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SELECT COMMITTEE ON FUEL AND ENERGY

Reference: Issues relating to the Fuel and Energy Industry

MONDAY, 6 APRIL 2009

MACKAY

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**SENATE SELECT COMMITTEE ON
FUEL AND ENERGY
Monday, 6 April 2009**

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

Senators in attendance: Senators Cormann, Farrell and Ian Macdonald

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Carol Brown, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fisher, Forshaw, Furner, Heffernan, Humphries, Hurley, Johnston, Kroger, Lundy, Ian Macdonald, Marshall, Mason, McGauran, McLucas, 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 10.59 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 provide its final report to the Senate on 21 October 2009. However, the committee is planning to table an interim report regarding emissions trading in early May. Today the committee is focusing mainly on the impact of an emissions trading scheme. 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 give evidence in camera. If a witness objects to answering a question, the witness should state the ground upon which 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, the witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

Finally, 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 this inquiry. The committee has agreed for the proceedings of this hearing to be filmed by a local TV media outlets.

[11.01 am]

BRITTON, Mr Tony, Director, Mackay Area Industry Network (MAIN) Cooperative

KEARNEY, Mr James, Director, Mackay Area Industry Network (MAIN) Cooperative

PEARSE, Ms Narelle Lisa, Chief Executive Officer, Mackay Whitsunday Regional Economic Development Corporation (WREDC); and Managing Director, Mackay Area Industry Network (MAIN) Cooperative

CHAIR—I welcome Ms Pearse from the Mackay Whitsunday Regional Economic Development Corporation and the Mackay Area Industry Network and Mr Kearney and Mr Britton from the Mackay Area Industry Network. I invite you to make a brief opening statement and then the committee will ask you some questions.

Ms Pearse—Thank you very much for inviting us here this morning to present to the Senate committee. I will give a brief overview and then I will hand over to James and I will probably finalise our statement. We put a submission in on 4 February in response to the white paper. We did that through a survey of our members. Probably the most interesting thing for us was the very low response rate that we had from our members, indicating to us, through their inability to give us information on how it will affect them, that industry really is not understanding the effect of the CPRS. A number of questions were asked on a number of issues we saw as pertinent to hearing. I will start by saying that we are supportive of the reduction in greenhouse gas emissions. It needs to happen, and we want to see the most effective solution possible.

One of the issues that members were concerned about was around business growth and profitability, and the issues that the Carbon Pollution Reduction Scheme would have on that. I think the fact that the issues are complex and there is no real ability to quantify it for industry at the moment obviously makes people nervous. They feel that the scheme in its current format will erode the competitiveness of Australian businesses, both domestically and within the global business environment, and they are particularly concerned about the effect on smaller businesses, who are very much price takers in the market. Particularly with the global financial crisis, that situation has escalated as well. We also see that there is the risk to small businesses of the large multinationals coming in and eroding local business. Due the fact that they have a bigger capacity to absorb the costs in the short term, we are concerned about that effect on the smaller businesses.

The proximity of Australia is also an issue for us with our exports and the fact that we will certainly have a higher cost. It will therefore make our businesses much more reliant on the domestic market and having a one-client base as opposed to having the ability to be more diversified. The paper does propose that Australia's comparative advantage will increase. However, we are not sure that that will happen in the short term, given that in the current economic climate people are very focused on low-cost solutions and the ability to absorb the extra cost is an issue. Overall, is about the ability of the scheme to not cannibalise local business. We want to make sure that we retain our industry and the diversification within our region, and

that is very much something that we want get across to the Senate committee. Again, without understanding the full economic impact on regional Australia, it is difficult to be more specific.

The white paper does propose the initiative is a response to market failure. We do not believe that it is actually market failure; we believe it is inefficient past policy that has caused the situation. So we do not see that bringing in a radical change in policy in the short term and very quickly for business is going to have the desired effect. Particularly North Queensland is at risk. We are high-energy users, particularly around in our tropical climate and with our high temperatures. Therefore, we see that the effect on our region is going to be greater than on some of the southern regions. I might just hand over to James to elaborate from an industry's perspective.

Mr Kearney—Thank you for the opportunity to appear today on behalf of our 70-plus members in MAIN. The big concern for us is that the cost of the CPRS remains to be quantified and we would express legitimate concerns for the mining support services industry. The basis of our members are people involved in supporting the mining industry. We feel it will have a possible negative impact on jobs in the Mackay region. Estimates that we are aware of state that it will be in the order of billions of dollars—a billion dollars a year, up to \$5 billion. This will potentially have an immense adverse effect on the Mackay companies that supply services to the mine sites themselves.

In addition to the potential for job losses, we are concerned about the direct and indirect costs of the CPRS. We have seen estimates of an inflationary effect of one to 1½ per cent of the cost of the scheme but, while it has not been quantified, it is difficult to say. The additional inflationary effect will of course be passed on to consumers and then on to the working families of our member companies. We are unsure of the implementation costs—they cannot be quantified—and question the ongoing costs of compliance and reporting for the ETS. We believe there will be an increased cost to the government that will be passed through to companies and then directly and indirectly to consumers. We also have heard some talk that uncertainty with regard to the CPRS and its implementation has resulted in increased sovereign risk and may negatively affect overseas and domestic funding decisions with regard to investments in power stations. If they are coal powered that would affect us greatly. I do not know enough to comment about carbon storage but maybe it would alleviate that concern.

The government has chosen the ETS and not a carbon tax. Although we make no claims to be experts in this area, we are aware that there are benefits to both, along with benefits to some proposed green initiatives. We would ask for some consideration to be given to a combination of: carbon tax; ETS; tax credits for carbon friendly businesses; investment in energy efficient public transport and housing; and investment in research and development in companies that could have a very positive effect on the environment. What we would suggest is: a clear explanation of the cost of the scheme to industry and the public; a clearer explanation of how the scheme will be implemented; more education as to the effects of the CPRS on business and the community, including the benefits; a greater explanation of the assistance packages; and a greater emphasis on clean coal technology and carbon storage. In summary, we request consideration be given for more clarity on the cost and the method of implementation of the CPRS, without precluding the possibility of combining the best elements of the CPRS, the ETS, carbon tax and green initiatives. Thank you.

Ms Pearce—The energy situation in North Queensland currently is less than desirable. We have increased energy costs that already exist in the region due to the fact that the generators are located in south-east Queensland and we pay higher marginal loss factors up here. Increased costs from the CPRS will further increase this disincentive for high-energy users to locate and invest in our region. The state government has their northern economic triangle and the state development area at Abbot Point, which has been pinpointed for high industrial investment. As you know, Chalco is looking to invest in Bowen. We did an exercise last year where we compared the cost of Chalco locating in Gladstone to locating in Bowen. The energy differential was \$5 million a year. That is because of the marginal loss factors. Obviously the consistent supply of energy is an issue for us up here, so we are very keen to see investment in renewable energy to alleviate this type of problem in our region.

As I said, we are supportive of the Commonwealth government's initiative. However, we see that the ultimate goal in this whole initiative is to facilitate change in behaviour. At the moment what we are looking at is more of a punishment system as opposed to an incentive system and we feel that there are inherent problems with this type of approach. We think a more effective system would be to introduce tax incentives to all the users along the supply chain for reducing carbon emissions. At the moment, the costs are imposed at one end of the supply chain, and realistically we are looking at increased costs all along the supply chain, so the end user is going to bear higher costs with no control over behaviour. That is a big issue for us—you need to incentivise companies to change their behaviour, not just at one end of the supply chain but all along the supply chain. We see that this system would in turn see carbon reduction across all industries regardless of where they sit in the supply chain.

We see the benefits of an incentive system as reduction in greenhouse gas emissions, which is obviously what we want; and a simplified system, which will see early uptake from industry—at the moment it is too complex and you are not going to see the early uptake, except by the people it is being imposed upon. We figure that there will be increased investment in new technologies to decrease carbon emissions through an incentive system. We think that new and emerging industries will be created associated with carbon reduction. We can establish Australia as a leader in carbon reduction initiatives, and the achievement of the MRET will be within the required time frames. At the end of the day we will change the behaviour of industry through a government facilitated and market driven approach. As I said, the current system is too complicated and it will not only impose additional direct costs but, as James alluded to, also create substantial increased indirect costs through the reporting mechanisms.

It is clear to us that the majority of industry does not understand the proposed CPRS. In order to make an informed decision about the effect of a new system, informed industry input is essential. The government needs to educate industry effectively in order to truly assess the impact of the CPRS. The introduction of a scheme without true industry understanding and buy-in will be catastrophic in the long run. Industry needs to be prepared for such a monumental change in the way that it will do business and the way it will incur costs.

CHAIR—Thank you very much. This is the pointy end of the process from the government's point of view. We have gone through the Garnaut review, the green paper and the white paper. Why do you think that people do not understand what it is the government is proposing to do?

Ms Pearse—The green paper and the white paper is why. They are very, very technical and most of industry, if I am being realistic, pick up a document that thick and put it in the ‘I will read it later’ pile. I think what we need is more forums where people can ask questions, there can be a presentation and people can really understand what it is as opposed to having to read a large technical report.

CHAIR—In your opening statement you said that you are supportive of a reduction in greenhouse gas emissions. Given that the challenge that was identified is the challenge of global warming, I suspect that when you say you are supportive of a reduction in greenhouse gas emissions you are focused on reducing emissions globally. Is that right?

Ms Pearse—Absolutely, but we obviously need to start somewhere, particularly for our organisation, which is responsible for economic development in the statistical division. What we would like to see is the ability to measure our carbon footprint. Our investment attraction initiatives are around neutralising and balancing it out, so we are looking at trying to encourage investment from green industry. Obviously the mining industry is perceived to be a huge emitter, whereas we are not actually burning here.

CHAIR—But, if people across North Queensland along with people across Australia are asked to make a sacrifice because there is going to be a cost for the economy, an impact on jobs and an impact on the cost of energy, you would want what we do in Australia to be making a difference in terms of reducing greenhouse gas emissions, would you not?

Ms Pearse—Absolutely, but I think we need to do it the right way so that it does not jeopardise industry and does not jeopardise jobs.

CHAIR—But are you confident that the Carbon Pollution Reduction Scheme, in the way it is currently designed, will contribute to a reduction in greenhouse gas emissions?

