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SELECT COMMITTEE ON FUEL AND ENERGY

Reference: Issues relating to the Fuel and Energy Industry

WEDNESDAY, 1 APRIL 2009

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SENATE SELECT COMMITTEE ON

FUEL AND ENERGY

Wednesday, 1 April 2009

Members: Senator Cormann (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Bushby, Fifield, Joyce and McEwen

Senators in attendance: Senators Cormann and Hutchins

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Carol Brown, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Crossin, Eggleston, Ellison, Farrell, Feeney, Ferguson, Fifield, Fisher, Forshaw, Furner, Heffernan, Humphries, Hurley, Johnston, Kroger, Lundy, Ian Macdonald, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Terms of reference for the inquiry:

To inquire into and report on:

- a. the impact of higher petroleum, diesel and gas prices on:
 - i. families,
 - ii. small business,
 - iii. rural and regional Australia,
 - iv. grocery prices, and
 - v. key industries, including but not limited to tourism and transport;
- b. the role and activities of the Petrol Commissioner, including whether the Petrol Commissioner reduces the price of petroleum;
- c. the operation of the domestic petroleum, diesel and gas markets, including the fostering of maximum competition and provision of consumer information;
- d. the impact of an emissions trading scheme on the fuel and energy industry, including but not limited to:
 - i. prices,
 - ii. employment in the fuel and energy industries, and any related adverse impacts on regional centres reliant on these industries,
 - iii. domestic energy supply, and
 - iv. future investment in fuel and energy infrastructure;
- e. the existing set of state government regulatory powers as they relate to petroleum, diesel and gas products;
- f. taxation arrangements on petroleum, diesel and gas products including:
 - i. Commonwealth excise,
 - ii. the goods and services tax, and
 - iii. new state and federal taxes;
- g. the role of alternative fuels to petroleum and diesel, including but not limited to: LPG, LNG, CNG, gas to liquids, coal to liquids, electricity and bio-fuels such as, but not limited to, ethanol;
- h. the domestic oil/gas exploration and refinement industry, with particular reference to:
 - i. the impact of Commonwealth, state and local government regulations on this industry,
 - ii. increasing domestic oil/gas exploration and refinement activities, with a view to reducing Australia's reliance on imported oil, and
 - iii. other tax incentives; and
- i. the impact of higher petroleum, diesel and gas prices on public transport systems, including the adequacy of public transport infrastructure and record of public transport investment by state governments.

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Committee met at 11.28 am

CHAIR (Senator Cormann)—I declare open this public hearing of the Senate Select Committee on Fuel and Energy. The Senate has referred to the committee matters associated with fuel and energy, including the price of fuel, the impact of an emissions trading scheme, regulation and taxation arrangements and alternative fuels. The committee is due to report to the Senate on 21 October 2009. Today the committee will focus mainly on the impact of an emissions trading scheme, and we intend to release an interim report in early May.

I welcome you all here today. This is a public hearing and a *Hansard* transcript of the proceedings is being made. Before the committee starts taking evidence, I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee.

The committee prefers all evidence to be given in public, but under the Senate's resolutions witnesses have the right to request to be heard in private session. It is important that witnesses give the committee notice if they intend to ask to give evidence in camera. If a witness objects to answering a question the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may of course also be made at any other time.

On behalf of the committee, I would like to thank all those who have made submissions and sent representatives here today for their cooperation with his inquiry. Particularly, I would like to thank Futureworld for their hospitality this morning in showing Senator Hutchins and me, and the committee secretariat, around their very impressive exposition down the road.

[11.30 am]

GALE, Mr Stephen Bruce, Regional Director Climate Change, Futureworld National Centre for Appropriate Technology /Hatch

MESSER, Dr Judy Ann, President, Futureworld National Centre for Appropriate Technology

CHAIR—Welcome, Dr Messer and Mr Gale from Futureworld. I invite you to make a brief opening statement, and then the committee will ask you some questions. Do you have any comments to make on the capacity in which you appear?

Mr Gale—I am also a board member of Futureworld.

Dr Messer—Thank you. I will make a few points arising from the introduction and ask my colleague and board member Stephen Gale to talk on the more specific matters that will be of interest to this inquiry. Basically, since 1992 Futureworld has been promoting technologies that will increase energy efficiency or provide alternative sources of energy in an ecologically sustainable manner. We have done this through both the exhibition of technologies and interaction with the community and the wider community, which includes business, schools, the education community and communities in local government areas or regions. Since 2002, we have had a public facility open for people to visit to learn about these new technologies and to participate in workshops and seminars. We have had some very prestigious visitors, including you, Senator Cormann and Senator Hutchins. The former Premier of New South Wales Bob Carr is our patron. We have had numerous visits by both state and federal minister, scientists and academics from overseas, international tertiary and high school students as well as cultural tourists, ecotourists and leisure tourists.

Our goal has been to facilitate the research and development, commercialisation and adoption of clean energy technologies throughout the region and further afield. We consider an emissions trading scheme to be broadly compatible with that goal; however, we are concerned that the current draft legislation does not sufficiently remove the barriers to the adoption of clean energy technology that now exist.

I would like to put on the record that Futureworld has, right from the beginning, been created, developed and managed primarily by volunteers. We have only once, for one year, had one person as a full-time employee. All the others are part-time workers, and their employment depends on grants. The fact that we have survived so long by having the capacity to attract grants shows that there has been a definite interest and desire on the part of government agencies to support us and to keep us going within the limits of various grant schemes. Those grants have come from both federal and state grant programs. We have publicised the need for the wider community to be reliably informed and have demonstrated innovative renewable energy and energy efficient technologies based on solar power, wind power, wave power, microhydro power, energy efficient building design, energy efficient transport, including hybrid vehicles and energy efficient consumer choice. That program, I think we should emphasise, plays a significant role not only in encouraging energy efficiency but in enabling ordinary people, you might say, in

the community to become more aware of and informed about climate change impacts and other sustainability issues.

That program, I think we should emphasise, plays a significant role not only in encouraging energy efficiency but in enabling ordinary people, you might say, in the community to become more aware of and informed about climate change impacts and other sustainability issues.

We have developed a unique, hands-on Futureworld schools program. There is not anything like it. It is based on interactive experiential learning techniques. These can be very imaginative. The sessions are all presented to small groups by trained volunteer guides and are tailored specifically to meet the educational program of New South Wales as applying to primary school, high school and TAFE students. That is the Education for Sustainability program, which is a legal requirement under the New South Wales Department of Environment and Climate Change.

One of the things that has been and gone is that, in the 1990s, we developed and constructed a modular energy tower at Cringila powered by solar and wind power. It was originally designed to be used during bushfires, when a property would have plenty of wind because there was a bushfire and plenty of sun because it was hot but no power. That was the origin of the design, but our desire was to promote it as an export product to Third World countries where villages that did not have electricity could have one of these installed and would be able to gain all the benefits of electric light, even at a relatively low level of energy supply.

We have demonstrated and supported by means of on-site displays and workshops the commercialisation of a number of unique Australian alternative energy based inventions. Your visit today to Futureworld would have perhaps fully informed you about the development of Solar Sailor resulting in solar powered ferries. Oceanlinx, which is the name of the Cornwall plant, generated that new brand for wave power to energy technology. As I mentioned, we demonstrate a range of household consumer choice based energy, conservation and efficiency technologies.

I would like to tender our submission. Included in that is a copy of *My good home guide*, which is a guide to home builders and renovators. It is described as ‘a simple but reliable guide to inform consumer choice’. We demonstrated a range of sustainable transport technologies. We have promoted the choice of more energy efficient cars, including hybrids such as Toyota Prius and Honda Civic, and developed a highly targeted high school renewable energy education and awareness program sponsored since 2006 by Integral Energy. To reward their sponsorship, it should be on the record that Integral Energy also donated \$25,000 worth of solar cells and an eco-house to the Eco-Technology Centre. We have also developed a very comprehensive community education and awareness program through seminars, workshops and guided tours. We have attracted significant sponsorship by business and industry. Our submission details the names of notable sponsors.

I would also like to say that we have continuously benefited from the knowledge and experience provided by Futureworld’s board of directors based on their professional backgrounds in engineering, commerce, environmental management, community health and environmental education. We have managed to maintain that composition of the board right from the beginning—some people come and go, but we have managed to keep that balance.

CHAIR—Dr Besser, I do not really want to interrupt you, but I just want you to be mindful that the longer the opening statement goes the less time we will have to ask you questions.

Dr Messer—Then I will move immediately to introduce my colleague by saying that we are concerned that, in its current form, the Carbon Pollution Reduction Scheme does not provide an adequate incentive to properly enable these outcomes that we desire to achieve. I would ask my colleague to talk about marginal abatement cost curve principles in relation to the issues we are addressing.

Mr Gale—Thank you. I have a supplementary document to table which has figures in it that I will refer to. It is our belief that any emissions trading scheme does not have to have negative impacts or be onerous on business provided that it is properly designed and balanced. Negotiations to date between the government and businesses have suffered due to a lack of clarity of information between both parties, and the information is spread asymmetrically, with businesses usually having a lot more knowledge about the impacts but government being in a position of having to make choices about targets and reduction.

There is an approach that we understand called the marginal abatement cost curve methodology, which levels the playing field and enables negotiations with the same level of information on both sides. The approach has been developed here in Wollongong by a consultancy called Hatch and has been used with several major emitters around the world. Basically the output from the MACC is a strategic road map for future investment in energy efficiency and internal abatement within the business.

I will refer you now to figure 1 at the back of that document. That is a sample marginal abatement cost curve. Each of the bars on that curve represents an activity that a business can undertake. It could be a project, such as installing an energy efficient technology, or it could be an activity, such as changing the product mix or shutting down a plant. The width of the bar indicates the amount of energy saved or the amount of greenhouse gas emission avoided. On the vertical axis we have a cost in dollars per tonne for that particular activity. As we can see, there are a range of activities that occur below the horizontal axis of zero dollars per tonne. They are immediately profitable activities. They save energy, improve efficiency and as such improve the international competitiveness of the industry.

CHAIR—Are they recognised as the CPRS is currently designed—those activities below the curve?

Mr Gale—The CPRS, as I understand it now, is baselining on I think 08-09 years, so it depends whether a business has actually implemented those opportunities or not.

CHAIR—So if a business has implemented those opportunities in the past, they will actually be disadvantaged. If you are a bigger polluter now, you will actually do better under the CPRS than if you are somebody who has been responsible in the past.

Mr Gale—Exactly. If there is no grandfathering of previous action then businesses are better to wait until later on. What we also see in the curve is that there is a potentially profitable area, depending on energy prices or emissions prices. That is where the curve flattens off in the middle. As we can see, it is expressed here in dollars per tonne of CO₂. If we take an example

and look along the \$20 per tonne of CO₂ line, it cuts the marginal abatement cost curve at about 1,800 kilotonnes of CO₂, indicating that at a price of \$20 per tonne it is economic for this business to abate about 1.8 million tonnes of CO₂. The curve, unlike many others that we see in literature, in our experience, has always increased at a virtually exponential rate, indicating there is a limit to the amount of abatement that can be achieved through energy efficiency.

What I would like to put before you is that if businesses were to generate their marginal abatement cost curves and share those with the government, especially on the basis of, say, those businesses required to apply for EITE status—emissions-intense trade-exposed status—and seek free allocation of permits, this provides a much clearer and more transparent platform to negotiate an allocation. One of the key benefits of the process for both the business and the government—I will refer to figure 2 now—is the ability to establish a fairly hard target in a sense. This graph shows the CO₂ reduction on the right-hand side and the required capital investment to achieve the energy efficiencies or to adopt the new technologies that provide the reduction in emissions.

The black line at the top is indicative of business as usual and the red line is a target the business is aiming for. In this case we have assumed a 10 per cent reduction over 10 years. The blue line is what can actually be achieved from the marginal abatement cost curve. Each of the activities has been scheduled into time and cost, and there are always delays from now until a project can come on-stream and deliver its benefit. This way, the business can look at where it buys and sells permits to achieve its target.

The government can collect these curves from a series of businesses and put them together to establish a real marginal abatement cost curve for Australia and also a realistic target for Australia. This gives the government a lot more clarity when negotiating with business and when negotiating internationally on what targets to set for the nation.

So the recommendations I have got simply are: that the government ask that businesses prepare marginal abatement cost curves as part of the negotiation on any emissions trading scheme and that is used to establish what energy efficiencies can be achieved and what technologies make sense; that these marginal abatement cost curves are updated at a regular period to ensure that the currency of information is relevant; and that the marginal abatement cost curve is created for the nation based on the input from these major emitters, which will provide the government with a much stronger and more accurate tool for managing greenhouse gas going forward.

CHAIR—If I could just sum up in one sentence what I think you are saying: it is that you are in favour of an ETS in general but you do not think that the ETS currently proposed achieves enough from your point of view. Is that a fair summary?

Dr Messer—Yes. We had a board meeting very recently and this was explained to the board to ensure that they were aware of what we were actually going to be presenting, and the board does agree. There are other reservations but I do not want to cut across your questions on this specific one.

CHAIR—Why don't you list them for us. Maybe you could give it on notice if it is too long for here.

