

**Printing Industries
Association of Australia's
Submission on the
Proposed Carbon Price
Mechanism and Assistance to
the Printing Industry**



May 2011

Background

The Printing Industries Association of Australia (*Printing Industries*) is the advocate and support organisation for businesses operating in the Print, Packaging and Visual Communication industry in Australia. The Association is an independent, member-based organisation, representing large, medium and small businesses.

The history of the Association dates from the 1880's as individual State bodies that later amalgamated to form a national organisation in 1924. A network of offices provides representation to members in all states and territories.

Membership covers all imaging and communication sectors. These include print, prepress and design, publishing, distribution, software and hardware, paper and paper board, print consumables, packaging and flexible packaging, paper converting, binding and finishing, communication and media services.

Executive Summary

The Federal Government has announced the framework for delivering economic reform to move Australia to a clean energy future via the two-stage carbon price mechanism. The printing industry supports the Government's endeavours to mitigate the potential impacts of climate change but is concerned about the potential impacts on its constituents if the Government fails to adequately compensate the industry under the current proposed scheme.

The printing industry's main exposure to a carbon price is through energy, transport, and locally produced raw material costs including paper costs. *Printing Industries* is relying on the Pulp and Paper Innovation Council to address the impact of a carbon price on the cost of paper which remains the largest single production cost component.

In the past, the Government has classified the printing industry as a low emission intensive industry with limited exposure to trade. Whilst at an aggregated industry level import penetration currently stands at almost 12 percent, within individual printing sectors such as books, calendars, greeting cards, magazines and diaries, import penetration is significantly higher. The printing industry is becoming more and more trade exposed. It is our view that any industry that has import penetration of 10 percent or more of sales should be deemed trade exposed. On this basis the printing industry even at an aggregated level fulfils the definition of being a trade exposed industry.

In April 2011 a *Printing Industries Association of Australia* survey found that most members believed that rises of 20% in electricity costs or 10% in raw material and freight costs would cause, on average, a 10-14% decline in output a 14-27% decline in profitability and an 11-15% decline in employment in the sector. If these results are replicated across the entire printing industry, then there could be a decline in industry output of between \$990 million to \$1.4 billion, industry profits could decline by \$53 million to \$102 million, and total industry employment could fall by 5,500 to 7,500.

Members also indicated that a carbon price would have a significant effect on costs, with electricity and gas bills making up 5% of operating costs on average. Paper represents 20-50% of operating costs of which 60% is sourced from Australia and would be affected by the introduction of a carbon price.

Some members indicated that offshore competition would prevent the pass through of any carbon costs, which could lead to some plant closures.

For full details of the survey please refer to attachment A.

The printing industry as a whole has undergone dramatic technological changes since the last quarter of the 20th century. Compared to the situation prevailing in 1990, new prepress and printing technology has significantly reduced the industry's environmental footprint by driving major reductions in chemical, energy and water use, and the increasing coverage of sustainable forest plantations is helping to mitigate the effects of climate change by sequestering carbon dioxide. There exist further opportunities in the industry to drive down greenhouse emissions by increasing efficiency, however due to the capital intensive nature of these opportunities, they may not be realised under business as usual conditions. There is therefore a case for special support measures.

Printing Industries is seeking for the Government to incorporate the following considerations into their framework on a carbon price mechanism:

1. The printing industry should be recognised as a trade-exposed industry which will suffer negative consequences should any carbon price be introduced, including job losses, plant closures and ultimately carbon leakage. Accordingly, the industry should be included in any compensation mechanism in line with other energy-intensive trade exposed industries.
2. The printing industry should be recognised as an opportunity to achieve reductions in carbon emissions through energy efficiency projects. In order to realise this emissions reduction potential, funding should be available to the industry to improve efficiency with new technology and create new businesses which are competitive in a lower-carbon economy.

Key policy considerations

The Australian Government's response to climate change needs to be carefully considered to ensure that two key policy objectives are met:

1. That our economic performance and competitiveness is not compromised; and
2. That real environmental benefits are delivered.

The proposed carbon price mechanism will impose a cost to the printing industry and without adequate assistance a loss in competitiveness will push some sectors of the industry offshore, leading to carbon leakage. The printing industry's main exposure to a carbon price is through energy, transport, and locally produced raw material costs including paper costs.