Ms Pearse—I think it will, but I am more worried about what it sacrifices at the end of the day.

CHAIR—Let us dwell on your thought that it will reduce emissions. On what basis do you think it will?

Ms Pearse—I suppose it is through a regulatory basis and the fact that industry will be forced through higher costs—

CHAIR—We had the Department of Climate Change along with Treasury before this committee in Canberra last week, and we tried to ask them whether they had a target for how much they wanted to contribute in terms of reducing greenhouse gas emissions around the world, but they were not able to answer. I am picking up on your point that people do not quite understand what is involved, and you focused on the fact that they do not understand the costs. If you do not understand the benefits, then you do not understand the costs. There is a major issue there, isn't there?

Ms Pearse—No, I don't think so, because it is more about quantifying the costs so that industry can make a really informed decision as to what their thoughts are on the scheme. I do not think the benefits are in question.

CHAIR—Are you happy to pay a price for a product when you do not know how good the product is?

Ms Pearse—Absolutely not.

CHAIR—That is my point. You trust the government—you trust that what they want to do is going to make an impact. But, if you found out that it was not actually going to reduce global greenhouse gas emissions, would that concern you?

Ms Pearse—Absolutely. If it were not going to decrease global emissions, then of course it would concern us. But I think we need to start somewhere. We can all say that us making a difference—

CHAIR—So starting anywhere is okay—

Ms Pearse—Absolutely.

CHAIR—even if it is going to cost jobs?

Ms Pearse—Not if it is going to cost jobs. I think we need the most efficient system. We need to gain the benefits but to do it the right way.

CHAIR—Do you think we have the most efficient system?

Ms Pearse—No.

CHAIR—In terms of the impact of the global economic downturn, can you describe for us how this region has been impacted by the global economic downturn so far?

Ms Pearse—We have probably been less impacted than the rest of Australia. Our economy is actually quite resilient. We are starting to feel the pinch, but on the collection of primary data that we have done, because we went into it with such a big skills shortage, the majority of people who have been laid off have been re-employed. But this is a short-term measure, as we see it. If we do not get some investment into some of the larger projects and the ability to redeploy skills across different projects, particularly with contractors, we will start to see a bigger effect.

CHAIR—Are you aware of a report by Frontier Economics commissioned by the New South Wales state government?

Ms Pearse—No.

CHAIR—Frontier Economics is an economic modelling firm which essentially came to the conclusion that regional areas across Australia are going to be hardest hit from the proposed emissions trading scheme. Regional economies like North Queensland would contract by about

20 to 25 per cent as a result of the CPRS. What would that mean for North Queensland and the region around Mackay?

Ms Pearse—It will depend on which industries, whether they are noting that as a broad generalisation, in that the whole of our GRP will contract, or whether they are talking about specific industries. At the moment, we are 42 per cent reliant on coalmining, so I would say that the reduction will start there, given that it is an industry very much focused on this type of scheme. So it would certainly have a very big impact, and I think at the moment the coalmining industry, regardless of the reductions that it is seeing, is still underpinning our economy and the resilience of our economy.

Senator FARRELL—Thank you for coming along and talking to us today. You said in your introduction that you thought that there had not been a great number of responses from your members. Your conclusion was that perhaps they do not know enough about the scheme and are therefore not sufficiently interested. Another conclusion, I suppose, could be that they do know something about it because it has had so much publicity and they are not opposed to the scheme. Is that a possible explanation?

Ms Pearse—Not really, because I did a ring around after we got such a low response rate, and the feedback I was getting was that there was a lack of understanding. Realistically, it is almost a cliché, because there has been a lot of media about it and people know that it is there but they do not actually understand what it is.

Senator FARRELL—It is a reasonably simple proposal, isn't it? We are trying to reduce the amount of carbon emissions and there is a cost to that. It is not that hard to understand. You may disagree with it, but the actual concept is not that difficult to grasp. I am sure your members are smart enough to grasp the concepts.

Ms Pearse—I suppose the difficulty with industry is that, until they understand how much their bottom line is going to reduce, they are too busy trying to fill demand, particularly up here. We have now seen a shift in our supply and demand curve but, before, demand very much outweighed supply and so people were just interested in getting the jobs through. So anything like this is put in the too hard or to do baskets.

Senator FARRELL—This morning we have had a little bit of information about the fact that until recently the rain situation had been pretty bad in this area.

Ms Pearse—The rain?

Senator FARRELL—Yes, there had not been as much rain as normal.

Ms Pearse—No, that was South-East Queensland. We are pretty well stocked for water up here.

Senator FARRELL—I understood that, going back two years, for about six years you had had reduced rainfall.

Ms Pearse—We did, but probably in the last two to three years—and I am not 100 per cent sure on this—we have certainly gone back to good rainfall.

Senator FARRELL—My understanding was that the last couple of years have been okay but prior to that you had had about six or seven years of low rainfall. You can speculate as to why that might be, but, if one of the conclusions is that it is as a result of climate change, aren't your members likely to benefit if we reduce the impact on climate change? In other words, isn't there a long-term benefit to your members if we can reduce the effects of climate change and return on a permanent basis to more normal levels of rainfall?

Ms Pearse—Absolutely, and we certainly are not disputing that. Obviously, one of our greatest natural assets here is the Great Barrier Reef, so we certainly want to see protection. The reduction of greenhouse gas emissions is something we do support.

Senator FARRELL—So you support the concept of reducing greenhouse emissions?

Ms Pearse—Yes, and I do not think you would have anyone in Australia not supporting that concept. But I think, as the Senator said before, it is about what you are willing to pay—and it is a willingness to pay in the short term as opposed to the long term. For example, everybody complained about the introduction of the GST until it was actually introduced and people got used to it. Sometimes, imposing something in the short term that people do not understand that has a significant effect on their business, when they have not planned adequately for it, will be an issue.

Senator FARRELL—Okay. You think that there are some short-term costs associated with it but it has some long-term benefits. That seems to be what you are saying. Have I got you right there?

Ms Pearse—Yes.

Senator FARRELL—I suppose there may never be an appropriate time to introduce such a scheme then, if you are worried about the start-up costs and all of those attendant problems.

Ms Pearse—That is fair to say. I think, though, that under the current global financial crisis is obviously a less than opportune time to start. An incentive system, as opposed to a punishment system, is easier for industry to absorb and it also encourages them, as I said, to change their behaviour. We want to see further diversification away from, say, the high energy emitters through coal fired power into more green energy and incentives for the companies to take up that sort of technology early.

Senator FARRELL—There are some very good companies in this area that are moving in that direction, aren't there? Wouldn't they benefit from what the government is proposing to do?

Ms Pearse—With the legislation?

Senator FARRELL—Yes. With the greater focus on green energy, particularly green base load energy, wouldn't those companies in this area be the big beneficiaries?

Ms Pearce—It depends on the cost of green energy in the start-up as opposed to coal fired. Obviously, coal fired power is the cheapest form and, regardless of their intention in the long run to reduce greenhouse emissions, it depends whether they can actually absorb the cost in the short term. That is potentially where we need the government's assistance to get the market balanced in terms of costs of energy.

Senator IAN MACDONALD—First of all, could I get it clear in my mind: what the association is between REDC and MAIN?

Ms Pearce—REDC is the economic development corporation, and in the past REDC has set up a number of industry clusters. MAIN is a self-sufficient cluster, but unfortunately our general manager resigned in December. So as a short-term measure, because we share an office, I stepped in as managing director because I have sat on the board for two years.

Senator IAN MACDONALD—So REDC is entirely funded by the state government?

Ms Pearce—No.

Senator IAN MACDONALD—By state government and industry?

Ms Pearce—By state government, local councils—Mackay, Whitsunday and Isaac—and industry.

Senator IAN MACDONALD—And MAIN is totally funded by industry members?

Ms Pearce—By industry, yes.

Senator IAN MACDONALD—I live in Ayr, so I am familiar with some of the answers, but I just want to get it on the record. Just how dependent is the Mackay region on the Bowen Basin coal fields?

Ms Pearce—They are 42 per cent.

Senator IAN MACDONALD—And what is the rest of the industry here based on—sugar?

Ms Pearce—There is agriculture. I am unsure of the actual details, but I can provide you with the breakdown.

Senator IAN MACDONALD—It would be sugar, then tourism, beef cattle?

Ms Pearce—Yes. Agriculture is one, and there is manufacturing, construction and tourism.

Senator IAN MACDONALD—But your 42 per cent impact encompasses all of the Mackay based support industries—in engineering, job placement and all those sorts of things.

Ms Pearce—Yes.

Senator IAN MACDONALD—Hypothetically, if the coalmining industry were not around in the Bowen Basin, it would be a disaster for Mackay.

Ms Pearce—Absolutely.

Senator IAN MACDONALD—Are you aware of the coal industry's views on the proposed CPRS at the moment?

Ms Pearce—More so from reading some of the submissions from the contractors, as opposed to the mining companies.

Senator IAN MACDONALD—The coal industry association, the Queensland mining council and the Australian mining council—whatever its equivalent is—are all horrified, very scared, about the job losses that could occur, and that they anticipate will occur, if the CPRS goes through in the way it is proposed in the white paper. Whilst Mackay is, as you say, a very resilient and diversified economy, which makes Mackay one of the most fortunate communities along the Queensland coast, the loss or the substantial curtailment of the coal industry would have a significant impact on all of your member industries.

Ms Pearce—Absolutely. I think the multiplier is one to six.

Senator IAN MACDONALD—I not sure how long you have lived in the north, where I have lived, but my colleague was asking about climate change and the weather. Of course, those of us who live here know that we are now getting back to the sort of climate we had 20 years ago and I guess 20 years before that. It is a bit of a cycle, and I am not sure that that debate is yet finalised. But I was very interested in your comment, which I can well appreciate, that your members really do not have much idea about the detail of this. You were saying you thought you needed question and answer forums. That has not occurred here? Has that been offered by anyone?

Ms Pearce—I think AICD did one, which was well supported, and industry have asked for it to be re-presented. But, again, it is about getting people to understand that they actually need to be there, and that is something our group can certainly push. I do not know whether James or Tony have anything to add from an industry perspective.

