sectors.
- The sectoral analysis will include the distribution of regional impacts.
- The objective is to improve the Government's understanding of the impacts in NSW, particularly focusing on where structural adjustments are likely to be more severe and where policy attention to cushion community and industry impacts may be most necessary.
- **But in the final analysis – it's not just a government issue.**
- **I must again stress the need for industry to continue to put its views forward.**
- **The Commonwealth Government will release its Green Paper on emissions trading in only a few weeks– the time to speak out is now.**

## **THE IMPACT**

- How NETS impacts on industry will obviously depend on the shape of the scheme.
- But one thing is clear – it will have an impact.
- The National Emissions Trading Taskforce, the Task Group on Emissions Trading and the Garnaut Review have all said as much.
- Each has identified the need for accommodation of the special circumstances of trade-exposed emissions intensive industries.
- If, as expected, the whole energy sector and industrial process emissions, and transport are covered by the national ETS, then the impact will ripple throughout the whole economy.
- A national ETS will effectively mean that an additional cost will be imposed on every tonne of greenhouse gas emission from the production of coal, oil, gas and electricity. This will essentially mean that cost of all energy sources will increase aside from low or zero emissions sources such as renewable electricity generation.
- It will also effectively add to the cost of direct emissions of greenhouse gases from production processes such as steel, aluminium, cement and so on.

- These costs will be passed onto consumers of energy and other goods and services.
- This will severely impact on our exports and businesses competing with overseas exports.
- Some companies might move production or new investment offshore to places with lesser regulations, resulting in an economic loss for Australia without any reduction, or perhaps even increases, in global carbon emissions.
- **It is of concern that NSW companies may be forced to carry significant extra costs at a time when irrespective of the introduction of a NETS, there is a number of factors that are causing upward pressure on electricity prices in the short to medium term.**
- Again I must stress that it is not possible to determine the impact of the ETS on energy costs until details of the scheme design have been settled.
- The Commonwealth Government is yet to indicate the interim targets for the scheme, the trajectory by which emissions will be allowed to achieve the 2050 target, the sectors to be covered, the treatment of offset credits, the use of international carbon credits and the list goes on.

- However, it is clear from a number of published reports that the ETS will have a major impact on the Australian economy, and the mix of electricity generation.
- **Indicative results suggest that the national ETS could lead to a doubling of wholesale electricity prices across the National Electricity Market by around 2020.**
- If this is the case I shudder to think how the wealth and job creating industries of NSW will cope.
- **We already face an uncertain global economic climate – rising oil prices, the sub-prime mortgage crisis and rising food prices**
- **The Commonwealth has to devise the scheme carefully to not send our economy into freefall.**

## OUR INDUSTRIES

- **Combined our TEEIs employ thousands of people and provide over \$5 billion in export revenue to the state.**
- **We must ensure their continued economic health.**
- One area I am very familiar with is Agriculture.

- **Recent ABARE modelling suggests that a carbon price of \$40/tonne would result in an 18% cost increase for livestock producers and a 6% rise for crops producers.**
- It is unlikely that our farmers – who compete in a world market would have the ability to pass these costs on.
- Another is our forest products industry.
- It is currently valued at \$2.8 billion, has sales of almost \$9 billion and employs almost 20,000 people, including many in regional areas.
- It already faces high levels of import competition in domestic markets from producers in Asia, predominantly from China, Indonesia and Korea.
- But unlike many of these international competitors our industry is based on environmentally responsible forestry practices.
- The Commonwealth Government recently reported that in 2005 Australia's managed production forests sequestered over 50 million net tonnes of carbon dioxide – 40% of this total achieved here in NSW.
- Overall this sequestration activity is reducing Australia's annual greenhouse gas emissions by 9%.

- This responsible industry must be addressed in a NETS rollout.
- And so must the many other responsible industry sectors that will tell their story here today.
- **Perversely, by potentially penalising responsible industries we reward destructive forestry practices in other parts of the world.**
- Thereby creating the very environmental outcomes a NETS seeks to mitigate.
- NSW is proud to promote responsible environmental practices.
- And we've managed to do it by working with industry – not against it – in the form of our groundbreaking GGAS scheme.