Printing Industries is relying on the Pulp and Paper Innovation Council to address the impact of a carbon price on the cost of paper which remains the largest single production cost component.

The printing industry makes a significant contribution to the Australian economy. Industry value add in 2008-09 was more than \$4.4 billion, turnover was in excess of \$9.9 billion, and the printing industry employs more than 50,000 nationally.

Developments in technology in the printing sector have greatly improved the efficiency of the printing process over the past decade. However, this new technology is often costly to adopt, and business owners are more often focused on quality and service than energy efficiency. The Government should provide funding for training programmes, research and development, and uptake of energy efficient technologies by printing businesses in order to reduce overall emissions and transition the sector to remain competitive in a lower-carbon economy. This funding would create new green jobs in the industry, and enable manufacturing to remain on-shore.

Fair assistance for the printing industry – policy recommendations

Printing Industries supports a fair and equitable system for compensating businesses impacted by a carbon price, whilst encouraging businesses to reduce emissions by improving energy efficiency.

The printing industry will incur any carbon price imposed on electricity and gas consumption, and will require assistance for this cost to avoid losing business and jobs offshore. Assistance for the printing industry would also prevent carbon leakage.

The carbon pricing mechanism and associated assistance measures should also impose a minimum level of administrative burden. Complicated reporting and compliance processes would be cumbersome for the printing industry which is largely composed of SMEs, and would have the potential to negatively impact on their core business. Compensation should be set as a fixed % of the baseline year emissions for businesses. This will provide incentives to businesses who work to improve their energy efficiency and reduce emissions going forward.

Printing Industries feels that it would be detrimental to both employment and the environment to classify the printing industry as an industry with limited exposure to trade and ignore the industry when considering compensation. As a dynamic and pro-active industry, the printing industry should be seen as an opportunity to retain Australian jobs while reducing Australia's greenhouse emissions through the uptake of new energy efficient technology.

In addition to direct assistance, funding should be provided for energy efficiency projects through programmes similar to AusIndustry's *Clean Business Australia* initiative. By expanding and opening up these programmes to all businesses in all sectors, the Government will be able to deliver emissions reductions in the most cost effective manner. In the past, the majority of the funding for these programmes has not been available to the printing industry due to sectoral or size restrictions and other application criteria.

The advancements in printing technology over the past decade have created significant opportunities across the industry for emissions reductions. However, in order to unlock these opportunities training programmes, research and development, and funding for the uptake of energy efficient technologies by printing businesses are needed. By providing this funding to the printing sector, the Government would create new green jobs in the industry, enabling local printing businesses to remain competitive in a lower-carbon economy.

With paper accounting for at least over 33% of operating costs on average; it is important that local pulp and paper manufacturers are also compensated for their carbon-related costs. This will provide support to the printing industry against indirect cost increases passed through by paper suppliers.

An alternative approach to compensation for the local industry would be to apply a carbon tariff on imported printed matter. The carbon tariff should apply to all imports of printed matter originating from jurisdictions that do not have emissions trading schemes or carbon taxes. This tariff would be set at a rate that reflects the carbon related costs incurred by local printing businesses. In the absence of adequate compensation to the printing industry, an import tariff would create a level playing field, preventing carbon leakage and job losses.

Conclusion

Printing Industries strongly believes that the introduction of a carbon pricing mechanism will have negative impacts on Australian printers. The costs incurred by the industry will decrease profitability, causing job losses and plant closures, and leading to carbon leakage through higher volumes of

imported printed matter. This conclusion is supported by the responses from an April 2011 *Printing Industries Association of Australia* survey.

In order to counteract the effects of a carbon price, the Australian Government must create a level playing field for local businesses by providing financial assistance in line with other trade-exposed industries. Funding should also be provided to the industry in order to realise the significant opportunities to reduce emissions through energy efficiency projects.

The Government should provide funding for training programmes, research and development, and uptake of energy efficient technologies by printing businesses in order to reduce overall emissions and transition the sector to remain competitive in a lower-carbon economy.

In the absence of financial assistance for the printing industry, a carbon tariff should be imposed on imported printed matter, reflecting the carbon costs incurred by local printers.