Mr Kearney—I think in general you would be correct that we probably get a lot of our information from the Queensland Resources Council, Drill and Blast and the Mining Daily news. You talk about the economic effects and costs, and a lot of it is uncertainty, because you are trying to budget, trying to plan for the future. You have your own shareholders or your private company that distributes some profits, hopefully. In terms of what we think the effect would be, it would probably be fairly disastrous because it appears to be punitive on the coal industry, and the coal industry, of course, keeps Mackay going.

That is why I briefly brought up a bit of the competitiveness and maybe some added risk on investment decisions—also the community in a wider role, because that is how all the shopping centres stay open and everything associated with that. Some of our members are not directly in engineering or services to mining; they are in tourism and agriculture. So we have a broad base where people depend on what happens on the mine sites. I also briefly brought up carbon

storage, which is mostly focused in South Australia—the prototype kind of mine or storage centres. If you were going to do anything in Queensland you would have the high cost of possibly piping these things somewhere. We have seen things like putting back a generation system, which appears to be expensive. If they are expensive and that is a viable alternative, and if the front-end cost of an ETS is going to the coalmines and coal manufacturers, where does that leave money for investment or possibly for carbon storage and things that you can build—generation plants that can recycle—because that will be a cost also.

We all see the scary end of the news: you will lose your worldwide competitiveness, and why should we go first—because whatever we save, China in one day will quite possibly meet anything we can save in a couple of months. That is pretty much it. I probably could not add anything more that you have not heard already.

Senator IAN MACDONALD—Ms Pearse, you should tell your members that they should not feel bad about not knowing about it, because we have been on this committee and would be considered to be somewhat experts at it, but we do not really know either because there is no—

CHAIR—Seven or eight months after asking questions, we still do not know.

Senator IAN MACDONALD—The department running it does not really know what is happening, and of course nobody has seen the legislation that has been promised for a long time and is supposed to be here—when we go back in May, I think. Quite frankly, your members would not need to start worrying at the moment, because they really do not know how it will impact on them until we see the legislation. So do not feel badly about that. Are you aware that, internationally, one of the big competitors for thermal coal, which you produce, is Indonesia?

Ms Pearse—Yes.

Senator IAN MACDONALD—Are you aware that Indonesia will not be having any sort of an ETS for a long time, if ever? I guess that is what you are talking about when you talk about competitiveness.

Ms Pearse—And comparative advantage.

Senator IAN MACDONALD—Are you also aware that the Victorian brown coal industry—and this disturbs me as a Queenslander—is getting a better deal with free permits than the black coal industry is?

Ms Pearse—No.

Mr Kearney—I am partly aware of it. I am also aware that, if they stopped brown coal in Victoria, the ETS targets would probably be met straightaway—as rumour has it!

Ms Pearse—There is your answer.

Senator IAN MACDONALD—Okay. We have been to Mackay Sugar—and they will give evidence shortly—and there are certainly some benefits in green energy, which we should all be striving towards. Is it within your capacity to get a better handle on the impact of a CPRS

proposal, when it becomes clear, when the government actually announces exactly what it is doing? Have you done, or are you in a position to do, surveys on that or is it a bit beyond your league?

Ms Pearce—Yes, it is something we could do.

Senator IAN MACDONALD—It is particularly important that the impact is known, because your members will obviously have to make adjustments to their business plans depending upon where this all happens. As an industry group, would you have members who are involved in the tourist industry? I guess REDC would.

Ms Pearce—Yes, we do.

Senator IAN MACDONALD—I noticed that, earlier, you or one of my colleagues talked about the Great Barrier Reef and climate change. Again, there are arguments on why that all occurs. Have your tourist industry members had any voluble thoughts on climate change and how it might affect their industry and that sort of thing, or is it something that has not come to their attention either?

Ms Pearce—Not that I am aware. Again, that is something that is discussed. GBRMPA are probably more the organisation that actually undertakes that sort of work, as opposed to our local tourism organisations. I am not 100 per cent sure about that.

Senator IAN MACDONALD—Fair enough. I know that the beef cattle industry is very big out in the Bowen Basin and beyond. Do you have any members who are involved in the beef cattle industry at all?

Ms Pearce—The industry is probably more clustered around Rockhampton. We have associates within the industry, but it is probably not as large scale as around Rockhampton.

Senator IAN MACDONALD—There are no exports through Mackay harbour of live cattle and that sort of thing? There is no meatworks here these days.

Ms Pearce—There are meatworks. We have the Borthwicks abattoir here. Everything is shipped down to Brisbane for export.

Senator IAN MACDONALD—Okay. Has Borthwicks or anyone indicated to you any concern that they have about 2015 when beef cattle might be brought in to the CPRS? I say ‘might be’, because none of us really know. It will not come in before then, but the anticipation is that it would after that. We have had evidence before this committee that if that happens we will turn into a nation of vegetarians, because no-one will be able to afford those smelly cows and the meat that they produce. Are Borthwicks or any associations that you have focused on that sort of thing?

Ms Pearce—I have not had any discussions with them at all, which is obviously concerning.

Senator IAN MACDONALD—Your members are in various fields and would be involved in a lot of peak associations, I guess. Certainly the mining industries would, but even your

manufacturing industries would be. Would they perhaps have plans for a forum once it becomes known? Perhaps the government might come up and hold the forum that you are talking about?

Ms Pearce—As long as the industry associations can get experts who are well versed in this field, they have the ability to put the seminars on and to educate people. That is probably easier than the government having to do it. That will also give local buy in, as well. That would work.

Senator IAN MACDONALD—Is the Dalrymple port a member association of either of yours?

Ms Pearce—Both.

Senator IAN MACDONALD—What is their read on this? I do not want to put words in their mouths. If there were a downturn in the coal export industry, have they indicated, through the association, that there would be some concern as to their operations here?

Ms Pearce—Because it is really hard to quantify, nobody is putting that information out there or having the discussion, which makes things difficult. The biggest thing is the effect on mining, particularly for MAIN companies. If those in the industry understood what the effect was going to be on their businesses that would give them time to plan for new markets. It may be around green energy; it might be around wind power or solar. Knowledge would give them the ability to diversify their products so that they are ready so that if coal does contract the company is not going to go out of business.

Senator IAN MACDONALD—One of the good things is that the worldwide criticism of bottlenecks at Port Dalrymple perhaps are not so prominent at the moment with the general global downturn. Is that quantified at all? Do you have figures on that? Are there statistics around? The bottlenecks here were just outrageous; just criminal. Unfortunately, I fly over this every time I go to Canberra and seeing the ships out there just makes my blood boil. But it is not as bad as it used to be. Is that correct?

Ms Pearce—It is not, but it is very hard to get the statistics out of the companies. I know that around December it was probably down to 10. Now it is probably back between 30 and 40.

Senator IAN MACDONALD—Is that right?

Ms Pearce—Yes. The other thing with our region is that we keep the major developments register, which we update every three months. At the moment we have \$42 billion worth of projects sitting in the region. Fifty per cent are under study. One of the things we have noticed is that none of the coal expansion projects or the new coalmining projects have been pulled off the register. In discussions with the coal industry, they are very much telling us that they see the medium- to long-term growth in the pipeline as very strong. How much they have factored the CPRS into those predictions is hard to say, but at the moment I suppose that is what underpins our regional confidence.

Senator IAN MACDONALD—Could you tell me a bit more about your major growth register.

Ms Pearse—The Regional Developments Register?

Senator IAN MACDONALD—Yes.

Ms Pearse—Basically, it tracks projects in the region that are under study, committed, commenced or that have been finished in the last six to 12 months. It lists them per industry category—what is happening in mining or tourism—how far along the project is, where it is located and who the developer is. It gives us an idea, for REDC to track over time whether investment interest in the region is increasing or decreasing.

Senator IAN MACDONALD—Is that a public document?

Ms Pearse—Yes. I can give you a copy.

Senator IAN MACDONALD—I would be interested in that. Could you make it available to the secretariat for the committee's benefit?

Ms Pearse—Yes.

Senator IAN MACDONALD—It would provide a very good track, I would think, of business confidence in this area over a period of time. It would certainly be an interesting document to follow when the full details of the CPRS become available. Senator Cormann mentioned to you a report by Frontier Economics that was commissioned by the New South Wales—

Ms Pearse—Was it the New South Wales government?

Senator IAN MACDONALD—Yes, by Frontier Economics. I understand it is not a public document for some reason, so neither you nor I can look at that. Do you—

CHAIR—Maybe I can help. Last week in evidence before this committee the federal Treasury told us that they had not assessed the impact of the proposed Carbon Pollution Reduction Scheme on regional economies across Australia. Is that something that is of concern to you?

Ms Pearse—The white paper basically says that, and that is certainly where our concern is coming from.

CHAIR—So the government is essentially flying blind as far as the impact on regional Australia is concerned?

Ms Pearse—Yes, it is a concern.

CHAIR—Frontier Economics, who did the assessment—and they used exactly the same model and exactly the same assumptions and information that were used by federal Treasury—came to the conclusion that regional economies like this one would contract by 20 to 25 per cent. Presumably, that is why the government did not go there and ask those questions.

Ms Pearse—I suppose what concerns me is that there have been a lot of national studies done that assume that every economy is generic and exactly the same, which is not the case. Senator Macdonald knows that around Ayr and Townsville is very different to Mackay, and the Whitsundays are very different to Western Australia. So to come out and say that this is the figure and this is what is going to happen is also concerning.

CHAIR—Is the CPRS based too much on a ‘one size fits all’ assumption?

Ms Pearse—I think so.

Senator IAN MACDONALD—Finally, is the union movement perhaps a member of REDC? I assume they would not be of MAIN. Do you have much interaction with them?

Ms Pearse—On different issues we do, but we have never had the discussion with the unions about this, so I am unaware of what their position is.

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

Ms Pearse—Thank you.

[11.46 am]

HILDEBRAND, Mr Quinton Lance, Chief Executive Officer, Mackay Sugar Ltd

HODGSON, Mr John Joseph, Projects Manager, Mackay Sugar Ltd

WESTCOTT, Mr Charles Edward, Chairman of Directors, Mackay Sugar Ltd

CHAIR—Welcome.

Mr Westcott—Welcome to Mackay.

CHAIR—I invite you to make a brief opening statement and then the committee will ask some questions.