Dr Messer—No, it is not that long.

CHAIR—What then are your main reservations?

Dr Messer—For instance, in terms of the wider community, the system as it is currently proposed means that if householders save energy the benefit is going to go to the large emitters. I have to say that the board feels strongly that it is almost immoral that that should happen. There has been a suggestion—and it is in our submission—that this really needs to be addressed. One way would be to give these credits to not-for-profit environmental organisations that can demonstrate that they are working to encourage energy efficiency and energy conservation or to promote appropriate technologies. It is a very political issue in that the public has already become aware of this and feels that it is unjust. I think the public is pretty sophisticated about realising that there is a serious economic tension in all of this. But the fact is that big business, little business and everybody in the community has to think of the longer-term future.

CHAIR—You mentioned the buying of permits, and of course business will be able to buy permits from overseas. What are your thoughts on that?

Mr Gale—We believe that the purchase of permits from overseas should be restricted because we should be designing the scheme to drive for maximum efficiency in Australian industry. If we do not request that Australian industry be as efficient as possible there is a risk that we will lose global competitiveness by transferring those efficiency improvements to developing nations.

CHAIR—If we import permits from overseas there is actually an argument that you might end up not reducing domestic emissions at all and in fact you may be increasing them.

Mr Gale—Correct.

CHAIR—Related to this, what do you think should be the main environmental objective? We are having this discussion because we are focused on addressing the challenge of global warming. Would it be fair to say that the objective of the scheme should be to contribute as efficiently and as economically sustainably as possible to a reduction in global greenhouse gas emissions? Is that what we are trying to achieve?

Mr Gale—We need to achieve a reduction in global greenhouse gas emissions while also safeguarding the quality of life within Australia.

CHAIR—When you say ‘safeguarding the quality of life in Australia’ is that an economic statement?

Mr Gale—It is a triple bottom line statement.

Dr Messer—The thing is, there is a somewhat false illusion promoted by the media. They love people who say, ‘If you don’t turn off your lights or reduce your energy consumption, we’ll lose the Great Barrier Reef.’ In fact, what we do in Australia will have no effect on the Great Barrier Reef, because, as you would be aware, the total emissions here as a percentage of global emissions is low. But if want to save the Great Barrier Reef, we have to persuade the rest of the world to do something about it. We therefore have to be seen to be doing it ourselves. We all

know that in the end there will be economic benefits to householders from managing their households more effectively in terms of energy consumption.

CHAIR—Do you think that the CPRS as it is currently designed is focused on reducing global greenhouse gas emissions?

Mr Gale—The CPRS contributes to it and shows a point of leadership from Australia. But Australia contributes two per cent of international emissions, approximately.

CHAIR—Do you think that the scheme as it is currently designed—and if you could point me to any evidence, because we have been looking for it, that would be good—contributes to a reduction in global greenhouse gas emissions? That would obviously be proportionate to our importance in terms of the world.

Mr Gale—Based on the reduction targets that are being nominated for Australia, there is an overall reduction impact. The interesting part of it is the fact that we have this range of targets depending on if there is multilateral action, in which case we will adopt a larger target. It is an incentive for other nations to join in and be responsible about their emissions.

CHAIR—Do you have a view about exporting jobs in what are seen as polluting industries but which would be more polluting overseas and historically less polluting in Australia because of our high standards? Do you have a view about that in terms of the global environment?

Mr Gale—Yes. A poorly designed scheme that forces businesses beyond the marginal abatement cost and into the areas where abatement is unachievable, which means that businesses have to purchase permits or pay a lot more for energy, is going to push industries overseas. Thus, by balancing the scheme to drive energy efficiency—but not beyond what is economically rational—is the ideal outcome.

CHAIR—The LNG industry has put the proposition to us that LNG exports from Australia into China and Japan can help reduce world emissions. But the current scheme is making it much harder for new projects to get up or existing products to be expanded. As such, it seems to be that our contribution to reducing greenhouse gas emissions for the world will potentially be slowed down as part of this scheme. Have you a view on that?

Dr Messer—I read two business papers every day, so I follow all this fairly closely. The whole aim of this system should be to create a situation whereby companies are positively focused on innovation to achieve these policy goals in a way that will secure their future businesses, either through innovation or through a different type of management—such as that enabled by a credit scheme, for instance. It is at once a political, technological and economic problem, and the solutions need to be brought together. I get a lot of newsletters from the United States, and what worries me is that there is so much business activity in alternative energy technologies. The whole country is bursting forth with businesses wanting to get into this, and the government is very favourably disposed to it. The rationale is always that we have to keep being innovative; we have to be out ahead of everybody else.

CHAIR—I will turn it into a general question: do you think that the policy frame work that we end up with should encourage any industry that will help reduce emissions in the world?

Dr Messer—Yes. There should be positive encouragement.

CHAIR—In terms of the Illawarra, what is your sense of the impact on the local economy of a poorly designed scheme? Very clearly you want to see a scheme that is effective in reducing emissions, but you also think it ought to be done in a way that is sustainable and not going to impact on our quality of life. Have you done any work or assessment around the impact on jobs and quality of life in the Illawarra?

Mr Gale—There has not been any quantitative research that we have done ourselves on that.

CHAIR—Are you aware of the Frontier Economics study that has been prepared for the New South Wales government?

Mr Gale—No, I am not.

CHAIR—Essentially, it made the point that regional areas would be disproportionately impacted to the tune of up to 20 per cent increases in unemployment as a result of the CPRS as it is currently designed. Are you not aware of that?

Mr Gale—It is not a report I am familiar with.

CHAIR—The Treasurer came out yesterday and said that we are now in a recession. Do you think that the current economic conditions impacts on the way we should be approaching this particular challenge we are facing at the moment in terms of time lines and design?

Mr Gale—I do not think that the overall time lines should be changed because the major threat that we are facing from climate change is not going to slow down because we are in a recession. The wheels are already in motion. If we derail the entire movement in the scheme, no matter where we stand on whether or not we agree with the fine details, it will take many years to get a new scheme up and going again. So we are better off, in my opinion, continuing with the current scheme and trying to get as close to right as we can.

CHAIR—Are we close to enough ‘right as we can’ to start it now?

Dr Messer—If you take into account those negative impacts that we—

CHAIR—You mean if they are addressed by the government?

Dr Messer—If they are addressed. I would just like to note that I first became involved with Illawarra around 1988 when there was a very severe recession in the heavy industry here. There just seemed to be thousands and thousands of older men from odd countries, such as Vietnam or those in the Middle East. There were disparate sources of people who had been brought out here by the industry to work in the mills, which were all modernising. The community, through the local government, I presume, made up its mind it was going to reinvent itself. It named itself the ‘city of innovation’. If you look at the social mix since then, it completely transformed. I think three-quarters of the people would have nothing to do directly—

CHAIR—How long did that transition take?

Dr Messer—I think it probably took about six years before it was up and running. Once they decided they were the city of innovation they went out there looking to attract business, capital and brains.

CHAIR—In terms of where the economy is at present, and just looking at the media report that talks about the Frontier Economics study, essentially in regional areas the economy would shrink between 20 and 25 per cent on top of what is already a pretty difficult circumstance. Doesn't that mean we have to be particularly cautious in how we implement a scheme like this?

Dr Messer—You cannot necessarily link the two. I left town and came down here at 7.30 this morning and the number of people driving to work from Wollongong in the city and the number of people in the city driving to Wollongong to work was just—

CHAIR—Can I just link it though. It goes back to your opening remarks. Some of the issues and concerns that you have raised go to the question of whether it is going to achieve the environmental benefits the government said it wanted to achieve—that is, are we going to contribute to a reduction in greenhouse gas emissions? If people can import permits from overseas then emissions might stay the same. We might export polluting jobs into areas where there is more polluting. If the overall effect on the world is either neutral or is actually making things worse, is it really responsible for us to impose a significant economic cost in terms of jobs and those sorts of things, including in regions like the Illawarra? If we are achieving what we wanted to achieve then perhaps there is a price that we are prepared to pay. But, if we are not achieving it, what do we do then?

Dr Messer—I think the thing is that there are always ways that government can compensate. It is a political decision to choose to compensate a community for negative impacts.

CHAIR—But, on this point, should the government compensate communities that are suffering in the pursuit of an objective that is not being achieved?

Dr Messer—Well, it is going to be achieved. If you reduce by one per cent or by two per cent, you can say two per cent is better than one per cent, but at least you have got going. The most important thing is to change the head of business and to change the methods of—

CHAIR—I am going back to your own opening statements. You have listed a series of concerns, essentially saying the scheme is deficient, that it is not going to achieve the reduction in global greenhouse gas emissions that it should, that there are risks in the way the scheme is currently designed and that it could actually make things worse. If we have a scheme that could actually make things worse, is it fair or responsible to impose pressure and impose a cost on people like those of the Illawarra?

Dr Messer—Why not use the compensatory measures that are available? Instead of compensating heavy industry by giving them the credits, give the credits to the people in the Illawarra—

CHAIR—I understand that, but I am trying to understand the scheme as it is currently designed. You are talking—and I understand totally where you are coming from—about how you think it should be, but I am trying to get a sense as to whether it is responsible to proceed

with the scheme as it is currently designed. You have concerns about its environmental effectiveness. I share those concerns. But the question is: if the way it is currently proposed is not environmentally effective and it is going to impose a cost and put pressure on jobs, is it really responsible for us to proceed that way or should we, rather, make sure we get the scheme right so that we know we are paying a price for something that is going to make a difference?

Mr Gale—I am not entirely convinced that the scheme will necessarily be a negative in this region. It really depends on some of the final detail. There are two major industries here which are being represented this afternoon—the coalmining and the steel industries.

CHAIR—We are pretty close to the final detail now, though. We have had Garnaut, a green paper, a white paper and draft exposure legislation. You said in your opening remarks that a lot of people are still confused about what is in, what is not and what it means. We have gone through a very long process.

Mr Gale—And the issue that I come back to is that, on the marginal abatement cost curve, there is always some below-the-line profitable stuff that is profitable to do now. Businesses are not doing that, because there is not a strong focus on the management of energy, because energy in Australia has traditionally been very cheap. We need to find the right balance. Think of it as a tightrope that we are trying to walk: the legislation being set by the government is a tightrope. If we let it hang too loose then the rope flops around and business is going to fall off. If we pull the tightrope too tight and make things too onerous, then the rope breaks and business falls off. But in between there is a happy medium which drives improved productivity, improved efficiency and has a long-term benefit to competitiveness. We have got to find that happy medium.

CHAIR—Do you think we are close to that happy medium at the moment?

Mr Gale—I think we are close but we are not quite there yet.

CHAIR—So we are not close enough.

Mr Gale—Correct.

Senator HUTCHINS—On that line of questioning, on the ‘not close enough’, Dr Messer, you mentioned your daily readings of the business papers and the political, technological and economic forces being brought together—I am paraphrasing you. You do not see them being brought together here in Australia at the moment? Do you see them being brought together anywhere in the world to introduce an emission trading scheme?

Dr Messer—Part of the difference between Australia and elsewhere is that we are a very small country with a very small population within which an even smaller number of people discuss these things, whereas in the United States you have an enormous population and huge scientific, academic and political resources, and business there seems to be extremely well informed. The problem is that there is not really a public dialogue here that people can engage in to see that innovation. Obama himself said last week that America has to remain the most innovative country in the world—it has to keep its lead as a technological innovator. I would like Australian governments say, ‘We’re going to beat the United States; we’re going to be the ones that are going to lead in technological innovation,’ for the benefit of society, because,

historically, if you do not innovate, you vegetate and go under. It like me paying insurance to protect my house against all sorts of awful things happening to it and continuing to pay if the price goes up because the future will assure me that that is what I should have done, if something goes wrong. It is not a very good analogy, but you can see what I mean.

Senator HUTCHINS—I can. I would welcome your comment on the one thing that has come out, in our wide-ranging inquiry, from the business community: the need for a global protocol. We have had a number of significant business organisations, from cement and aluminium manufacturers to the oil industry, say to us that they are competing against nations like, for the aluminium industry, Guinea, Brazil and Jamaica; for the cement industry, China and Malaysia; and for the oil industry—ExxonMobil and Caltex—Singapore. There is no suggestion whatsoever that any of these nations are going to be as innovative or progressive as we are proposing to be. Caltex has said to us that the scheme that is currently proposed would cost them \$40 million a year extra that they would not be able to recover. Singapore could produce more cheaply because they do not have the same restrictions. I go back to your comment about whether or not the political, technological and economic forces are aligned here—it does not matter. They are certainly not aligned in Guinea, Brazil, Malaysia or probably any of the other big emitters. Rather than what seems to me to be a lot of rhetoric from the United States, I would like to see a bit more evidence and positive action—not a speech from the President this week that suggests this and then some backgrounding from the energy or environment secretary to environment ministers all over the world. I would welcome your observations on my little speech there.

Mr Gale—Senator Hutchins, you have noted several countries which compete on commodity imports to Australia. Notably, some of those have very high levels of sovereign risk, which businesses take into account before they invest in those countries. You did not mention some of the other countries that we compete against such as Japan and Europe, especially western Europe. Both of those places generally have much higher levels of energy efficiency and yet can compete on the international stage with their products and production.