## **GGAS**

- GGAS was a vital forerunner to a national NETS.
- GGAS commenced in 2003 and to date it has resulted in around 70 million tonnes of abatement.

- This is equivalent to more than taking all the cars in Australia off the road for a year.
- In the first 5 years of the scheme there has effectively been full compliance.
- GGAS provides for a range of eligible abatement from low emission generation, energy efficiency activities, reduction of industrial process emissions and forest carbon sequestration.
- GGAS has also brought forward low cost abatement with abatement certificates currently trading on spot markets at \$6 to \$7 for an N-GAC (NSW Greenhouse Abatement Certificate).
- Amongst its many successes, GGAS has encouraged a number of significant new generation projects including TRUenergy's 400MW Tallawarra gas-fired generation plant, numerous landfill and waste coal mine gas generation projects.
- This is in addition to providing incentives to existing generators to improve their efficiency and reduce their greenhouse intensity.

- GGAS has also transformed the market for compact fluorescent lights with now many millions of these energy efficient lights installed in homes and businesses in NSW.
- And large electricity users, mainly the trade exposed energy intensive industries have been provided with incentives to reduce their industrial process emissions.
- There are currently nine such companies accredited across aluminium smelting [Hydro and Tomago], steel [BlueScope Steel], cement [Boral], paper making [Norke Skog, Amcor, Carter Holt], coal mining [Xstrata] and chemical [Orica] industries.
- In addition, a number of other trade exposed energy intensive industries are accredited for other activities under GGAS.
- **This contribution must be recognized by the Federal Government when they formalize a NETS.**
- While I believe in the GGAS scheme, the debate is currently focused on rolling out a cap and trade scheme rather than a baseline and credit scheme like GGAS.
- In light of this, the NSW Government has made provision for GGAS to end on the commencement of a national emissions trading scheme. We're already working industry and key stakeholders to develop a smooth transition plan so that

those that invested in projects under GGAS are not disadvantaged in the change to a NETS.

- I have established a high level industry- government stakeholder working group to advise Government on issues surrounding the transition plan.
- I understand that the Working Group has undertaken consultation and is currently finalizing its report to me. We received over 25 submissions, many from industry.

## **MRET**

- Before I end today I want to also address the potential impacts of a national renewable energy target.
- The original MRET has delivered many tangible renewable developments.
- However the enhanced MRET – 20% by 2020 - that is due to be implemented in the near future will have a sharper impact than the original scheme.
- It is important that we don't overlook the impact of MRET when discussing a national emissions trading scheme.
- The two schemes must operate together, side by side. Therefore we must take into account the added costs for industry in complying with both schemes.

- While the NSW Government supports the introduction of a renewable target, as evidenced by the preparation of our own NSW Renewable Target, it is important that the costs of a national MRET are taken into account.
- My concern is that the costs of each individual scheme will be assessed and then simply added together.
- However this ignores the fact that introducing multiple schemes to operate in parallel with each other, will actually make the other harder to achieve and therefore actually increase the costs of compliance as double counting of projects is not allowed. That is each low emission development, can only be counted toward one scheme.
- Until we undertake an assessment of all of the greenhouse schemes intended to be operating across the NEM and the country, we will not have a realistic understanding of the costs to be borne by industry.
- It is also important that the national renewable target should include exemptions for large trade exposed industries as we allowed for under the proposed NSW renewable target.

- **If it does not – it has the potential to become a silent assassin for industry.**

## **Conclusion**

- I want to end today by returning to my first point.
- This country does need a national emissions scheme.
- But it must be one that does not cause havoc to our wealth creating industries.
- In order for investors and other participants in the Australian economy to understand the implications of investment and operational decisions, the ETS must be highly transparent.
- And it must be framed with industry at the table.
- This is your chance to raise a united voice.
- Use it well.