Mr Hildebrand—I will do the introduction. Thank you for the opportunity to present to you today. Mackay Sugar Ltd is the second-largest sugar producer in Australia. We produce roughly 20 per cent of the sugar produced in Australia. We have over 900 grower shareholders and have embarked on a diversification strategy to utilise the bagasse and molasses by-products in order to reduce our dependency on raw sugar as the major source of revenue and to diversify into other product streams. We are well positioned to take advantage of renewable energy opportunities. We are an internationally low-cost cane producer. We have the critical mass to be able to develop meaningful green renewable energy projects. This strategy complements the sustainability of our industry in rural Queensland. I will hand over to John Hodgson, who is the project manager on our renewable energy projects, to take you through some of the direct questions that you presented to us.

Mr Hodgson—Consuming about 20 petajoules of energy every year, Mackay Sugar's three mills are large energy users. Twenty petajoules equals about 50 per cent of the total energy used in the Queensland mining industry. However, about 95 per cent of this energy is self-generated from renewable bagasse, which is the fibre that remains from the sugarcane crushing process. The energy content of the bagasse is equivalent to about 650,000 tonnes of coal, to put it in perspective. About four per cent of our energy comes from coal-firing to supply steam and electricity to our refinery at the Racecourse site that operates for the whole year. We store bagasse for about three months operation in the non-crush period and we revert to coal for the last two months or so. About less than one per cent of our energy needs comes from transport fuels—that is, mainly diesel for our locomotives to bring the cane to the mills.

Our renewable bagasse is fired in large boilers to produce steam. Some of that is used to generate electricity and provide heating steam for the sugar process. About 75 per cent of the generated electricity is used internally and the balance is exported to the local Mackay grid. The energy generation process has been deliberately designed to be inefficient to avoid having to dump our surplus bagasse in cane paddocks. Low domestic energy prices in Australia have provided little incentive for sugar mills to invest in efficient energy-producing plants. The competitiveness of the Australian sugar industry has suffered in recent times as a lot of our major international competitors have diversified into co-generation and ethanol projects. These

countries typically have much higher domestic energy prices and sugar mills are encouraged to invest in renewable energy. It is ironic that the CPRS will likely cause energy prices to rise in Australia, thereby assisting renewable sugar producers to be competitive by diversifying our income stream into renewable energy.

So in the future, to counter falling sugar prices over time, Mackay Sugar has embarked on plans to install a major co-generation plant at Racecourse Mill, followed by a fuel grade ethanol plant. The co-generation plant will be 36 megawatts in capacity and will feed about 28 megawatts into the Mackay grid, which will supply about 33 per cent of Mackay city's needs when it is completed. It will also supply energy to the 60-megalitre ethanol plant in the future.

Legislation of the 20 per cent renewable energy target is an essential and urgent prerequisite for the co-generation project to proceed. However, the CPRS, the Carbon Pollution Reduction Scheme, will indirectly assist the projects due to the likely increase in wholesale electricity prices. Similarly, increases in petrol prices will assist the viability of our ethanol project into the future.

The Australian Sugar Milling Council has been quite proactive in modelling the impact of the CPRS on the sugar industry. We have done quite a lot of modelling to look at the impact on our current operations and also on the co-generation project and the ethanol project in the future. With our modelling, using a price of \$20 per tonne of carbon as a starting point, we estimate that there will be a net increase in operating costs to Mackay Sugar of less than 0.1 per cent for our current operations. However, when we do co-generation the project will export about 200,000 megawatt hours per annum into the Mackay grid. Assuming that the CPRS increases the price of electricity, we estimate that the net impact of the CPRS on our co-gen project could be an extra \$3½ million revenue built into our power purchase agreement each year. For ethanol—and it is quite easy to calculate the increase in petrol price—it should be 2½c for every \$10 for a carbon permit, and if that is passed through to consumers we see the CPRS adding in excess of \$2 million to our ethanol project.

In summary, we are a very large energy user. We are in fact an energy-intensive trade-exposed industry that has suffered because of low domestic prices, which is quite the opposite to most large energy users in Australia. But we have taken a very close interest in the structure and implementation of the CPRS and our modelling has shown that the scheme will have a small negative impact on current operations. However, with a strategic plan to enter the renewable energy and ethanol markets, Mackay Sugar views the CPRS as a positive policy which will enhance both projects. But, more importantly for cane farmers in Mackay, the 20 per cent renewable scheme offers them a more immediate and tangible scheme for the transition to low-emission renewable energy in Mackay.

CHAIR—Thank you very much for those opening remarks. How have you been impacted, if at all, by the current global economic downturn?

Mr Hildebrand—The sugar industry is in an interesting circumstance. The global supply of sugar has reduced, with some of the large exporters, India particularly, having a reduced output this year. As a result, sugar prices are firm, aided by the weaker Australian dollar. So at this point in time—

CHAIR—Circumstances are good for you.

Mr Hildebrand—circumstances are fairly positive. Provided the crop is there, we should generate good returns this year.

CHAIR—So your general sense is that you are less impacted by the global economic downturn. From what I am hearing you say, you can also see opportunity for your industry in the proposed Carbon Pollution Reduction Scheme. Is that right?

Mr Hildebrand—If you look at this industry, it has been around for over 130 years in this region. We have been through some very challenging times in the past. We do need to make some substantive changes in the fundamentals of our business. Our competitors have moved ahead and are now operating industrial sites where there used to be sugar factories, utilising co-generation, ethanol, lysine production, all the various citric acids et cetera—all of the other derivatives of the cane plant—and if we want to maintain our competitiveness, we need to move down that avenue as well.

CHAIR—In your opening remarks, Mr Hodgson, you were talking about assuming that the CPRS increases the price of electricity et cetera. Are you making any particular assumptions as to what you expect to happen to the price of electricity as a result of the CPRS in order for it to fit into your business model?

Mr Hodgson—At the moment we are talking to some retailers on looking at power purchase agreements, the off-take of our electricity. They are the ones who are building in the price of the Carbon Pollution Reduction Scheme in their offers.

CHAIR—What are they building in, do you know?

Mr Hodgson—It is difficult—

CHAIR—Is that commercial in confidence?

Mr Hodgson—To an extent, but they are finding it difficult to take a position on the impact of the Carbon Pollution Reduction Scheme on their pricing at the moment while there is uncertainty out there.

CHAIR—So they are not quite sure where to pitch it?

Mr Hodgson—That is right.

CHAIR—If you give us a high-level indication, what is the indicative pitch?

Mr Hodgson—It depends on the price of carbon permits, but in our modelling we are using a permit price of \$20. The emission intensity of Queensland Electricity is 0.91 tonnes of CO₂ per megawatt hour, so you can pass that through to the electricity price quite easily. Depending on how much of that is passed through to consumers or through to the national electricity market, then I guess that will then dictate how high the prices might go under a CPRS.

CHAIR—So there are two different questions: one question is how much the cost of electricity is going to go up and the other question is how much is going to be passed through.

Mr Hodgson—Exactly.

CHAIR—But if it can be done quite easily, I suspect you have done it?

Mr Hodgson—We have done those sums internally, yes.

CHAIR—So what is the impact on the cost of electricity based on a permit price of \$20?

Mr Hodgson—Roughly, it is 0.91 times \$20, so it would be about \$18 a megawatt hour—if carbon was priced at \$20 and if that price was passed through to the wholesale market.

Senator IAN MACDONALD—First of all, I want to put on the record our thanks for your hosting us at the mill this morning. It was a very good discussion and a very interesting tour of the mill. Thank you also for the PowerPoint presentation, which you have indicated you will be making available to the secretariat. And congratulations on the work Mackay Sugar has done in leading the way on renewables and making the sugar industry profitable—and hopefully ensuring its continued presence along the Queensland coast in the decades ahead. This morning we spoke about this, and I think you sort of touched on it a moment ago, but if I could get you to repeat it: the prices that you would buy in power currently and what might be the cost to you in the future once your two projects are under way.

Mr Hodgson—We sell to retail at the moment for a price similar, or perhaps a little bit discounted, to the Queensland pool price, which is probably in the vicinity of \$30 to \$40 a megawatt hour. Any electricity that we import to our sites, our sugar mills, we pay—it is tariff 22, but it averages about \$135 a megawatt hour, what we pay for import electricity, but that is because the import electricity has the transmission and network costs and retailers' costs and profit margins built into it. When we do our co-generation project, we expect to get higher pricing, but certainly not anywhere near the price that we pay for electricity. It will not be up at that sort of level. So the balance that we need for our projects to be viable needs to come through the renewable energy target, the 20 per cent scheme that is being looked at and is being developed at the moment, but that is crucial for our project.

Senator IAN MACDONALD—What is the cost to you of producing a kilowatt hour of renewable energy? I appreciate you are not doing it at the moment, but your calculation.

Mr Hodgson—We do not put a cost on it at the moment. We generate electricity; we export our surplus into the grid. I guess the value is what we get paid for it, which is discounted to the pool price. But it is business we have to do: we have to burn our bagasse, we have to generate steam for our process, we have to generate electricity for our process as well. It is something that is inherent to the production of sugar. Any small surplus that is available, we just send out into the grid. To invest in our co-generation project, we are looking at over \$100 million, and we must get higher pricing to support that sort of investment.

Senator IAN MACDONALD—The answers may be commercial in confidence, in which case I would not expect you to answer them, but taking into account your capital cost and your

return on capital, have you calculated a figure that you will need to receive for your green energy?

Mr Hodgson—That really is commercial in confidence; we would rather not disclose that. It would have to be in excess of \$100 a megawatt hour for projects to be viable in the sugar industry. It is general knowledge that sugar and wind are probably similar in costs, then you move up into your higher cost renewable technologies beyond that. But, no, we would not like to disclose that figure here.

Senator IAN MACDONALD—That is fair enough, I understand that. You said in your opening statement, and I think in your submission, that your estimate in your current operations, not taking into account any additional co-generation or power from other sources or from your own sources, but your calculations of the impact on your operations. Did you previously say that? I am not sure if I heard you correctly.

Mr Hodgson—I am sorry, I do not quite follow.

Senator IAN MACDONALD—The cost of the proposed CPRS on your operations, I think you mentioned that earlier, did you?