CHAIR—The European emissions trading scheme is often used as an example—'They can do it; so can we'. But it is a much less onerous and complicated system than what is proposed for Australia. The question is: if the European system works so well, why are we not going down that path and trying to achieve energy efficiency and all of these measures in the way Europe has? What is on the table now is much more onerous than anything that has ever been applied across Europe—I see you nod.

Mr Gale—I do agree with that; it is probably the most comprehensive scheme in the world.

CHAIR—As such, we are putting ourselves at a competitive disadvantage. I guess, whatever our views are, if a government tells you, 'This is what we're trying to achieve and that is why we're paying this price,' and there is a question mark as to whether we are going to achieve it, there ought to be a question mark as to whether we should be paying the price.

Dr Messer—Could I make two points. Firstly, I think we should pay the price, but the price should be very carefully thought out—

CHAIR—But should we pay the price irrespective of whether we achieve an outcome?

Dr Messer—If it is going to become global, which—

CHAIR—If it is, yes.

Dr Messer—it is, and I believe that business thinks it is. Business is perhaps a much more reliable monitor than governments because political decisions can be pretty mobile but, once business thinks about something, it means it is a reality.

CHAIR—This committee has listened very carefully to a lot of business, and business are saying, ‘Yes, we want an emissions trading scheme because we want certainty, but we want the right scheme and a well-designed scheme.’ Essentially they are saying, ‘Give us 100 per cent free permits until the rest of the world has joined so that we can be on a level playing field. We support an emissions trading scheme but this is the plethora of issues that we think need to be addressed to ensure we don’t have to sack however many workers.’ I guess the question there is: how do we get that balance right and get as close as possible? I interrupted Senator Hutchins; I am sorry.

Senator HUTCHINS—No, that is fine.

Mr Gale—That takes us back to the marginal abatement cost curve approach because that gives us a factual basis, real data, that is transparent to both sides on which to decide how tight to make the tightrope.

CHAIR—Do you think the government should release the data that they have has available in terms of the cost-benefit analysis? Do you think the government should put out exactly what they are trying to achieve in terms of a reduction in global emissions and what it will mean in terms of costs across Australia?

Mr Gale—I believe anything that is not commercial-in-confidence for individual businesses should be a matter of public record.

Dr Messer—And also for the public at large to be properly informed. Have you considered a carbon tax, or is that outside the—

CHAIR—Have you got a view on carbon tax?

Dr Messer—I personally support the carbon tax as opposed to emissions trading.

CHAIR—Why is that?

Dr Messer—I cannot remember all the details of when I became convinced but I did become convinced by hearing—

CHAIR—Do you perhaps want to give that some thought and on notice write a letter to the committee as to—

Dr Messer—I would have to do it personally because I have not discussed it with my colleagues—

CHAIR—Sure.

Dr Messer—We are just appearing at this because this is what you are discussing. But I think the carbon tax avoids a lot of the problems that the emissions trading scheme causes, it is much more transparent and it is very easily adjusted, just as the Reserve Bank or the ATO move things up and down—whereas this is becoming so complicated that the capacity to evaluate it will be restricted to experts.

CHAIR—I think transparency is an important point. I do not think Australians know what they are going to get for the price they are being asked to pay; in fact, I do not think they know what price they are being asked to pay. They certainly do not know what they are going to get, what they are buying. This committee has been trying to assist the community in making that a bit more transparent, but it has been a challenge.

Senator HUTCHINS—Two things came out of our opportunity to do a site inspection at Warrawong. I would be interested in your observations about this. One of the things that have been put to us is that, if we introduce a CPRS, individual efforts to reduce emissions will make no difference in Australian emissions. I wonder if Futureworld has a view, considering how personal and individual the contributions we saw today were.

Dr Messer—We do. It was discussed at the board, and we believe that, if you are going ahead with the CPRS, it should build in some way of rewarding individuals for the effort they make. It could be an avoided tax or whatever form the reward takes, but that is the reason why. Individuals have already become concerned about the fact that the credit for the energy reduction they bring about is going to go to the benefit of the high polluters. I think that will rapidly become a firm public position as people—

Mr Gale—In our experience, the people of the region see the ability to make more voluntary emission cuts as like voluntarily paying more tax, so they are very upset about the idea of that fundamentally going straight to allow other people to make more emissions. One potential solution is that, for the amount of voluntary emission reductions that are achieved in any given year, the government is to retire an equivalent amount of emission permits in the subsequent year. Some sort of scheme along those lines would be acceptable for recognising the voluntary effort of individuals.

Senator HUTCHINS—We have heard evidence that there are very limited affordable options for people on low incomes to improve their energy efficiency. We have had a submission from the South Coast Labour Council where they highlight the almost double unemployment figure here in the Illawarra as opposed to the rest of New South Wales, so clearly people are on lower incomes here, and probably a lot more people are on social security. How do they improve their efficiency when they are just struggling to make ends meet each week?

Mr Gale—It is almost impossible not to do some things at the moment that are economically extremely sensible, with the government rebates and subsidies for various things such as home insulation and the installation of high-efficiency solar water or heat pump type water heaters, two items straightaway that are of immediate benefit to long-term savings for those families at virtually no cost.

Senator HUTCHINS—For people who are buying or who own their own home, but I imagine you have a high number of renters down here.

Mr Gale—In that case, I do notice that the Homeowner Insulation Program also extends or is about to extend to rental properties as well, so there is some inducement for landlords to support their tenants in that. There could be a whole lot of opportunities here to support landlords helping their tenants in one way or another. With that, I will hand over to Judy.

Dr Messer—I support everything that Steve has raised. I know from my time with Sydney Water that it had a large number of water users who had very low incomes, were impoverished and so forth, and there was a whole framework for taking the water bill out of their hands. They did not have to worry about it. The practices are known; it would just be a matter of government policy saying, ‘We will compensate low-income or zero-income people by having a scheme whereby we can reduce their costs for essential services,’ because quite the most awful thing that can happen to any household is to feel that its electricity or water is going to be cut off. Neither agency wants to carry out that sort of socially unacceptable practice.

Senator HUTCHINS—Of course, they are all state government agencies—

Dr Messer—Yes.

Senator HUTCHINS—so the Commonwealth would have to somehow or other look at compensation through the scheme.

Dr Messer—I think with this whole energy conservation and energy consumption reduction there are going to have to be state and Commonwealth combined programs to really make it work. That is my feeling.

Senator HUTCHINS—I go back to part of my original question. We have been painted some pretty horrific pictures about particularly the regions being adversely affected by the introduction of a scheme, a CPRS or an ETS, without the rest of the world being involved. In fact, the committee is going to Mackay and Gladstone next week, which have not had the opportunity to be innovators—probably like Wollongong. I was thinking that there are very different ways of getting development applications approved down here than anywhere else in New South Wales!

Dr Messer—Innovative!

Senator HUTCHINS—Innovative! I will have to explain that to my Western Australian colleague afterwards. Being based here, do you have a particular concern that you have expressed to the community—I know you have questioned the CPRS, not its objects but how it gets there—particularly in industry in a town like this, which I think you mentioned earlier, Mr Gale. We have BHP coming in this afternoon. We have BlueScope. We were supposed to have the coal industry here this morning. These are all very intensive industries that particularly feel that they will be impacted by a one-off operation by the Australian government to introduce a scheme that none of their competitors have. Does that make a different view for Futureworld down here than it might, say, if we were discussing this, as we have, in the city of Sydney or the city of Melbourne?

Mr Gale—Those cities have a much more diverse revenue base. I will not try and venture what percentage of total revenue in Wollongong comes from the coalmining or the steel industry, but it is a very significant proportion. This is a concern to us for how well the scheme is designed. Do we achieve the balance that incentivises action and innovation which helps move these businesses to be global leaders on efficient production, or do we push them to the point that goes beyond being able to compete internationally and thus results in long-term failure? Doing nothing potentially results in failure due to loss of productivity and efficiency; pushing too hard results in that failure as well. How do we know that we have achieved the right balance?

Dr Messer—Could I just make a comment. You were mentioned a city in Queensland—I have forgotten the name.

Senator HUTCHINS—Mackay, in Queensland.

Dr Messer—Mackay, yes. During the period in the late eighties when the Illawarra was hit so hard, Newcastle was also hit. It was interesting that Newcastle, I think, really reinvented itself. It also had BHP et al. It reinvented itself quicker than Wollongong. To some extent I guess it is good fortune or the ethos of the community—the capacity it has to attract new ideas and do things differently. It may be something that should be addressed not by your inquiry in detail but to be cognizant about the fact. How do cities reinvent themselves? It has been happening ever since we have had capitalism that cities rise and fall, and the smart cities do not fall very far; they are up and running again. I think that is something that is worthy of maybe another parliamentary inquiry.

CHAIR—Dr Messer and Mr Gale, that was longer than originally anticipated. Thank you very much for your contribution to the committee.

Dr Messer—On behalf of our board, I would like to thank you very much. They feel very honoured that Futureworld have had a visit from you and that you are taking our submissions seriously. We look forward to the outcome.

CHAIR—Thank you very much.

Proceedings suspended from 12.24 pm to 2.41 pm

RORRIS, Mr Arthur, Secretary, South Coast Labour Council

CHAIR—Welcome. I invite you to make an opening statement.

Mr Rorris—Thank you for the opportunity, albeit on late notice, to appear before the committee. I understand that the committee is looking at a number of aspects relating to climate change policy and particularly the issues around the ETS and carbon pricing systems. I also understand and note that our key affiliates in the steel and coal areas have already made submissions specific to their industries. As that is the case, I do not intend here to look specifically at the steel or coal industries. Rather, I thought I would give you perhaps a little bit of an overview, from a regional perspective, as to some of the initiatives and strategies that we are looking at adopting and progressing to deal with the challenges ahead, particularly in the area of climate change policy.

At the outset can I say that we at the South Coast Labour Council are not climate change sceptics. We have a long history of environmental awareness in the trade union movement on the south coast, and proudly so. We also have, as you know, a significant base of heavy industry. That industry base employs and continues to employ thousands of workers locally and makes up what we call the backbone of the regional economy. It involves a range of areas, not just steel. There are related industries in fabrication, the mining sector, transport and the port itself, which is now growing—there are a range of areas.

For many reasons our region is exposed to responses to climate change and the policies that governments can implement. The South Coast Labour Council, being an affiliate to the ACTU, fully supports the ACTU's policy, which backs the ETS system and its related components. I did want to say, though, that in moving into these new times the Labour Council wants to explore the options for the region to create the so-called green jobs, or sustainable jobs. In that area I understand that our background paper, *Power to the people*, may have been tabled and senators may have access to it. It is a substantial and current report which sets out the basis for the opportunities for jobs in this region, which may actually benefit from some of those changes in policy. That is on the positive side of the ledger. It is something that we see not as an option but as a must-do. It is something that our region needs to pursue in order to be relevant in the post-climate-change world, if you like. It is also a matter of ensuring that we have got access to growth in industries that will benefit from any of those changes.

In essence, though, I am here to tell you that from our perspective our ability to plug into that new green economy, which we do believe in and which we are eager to participate in, will depend on our ability to retain our heavy industry and our heavy industry infrastructure. We see our manufacturing and our related base as the key to actually being competitive in the new green economy. It may seem counterintuitive to some that we are not actually relying on those areas, but if you look at the report and its findings, you will see that the sorts of skills and the industries that will be required—albeit through transformations and adaptation—to get a competitive edge in the new green economy we have here. What we are saying, therefore, is that the new green economy is one that will be built on the back of our existing industrial base.

That is significant, because it says to us that, if we lose that substantial steel and manufacturing base, our options for creating those thousands of new jobs, whether they be in renewable energy or in manufacturing processes for that renewable energy—retro-fitting and other areas—and our ability to compete in that green economy would be reduced. I guess that is a conundrum, particularly in these times with current policies. Our hope—and in supporting our affiliate's submissions in that regard—is to say that whatever governments do they should be mindful of the fact that our heavy industry base is what will ultimately put us in a competitive position and allow us to transform with some confidence some of our existing industries and enter into a green economy with some confidence to be able to create sustainable jobs into the future.

I did not want at this stage to go into other areas. I understand that steel and coal have been covered previously, but I thought I would give a regional overview about where we are coming from in terms of new directions and the importance of our existing industries to those new directions. Thank you.

CHAIR—Thank you, Mr Rorris. Continuing the theme of regional perspective, what is the job situation like at present in the Illawarra in the current economic climate?

Mr Rorris—There are obviously statistics at the ABS that would probably be more accurate than my assumptions here.

CHAIR—But you are at the coalface.

Mr Rorris—Sure. It is well-known that the Illawarra region has a higher level of unemployment than the national and state averages. At times it has approached almost double the national average. Youth unemployment, in particular, also tends to be higher. I think at this point we are looking at an unemployment rate of over seven per cent. I might add that that is something that has been a structural feature of our labour market for the last two decades. It is a sore point, I guess you could say, in our region, particularly when it comes to the investment of infrastructure by government.

CHAIR—How has that been trending over the last six months and looking at your outlook for the next 12 months to two years?