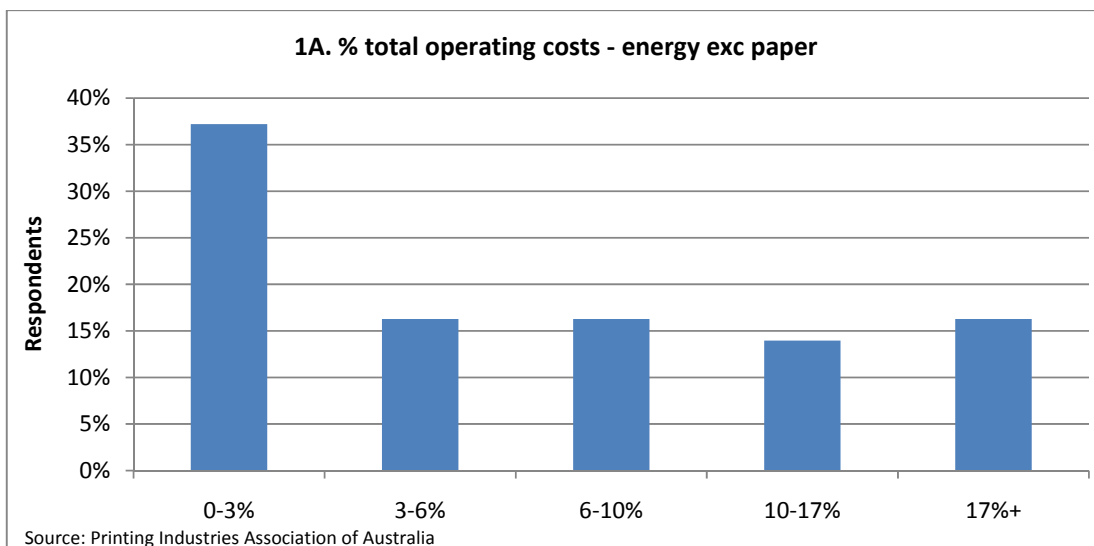
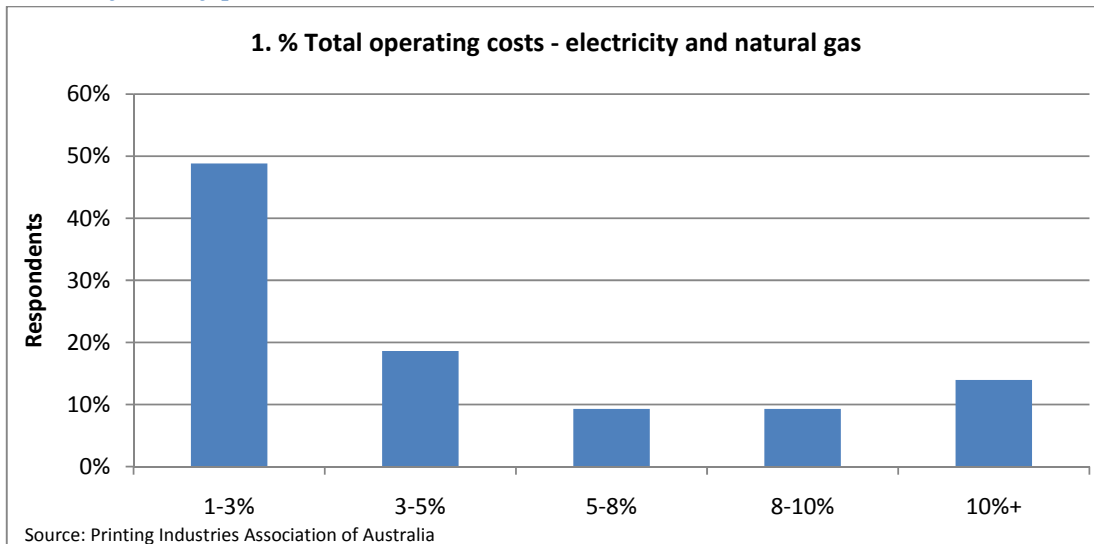
Attachment A: Carbon Tax Survey