Mr Hodgson—Yes, I did mention a figure; it is in our submission. It is less than 0.1 percent of our total revenue, but that is in our current operations as we exist now. You see, we are a net exporter of energy; we export into the grid more than what we import. Even taking into account the fuel that we use for our locomotives and transport vehicles, we are a net exporter of energy, so we see a CPRS, if it flows through to higher electricity prices and higher petrol prices, as having a small net cost to Mackay Sugar. We would expect to get a little bit more money for our electricity that we export now, but our fuel costs will go up. It will pretty much balance out, but there will be a small net cost. I must emphasise that is for our milling business. We have kept the farming and agriculture out of it because we understand it will not be included in the CPRS until possibly 2015, but for our milling business, there is a small extra cost under a CPRS.

Senator IAN MACDONALD—Just to clarify that: you do not operate farms yourselves as a corporate entity, do you? Your shareholders are obviously farmers.

Mr Westcott—No, we have no corporate farms at all.

Senator IAN MACDONALD—And you are right, we anticipate that agriculture will not be in before 2015. We do not know what happens after that, so it is a bit hard to estimate. But are you aware of whether the growing side of the industry has done any figures on the indirect cost to them of the CPRS as proposed in the white paper?

Mr Westcott—As far as I am aware, none of those have been published for the growing side. There is just a belief that if it does come in, it will increase growing costs but nobody can put a figure on it.

Senator IAN MACDONALD—They will still be burdened with the ongoing impacts in fuel, energy and fertilisers—

Mr Westcott—As you are aware, the growing side has no ability to recover those increased costs, because it is all on the export market. We will just be competing on the export market. If the CPRS comes in and it increases fuel costs or our component costs in fertiliser or machinery costs, the growers do not have the ability to pass them on.

Senator IAN MACDONALD—I guess it follows, as a matter of common sense, that whilst your costs might only increase by one per cent—I think that is what you said—on current costs under the CPRS as proposed, that does not take into account the whole industry; that is purely the manufacturing part.

Mr Hodgson—That figure of 0.1 per cent was just the milling business, not the canegrowing business.

Senator IAN MACDONALD—If the cane growers are not profitable, of course, you do not have feedstock to do anything at your mill. I guess you are working very closely with the growing site of the industry on how you approach this.

Mr Hildebrand—Senator, I believe you are right. We see it holistically. There is no point in one part of our supply chain being affected adversely when others are benefiting. You have to look at it as a complete supply chain, and that is the way in which we, as an industry, would need to view it.

Senator IAN MACDONALD—Have you done any studies or are you able to look at issues of your competitiveness in the world raw sugar industry—versus Brazil, versus Thailand—once Australia embarks upon some form of CPRS? I ask the question on the assumption that Thailand certainly and Brazil probably would not have the same sort of carbon tax that Australia will have. Is that something you look at or have an ability to look at?

Mr Hildebrand—It is something that we do look at on an ongoing basis—not particularly the CPRS impact, because, as you said, agriculture is excluded until 2015 and will be reviewed at that point. So there is not a lot of certainty around the treatment of agriculture. However, in terms of international competitiveness, there are agencies that do this work. Landell Mills Consulting in the UK is probably the pre-eminent company to provide that information. The biggest driver of competitiveness in the short term has been exchange rates and relative exchange rates. If you look at the Australian industry today, on our current exchange rate we are right up there as the leading low-cost producer—on a comparative basis, and better than Brazil in certain areas. The impact of the CPRS has not been factored into that competitiveness at the moment, but there are a wide number of variables that go into that relative competitiveness.

Mr Westcott—I think there is the ability for Brazil to make use of the co-generation that it now has and as ethanol cushions it, when our exchange rate goes against us, like it did a couple of years ago. While we are competitive at the moment on the raw sugar basis—we are very competitive particularly on our agricultural side, and on the milling side—if the exchange rate goes against us and we have not broadened our income base, we will become less competitive.

Senator IAN MACDONALD—Do you foresee that, at any time in the future—and perhaps you would rather not answer this—Mackay Sugar might be solely producing or milling cane for energy purposes rather than for raw sugar consumption?

Mr Westcott—I cannot see it in my lifetime. We need the raw sugar as our base. Energy prices would have to increase dramatically for us to be able to pass back to the farmers a living wage.

Senator IAN MACDONALD—You have done the sums with cane versus corn and other things. Where do you stack up in that as you look towards increasing your ethanol production?

Mr Hildebrand—From a generic point of view, the production of ethanol from cane is a whole lot more efficient than from corn. The relative pricing of the source is different in different parts of the world. We have seen the Brazilian industry on cane and the US industry on corn. The relative government intervention in those countries has driven them that way. From our point of view, we believe that, in the right environment with a mandate, sugar would be a competitive form.

Senator IAN MACDONALD—Thanks very much for that. Thanks for hosting us this morning. It was very interesting.

CHAIR—Thank you very much for your contribution to the committee this morning.

[12.12 pm]

PHILLIPS, Mr David, General Manager, Mackay Tourism Ltd

CHAIR—I welcome Mr Phillips from Mackay Tourism. I invite you to make a brief opening statement. Then the committee will ask you some questions.

Mr Phillips—Thank you very much indeed for this opportunity. Mackay Tourism is the peak tourism body for the Mackay and Isaac areas. We address all segments of tourism, including business travel, visiting friends and relatives, the holiday travel and the growing conventions and events market. We have 223 public and private sector business members. The object of Mackay Tourism is for them to combine their resources to do the things that are necessary to grow tourism. Traditionally, that has been primarily marketing but it also embraces product development, liaising about access, public community support and other related issues.

We welcome about 800,000 travellers a year in our region. They leave behind about \$350 million in our community and they employ about 6,000 full-time people. About 75 per cent of our total visitors are long distance drive travellers, be they international or domestic. One half of those are driving for leisure, either on their way to visit friends or have a driving holiday—for instance, from Cairns down to Sydney or whatever it may be.

Most of our operators are acutely aware of the need to protect and sustain our environmental performance in this region. I am sure that we do not differ markedly from other regions of Australia in that regard. We are particularly aware, living as we do right here on the Great Barrier Reef, of the potential degradation of that and the damage that would do to our tourism industry given our proximity.

We certainly recognise the need for a carbon pollution reduction scheme. At a time of softening national and international tourism markets and unprecedented government imposed financial and compliance burdens on the industry across the board, our operators are rather nervous of the possibility of further cost increases to their businesses and any further deterrence to discretionary consumer travel that could possibly result from new environmentally based charges or conditions.

In tropical Queensland, as the committee will understand, tourism is a very major user of energy, obviously to be able to be competitive and offer the products and services the customers require. These include but are not limited to refrigeration, air conditioning and transport over considerable distances, not just by road but by sea. These are just some of the essentials. Those needs go on. The Barrier Reef at the moment is the primary drawcard in Queensland in tourism as a whole. In the state as a whole, we employ over 100,000 people, so, as I am sure you are well aware, it is a major industry, particularly in this part of the world. Any hiccup here has and will have profound effects on the communities, particularly those along the coast.

I would say that the majority of our industry is very well aware of the need to take steps to measure and, where possible, reduce its carbon footprint. Techniques to reduce energy consumption, minimise waste and recycle are becoming better recognised and understood, but a

lot more still needs to be done to educate the industry and encourage business to implement steps. However, we also understand that if Australia can be a leader, or if Queensland could be a leader, in preserving our environment, we can in fact use these as very positive signals of leadership by Australia as a nation in tourism. We think there is considerable potential if we act early, well, decisively and visibly.

At a recent local tourism conference we had here in our region, operators were alerted to a recent example by Tourism Queensland of a case study of Hidden Valley Cabins. I thought I would mention that this morning because it was an excellent example. It is near Townsville. Significant savings have been achieved by an operator after initial capital investment in solar panels. There are opportunities beyond that. Using eskies in rooms instead of fridges, for instance, or monitoring and reducing the usage of electricity in materials and water, eliminating disposables, using high-energy efficient equipment, mobilising staff as a team to be environmentally responsible, using double-sided printing and using electric cars within a resort or an attraction are all ways in which people are beginning to see: 'He's done that. There is obviously some value and sound practice there. Let's get on board.' But it is too slow at the moment and much more education is probably needed to encourage many more people to do that.

We know the industry would welcome real incentives, such as rebates and discounts, to take the carbon reduction plunge rather than be forced to implement measures at considerable cost to their businesses in foreseeably very soft trading conditions. The industry as a whole, certainly in our region, does not dispute the need for action, but it is also extremely nervous when forward bookings are very soft and there are considerable unknown challenges ahead. The industry is very nervous about endorsing a course of action which may see substantial new cost imposts, such as fuel price increases.

I would like to make a couple of points today with regard to public transport and the reduction of emissions. We noticed that is within the terms of reference. We believe that the deeper one goes into Queensland, and presumably across Australia as well, little use is made of public transport relative to driving your own car. A screaming example came to me yesterday on the Sunshine Coast. There were traffic jams the length of the Bruce Highway, virtually to the end of the weekend, to get back into Brisbane, and yet the railway line has just one train in 2½ hours, with three carriages and perhaps 100 people at best. It is a ridiculous imbalance, if you like. We just think a lot more can and should be done.

There is another thing in terms of not just passenger travel but freight transport. If you sit by the Bruce Highway for more than an hour or two you would be conscious of dozens of huge trucks thundering up and down, with owners registered in Townsville, Acacia Ridge or wherever it might be, but the long-distance traffic could all be on one train—say, 100 trucks. We believe this is an excess, a waste and pollution that the country can ill-afford. That would be repeated, I am sure, dozens of times elsewhere, such as across the Nullarbor, up and down the Stuart Highway. We believe there is plenty of action to be taken. Everybody accepts that some pain will be expected, but the industry urges government to think carefully before adding any cost or compliance issues.

We acknowledge and support the urgent necessity to take action now and protect our natural environment. We are most concerned about the reduction of jobs that is likely to occur in a part

of Australia where tourism is so important and so dominant—loss of jobs due to the owners being unable to remain viable because of costs and imposts and simultaneously because of the decline in consumer travel. Right here, something like 85 per cent of our road market is leisure—they are on a campervan holiday from Sydney to Cairns or they are grey nomads from Bendigo going to see Auntie Flossie in Townsville—and they are going to be pegging back their travel to shorter distances if prices go up. We noticed an initial reduction when the increase in petrol came up some six months ago. Fairly immediately we noticed that begin to affect our numbers. We run the visitor information centre at Nebo Road and we process 40,000 people a year there. About two-thirds are domestic visitors and one-third is international. We did see, within weeks of those prices getting up to the \$1.30 or \$1.40 level, that biting into the discretionary numbers. The business travellers are still going.