Mr Rorris—The last five months to the previous two years is a different story. I think it would be fair to say that this region would probably be one of the first and hardest hit through the global financial crisis. Certainly, the preliminary information we have—the data, employment and other figures, and anecdotally—does not alter that.

CHAIR—Have there been job losses already?

Mr Rorris—Yes, there have.

CHAIR—Can you quantify that for us?

Mr Rorris—There have been hundreds of jobs lost in manufacturing and related areas. Similarly, in logistics and other areas. It is very hard, as you can appreciate, to get a firm figure

across all industries and at all levels. What tends to be reported anecdotally are the larger ones, and we have had a few of those. But you could confidently assume that hundreds have been lost and many more will probably follow, given the downturn.

CHAIR—Representing workers in the Illawarra region as you do, if the government were to introduce an initiative that would put additional pressure on the economy and on jobs, you would want to be reassured that it will actually achieve the objective for which that price is being paid by your members.

Mr Rorris—I think workers in this region would want to see a policy implemented that both preserves and bolsters employment but which is also environmentally responsible. An old saying in the Illawarra is that there is no point in having a job if you do not have a planet to live on—and that is something that we hold close. However, if you are asking me whether we want the jobs in this region considered in terms of policy, the answer is yes, of course.

CHAIR—You say that you fully support the ACTU position, which is to support an ETS. Does that mean any ETS, or does it mean the ETS that is currently proposed by the government? Do you have any concerns about the proposed scheme?

Mr Rorris—My understanding is that there are still a lot of discussions pending about how the scheme will be rolled out and its final make-up. I understand that there is a white paper, but there are always discussions afoot. I am not going to pretend to be an expert in terms of the effects of the ETS and its rollout. But if you are asking me whether our region would expect that the ETS will be rolled out in a way that will allow a community such as ours to have some confidence about our heavy industry, the answer is yes. That much I can say. I know that our affiliates have been more specific about their particular industries. As you can appreciate, we are a peak council and we speak more generally about the interests of our region and our regional workforce.

CHAIR—You said that you are not a climate change sceptic and that you support effective action on climate change. What does that mean? What is the environmental objective that you want to see achieved as a result of the ETS?

Mr Rorris—What we want to see achieved, and what I think most working people in this country want to see achieved, is a reduction in carbon emissions. We want to see a scheme that ensures those emissions are reduced in a way that allows the necessary changes and transformations in our industries so that our members keep their jobs. We want to see it done in a cleaner and better way but essentially one that allows our industries to keep functioning. I am trying not to be obtuse about it.

CHAIR—This is an important question. You want to see a reduction in carbon emissions. I assume you mean a global reduction in carbon emissions.

Mr Rorris—Yes, naturally.

CHAIR—I am trying to get a sense of where you are coming from. If the scheme as currently designed does not contribute to a reduction in global carbon emissions and your members are

still being asked to make a sacrifice and suffer the loss of their jobs et cetera, that would be a bad thing, wouldn't it?

Mr Rorris—You are asking me 'if the scheme were to fail and if our members were to lose jobs'.

CHAIR—Let me rephrase the question. I guess that a government going down this path, particularly in the current economic climate, would have to be reasonably confident that they are likely to achieve the objective they have set out to achieve in order to justify the pain and the costs they are imposing on people. Do you agree with that statement?

Mr Rorris—I would answer your question in this way. You are assuming that a scheme to reduce carbon emissions must cause pain. I would like to think that it would be possible to have a scheme in place—the ETS, if that is the framework—to do these things in a way that satisfies the objective of reducing emissions and is sensible in terms of the way it is introduced to enable people to keep their jobs. I do not think it is—

CHAIR—Let us go back to the impact on jobs. There are two parts to the equation from my point of view. The first point is: is the scheme environmentally effective and will it achieve a reduction in global carbon emissions? The second part is: what is the impact on the economy and jobs? I want to deal in my questions with the first part: will it help reduce global carbon emissions? Your colleagues from the AWU have described the Treasury modelling as inadequate because it underestimates the impact on jobs, but, leaving that aside, even Treasury concedes that there will be additional pressure on the economy and jobs. If that is going to be the case, should the government have at least sufficient evidence to have a fair assumption that it actually will achieve the objective of reducing carbon emissions? Wouldn't you want to see that reassurance, on behalf of your members, that, if they are asked to pay a price, it will at least deliver the goods?

Mr Rorris—Yes. There is no doubt about that. If you are asking me whether I think this scheme will actually deliver a reduction, I think it will deliver a reduction.

CHAIR—On what basis do you say that?

Mr Rorris—The scheme itself is designed through a price on carbon and through the measures it is setting for a five per cent reduction. I think it would be reasonable to assume that it will reduce emissions. If what you are asking me is whether that is going to be of relevance on a global level, my answer to that would be: if our role as a member of the global community is to accept our responsibilities then we have to play our part and we have to—

CHAIR—I understand that we have to play our part, and I am quite happy to concede that it has to be a proportionate part, but let me—

Mr Rorris—I am sorry; I do not follow your question in terms of effectiveness.

CHAIR—'Effectiveness' means that we are going to have a net positive effect, with what we do in Australia, on the global level of emissions. Do you agree that what we do in Australia in

our emissions trading scheme ought to at least make a net positive contribution to the level of global carbon emissions?

Mr Rorris—Yes. I think it is reasonable to assume that, if we are going to introduce a scheme like this, there would be an expectation that it would fulfil the objective that it is designed for, and that is to reduce emissions.

CHAIR—Do you think the government should be able to demonstrate that?

Mr Rorris—To demonstrate the level of effectiveness of the scheme?

CHAIR—That the scheme that it is proposing to introduce will have an overall net positive effect in reducing global carbon emissions.

Mr Rorris—Yes, I think it would be fair to say that the government could say, ‘Look, Australia is reducing its levels by five per cent; it can demonstrate that those emissions have been reduced by five per cent, and that would have contributed positively towards the outcome.’ I think it would be fair to say that.

CHAIR—The issue here is that we could well end up in the circumstance where we reduce emissions locally—

Mr Rorris—In Australia.

CHAIR—and increase emissions globally. It might actually be that the situation will end up worse if we do not act properly, together with other relevant nations et cetera. The question is this: should the scheme that we pursue in Australia have a net positive effect in reducing global greenhouse gas emissions?

Mr Rorris—The answer is yes, it should ensure that. Whether you can as a nation-state, though—I am trying to think logically about this. As to whether any nation-state can assume responsibility for factors outside the control or policies of that nation-state, obviously it cannot. I think what is perhaps more important, frankly, is: can our scheme be designed in such a way as to ensure that it is as effective as possible—that is, to not allow other nation-states to perhaps skirt the scheme and have leakages, in other words, in terms of those costs? I think that is probably more pertinent in terms of things in our control, but if you are asking me whether Australia should be able to ensure that the rest of the world reduces its carbon emissions—

CHAIR—No, that is not what I was asking. This is quite an important point. Are you prepared to have your members lose jobs on the off-chance that the rest of the world might follow our lead, and are you prepared for your members to lose jobs even if Australia going ahead of everybody else is not actually going to reduce global greenhouse gas emissions?

Mr Rorris—If we believed that other nation-states’ global levels were not going to be curtailed or that strategies or schemes were not going to be imposed by countries around the world to curtail them, then, no, we would not support this. But at this point in time—

CHAIR—You are hopeful.

Mr Rorris—we are hopeful. We have to be, because our view is that we have to put some faith in countries around the world to realise what the people in this country have realised, and that is that our planet does not have a future if those nation-states do not do the same. We can only note that there are other nation-states around the world that have introduced schemes and that have taken action. I cannot see—

CHAIR—Which nations are you thinking of?

Mr Rorris—In Europe—

CHAIR—Are you across the European scheme as to how it operates?

Mr Rorris—I am not suggesting that I am an expert in it. I do understand that there are subtle differences, but I also understand that in other countries such as the US they are also now seriously looking at this issue and taking responsibility.

CHAIR—May I put it to you that the European scheme is a much, much softer scheme than what is proposed here in Australia? For starters, the number of permits that were distributed exceeded the number of emissions, and there are a whole range of other things in Europe that make it a very bad example to quote, but a lot of people quote it. This is a pretty serious economic circumstance at the moment. You have described the challenges particularly for the Illawarra region already, and it is the historical structural challenges you have described. Don't you think that the government should give you some confidence that, if they are going to impose some additional pressure, they are going to make a difference through the sacrifices they are asking people to make?

Mr Rorris—We do have an expectation that governments take into account the relative exposure of regions when they introduce the scheme. We do have that expectation, and that is across industries. On that I can speak with some confidence. Yes, there is that expectation. There is not an expectation that we somehow secede from the rest of the country in terms of economic policy, but I think it is fair to say that this region has some pretty strategic and critical industries for the economic wellbeing not just of this region but of Australia as a whole. Yes, it is fair to say that we have an expectation that that is taken into account when this scheme is implemented, with a view to retaining that industrial base not just for the jobs that are there now but, as I explained my introductory comments, for the ones that we hope to create in the future that depend on our industrial base. I think that is fair to say.

CHAIR—Are you aware that the New South Wales state government commissioned Frontier Economics to conduct some modelling about the economic impact of the proposed CPRS?

Mr Rorris—I am aware of some of the media reports. I have not seen or been privy to the actual—

CHAIR—So you are aware in general terms that Frontier Economics provided advice to the New South Wales state government that regional areas will be hardest hit by the CPRS, with contractions in regional economies of between 20 and 25 per cent around Australia? Does that concern you?

Mr Rorris—I am aware of the reports that have been published in the paper. Yes, of course it does, and it would concern most people in regional areas, which is why I say—and why I have said before—that we do want governments to take into account our exposure. As you have just pointed out, it is something that we have known for some time. It is obvious, looking at the industrial demographic in this region. Our exposure is clear. The issue for us is how that is dealt with in the introduction of that scheme. Our view would be that that should be considered in the package, I guess, that comes with an ETS, and that should be considered when the industries in our region are looked at in terms of the impact of this scheme. To summarise that—let me be clear—we take the view that something has to be done about emissions. There is no doubt. We take the view nationally, through the ACTU, that the ETS is supported, and we also take the view regionally, here, that in the implementation of that ETS there has to be consideration for that exposure of our industrial base.

CHAIR—You mentioned that you think there would be some more changes to the scheme. You said that you want the government to be focusing on the challenges in regional areas like the Illawarra. What sorts of additional changes would you like to see made to the ETS as it is currently proposed?

Mr Rorris—I do not want to be obtuse about that matter. Given that we cover a range of industries, there are specific things that I know some of our affiliates have indicated, the AWU being one and the CFMEU mining division being another. I do not think there is any one particular thing here. Specific industries have particular challenges. I note that you have a witness after me who will expand on the steel industry, for example, as the AWU have from their side. But I simply note that there are issues of timing, there are issues of applicability in industries that are covered by that scheme and there are issues of credits. All of those things have been noted by our affiliates and others as things to look at. Forgive me for not being more specific on that, but I would prefer to have our affiliates be more specific in those areas.

In addressing the committee hearing today, we wish to indicate to you that yes, there are effects and there is an exposure here and, secondly, that we have an eye to the future in terms of jobs in the new economy. I do not think it is unrealistic to expect that you can reduce those emissions, and have a scheme to do that, and protect jobs, particularly in critical industries. After all, we are not talking about corner shops here; we are talking about major enterprises with huge capital investments, the likes of which you cannot replace with a new scheme or strategy in a year or two.

CHAIR—The government has conducted its own economic modelling of the impacts of the CPRS. Now there is some conjecture as to whether it was adequate modelling and whether it has underestimated the actual impact. Be that as it may, would you want to see all aspects of that modelling, in particular as it relates to the impact on regional areas?

Mr Rorris—Would I like to see that modelling?

CHAIR—Given that you are being asked to sign up to an initiative that is going to cost jobs and impose pain on your members, I assume that you would want to see the information that the government has in front of it about the impact on the economy and jobs and what it is that they are trying to achieve, would you not?

Mr Rorris—Naturally, we would like as much information as we can get regarding the impact of new schemes. I do not mean to pull this up again, but you are making the assumption that the introduction of a scheme needs to have that impact on jobs—

CHAIR—With all due respect, even Treasury is making that assumption.

Mr Rorris—Yes.

CHAIR—By and large, there is a view that, for obvious reasons, the government is keen to make the impact look as positive as possible—and even the government concedes that there is going to be an impact. With all due respect, Mr Rorris, it is not just me making the assumption.

Mr Rorris—I take your point.

CHAIR—That modelling was concluded at the end of October. Since then the world has changed. Your colleague Paul Howes from the AWU has made the point that he thought it was critical for some additional modelling to be done by Treasury to assess the impact on the economy and jobs, given the changed economic circumstances. Do you share Mr Howes's view?

Mr Rorris—I do not think you could ever have enough information. We need to know what we are looking at and the actual effects. Naturally, these are things that governments need. However, I am not in a position to know exactly what other modelling the federal government has on the design of the scheme or what other information it is relying on. But if you are asking me, from our perspective: do we want to see that information? Sure. We want to see as much information as we can that may impact on jobs and our members.