Industry survey

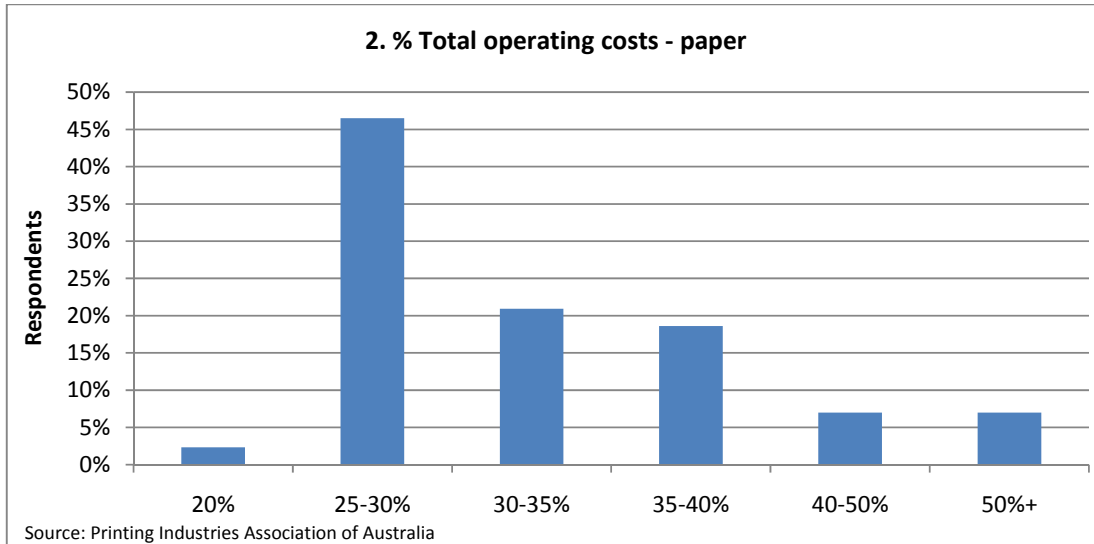
Printing Industries conducted a survey of its members in April 2011 in order to gather some preliminary data on the potential impact of a carbon price on the industry. The results, summarised below, indicate that imposing a price on carbon will have a significant negative effect on the printing industry, resulting in decreased output, profitability and employment levels.

The first three survey questions demonstrate the level of exposure that the industry has to a carbon price, both through energy costs and locally sourced paper.

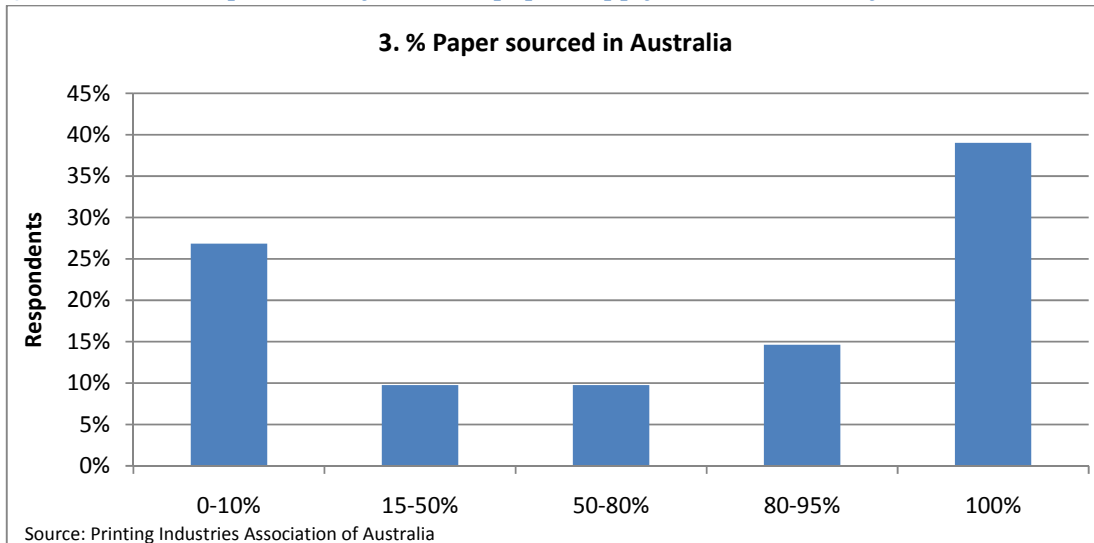
Question 1: What percent of your total operating costs excluding depreciation does electricity and natural gas represent? Total operating costs are defined as all consumables (paper, ink, plates, chemistry etc.), labour, rent, utilities, maintenance and other day-to-day production related costs.



Question 2: What percent of your total operating costs excluding depreciation does paper represent?



Question 3: What percent of your total paper supply is sourced locally?