It is not a hugely detailed submission, senators. If I may say so, I think you have had some extremely good stuff from Tourism Western Australia, which I have read. Many of our arguments and positions are pretty well in line with that, and I am sure that would apply across the industry. As I have said, our industry is concerned about cost imposts more than anything—keeping the consumer able to afford to travel and keeping the operator able to live within his means. Because more than ever in global, let alone domestic, tourism the price of the product to the customer cannot go to much higher if we are going to retain numbers—and there are an awful lot of people in this state employed by tourism directly or indirectly.

CHAIR—Thank you very much, Mr Phillips. In the Mackay region, how much tourism is domestic and how much is from overseas?

Mr Phillips—About 85 per cent is domestic and the remainder would be international. The international is almost entirely leisure, whereas the domestic is about one-third leisure, one-third visiting friends and relatives and one-third business travel. Most of the people coming through Mackay Airport, which has had spectacular growth in recent years, are business travellers or people using low fares to visit friends and relatives. Most of our holiday-makers come to Mackay as part of a long-drive holiday going north or south along the coast, and they are international and domestic.

CHAIR—Did you just say that most of your visitors come by car?

Mr Phillips—Yes. Our air arrivals would be about 25 per cent of the total visitors to the destination.

CHAIR—This committee has had some evidence from the aviation industry, from both major operators, that some regional routes which are already marginal could well be put at risk by the impact of the CPRS. How important are those regional routes into Mackay for you?

Mr Phillips—Extremely so. I do not have any statistics but I can assure you that, of the 40,000 people coming through our information centre, the majority would be on a long-distance drive holiday. They are either going from Brisbane to Cairns and back or they are grey nomads from down south coming up towards Cape York or wherever. They will peg their journeys back. They began to do that in that previous blip due to the fuel prices. They will stay closer to home or spend a shorter time on the journey, which will reduce the number of stops they make or reduce the geographic scale of their trip. It is critically important to us that we have the long-

distance drive markets, and I think it would be critically important to numerous regional destinations right across the country. Once you get away from the main airports, drive tourism is what it is about. People need time and the ability to afford fuel.

CHAIR—You mentioned in your opening remarks the impact on the Great Barrier Reef. Of course we all want to see the Great Barrier Reef continue to be the great icon that it is, but a reduction in emissions domestically in Australia will not fix it if the reduction is not part of reducing emissions globally, will it?

Mr Phillips—I would doubt it. I am not an expert but I would think that is correct. But the Barrier—

CHAIR—What I am trying to get at is: isn't it right to say that if we want to have a beneficial impact on the Great Barrier Reef what we need is a reduction in global greenhouse gas emissions?

Mr Phillips—Yes, certainly. I am sure you have reached the conclusion long ago that without united world action on this whole front Australia can only achieve so much. But we have to be leaders, I think.

CHAIR—But from your point of view, as we scrutinise this piece of legislation do you think it is important that we pay attention to the impacts of this scheme in terms of global emissions or do you think it is more important to look at what happens domestically?

Mr Phillips—I think that is a very difficult balance. We cannot not act locally, but it has to be in the context of global agreed action. I do believe, as I said earlier, there are some real pluses for Australia to be seen to be taking a lead in this. Here is an interesting example. When we go to international tourism exhibitions to promote our product and our destinations, increasingly the organisers of such exhibitions are saying, 'Describe for us the steps that you or your destination takes to be environmentally friendly with the policies and practices of the operators but also of the destination itself', and this is widely publicised to all the people—for instance, the trade exhibition of tour operators and wholesalers from throughout Europe. Increasingly tend to, and are being educated to, favour the destinations that are trying to do the right thing. Australia has a good name in this regard.

CHAIR—I guess there are two different points there and I am keen to explore them with you. Everybody, or nearly everybody, wants to do the right thing by the environment. The question is whether what is proposed is going to make it better—whether it is going to stay neutral or whether it is going to make it worse—and what is the cost that we have to pay as a consequence. Would you care to comment? Picking up on your argument regarding Australia's leadership, in Wollongong last week it was put to us that, if we do not end up making a difference and there is going to be a significant impact on the economy and jobs, we might actually frighten other economies away from doing similar things.

Mr Phillips—Yes, I guess that is a danger: we have done the right thing but we are actually worse off economically as a result of doing it.

CHAIR—Without making a difference environmentally—and all of a sudden you pay the price. That is the situation that we would want to prevent finding ourselves in, wouldn't we?

Mr Phillips—This falls into the realms of adept negotiation and diplomatic pressure, as has been practised in London over the last few days, of course. I think we have to demand some similar steps in other countries. We have plenty of friends around the world. I am not an expert in foreign affairs, but we have a lot of sympathetic destinations that we can work with and possibly use in a marketing sense.

CHAIR—Do you think the government has explained sufficiently well what it is they are trying to achieve for the price that is going to come with it?

Mr Phillips—Not particularly, no. I would not say there is a lot of confusion, but there is a lot of ignorance about why the government has chosen to take the stand that it has at this point in time and where that naturally leads to. But of course everybody else is blowing trumpets, from the extreme green through to the other side of the spectrum. It is about education. I know within the tourism industry a lot of the small operators understand why we need to look after the reef but they do not understand what the endgame is, how they fit into this and the practices they should adopt. There is a lot of information which is absent or not being made sufficiently clear.

Senator FARRELL—Thank you, Mr Phillips, for coming along today. Are you saying that, particularly at the international level, by being seen to act on the issue of climate change we are getting some net tourism benefit from other countries?

Mr Phillips—I think there is a benefit. Whether it is a net benefit I am not sure, but certainly from observation within the broader global travel and tourism industry, destinations which are gearing up and communicating the positive steps they are taking to be an environmentally friendly destination are receiving accolades and the attention of an increasing number of responsible tour operators and airlines around the world. It is rather trendy to be working with green destinations. We are going to an event in Melbourne in three months time and we are being asked very closely what claims we can make to be environmentally friendly, because the customers from overseas coming to that, who are the decision makers within major tour companies around the world, want to know. 'Our customers are asking us where we can send them that is environmentally responsible, and can you provide some evidence of that at a local level?' So it is becoming an important factor.

Senator IAN MACDONALD—Thanks very much for your submission, for your verbal contribution and for coming along to speak to us. Also, congratulations on the work you do around this area in the promotion of tourism. It is really good. Whilst I hear what you say about long-distance driving and people flying in, would you have a comment on how important the coal industry is to the broader tourism industry in Mackay? What I am getting at there is miners on big salaries out at Moranbah on their week off—they are week on, week off, or four days on, four days off. They come here and go to restaurants, slip out to the islands or go boating, fishing or whatever. Do you have a feel for what the coal industry employees do to your broader industry?

Mr Phillips—Yes, absolutely. It is critical. It is through the coal industry that Mackay airport, for instance, enjoys the airline frequency and the number of seats that it does. That would not

have happened without the coal boom. Relatively fewer of our leisure tourists use Mackay airport. More used to, before the Whitsundays had their own. But the coal industry is vital. Not only does it provide us with, as you say, a relatively wealthy local market that comes to the coast in particular—and it comes for sporting events, cultural events and things like that, and that keeps the industry ticking over—but if the coal industry took a tumble here in any significant way the repercussions would flow right through the tourism industry.

Many of our operators—many of our accommodation houses, for instance—enjoy very high occupancies, and part of that is due to the constant business travel in and out of the city relating to coal. It is not the miners, but it is the companies, the international connections, the geologists and all the other people associated with coal. So it has a very direct effect, and on many other areas of the industry as well. It would affect airlines. It would affect the accommodation industry. It has got to the point in recent years where we have had such a groundswell of travel in and out of the region related to coal that it has actually displaced, to some degree, what was our traditional leisure travel market. That is why one of our major objectives at this moment in time in Mackay Tourism is to build more capacity, particularly rooms in hotels and resorts et cetera, as well as things for the leisure market to see and do while they are here. This hotel would be a good example. A very large percentage of their rooms occupied constantly are related, be it directly or indirectly, to coal or the existence of coal and the resulting construction work, infrastructure and all that sort of stuff. So there is great interdependence.

I would like to think that the tourism offerings of the region, though, do make the region more liveable. We work closely with one of the previous witnesses, Narelle Pearse from the economic development corporation. We work closely with them, because the tourism story helps to bring workers here and we have had a lot of problems filling skilled work positions, as others can probably more capably tell you. But the two are very entwined and, as a result of the coal boom, tourism has some amazing opportunities. We have plenty of airline seats, we have direct access—we are on the main north-south road—and we have a large local population with disposable wealth. A lot of destinations would give their right arm for those two or three things alone. But it also presents challenges in terms of having enough rooms and caravan park sites, particularly in the next few months, to accommodate the discretionary tourism travellers. There we have some big challenges on our hands as well.

Senator IAN MACDONALD—Ms Pearse gave very clear evidence to us that the coal industry was worth 42 per cent to the local economy. It is very significant, but I am bit surprised it is not greater. I know you work very closely with both of those groups. Would you challenge that?

Mr Phillips—No. I always wonder what the definition of being in the coal industry is or is not, but I have seen that figure before and I and the board have accepted it as the standing figure at the moment.

Senator IAN MACDONALD—Do you have a feel for the mine workers who invest in tourism infrastructure in the Mackay region? Do you either have statistics or have a feel for that? Again I am assuming that guys on big salaries will buy a unit in a building such as this, which is how these sorts of facilities become available for the tourism and other markets in Mackay.

Mr Phillips—It is a trend that has become increasingly noticeable and come to my attention in the last couple of years. With a lot of the product development that we are trying to encourage, when we mention that publicly in the days following I get phone calls and people wanting to come and have a chat about a good tourism idea they have of converting a paddock into a caravan site or some new idea they may have for our cultural heritage or, as you suggest, a straight accommodation offering. It is increasing—although I do not think that would be the dominant ownership at the moment, it is quite evident more are coming.