CHAIR—Your submission was nearly entirely focused on green jobs of the future. Hopefully, there are going to be as many green jobs as possible moving forward. How confident are you? Are you confident that there will be enough green jobs in the Illawarra moving forward to make up for the jobs lost in coal, steel and aluminium and in all the other industries?

Mr Rorris—Speaking for this region, I think our submission makes it clear that we are not talking about replacing jobs in steel and coal. We are talking about using our steel and coal industries as a competitive base—a foundation, if you like—for the green economy. I am sorry if I did not make that clear earlier.

CHAIR—So you do not think that any jobs will be lost in the steel or coal industries if the CPRS is implemented as it currently stands?

Mr Rorris—No, I am not suggesting that. I am suggesting that our affiliates—

CHAIR—So there may be jobs lost?

Mr Rorris—There are two aspects to that question. You are asking me about 'as things currently stand'. Once again, I would have to defer to our affiliates in terms of the specific analysis they have done about their industries. Our assumption is that the new package of the CPRS is not in yet. Our view—

CHAIR—It is before the parliament.

Mr Rorris—I understand that. But our view is that it is possible to introduce and implement an ETS, to introduce a new package, in a way that does allow for local jobs not only to be retained but to grow, particularly with the advent of a new green economy. I do not have a crystal ball about the current scheme.

CHAIR—On what basis do you make that assertion? Have you done any modelling to substantiate that? What is the forecasting model? On what basis have you come up with that?

Mr Rorris—The assessment we make is from the report that was prepared for us by a multidisciplinary team, which is attached for you. Much of that, granted, is on a more general basis, but it is based on the CSIRO projections of the new green economy. But if you are asking whether we have done for the Illawarra specific modelling about likely jobs lost with the current CPRS with no amendment or change then the answer is no. We do not have the resources to do that.

CHAIR—I believe the Commonwealth government has. Do you think you should have that information?

Mr Rorris—If the federal government has studies into that area we would obviously be interested in having a look.

Senator HUTCHINS—Mr Rorris, thank you for your submission and for coming along today. I just want to follow up a few questions from the chair. In caucus one particular, very prominent, member from down this region has raised concerns about potential job losses—direct ones.

CHAIR—You can say her name.

Senator HUTCHINS—Have there been any direct job losses in BlueScope, BHP or the coalmines at this stage as a result of the global financial crisis?

Mr Rorris—Once again, I understand you have a witness coming up next who is probably better placed. But my understanding is that, in terms of BlueScope, no. I understand there have been some other changes in work practices but not directly in BlueScope. However, the following witness, without dodging the question—

Senator HUTCHINS—We have anecdotal evidence that the GFC has caused a number of contractors to be displaced in these areas.

Mr Rorris—That is my understanding. That is correct.

Senator HUTCHINS—I will be brief, because the chair has covered a number of questions. In the South Coast Labour Council or as an affiliate of the ACTU, have you been made aware of a number of claims that we have been exposed to—that we pay too little for energy in this country, that it is too cheap, and that if introduced the CPRS will push up prices considerably in different places? Has that been discussed to your knowledge? Are you aware of that claim?

Mr Rorris—Yes, the price of power and other things has been raised. In this region it has been in the context of a possible demand for alternative industries and the growth of those. Yes, there have been those sorts of discussions.

Senator HUTCHINS—It is also claimed that after the period of the subsidy being phased out the price of fuel will increase. Has that been highlighted to your recollection at the ACTU or South Coast Labour Council level?

Mr Rorris—The price of fuel rising has, yes.

Senator HUTCHINS—Have there been any discussions by the peak council or your own council about how the low-income union members might be compensated for these potential increases in energy and petrol prices?

Mr Rorris—Yes.

Senator HUTCHINS—Are you in a position to highlight one or two and outline them to the committee today?

Mr Rorris—I would like to say that I am, but I do not have that brief with me, though I understand that there are measures as part of the package which will bolster the incomes of low-income earners to compensate them for any likely rises. I understand that is across fuel and energy areas and I understand that that is part of the equity measures that are part of the CPRS, which are strongly supported. You cannot have a situation where you have those rises impacting on those least able to afford them, and we understand that that part of the package aims to deal with just that.

Senator HUTCHINS—So that has been satisfactorily resolved within the ACTU and the labour council?

Mr Rorris—That is our understanding, yes.

Senator HUTCHINS—Finally, it has also been highlighted on a number of occasions that there is a more significant impact on non-metropolitan regions. I see in the paper prepared for the South Coast Labour Council that there is an initiative to combat that, but equally you say in your submission that this is not instead of the heavy industry and heavy infrastructure industry on the South Coast. What sort of time frame do you think and how much investment might be required for these alternative industries to take off and where do you see that money coming from?

Mr Rorris—It is a broad agenda. It is quite an ambitious plan. We are looking at the transformation of industries here, so it is not a two-minute operation or a one-project job, if I can use that term. We are looking at some aspects coming online within a year or two years, particularly in construction and building techniques, the introduction of wind power generation in particular and the adaptation and use of solar. They are areas that I think can come on stream a lot quicker. Naturally the wind area is one where we see a benefit up and down the line. I am reliably informed that they use more than 150 tonnes of steel per wind turbine, just as an

example of the possible demand factor there. That would be a positive for our steel producers and manufacturers.

In terms of the longer term predictions, it would obviously depend on some market factors as well, but we would be looking at an immediate start and runs on the board within the first two years, but we are probably looking at a five- to 10-year strategy for the development of the green economy here and its integration with our existing industry. You are quite right: we do not see it as a replacement; we see it as a complement to the current industry and we see our current industry as a base.

Senator HUTCHINS—We have received on a number of occasions a plea almost from trade exposed industries not to proceed with the introduction of this scheme until such time as we get through the global financial crisis and until we get an undertaking from our major competitors that they are going to sign up to a similar scheme and not leave us exposed to introducing a scheme that might be all right in this part of the world but which our major competitors are not signed up to. Does the council have a view on that at all?

Mr Rorris—Our view, and it is a general one, is that we support the ACTU's policy on the introduction of the scheme, but we do emphasise that the implementation of that scheme can and should be done in a way that allows for the retention of our industries. We take the view that it is possible to do that. I know it was said previously that it is a black-and-white issue: there is a current scheme and either you accept it or not. We do not accept that there is not time or room to accommodate the future of our heavy industry in this region. We think that can be done and it is not incompatible with the ETS. There have already been a number of proposals put forward from our affiliates as to how that can be done, and I am sure you are about to hear of a few more from the employer end. But it is a critical issue, as I have indicated, not just for these industries but for the future ones. I am not trying to obfuscate, but I sincerely believe that you can do both.

CHAIR—I have a final question. Do you think that the compensation package in the white paper as it applies to industry, households and communities is adequate?

Mr Rorris—As a whole or specifically?

CHAIR—Both.

Mr Rorris—I think that it is in the right direction. Naturally, given my earlier comments—

CHAIR—It is not quite there yet.

Mr Rorris—As far as our region goes, we would like to see a greater acknowledgement of our exposure and the effects of the scheme as it stands. I do not mince my words about that; that is clear.

CHAIR—Do you think you will?

Mr Rorris—Do I think we will see a change?

CHAIR—Yes.

Mr Rorris—I am hoping that we do. That is not in my hands, unfortunately.

CHAIR—We are quite a way down the track now. We have had Garnaut, green papers, white papers and we are now up to the exposure draft, which has been introduced to the Senate. In the worst case scenario, it is a fair assumption that there is not going to be much more change. These are the indications we are getting. Do you think the Senate should support or oppose?

Mr Rorris—It is not for me to make that call in my position at the moment. I think that—

CHAIR—So you stay on the fence?

Mr Rorris—No, far from it. We lobby people like you to have a look at our exposure and to ensure that the scheme that goes ahead is one that acknowledges that exposure and our need to retain our industry.

CHAIR—That is not wholehearted support, is it?

Mr Rorris—I think I have been pretty clear that something needs to be done regarding carbon emissions.

CHAIR—We all agree that something has to be done. The question is whether the proposal before us is the right proposal, whether it is going to make a difference, whether the price that people are asked to pay is going to deliver the goods and, if it is not going to deliver the goods, whether it would be irresponsible and reckless for us to force people to make a sacrifice. In a nutshell, that is where we are.

Mr Rorris—Let me put it to you this way, Senator. I think that the proposal is a good attempt at trying to put a cap on and restrain carbon emissions, but I do think that there is time—and there is certainly the will and efforts being made on the ground, which we will continue—to ensure that this region does get a better consideration regarding its effects.

CHAIR—So, to sum up, you want a better deal from Minister Wong.

Mr Rorris—We will always want a better deal for our region, Senator.

CHAIR—On that, thank you very much for your contribution to our committee.

Mr Rorris—Thank you.

[3.23 pm]

CORNISH, Mr Noel Howard, Chief Executive, Australian and NZ Steel Manufacturing Businesses, Bluescope Steel

THOMAS, Mr Alan, General Manager Engineering, Technology and Environment, Bluescope Steel

CHAIR—I welcome Mr Cornish and Mr Thomas from Bluescope Steel. If at any stage during the hearing you feel that you would prefer to provide evidence in camera, if there are issues of commercial in confidence that you do not wish to have on the public record, please make sure that you let the committee know. I invite you to make an opening statement.

Mr Cornish—Thank you. We appreciate the opportunity to give evidence today. We note the committee's broad terms of reference. With the committee's indulgence, we will focus our comments on the Carbon Pollution Reduction Scheme. Notwithstanding the government's response to the current economic downturn, the CPRS is the single most important public policy issue facing Bluescope Steel. That is because the scheme, as it is currently designed, has the potential to fundamentally affect our global competitiveness, especially here in the Illawarra. We should make it clear that we do support the government's policy objectives—that is, reducing greenhouse gas emissions whilst maintaining the competitiveness of Australian industry. While the government has stated its desire to show international leadership on climate change policy, such leadership must not come at the expense of Australian emissions-intensive trade-exposed industries, such as the iron and steel industry.

The major problem with the CPRS is that it does not adequately shield industries from the loss of trade competitiveness that will inevitably occur if Australia imposes a carbon cost ahead of other countries. Around 38 per cent of the world's steel is now made in China, and it is a large exporter. The so-called BRICK countries together make up over half of the world's steel production. While Australia is a competitive place to make steel, being one of the few countries with high-quality iron ore and metallurgical coal, it is a small producer in global standards. Australia produces about 0.6 per cent of global steel production. Accordingly, we are largely price takers in global and domestic markets. Until countries such as the BRICK countries impose comparable carbon costs on their steel industries, imposing a carbon cost on the steel industry in Australia will simply make Australian steel makers less competitive and open the door for imports.

Although the headline rate of assistance for integrated iron and steel makers in the white paper is 90 per cent free permits, the effective rate of assistance is considerably lower. In fact, it could be as low as 64 per cent as our total scope 1, 2 and 3 emissions are taken into account. This is because significant parts of our business will be excluded from assistance under the white paper proposals. At \$25 a tonne of CO₂ equivalent, the cost of the CPRS for scope 1 and 2 emissions in the first year alone is tens of millions of dollars, after taking into account the government's proposed assistance. Adding scope 3 costs would see this increase even further.

Costs of this magnitude would be difficult enough to bear in good economic times. In the current downturn it would be disastrous. Some have suggested the shortfall in assistance is necessary in order to provide an abatement incentive to industry. Given energy has always been a significant part of our costs, I would argue that we have in the long term built in a large incentive to save energy. Certainly, Bluescope Steel's blast furnaces are internationally competitive in their use of carbon as a chemical reductant. However, when the shortfall in EITE assistance significantly exceeds an industry's technical ability to abate its emissions, rather than acting as an incentive the CPRS simply becomes a deadweight burden.

Bluescope Steel is considering to research in Australia and overseas. Any low emissions technology breakthrough for the iron and steel industry, however, is likely to be decades away. The major opportunity we have in the short to medium term to reduce our indirect, scope 2, emissions is to improve our energy efficiency. The largest of these opportunities is to construct a cogeneration plant at Port Kembla steelworks which would use waste process gas to produce electricity. This \$1 billion plus project would result in the net offset in emissions of over 800,000 tonnes of carbon dioxide equivalent per annum. It is one of the largest greenhouse gas reduction projects in Australia.

We believe policy needs to provide an incentive for the abatement expenditure, not to act as a deadweight burden on the industry. One of the flaws in the CPRS is that it will drain cash from the balance sheet that could otherwise be used in abatement projects. In our view, the cogeneration plant is exactly the sort of major abatement project which would also act as a stimulus to local employment and demand that the government could provide incentives to encourage. We cannot invest in this cogeneration plant unless we are sure the Carbon Pollution Reduction Scheme will not make our operations unviable. Accordingly, we need an emissions trading scheme that is affordable and sustainable; imposes costs on Australian emissions incentives trade exposed industries in tandem but not ahead of competitors; recognises the technological constraints on emissions abatement and steel making; provides incentives for investment in abatement; takes account of the current global economic crisis; and minimises the risks to competitive trade exposed Australian manufacturing industry investment and jobs. To achieve these objectives, the CPRS needs a significant amendment at a minimum. If that is not possible then government should examine an alternative policy framework.