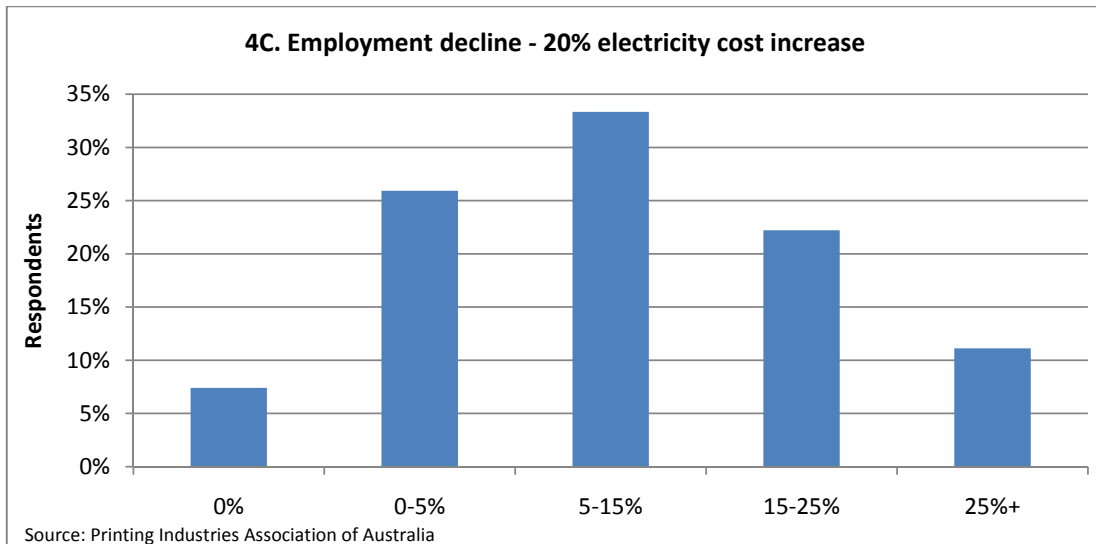
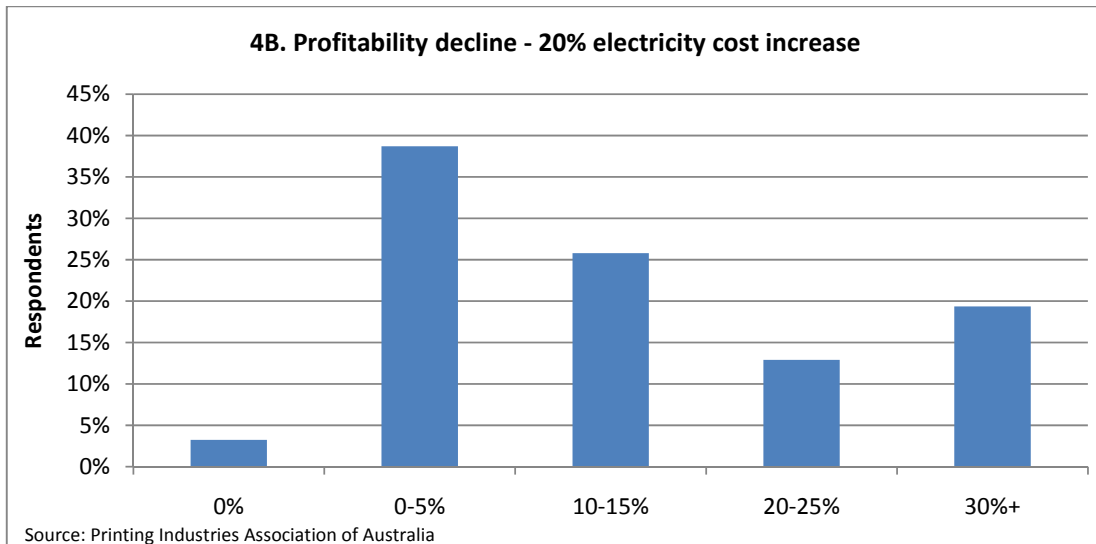
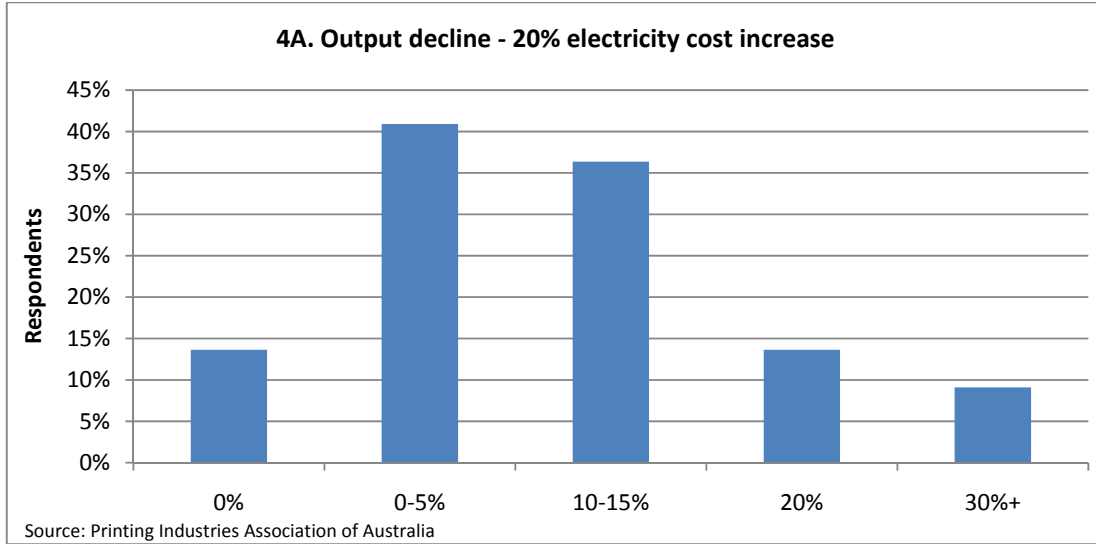