Senator IAN MACDONALD—Are the main investors in the tourism industry in Mackay corporate investors or wealthy professionals like accountants? I see some of them sitting at the back of the room.

Mr Phillips—Yes, wealthy professionals, I think, largely. Many of our accommodation houses are strata titled. A proportion of the total rooms will be in individual ownership. Some live in them; some rent them out privately or independently; others put them into a pool to be part of a chain or a brand. There is a mishmash, I guess one could say, but there is not a lot of major corporate investment in tourism—certainly not at the national blue-chip level. Visionary entrepreneurs, I would say, have been behind major tourism infrastructure like the marina, for instance, or this hotel—a consortia of wealthy individuals who have got together, spotted an opportunity and done well.

Senator IAN MACDONALD—I was very interested in and had been vaguely aware of—you certainly focused on it—the international holiday markets or conferences that relate to being environmentally friendly. That is an increasing focus of international tourists.

Mr Phillips—Particularly out of Europe.

Senator IAN MACDONALD—Yes, which I always think it is a bit hypocritical, without wanting to denigrate people who are very significant to our tourism trade—they do not often practise what they preach. Whilst Australia is a clean and green place, some of our detractors including many of our environment groups would have you believe that Australia is the sole source of all of the problems in the world and every cyclone and every drought we get is because Australia emits so much greenhouse gas whereas, of course, the fact is that Australia exudes less than 1.4 per cent of the world's total and it does not matter what Australia does; it is not going to make any difference anywhere else.

I am wondering—and you might have to be sensitive in how you answer this—do you think your competitors in world tourism might overemphasise Australia's contribution to climate change for their own particular commercial or competitive advantage? Putting it another way, for example, saying: 'Don't go to Australia, they've caused climate change. Go to a European destination because we don't have many greenhouse gas emissions. We use nuclear energy all the time, mind you, which Australia is not allowed to do at the moment, so come to us.' Do you find that there is any sort of commercial competitiveness?

Mr Phillips—I have not come across it—once or twice, but I would not say it is a major deterrent, because I do not think the consumers in our target market generally believe that themselves. All of the imagery that they ever see of Australia is magnificent clear blue skies. You never see a picture of factories belching thick smoke from Australia in any overseas travel

brochure or website. I do not believe that is a valid thing. I think there are far greater or more significant deterrents to travelling to Australia on a discretionary basis, such as distance and cost, than anything like that. I do not believe any of our major source markets have ever effectively used, or used to any great degree, the argument, 'Don't go to Australia, they're great polluters.' I do not think their customers, their public, would particularly believe it, in the main.

One thing that is significant is that there has been quite a campaign, from what I understand, in Europe—northern Europe in particular—trying to get people out of long distance flights because of the emissions of the jets. That is being taken fairly seriously in many quarters. We have to counteract that, because that is almost undeniable with aviation technology as it is—for the time being anyway.

Senator IAN MACDONALD—I love Europeans and, through the parliamentary system, I am very much a great supporter of many European nations, but I would never put it beyond them to get a commercial advantage by subtly suggesting the carbon footprint of long distance travel.

Mr Phillips—No, I would not put it past them, but I do not think they are on a very safe wicket. I do not think it would be hard to blow that out of the water with some demands for evidence, which they would not find easily, I do not think. If you go to our most industrial locations in the country, I do not think there is anything there which stacks up anywhere near the delta of the Rhine or Tokyo Bay.

Senator IAN MACDONALD—And, of course, in a place as clean and green as Mackay, you should be advertising simple things like air that you can breath to the Chinese market, which obviously you guys are looking at. Thanks very much for your contribution, for coming along and for your help to the committee.

[12.46 pm]

CAMILLERI, Councillor Darryl Edgar, Deputy Mayor, Mackay Regional Council

OMUNDSON, Mr Barry William Charles, Director, Commercial Services, Mackay Regional Council

CHAIR—Welcome. I invite you to make a brief opening statement, and then the committee will ask you some questions.

Councillor Camilleri—To give you a bit of background, Mackay Regional Council is an amalgamated council. As of March last year, we combined Mackay City Council, which was the biggest of the three, with Sarina and Mirani shire councils. We have a population of about 110,000 people in our area. What we want to talk to you about today is our landfill situation and how this scheme will affect it. We have 17 closed landfill sites and we currently have 16 active sites. To give you an idea about our area, we are basically a triangle—100 kilometres north of here, 100 kilometres south and we basically go west to the range at Eungella, which is about 100 kilometres west—and all of those sites clearly fit inside that boundary. We have had a fairly large growth rate in this area recently, and I guess some of the previous speakers will have touched on that. We are struggling to keep up with the number of our utilities and our infrastructure—water and sewage being one and landfill being another. We have recently opened a new landfill depot, if you call it that, at Hogans Pocket, where most of the major transfer stations now move their waste to. That is the introduction of what we are about where we are at. I will hand over to Barry to talk about some of the detail and how that affects us.

Mr Omundson—After reading the white paper, we had some questions specifically in relation to the landfills, which we think is probably our biggest liability under the emissions trading scheme, and understanding what their quantum is. We have just engaged a consultant to undertake a review of all of our landfill sites. We were unsure about the distance between landfill sites. The white paper suggests that 25,000 CO₂ equivalent tonnes. If it is within 80 kilometres of that area, then that drops down to 10,000 CO₂ equivalent tonnes. We are not sure just yet exactly what that means to us. As the deputy mayor said, we have 16 open sites and 17 closed sites. They are all within a radius of 80 kilometres of each other and some of them vary in size, so we are not sure the quantum—if that is indeed the distance, 80 kilometres.

There is also the legacy issue of the 17 closed sites. Only one of those 17 sites was closed after 2008, so I understand, after reading the white paper, that they are omitted from the scheme until 2018. You would obviously be aware that methane gas stored in landfill sites has a gas liability of 50 years, so whatever we bury in the ground today, it will be a liability for another 50 years. That is a concern to us in terms of intergenerational equity—that is, after 2018, when those sites that were closed prior to 2008 are back within the scheme, it may well be that you have a situation where people who were not even born, and certainly did not contribute to the rubbish that has been buried on those landfill sites, are being asked to pay for what was a liability. We are unsure how that will work.

After reading the white paper we are also unsure of any type of assistance—I am sure you have been asked by numerous groups, certainly from a local government perspective, in working together and understanding what the quantum may be, particularly for a large regional council such as ours—that is, what types of measures in terms of abatement going forward and the financial assistance that may occur.

Senator IAN MACDONALD—With what you know about the proposed CPRS, what impact will that have on your council? If you have not done the exact figures, what would be the top-of-your-head thought?

Mr Omundson—We have looked at some of the figures. In the absence of detailed understanding of the emissions from landfill, we are probably guesstimating. For our largest landfill site, which is called Hogans Pocket—as the deputy mayor said, to the west of Mackay—we would estimate that there is 36,000 tonnes of CO₂ equivalent gases at \$20 a tonne. The white paper says that the market would suggest that it is \$25 a tonne. We have looked at \$20 a tonne, and that would equate to \$720,000, or \$2.16 million over three years. In general terms—and the deputy mayor will correct me if I am wrong—I would suggest that a one per cent rate increase based on our current budget is equivalent to \$700,000. From reading the white paper, in terms of electricity and fuel costs, and from various different expert reports that vary from an additional 40 per cent to eight per cent, we have estimated—using the medium of a 10 per cent increase in fuel and electricity costs—that for this council it would be in terms of \$575,000.

Senator IAN MACDONALD—So that it is almost another one per cent on top of the rates.

Councillor Camilleri—Yes, it is. It is 1.8 per cent overall.

Mr Omundson—To continue, regarding the 16 current sites and 17 closed sites—and not all of them will be captured because some are too small—depending on the distance, of course, we have taken a conservative estimate and, based on what we know at the moment, and there is a lot we do not know, in all honesty that could be an additional \$5 million a year in total in relation to carbon permits for this council.

Senator IAN MACDONALD—So the \$720,000 was only for Hogans Pocket?

Mr Omundson—That is correct. It is a very large site.

CHAIR—Is your situation unique or is it similar for local councils across Australia?

Mr Omundson—That is a good question. I do not believe that we are unique, coming from the waste industry as I do. What would be consistent with a number of councils, particularly with the amalgamated councils in Queensland, is the unknown quantum. We do not know what has been picked up by some of the smaller groups. I think that is unique to Queensland. I do not think it would be the same for other states that have already had their amalgamation process go forward. They would probably have a better understanding and knowledge of their liabilities.

CHAIR—Has this been raised with the government at any time? If the answer is yes, what was the response?

Mr Omundson—I am unaware as to whether it has been raised.

CHAIR—Do you work through a peak body, like the Australian Local Government Association, or do you raise these things through a representative body?

Senator IAN MACDONALD—Are you aware as to whether LGAQ or ALGA have made a submission on landfills specifically?

Mr Omundson—The only submissions by groups I am aware of are contained within the white paper. I do not know whether there were any further submissions, certainly in relation to—

CHAIR—There is potentially a huge liability coming your way that, one, people cannot properly assess and quantify yet and, two, may not have been properly catered for in terms of assistance or transition.

Mr Omundson—That is correct. We have just let a contract for a specialist to undertake an assessment of our landfills to give us some modelling. We are concerned that the modelling can be quite subjective. It is an unknown science—certainly unknown to us.

Senator IAN MACDONALD—Are you expecting any relief, compensation, free certificates or anything to help you through the emissions that are happening out there?

Councillor Camilleri—I think that is the point of why we are here—to make sure it is generally known that there is going to be a problem coming through to local government. Basically, we are talking about there being rate rises. That is effectively the only method we think would be able to fund those things. We already pretty heavily subsidise our refuse sites for the general public to use, so the likelihood is that any costs like this would be borne in the general fund.

Senator IAN MACDONALD—Forgive my ignorance—I should be telling you rather than asking you—but what did the white paper say in relation to this? Did it hint that there would be some relief?

Mr Omundson—In the white paper, it was brought up by, from memory, the Western Australian Local Government Association. The government's response was that there is a system in place to allocate those costs called the rating system, which suggests that it goes back to the ratepayer. It was as blunt as that.

Senator IAN MACDONALD—Let me put this in perspective. You are saying that it would be \$720,000 from Hogans Pocket, but from all the others it might cost you \$5 million a year. Or was that over three years?