In conclusion, we are very concerned that the CPRS will not meet the government's own stated policy objective—that is, addressing the competitiveness of the energy intensive trade exposed industries and preventing carbon leakage. There is a real danger that an aggressive CPRS, particularly one that results in Australia acting ahead of major competitors, could compound current financial difficulties and affect the ongoing viability of the Australian iron and steel industry.

I thank you for the opportunity to appear before today. We are very happy to answer questions.

CHAIR—Thank you. I note that you read from a prepared statement. Does one of your advisers have the capacity to table a copy of that statement?

Mr Cornish—We will organise a copy for the committee.

CHAIR—Thank you. What is the current situation in terms of jobs? Have there been any job losses at BlueScope steel as a result of the global financial crisis?

Mr Cornish—Certainly. If I can put it in context, over many years we have worked very hard to be an efficient, productive and successful steel industry. That does mean that when we come to a crisis like this we are not playing catch up from years of management neglect. We have been very efficient, we are highly productive and we are an internationally competitive industry. However, this global crisis has been extremely severe in steel, as it has been in other parts of the world and other industries in Australia. As a result, we have had a circumstance where several hundred contractors have been removed from their daily activities at the steelwork in their role of supporting the steelwork's operations. We have had many areas of our plant shut down for long periods of time over Christmas and in the Easter period, with employees using up all their annual leave and making inroads into their long service leave. We have had some small amount of retrenchments at this stage, but the aim is to try and effectively hold on to as many employees as possible. But the bottom line is that it is a pretty tough environment; the sense is that it looks like it might be getting tougher.

CHAIR—How many people do you employ directly and how many people indirectly benefit from BlueScope steel?

Mr Cornish—Currently in the Illawarra we employ 4,700 people. A study that was undertaken in 2006 by an independent research organisation showed that our multiplier effect of indirect jobs is somewhere between 12,000 and 16,000 additional jobs in the Illawarra. Whilst Wollongong is not a steel town as it was in the 60s, 70s and 80s—the economic base of the Illawarra has diversified with health and education—the steel industry is still a very large industry that contributes to employment generation in the Illawarra.

CHAIR—So over the last six to 12 months, how many of those people's jobs have been under pressure?

Mr Cornish—With the global financial crisis under way, we are all feeling the pressure in what that might result in. As I said, we are doing our best to find ways with contract positions being moved out, although those several hundred contractors have a big impact on the local economy through the indirect employment affect, and we have many people on leave while we try to hold on to the workforce as long as we can.

CHAIR—But you do not essentially have any spare capacity to take the impact of any additional burden that might come?

Mr Cornish—Correct. These are very, very difficult times for most businesses in Australia today. The international market, of which we are a large exporter, is very, very weak, prices are at very low levels and domestic demand is very soft. So we are basically working really hard in order to make sure we get through this crisis. I do not believe that we have any capacity from next year to take on a tax that would not apply to all our competitors in the global marketplace—that is, the people who import into Australia and the people that we compete against when we export our product out Port Kembla. The tax would be of such a nature that I am not aware of any other steel maker in the world that is going to bear this carbon tax. Even the Europeans, who

are in phase 2 of their emissions trading carbon reduction activities, are not talking about imposing taxes on their steel industry until at least 2012.

CHAIR—You say that it is the single biggest issue facing you and an even bigger issue than the global financial crisis. Have you done any work to assess, model or forecast the impact on your business? Because as a significant organisation you would be managing for every scenario, you would have a risk management framework in place and you would be planning for certain scenarios of where the government is proceeding.

Mr Cornish—We have modelled our business using \$25 a tonne, which is the Treasury assumed modelling—

CHAIR—Which is a very generous assumption.

Mr Cornish—Yes. It is somewhere between that and \$40, maybe. I do not want to give a specific number, but it is tens and tens of millions of dollars of impact from the first year of operation. Of course, it increases at 1.3 per cent per annum.

CHAIR—But what would that mean in terms of jobs?

Mr Cornish—What it means is that if our business becomes unviable in the global marketplace, then the whole Port Kembla steelworks is threatened.

CHAIR—So that is 4,500 jobs plus 16,000 jobs?

Mr Cornish—Yes. There is this transition issue that until the rest of the world's steel industry, particularly those BRIC countries, bear the burden of a carbon tax, then it is very difficult to invest in the business when you are not cost competitive in the world. Also, if you cannot invest, it makes it harder to protect the jobs that are in the business.

CHAIR—If I were to sum up your opening statement, what you are saying is that you support efforts to reduce global carbon emissions but let us do it sensibly, let us do it in tandem with the rest of the world and let us do it in a way that is not going to put jobs at risk unnecessarily.

Mr Cornish—Correct. That is a very good summary, senator. The other thing I could mention to put a perspective on it is that the iron and steel industry in the world uses blast furnace technology to make steel and iron. The technology is the most efficient and commercial way to manufacture iron. The iron, in the process, requires carbon as a reductant. So we do not use carbon as an energy; we use it as a reductant to reduce the iron oxide to iron. So 80 per cent of the carbon used in the process is a technical limit set by chemical Stoichiometry equations.

We are very concerned that if tax is imposed at 10 per cent—and I mentioned earlier that that is probably a larger amount than that in business, when you take into account the 2 and 3 emissions—our ability to reduce our carbon gases in the steelworks is limited because of the technical requirements of the process. You get to the stage where it does not become an incentive to abate. We are very happy to stand up and take our share of the abatement effort where we can abate, but, once you get to the stage where you cannot abate any more, it just becomes a dead tax that just sits heavily on you and you cannot do anything about it.

As I think I said in the opening remarks, the technical breakthrough for a different process that does not have 80 per cent of the emissions caught up in the process itself is decades away, in our view. So we need to be very careful that we do not unfairly penalise the Australian industry, with the best of intentions that we have to support reducing greenhouse gases but with no ability to take it any further. That is where I come back to the cogeneration plant. It will have a big impact on the area where we can have an effect on our emissions, but, beyond that, to keep ratcheting it down it just becomes a tax that we cannot do anything about.

CHAIR—If you were no longer competitive, to the point where you were no longer able to produce steel here in the Illawarra region, who would take up the slack?

Mr Cornish—It would be made in some country overseas, like China or Indonesia—

CHAIR—What would that mean for emissions?

Mr Cornish—This is the whole issue, of course. The greenhouse gas issue is a global problem and it requires a global solution.

CHAIR—But the specific question is: if the industry and the jobs were exported from here to China, what would be the impact on global emissions?

Mr Cornish—My view would be that global emissions would probably increase, because the Port Kembla Steelworks is a very efficient producer of iron and steel. It is probable that it would be made through a process which is not as efficient as we are—

CHAIR—And not as environmentally efficient?

Mr Cornish—Correct. So we would see the loss of manufacturing industry and the loss of jobs in Australia for no global greenhouse gas improvement.

Mr Thomas—When you look at the whole world, Australia is a pretty good place to make iron and steel, if the objective is to minimise CO₂ emissions. In this country we have very high-quality iron ore and in the Illawarra we have some of the best coking coal in the world. The combination of those two make this one of the top half-dozen places in the world to produce steel. If we do not make it here, and if we transport those raw materials to other places—and many of the other places that we do compete against do not have their own indigenous raw materials—then the net effect is a lot of emissions from transport. Steel will still be needed in this country.

CHAIR—And presumably the method of production would not be as efficient.

Mr Thomas—Certainly there is a mixture. There are some places in the world that are very good at making steel, with very low emissions, but equally there are many places, particularly in India and some of the plants in China, that have much higher emissions intensity than we do.

CHAIR—You mentioned towards the end of your opening statement that there is a need for significant amendments and if those amendments are not possible then essentially there needs to be a different policy framework. Can you talk us through the amendments that you are looking

for and what, in your view, a different policy framework that would achieve the objective of reducing emissions by maintaining competitiveness would look like?

Mr Thomas—I will start and then Noel will pick up on anything I miss. Part of it is to do with timing. The timing of an imposition on our business needs to be coincident with the imposition of similar taxes on our major competitors. We need a scheme that incentivises abatement activities—the sort of thing that Mr Cornish talked about with the cogeneration plant. At the moment, the current proposal is a disincentive to making investments of that nature, because they are investments in extremely long-lived assets and it is very, very capital intensive. So you need an incentive. We need a scheme that recognises that there are technological limits, scientific limits, to how far you can reduce, and anything beyond that point is really just a tax burden. Incentive to support research and development in the area is a good place to go.

With regard to the second part, it is quite some time since we looked at this but we were involved in the early consultation as to whether you put in place carbon tax type schemes, border adjustment type schemes or ETS type schemes. We broadly agreed with the conclusion that the emissions trading type schemes seemed to be the most efficient way of ensuring that the emissions reductions go to the place where it is most economic to do it. Just changing to, say, a carbon tax will, unless those earlier principles are met and you make sure that you do not impose unreasonable costs on your energy intensive trade exposed industries, give exactly the same result at the CPRS. We do not believe that border adjustment type schemes are appropriate for our industry, and that really goes to the complexity. It would be extraordinarily complex. Just imagine the hundreds of thousands of different products that contain at least some steel and how complex it might get to try to perform some sort of border adjustment.

So, in summary, we think that the ETS approach is probably the right approach. The difficulty we have with the CPRS is really about the way in which it is proposed to be introduced, the timing of introduction and the fact that, as Noel said, in July 2010, we will be the only steel industry on earth that we are aware of that will have those sorts of imposts.

CHAIR—So the design is not right yet, the timing is an issue and we should be working in tandem with the rest of the world?

Mr Thomas—Indeed. It needs to be a global scheme. It is very, very difficult for one country to go it alone, particularly when we make 0.6 per cent of the world's steel.

CHAIR—Are you having these discussions with the government directly as a business?

Mr Thomas—Yes. We have actually done that as the Australian steel industry.

CHAIR—So through an industry association?

Mr Thomas—Yes. But there are only two players—BlueScope and OneSteel—and we have joined together. I have to say that we have had excellent access and I believe the people developing the scheme do understand our issues.

CHAIR—They may understand but have they given you any comfort that they will address the issues that you have raised?

Mr Thomas—The challenge they have is to try to design a one-size-fits-all scheme in a very, very short period of time.

CHAIR—So they are trying to rush it?

Mr Thomas—Yes. If you draw comparisons with what the Europeans did. Quite some years ago they set about introducing a scheme and they still have not got to that stage and they are still giving 100 per cent credits for direct emissions to their steel industry so that they can progress.

CHAIR—They provided more permanents than there were emissions in—

Mr Thomas—They did. They certainly made some mistakes.

CHAIR—It is an easy way of introducing an emissions trading scheme if you do it that way, is it not?

Mr Thomas—Yes. But my point is that they have taken a long time to do it because it is extremely complex and it is very easy to get outcomes that you did not expect or certainly did not want.

CHAIR—What I am hearing you say is that the government is rushing. I guess the question then is: is it not even more important in the economic circumstances we find ourselves in to take our time to get the design right and to get the transition period right?

Mr Thomas—Absolutely; it is essential that we get this right. We as an industry and we as a company are not shying away from our responsibility and the fact that we need to contribute to a reduction in emissions. However, we believe the current scheme is going to lead to outcomes that do not reduce global greenhouse gas emissions and certainly it is not going to help the Australian economy or the people of the Illawarra.

CHAIR—I suspect your access has been as good as it has been because you have had a local member of parliament take you along to the government, have you?

Mr Cornish—Yes, we have supportive local members.

CHAIR—That is very good. Your local member has been on public record discussing some of these issues.

Senator HUTCHINS—This cogeneration plant: it is not operating yet?

Mr Cornish—It is in the design phase, Senator, and I would estimate that already well over \$50 million has been spent in the design phase of this cogeneration plant. It is a large plant, over \$1 billion expenditure, but it is still going through the preparation for submission phase.

Senator HUTCHINS—If the scheme, as proposed, proceeds, has there been any discussion at board level about what might be the next step by BlueScope?

Mr Cornish—With respect to this project?

Senator HUTCHINS—Yes.

Mr Cornish—The issue at board level is that this project is of grave concern in an environment where we believe we are going to have our competitiveness affected by the CPRS. I should mention that in our briefings to government and to the public service supporting this scheme we have been very fulsome in our description about this opportunity with cogeneration.

Senator HUTCHINS—In light of your comments about export exposed industries and also the global financial crisis, to be blunt: has there been any discussion at board level about what might be the board's, and therefore the shareholders', view about the future of BlueScope at Port Kembla if this scheme comes in on July 2010?

Mr Cornish—I really cannot speak on behalf of the board, and nor should I try. I am expressing a view that says that we are very concerned about the steelworks being uncompetitive if it gets a tax imposed on it that none of our competitors in the world have to bear. Our ability to be able to sell our product profitably in Australia, when we have imports coming in from producers that do not have a carbon tax, will be made more difficult and our ability to sell our steel overseas—half the production of the Port Kembla steelworks is exported—bearing a tax that none of our competitors have, particularly in this global financial crisis where margins are nonexistent, will also be more difficult. But even in the good economic times, margins are not that large in the steel industry that you can bear substantial taxes on a business of this nature when no-one else has them.

Senator HUTCHINS—Have there been many exports this year from Port Kembla?