On average, energy costs account for 5% of the respondents' operating costs, with some companies exceeding 10%. Paper accounts for 33% of operating costs on average, with 60% of this paper being sourced locally.

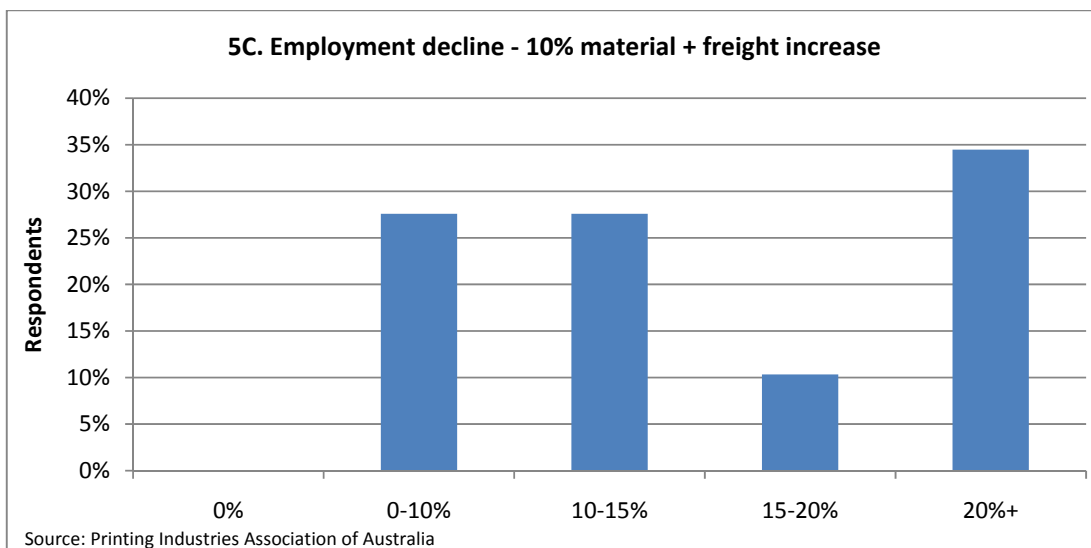
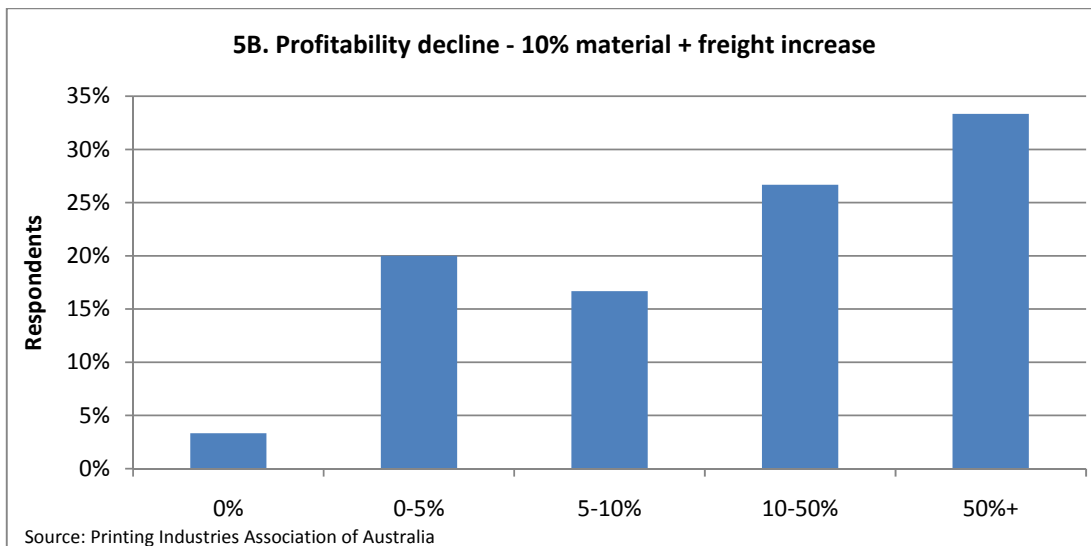
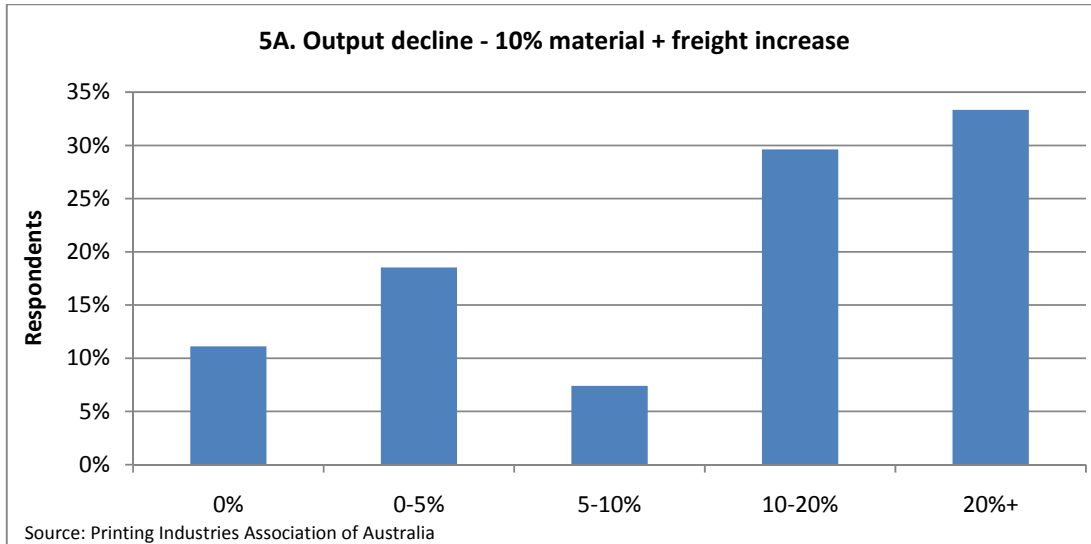
Should a price on carbon be introduced, it would increase both energy and paper prices, which together make up on average 38% of the respondents' operating costs. With increasing competition from offshore in sectors of the industry such as books, calendars, greeting cards, magazines and diaries, a carbon price would put increasing pressure on local printing businesses.

The survey also asked respondents to estimate the impact on their output, profitability and employment should the price of either electricity or raw materials increase significantly. These results demonstrate the potential for a carbon price to push production offshore, costing Australian jobs and causing carbon leakage.

Question 4. What would be the impact on your business if electricity costs increase by 20 percent?



5. What would be the impact on your business if raw material prices and freight and transport costs increase by 10 percent?



A combined increase of 20% on electricity prices and 10% on raw material prices would lead to an average decline in output of 23.8%. This output loss would be replaced by offshore production, most

likely in SE Asia where environmental and forestry standards are not given the same priority as in Australia. This would lead to negative environmental consequences, without reducing carbon emissions.

This decline in output, coupled with a significant decline in profitability, would lead to average job losses of 26% among the respondents.