Mr Omundson—No, that is per year.

Senator IAN MACDONALD—If you add all of them and use those rough figures plus what you have calculated on the information available, which I accept is pretty limited at this time, for electricity and fuel, you are looking at something like a \$6 million or \$7 million

increase, which represents a six, seven, eight, nine or 10 per cent increase in rates—if that is where you have to cover it from.

Mr Omundson—That is correct.

Councillor Camilleri—Our rating budget is about \$70 million, so \$7 million would be a 10 per cent increase.

Mr Omundson—I do want to emphasise that those figures are in the absence of any detailed analysis.

Senator IAN MACDONALD—As we have said to previous witnesses, everyone can be excused for being a bit vague, because the actual proposals have not come out from the government yet. The legislation is supposedly almost nigh, but nobody has seen it and nobody has any real idea. But that is a fascinating statistic. Are you saying that there is no reason why Mackay would be any different to Townsville or the Whitsunday Shire?

Mr Omundson—It may well be different to Townsville because that is really two larger cities joined together. They have the budget and the planning to have a coordinated approach to waste. The former Sarina Shire Council was a lot smaller and the rate base was more diverse, so there were numerous proliferations of smaller landfill sites.

Senator IAN MACDONALD—Thanks very much for that; that is really very useful. We have had evidence from the regional economic groups, but, in a broader sense, does the council have a feel for the contribution that the coal industry makes towards activities in Mackay, which, of course, impact on the council and all you serve as well?

Councillor Camilleri—I heard you ask that question of David Phillips before, and I sit on the REDC board as well. To clarify the comment about the coal industry providing 42 per cent of the economy here, a large portion is the mining services industry and that fits under the manufacturing sector. So I think you will find that a number of those are combined and, broadly, Senator Macdonald, you would be considering those as if they were the same thing. I would not like to have a punt on the exact number that that comes up to, but it is, as you suspect, a very great contribution to this region.

Senator IAN MACDONALD—Congratulations to the council and all who serve the council on what you have done here. You are one of the most progressive parts of Queensland, obviously, and have a great base, but any diminution in the wealth of the coal industry would have a noticeable impact on the Mackay region's business prosperity and everything that flows from that—would that be right?

Councillor Camilleri—Certainly. We come back to the growth of this community over the last five years or so. The coal industry has boomed. Our population growth figures were in the early part of this decade only about 1.6 per cent. Now we are looking at a figure in the low threes. They have probably tapered off in the last six months, but naturally the statistics do not quite keep up to date. I personally would have thought that the 'three' numbers were probably on the light side—those calculations from population forecasting units are always a bit vague. There certainly has been a lot of growth and a lot of prosperity on the back of the coal industry.

Whether there are alternatives if the coal industry falls away is the question. Certainly short term you would have to suspect that this economy would be hit quite severely if there was a downturn.

Senator IAN MACDONALD—Mackay Sugar gave some evidence to us earlier that they are looking to increase jobs through their green power. But even in construction they were looking at 700, whereas the mining industry have given us evidence that, if the CPRS goes ahead in the way that they anticipate, then without a bit more assistance they are looking at losing hundreds of thousands. That is across Australia, admittedly, but a lot of those will be in the coal industry. Apart from the mining industry, does the council have any feel for the impact that an increase in costs for fuel energy and direct emissions might have on your quite substantial mining support industry—the manufacturing industry?

Councillor Camilleri—As you go back through that boom process, they were very highly geared towards looking after the Bowen Basin. Even with the downturn as it is at the moment, some of them are looking further afield and doing a little bit of international work. But I suspect that they are 90 per cent on what happens in the Bowen Basin at this point in time. There would be a flow-on effect that would be almost immediate on that mining support industry. The state government here have set up the Mackay area as a centre of enterprise for mining services. That is one of their key focus industries for Mackay. It is very dependent on what happens over the range and what happens in the coalmining industry particularly. They at this stage still have a fair bit of maintenance work that they are continuing to do, even though the coal volumes have turned down a little bit at the moment. There are some capital jobs that have been on the drawing board for some time where work is continuing. But any prolonged diminishing of coal exports and volumes will certainly have a flow-on effect on that industry. They do a little bit of work for the sugar industry. If Mackay Sugar does start their co-generation plants et cetera there will be some work available there. I predict that there would probably a 90 per cent downturn in that services sector as well.

Senator IAN MACDONALD—I have some other questions, if we have time later, but I might just pause there.

Senator FARRELL—Thank you, gentlemen, for coming along today. You have obviously done some work on the impact of the emissions trading scheme on the council's operations. Have you at any time done any work on the risks of not doing something about climate change in this region?

Mr Omundson—We have started that work. About a month ago, we started to look at the cost of risk and what happens if we do nothing. It was quite clear from the white paper that the cost of doing nothing is far in excess of the abatement measures that may be looked at. But I will go back to my earlier comment: we have not got the quantum known just yet. We are working back from that and using a risk based approach.

Senator FARRELL—I do not necessarily mean the quantum. I am talking about the effects on the community if we do not do anything about the issue of climate change. For instance, there is the issue of rising sea levels. Have you done any work on those sorts of issues or on the effect on tourism if the Great Barrier Reef is affected by climate change? Have you done anything?

Councillor Camilleri—We have not got to that stage. As Barry said, we just put this committee together a month ago to start looking into those issues—the broad range of things that we are aware of and what effect there may be. As to whether we have done any work on that to have any answers for you at this point, no.

Senator FARRELL—This region obviously has a number of interests—sometimes competing interests. The coal industry obviously sees itself being affected by these changes, but one imagines that a lot of people who come to this region come for tourism purposes. There might be some negatives in the community if you are not seen to be doing something about the issue of climate change.

Mr Omundson—That is true. In December this council took the initiative of forming the Sustainable Futures Committee, which reports directly to council. One of the subcommittees, which I chair, is the Carbon Pollution Reduction Technical References Group. One of my meetings this morning was in relation to a flooding report. We had the 2008 event, which was a one in 300-year event—

Senator FARRELL—I did not realise you were here 300 years ago!

Mr Omundson—You are a little younger than I am! That is a new committee. Some work has been undertaken in the past, to clarify the deputy mayor's comments, but it has not been brought together in one distinct vision, I suppose you could say. That is something that we are currently working on, but we are nowhere near where we want to be.

Senator FARRELL—How did you work out it was a one in 300-year event?

Councillor Camilleri—Just to put that in context, we had a major rain event here on 15 February last year. There are four rain gauges, through the Bureau of Meteorology, most of which recorded about 600 millimetres of rain over an eight-hour period. One that was out—from a private operator with an official rain gauge—recorded about 900 millimetres of rain in an eight- or nine-hour period. The Bureau of Meteorology is telling us it is a one in 300-year event. Hopefully it is more than that. At the same time, we are conscious that we cannot really look to the past in relation to rain and how you ascertain the future, because of climate change.

Senator FARRELL—You accept that there is a significant issue around climate change and you are starting to examine what the effects might be, but you are just at the early stages of that?

Councillor Camilleri—Yes, that would sum it up.

Senator IAN MACDONALD—We had some evidence from the development people. Their impression was that their business members did not really understand what this is about. Mr Omundson, you are clearly an expert on this. You obviously have studied it. Where do you get your information from? Is it just by reading the white paper or do you get assistance from ALGA, LGAQ or elsewhere?

Mr Omundson—By reading the Local Government Association's regular flyers on this. It is a topical subject. A number of people send emails saying: 'For a fee, we can help you out.' There are a lot of people out there proposing to be experts, in terms of helping councils. I do not

necessarily believe that there are those types of people out there, as far as experts go. Everyone has read the white paper. I think that is as far as it goes. A number of assumptions were made thereafter, based on the white paper.

Senator IAN MACDONALD—Is it your impression that particularly small to small-medium businesses have not really focused on this yet or that they think that it is something that governments talk about and that it does not really involve them?

Mr Omundson—I think that is correct. While this is due to be implemented next year, as it is at the moment, the average business person would probably know little about the effects on the community. That is exactly where we as a council are at the moment. We are trying to gather that information before we have public consultation. One of the visions, one of the outcomes, of the Sustainable Futures Committee is for us to be the regional experts so we can inform the local businesses of what the impacts on them may or may not be in terms of the scheme. Before we do that, we need to understand what it actually means for the council as such—what our liabilities are. That is where we are starting.

Senator IAN MACDONALD—I do not want to talk small ‘p’ politics, but you remind me of the white paper response to the Western Australians—that there is a method of keeping your costs of the landfill CPRS, and that is by way of rates. That really seems to be cost-shifting at its ultimate, with the federal government saying to you, politically, ‘We don’t want to bear the political cost of this, but you guys can put up your rates by 10 per cent and wear the political cost of this.’ Perhaps I should be addressing this to Councillor Camilleri rather than to an officer. It seems to be the ultimate political cost-shift if it proceeds in that way. That is not a question; it is more a statement. Your ratepayers probably do not think much about this at the moment. When they suddenly realise that their rates could go up by 10 per cent for this alone—forget about any other pressures on council finance—that would focus their minds a bit more on just what the CPRS means to them.

Councillor Camilleri—No doubt. And I guess you have also got to put that into the context of some of the pressures our other rate rises are under at the moment. We are struggling to maintain some of the infrastructure for this community. I suspect that is not uncommon for other local government bodies throughout the states, or this state particularly, so we are talking some fairly high rises anyway just to maintain where we are at at the moment, so another 10 per cent or so on top of that certainly would focus their minds on it very clearly.

Senator IAN MACDONALD—This inquiry is not into political ramifications, but on top of the amalgamation costs, which I know impacted upon your council as much as anyone else’s, and you throw in CPRS and then get a white paper response that says, ‘Yes, there’s a way of paying for that: you put up your rates’, that can have political ramifications right down the track when combined together.

Councillor Camilleri—I guess, and you throw that into the context of whether people understand that. You probably know too well yourself that they do not really worry too much about what the detail is as to why their rates have gone up so much. You will have an element that do, but if we are talking potentially 20 per cent rate increases, it will be on our necks rather than generally slotted back to whichever section it is that is causing that increase.

Senator IAN MACDONALD—So there is method in the madness of those who decide these things, but that would be taking conspiracy theories far too far.

Committee adjourned at 1.12 pm