Mr Cornish—Normally we would export about 2,500,000 tonnes per annum from Port Kembla steelworks out of a total of 5.3 million tonnes per annum. That is usually about \$1½ billion worth of exports out of New South Wales. It is quite substantial. We found that we were running at record rates of production and record rates of domestic demand and export up until October, when this global crisis hit. Because the markets have been so poor since October, we have substantially pulled back our production in order to try to match our production to a very thin market. So right now our production has pulled back substantially in reaction to the global financial crisis.

Senator HUTCHINS—So is there a figure you could give us that is not confidential? Is it 50 per cent?

Mr Cornish—How far production has pulled back? A round figure would be about 50 per cent. I should also mention, for the sake of completeness, that we have a furnace that is under reline at the moment. We have two blast furnaces in Port Kembla. One is being relined at the moment, so it is out for operational reasons, but I should say that if the furnace was not being relined at the moment, it would be shut down for market reasons. When the furnace is due back from reline, which is mid-June, the big question will be: are the markets there to enable the furnace to start up again?

CHAIR—You mentioned in your opening statement that 90 per cent free permits, which is sort of the headline figure that is being quoted out there, is in effect much less. I think you mentioned something around 63 per cent or 64 per cent.

Mr Cornish—Yes.

CHAIR—Can you explain how that works because we went over it quickly before.

Mr Thomas—We have done a lot of internal modelling, as you can imagine, to try to understand the impact of this. The first point is that the 90 per cent headline number does not apply to the whole iron and steel industry. The federal government modelling that was done assumed that it did, but it actually only applies to the really intensive steelmaking operation, where you are dealing with red-hot liquids and red-hot materials. All of the downstream processes, which is a very substantial operation—where steel is rolled and shaped and galvanised and painted and formed and turned into marketable products—will receive no assistance. So when you take into account those emissions, plus the emissions from the really intensive part, that dilutes the amount of compensation. The other point, which is more uncertain, but in our industry we think potentially very substantial, is the scope 3 emissions. These are the emissions that are passed on to us by other people that we buy goods and services from. The one that probably concerns us the most is coal. The Illawarra mines are quite gassy. While they technically do meet the definition for EITE, they are not going to be classified that way.

CHAIR—None of the coal is classified?

Mr Thomas—Correct. So those costs, the permits that they have to buy—

CHAIR—Will be passed on to you.

Mr Thomas—Certainly. We have made estimates of that pass-through cost. It is the same for other materials that we buy. You add those together and we think that the average will range somewhere between 64 per cent, as a worst-case scenario, in the first year through to the low 80 per cent mark. Then, of course, every year after 2010 that will decrease; we will get less compensation, or more tax.

CHAIR—So the government assumes you are getting 90 per cent free permits in the economic modelling.

Mr Thomas—The modellers made that assumption. That was made public.

CHAIR—So that is the Treasury modelling that was released in *Australia's low pollution future*.

Mr Thomas—Correct.

CHAIR—But if the assumption is that you get 90 per cent when in effect you are getting 64 per cent, that is another reason as to why the outcome that comes out at the other end is then an underestimate of what would actually happen. Is that a fair statement?

Mr Cornish—That is the point we are making.

Mr Thomas—Yes. There were also some other assumptions in that modelling that we questioned. There was an assumption about when our competitors might introduce similar

schemes. From recollection, it assumed that China would adopt a similar scheme by 2015 and India by 2020. Personally, I think that is a fairly heroic assumption.

CHAIR—Do you have a document that is reviewing the Treasury modelling from your point of view that you might be able to share with us?

Mr Thomas—No, we do not have access to the details of that modelling. All we have seen are some of the assumptions.

CHAIR—They have released part of it and they are trying to cover up another part, which this committee is chasing. But in as much as you have been able to review the part that is published, have you got a critique of it that you might be able to share with the committee?

Mr Cornish—We certainly have had internal work done, but whether we would be prepared to make it public is something I would like to take on notice.

CHAIR—That is fine, but bear in mind in your considerations that you are able to give it to the committee on a confidential basis, which means that we will not publish the information but will use it to draw conclusions.

Mr Cornish—Thank you.

CHAIR—You are aware that Frontier Economics did some work for the New South Wales government in assessing economic impacts; were you consulted as part of that process, or were you asked to provide input?

Mr Cornish—No. We did not provide any input. In fact, the first that we really knew about it was when we read it in the newspaper.

CHAIR—The conclusions that were drawn are that regional economies will be particularly hard hit, and that economies in regions like the Illawarra and others around Australia would contract by between 20 per cent and 25 per cent. That is also your view, isn't it?

Mr Thomas—That is certainly consistent with our view.

CHAIR—If the economy in the Illawarra region were to contract by 20 per cent, what would that mean in terms of the number of jobs?

Mr Cornish—I do not know whether we can answer that.

Mr Thomas—It is a hypothetical question. The scenario for us is a world in which we have this ever-increasing tax imposed every year, draining cash out of the business and destroying the balance sheet. There is no investment—

CHAIR—You have already said that all jobs would be at risk if you were to become uncompetitive as a result.

Mr Thomas—I worked at the Newcastle Steelworks some years ago and I saw what can happen to steelworks when over a period of years you are unable to invest in modern technology and still have to compete in a globally competitive market. I think the outcome is inevitable. It is an extremely competitive industry and it is a very open industry. We compete against all-comers right across the world.

CHAIR—Thank you very much for your contributions to the committee today.

Mr Cornish—Thank you very much for the opportunity to present to you.

Proceedings suspended from 4.01 pm to 4.11 pm

HAMILL, Dr David John, Chairman, Envirogen Pty Ltd

RICE, Mr Jeffrey William, Chief Executive Officer, Envirogen Pty Ltd

VAN ROOYEN, Mr Jonathan, Director, Envirogen Pty Ltd

CHAIR—I welcome the Hon. Dr Hamill, Mr Van Rooyen and Mr Rice from Envirogen. I invite you to make a brief opening statement after which the committee will ask you some questions.

Dr Hamill—Thank you. It is probably appropriate to explain who and what Envirogen is. Envirogen is an environmentally friendly power generation business. We actually generate power through providing emissions abatement. We use waste coal gas, which would otherwise be vented into the atmosphere or flared. I stress that this is a waste product. It is methane but it is of such poor grade that it is not suitable for piping in the form of coal seam methane. So it is truly a waste product; it has no use other than the use to which we put it, which is power generation.

We are not an adjunct to the coal industry but we do provide greenhouse gas abatement. For the committee's information, I would like to point out that fugitive emissions occur through mining activity. They continue to occur even after the mining activity has ceased. During the period of mining activity, of course, mines need to remove methane on safety grounds alone, so we actually are providing both a productive safety solution and gas abatement. Importantly, we can continue to draw methane from mines that have ceased production where that gas would otherwise vent to the atmosphere.

In 2007-08, Australia abated eight million tonnes of fugitive emissions. Our industry—that is, Envirogen and EDL together—were responsible for 6½ million tonnes of abatement, which is over 80 per cent of the fugitive emission abatement. We have been abating fugitive gases since 2000. To put it in some context, this year our industry had a total installed generating capacity of 215 megawatts. That has enough to provide sufficient power to 110,000 homes. That is a city of around 1½ times the size of Canberra. At the same time—and this is the important part of our operation—while providing that amount of power, we are also removing the impact of emissions of 1½ million cars from our roads. We believe, given the regulatory environment, we have the capacity to double that contribution.

The reason we are very pleased to be here to speak to the committee this afternoon is that when the green paper was released there was no mention made of our industry. Landfill gas was mentioned but waste coal gas was not. We made representations to government departments. There was still no mention of our industry when the white paper was released and still there was no mention of us when the draft legislation was produced. Our concern is that state based arrangements to promote renewable energy are due to expire in 2012 and with them goes any incentive for mines to use productively what would otherwise be a waste product. In other words, mines will seek to abate by flaring gas, which we believe and have demonstrated we can use for power generation. In short, there are both negative environmental and economic impacts

from the omission of waste coal gas from the CPRS or indeed from the renewable energy target. The result of that will be that our industry will have no future.

There is a solution. We would like to talk to you at length about that this afternoon. We believe that generation from waste coal gas ought to be included in the proposed expanded renewable energy target and we point to international precedents to support us in that regard. As I said, we have been debating waste coal gas since 2000. It was interesting therefore that in 2000—and, Senator Cormann, you will probably pick me up on my accent here—the Erneuerbare-Energien-Gesetz of Germany was enacted by the Social Democrat-Green coalition, legislation which now enjoys bipartisan support. In that legislation waste coal gas was included under the renewable energy source. In fact, the energy sources that were included under the legislation included energy from hydrodynamic power, wind energy, solar radiation energy, geothermal energy, gas from sedentary landfills, sewage treatment plants, biomass and, importantly, mines. The rationale for including the use of mine gas for electricity generation was because:

The use of mine gas for electricity generation will improve the carbon dioxide and methane balance, relative to the release of these substances into the atmosphere without utilising them. For this reason, mine gas was included in the scope of application of this Act.

They are the words of the federal Ministry for the Environment, Nature Conservation and Nuclear Safety of Germany. Other countries have taken a similar approach. We believe very strongly that Australia should do likewise or to do other than that would lose not only the advantages that we can deliver in terms of abatement and energy supply but also investment and jobs that would flow from the destruction of what is a niche industry in this country.

The burning of waste coal gas for energy certainly does produce carbon dioxide but so does flaring by mines. The big difference is that we actually generate power through the process. There is a real benefit there consequently. We believe that waste coal gas, which is used for power generation, could be classified as a zero rated fuel source under a renewable energy target. We believe, as I said, that there is a clear precedent for the inclusion of our industry under an expanded renewable energy target. Importantly, also, should the power generation which industry provides be lost because of the regulatory environment changing, there will no doubt be a need to substitute that power with generation from other sources. The likelihood is that waste coal gas source power would be replaced by other fossil fuel generated power with all of the environmental implications of that.

In summary, we believe that ours is a case that needs to be heard and that the schemes that have been outlined are deficient because of the omission—maybe it is because we are a small industry, but nevertheless we are an important industry and one that has been critical to delivering Australia's achievements in emissions abatement to date. We are very happy to respond to any questions you may have.

CHAIR—Thank you. Given we have gone through quite a process—we have had Garnaut, the green paper and the white paper—I assume that you have had some discussions with the government or the department along the way. When you raise with them that you are being inappropriately left out, what do they say to you?

Dr Hamill—We have sought to inform government departments; we have sought to inform members of parliament from both sides of the House and the Senate. There has been a view expressed to us—a somewhat naive view, in our opinion—by some departmental officers that in a new regulatory environment the pricing signals will change and that a company like Envirogen should not need to worry because the price of energy will change in a way which would compensate for the losses that we would have through the removal of the state assistance schemes.

CHAIR—On that point, what they are saying is that the price of other energy sources is going to increase to the extent that you will become competitive.

Dr Hamill—Yes. The problem with that, however—

CHAIR—Is that what they are saying?

Dr Hamill—That is the essence of that view. Where that view is misguided is that it fails to recognise that, as I said, we are in the business already. We have long-term contracts with energy suppliers such as Country Energy. Those long-term contracts do not terminate upon the introduction of the CPRS and are based around the regulatory environment which we are currently in. So, whilst in theory the view that was expressed by some in the bureaucracy may hold five or 10 years down the track, we will not be around in that time because the impact on us through not being recognised under an expanded RET scheme will be quite dire for our industry.

CHAIR—I am a bit naive perhaps. Would you perhaps spend a few minutes explaining your mining process and how it achieves the benefit it achieves—talk us through the mechanics of it.

Dr Hamill—I will ask my CEO. He is our mechanics man; he can explain it in detail.

Mr Rice—It is fairly simple. Most mines to date have been using large amounts of ventilation—these are all underground mines, I must say to start with. They have to get the working level of methane down, so they may use high levels of ventilation air where possible. But, as they mine into deeper coals, they mine into more gaseous coals, so they have to do what is called pre-drainage. They drill a lot of holes into the coal block and also have to get rid of the gas after the mine has gone through on a longwall operation. Historically, they have just brought that to the surface and until very recently they have just vented it for safety reasons—as soon as put flares on top of it, you have a safety issue with the blokes underground, so they have tried to avoid that.

What we do is simply connect pipes to those wells which progressively move with the mining operation and bring that gas back through polyethylene pipes of 300 or 400 millimetres in diameter to a centralised power station. That power station consists of reciprocating gas engines designed to this purpose. The ones we are using are an Austrian engine, but there are American engines and the like. These are containerised spark ignition gas engines—very similar to a large diesel engine.

The gas does not go through a long process. Dust and moisture are taken out of it and it feeds straight into these engines. These engines then generate and, through a step up through transformers, it immediately goes out onto the local grid in that general area. So it is a fairly

simple process. We have stuck to nominally one megawatt generating units because they are small building blocks. So, although we do not get into guarantees of off takes under the power purchase agreement, there is an inherent safety factor in having these single one-meg units generating onto the system.

CHAIR—What I heard you say is that the whole process got underway properly because of state policy settings. Is that right?

Mr Rice—Absolutely. It was started back in the late 1990s, when the big retailers were under pressure from the state governments—who were indirectly under pressure from the federal government—to do something, and each state government put in its own regime of paying for the abatement. That is where the majority of our revenue comes from.

CHAIR—You said that that scheme runs out by 2012. So it was always a time-limited scheme, was it?

Dr Hamill—Those schemes are going to be wound up with the implementation of the CPRS.

CHAIR—So, once the CPRS is in place, any state arrangement that you are currently benefiting from will be wound up. So you are going to be worse off as a direct result of the CPRS, which I guess, as far as you are concerned, is inferior to the scheme that is currently in place at a state level?

Dr Hamill—The important issue here is that under the current regulatory arrangements there is an incentive for the waste coal gas to be used. Because of the structure of what is currently proposed under the CPRS and the absence of any recognition of our industry, the onus will be placed on the mine to be responsible for its own abatement and, for the coal mine, the cheapest option will be simply to burn the waste coal gas. Our argument very clearly is this: in doing that, it is a suboptimal environmental outcome and a suboptimal economic outcome. Our industry, as I said, has installed capacity of about 215 megawatts of power. We believe that the industry could double in size. There is around \$300 million of potential investment in the industry which is sitting there pending the outcome of the whole CPRS/renewable energy target policy debate. If we were placed within the renewable energy target and recognised in the way in which I have described, that investment will flow—with the jobs and so on that flow with it and the additional abatement that that will deliver. It is really dependent upon the regulatory outcome.

CHAIR—I understand that the government or departmental officials have said to you that it is going to work out for you anyway, but you doubt whether that is indeed going to be the case. Why would they not just include you? Is there a downside for the government in including you in the way you have asked?

Dr Hamill—As I said, there is plenty of international precedent. I cited Germany but I could have cited the French or US precedents.

CHAIR—I understand. I am just trying to get my head around this. An official saying that it is not really necessary is one thing but an official saying that we do not want to do it because it is going to mean X, Y or Z is another thing. If it is not really necessary, it is not really their problem if it is going to do something beneficial for you.

Dr Hamill—I fail to see the logic that methane generated from landfill has been recognised—it was recognised in the green paper and the white paper—but methane derived from waste coal gas was omitted. I just think that it has been overlooked.

CHAIR—So, other than saying, ‘It is not really necessary,’ the government at the official level have not given you anything else, no other argument?

Mr van Rooyen—They have said that the forecast increase in power prices in the future as a consequence of the CPRS going forward will effectively be a make-good for us in terms of the loss of the NGAC revenue. We have done modelling and given them the detailed models that show them that that is not correct. In fact, the forecast increase in power prices by recognised experts indicate that that will only partly make up for the equivalent of our carbon footprint that we will have to pay for—which, like any generating industry, we are prepared to make that make-good in terms of the carbon footprint and we have to pay for that. However, the subsidy that we are currently getting through the New South Wales gas abatement scheme is not sufficient. In fact, it leaves us with a severe deficiency in our revenue, and they recognise that.

CHAIR—So if the government introduces you into the regulatory regime the way you have proposed and you are able to attract investment in what is an important industry, what is the cost to government? What is the cost to anybody? Is there none? I see you shake your head.

Mr Van Rooyen—No. From our perspective we have not come across any one. In fact, we have had these discussions with DCC officials, including members from the RETS side and the CPRS team, effectively. At all meetings, no-one can tell us why we should be excluded from either scheme.

CHAIR—We will ask them for you tomorrow. We are having the department here tomorrow.

Mr Van Rooyen—The latest meeting we have had with them, particularly around the German scheme, recognised that we have amongst the renewable movement probably the best scheme globally in terms of international precedent. We have commissioned experts in Germany to give us detailed studies of their scheme just to make sure we are not missing anything. Clearly waste coal gas is included as an eligible fuel in terms of meeting their renewable energy targets.

CHAIR—Let me sum up my understanding. It is environmentally beneficial. There is no downside in terms of cost for the government and—

Mr Rice—Other than through the RET scheme, yes. Under the RET scheme that has a value that attributes to those green instruments, yes.

CHAIR—Who pays for that?

Dr Hamill—At the end of the day, effectively consumers pay but what the RET schemes effectively do is actually carve out a part of the energy market for renewables. So whilst it may not be the cheapest power available there would be others who argue that in terms of the more traditional fossil fuel based power sources there are intangibles which the community pays for in other ways but not necessarily directly on the power front.

CHAIR—So how do you compare to all of the other renewable energies?

Mr Van Rooyen—The renewable energy target, which is where we think we should be—consistent with Germany, notwithstanding it is a slightly different model; it is a feeding tower—is 10,000 megawatts. Our proposed expanded scheme has a 10,000-megawatt target. Our industry, as Dr Hamill said, is currently at 215 megawatts. We know that the maximum it can grow to is around 400 megawatts. That will be 400 megawatts of 10,000 megawatts that have to be achieved to reach our targets. So the notion that the renewable energy target is going to be swamped with waste coalmine gases is inconceivable. It is not practical. We will be a very small part of the expanded scheme but we will go a long way to freeing up capital which is constrained in this current environment. To actually spend the equivalent of 215 megawatts would build a \$1.5 billion wind farm. We think to slot into the scheme is perfectly aligned with the notion of a diverse fuel source.

Mr Rice—As far as costs go, the government are so far saying they want 20 per cent by 2015. By virtue you have said that. You have said you are trying to achieve that no matter what the cost is. So the cost will rise and fall on what the alternatives in the market are. All we are asking is to be included in that, so we can then compete with wind farms or landfills or whatever. So it does not really come to asking something additional from the government. We just want to be included—

CHAIR—You want to be able to contribute towards the 20 per cent.

Mr Rice—to be able to compete in the marketplace. Meeting that target is going to be tough anyway.

CHAIR—As it is, so you would like to put in as many people as possible.

Mr Rice—Why would you rule out someone that is saying: ‘We will compete. Just put us under that umbrella, if you like’?

Dr Hamill—Again, the important point is that it is not a case of being all future tense. We are. We have been. As we speak our four generating plants are currently abating gas.

Mr Rice—Can I add a point. In the Senate the other day, there was a question to Penny Wong—and I do not want to go into the details of that—and this came up: waste coal gas and Envirogen. You might like to look at the detail of that, but the answer was that this is a transitional matter. With due respect, we do not see it as a transitional matter at all in the schemes. We want to continue in the long term in a business that provides abatement. There is a big difference between that and a transitional matter between a state government and a federal government scheme.

CHAIR—If the federal government does not make the change that you are seeking, what will happen to your industry?

Mr Rice—We will basically fold up. The reason is—

CHAIR—How many people do you employ? Sorry, the reason is?

Dr Hamill—The industry currently employs around 100 people. As you imagine, it is capital intensive. In the case of Envirogen, we actually outsource to other companies to provide services. A major contractor to us is Clarke Energy, which delivers the on-ground services for our power plants. We have four plants—Tahmoor, Teralba and Glennies Creek in New South Wales, and one at Oaky Creek, near Tieri in Central Queensland. EDL, the other company and a bigger company than ours, operates over a number of other sites around Australia. Our contribution to that employment number of 100 is about half. As I said before, there is around \$350 million of plant on the drawing board which could be brought on line between the two companies—EDL and Envirogen. We project that there is around 300 jobs in the construction phase and obviously fewer in terms of the ongoing operation. It would increase the greenhouse abatement from around 6½ million tonnes as it was in 2007-08 to probably around 12 million tonnes, which is a useful contribution.

CHAIR—Very. You said your industry would fold. What would be the reason for that?

Mr Rice—The numbers being quoted by ACIL Tasman, who advise the government on numbers, indicate an uplift on power pricing as high as 15 per cent. We are well in excess of 50 per cent of our revenue in needing to come from a green vehicle, if you like, to pay for the abatement. And that is what we are getting in excess of now. We are well in excess of the 50 per cent levels. We need that. If you talk about uplifts for power pricing in the order of 15 per cent to 20 per cent, whatever that number is, it is nowhere near enough to compete. As you can appreciate, this generation is not cheap generation. Its primary purpose is twofold: to use the waste resource and to provide abatement. We see ourselves in the abatement business and we would like to continue there.

Senator HUTCHINS—You have three mines in New South Wales?

Dr Hamill—We have three power plants. We do not own any mines—just to make that very clear.

Senator HUTCHINS—Where are they?

Dr Hamill—We have two in the Hunter and one down this way.

Senator HUTCHINS—Your major client is Country Energy?

Mr Rice—It is one of them. Energy Australia is also one.

Senator HUTCHINS—Do they have a view about the predicament you have been placed in?

Mr Rice—They do not have a view. In this scheme where you are moving from state instruments benefiting the abated to taxing the emitter, they do not see themselves in the future of the whole scheme anyway, nor is it their place to comment.

Senator HUTCHINS—With the expiry in 2012, unless this scheme recognises your contribution, you will be out of business by then anyway—is that correct?

Mr Rice—The simple answer is yes.

Senator HUTCHINS—I imagine that what you are currently generating will have to be taken up by some other source.

Dr Hamill—That is correct. That was the point that I was making: fossil fuel generated power is more likely to step up in that time. Not only will that involve a significant investment in additional power plants somewhere else; it will bring with it all the issues—

Senator HUTCHINS—I imagine there will be more flaring, as you call it?

Dr Hamill—There will be flaring: for the gas that we currently use and the gas that EDL currently use as waste coal gas for power generation, the mines producing that gas will simply be burning it into the atmosphere, producing CO₂.

Senator HUTCHINS—Have you had an opportunity to speak directly with representatives of government rather than of the Public Service on these matters? I will not ask whom, but have you had the opportunity to speak directly and to highlight to them what is occurring?

Dr Hamill—We have spoken to backbench members of parliament. We have spoken to ministerial staff and to departmental personnel. We have endeavoured to seek to meet with anyone who will meet with us, frankly. I will say here that I intend to write to MPs, senators and ministers.

CHAIR—Have you met with Penny Wong?

Dr Hamill—I personally have not.

CHAIR—Have members of your company met with Penny Wong?

Mr Rice—We have met with her staff a number of times.

CHAIR—When Penny Wong answered the question in the Senate, and both Senator Hutchins and I were there and listening carefully, she had not had the benefit of a direct briefing.

Mr Rice—Yes.

CHAIR—Have you sought a meeting with the minister directly?

Mr Rice—Yes, we have.

Senator HUTCHINS—So it would be your observation that the people you have spoken to are fully aware of the predicament, for want of a better word, that you are in?

Dr Hamill—I think we have been very clear in the information we have imparted. We imparted the same information that we have sought to share with the committee this afternoon. We provided that information in written form as well—indeed, we would like to leave with the committee this afternoon some relevant documents we have cited in our evidence before the committee.

CHAIR—Thank you. Is there anything we have not asked you about which you think we should be aware of?

Senator HUTCHINS—As the Chair has said, bear in mind that we will have representatives from Treasury and the Department of Climate Change before us tomorrow. If you have anything you feel we need to make them aware of, do not hesitate to put it to us right now, or think about it overnight and give us a note.

Dr Hamill—I think Jonathan may have a comment, but I also have one.

Mr Van Rooyen—One point that I think is worthy of consideration is that the government's \$42 billion stimulus package is very attractive to a company like ours, and indeed to our competitor in the industry—that is, Energy Development. That provides a significant incentive to invest in capital equipment up until 30 June this year. As Dr Hamill said earlier, there are a number of projects, in the order of \$350 million, which include the creation of around 100-odd direct construction jobs, which are all in regional areas. For example, the owners of Envirogen, the industry super funds, have money available to deploy into those projects, and indeed are committed to the fugitive emission abatement sector. Consistent with the \$42 billion stimulus package that is an attractive opportunity; however, the uncertainty created by the CPRS and the notion that we will no longer be given a financial incentive consistent with the safe-abate schemes will mean that those projects will not proceed and those jobs will not crystallise, which is in contravention of the notion of the incentives associated with the government's stimulus package.

Dr Hamill—My comments were really on similar lines. As chairman of the company, I obviously have to be very sensitive to the desire of the shareholders, and industry funds are the key shareholders here. Those shareholders have made a deliberate investment to support what was an environmentally constructive industry. Currently, the waste coal gas power generation—this is Envirogen and EDL—occurs around the following locations: the Tahmoor mine at Picton, New South Wales; Teralba, Newcastle; Oaky Creek, the one I mentioned, at Tieri and Emerald in Queensland; Glennies Creek, Singleton in New South Wales; Appin, Picton; Tower, Picton; German Creek, at Emerald, Queensland; WestVAMP, Picton, New South Wales; and Moranbah North, at Moranbah in Queensland. The \$345 million of potential investment is for Bulga, at Singleton; Mandalong, near Wyong, New South Wales; and Helensburgh, at Helensburgh, New South Wales; an expansion at German Creek, Emerald; Ellensfield, Moranbah; Appin, West Cliff; and here in the Illawarra, in Wollongong.

So it is real investment. It is real economic activity, and we do not want to be an industry that is adversely impacted. We want to be an industry that continues to deliver into the future what we have been delivering—and that is, greenhouse gas abatement.

CHAIR—I think that is an appropriate closing statement. Thank you so much for your contribution to the committee. We thank all those who have given evidence to the committee today.

Committee adjourned at 4.46 pm