



Queensland Nickel

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TABLED DOCUMENT  
SELECT COMMITTEE ON THE  
SCRUTINY OF NEW TAXES  
INQUIRY INTO A CARBON TAX  
12:45 pm 5 AUGUST 2011  
TABLED BY QNI

**Submission to Senate Select Committee on the Scrutiny of New Taxes  
Public Hearing  
Friday 5 August 2011  
Flinders Room, Mackay Grande Suites, 9 Gregory Street Mackay  
Enquiry into a carbon tax  
Mr Trefor Flood, Queensland Nickel Pty Ltd**

1. I'd like to open by thanking the Committee for taking the time to go out and hear from those persons whom the proposed tax changes will directly affect and hear their concerns and listen to alternative actions. Your investment will, I hope, assist in ensuring that when and if this bill is before the Parliament you and your fellow parliamentarians are in a better position to make changes and fine tune the bill for maximum benefit to all Australians.
2. My name is Trefor Flood, and I am the General Manager for Queensland Nickel's Yabulu Nickel Refinery; sitting next to me is Mr David Morgan who is our Sales and Marketing Director. Between us, we have over 70 years experience in the mineral processing business both within Australia and overseas.
3. Firstly, I will give a brief synopsis of the business; its size and scope; its importance to the Townsville community and our responsibilities to that community.
4. Then I will move on to our involvement over the last 2 years with your colleagues in Canberra as we have worked together towards a definition for "Nickel", and how that would affect our business, and then finally, I would like to highlight some serious issues and concerns that we have seen since the changes from the old CPRS and EITE scheme. Then both David and I would gladly take any questions that the Committee might have.
5. I will read from my notes, which at this point are the basis for our submission to this Committee. As I unfortunately only became aware of these hearings on Tuesday, I will finalise our submission after this hearing and we will submit a formal copy by the deadline of the 15<sup>th</sup> of August.

6. I do have with me today copies of our opening statement; some graphs depicting the position and impact of the proposed carbon tax along with a copy of our submission to the Expert Advisory Committee on definitions for Nickel, which we submitted to that committee in Canberra at the beginning of April of this year. These of course we will make available to the Committee today for your perusal.

***Background and Importance of QNPL***

7. Queensland Nickel is an Australian owned, 100% value add manufacturing plant. The plant was built in 1974 and has been operating ever since, producing its own unique Nickel products.
8. We are the only producer of these types of Nickel and Cobalt products in Australia. The other two Nickel producers are not capable of making our products.
9. We are the largest private employer in North Queensland and provide significant regional benefits through payments to government, Queensland Rail and Townsville Port operations, and through a diverse portfolio of community sponsorship.
10. The plant was formally owned by BHPB and in January 2009 when they closed the Ravensthorpe (WA) project they also announced a study into the viability of the Yabulu operation, with the intent to either sell or close it down.
11. The operation at that time needed to change from a \$40 million dollar a month loss (due mainly to a downturn in the commodity cycle) to a profit scenario.
12. Mr Clive Palmer's purchase of the Refinery in July 2009 saved it from imminent closure, along with the jobs of hundreds of people at Yabulu and also in the broader Townsville region (I had the redundancy lists for every person including myself at the site and we were literally 12 hrs away from executing that list).
13. Under Mr Palmer's ownership, the personnel changed the low productivity of the plant to one of setting new production records.
14. Mr Palmer's generosity to us has been clearly evident through his investment and confidence in us to run the Refinery, as well as his sharing of the proceeds of our profitability through our bonus program and of course, the 2010 Christmas party.
15. Queensland Nickel has flourished under the new ownership and is a key business to the success of the Townsville region.

16. An independent assessment commissioned by the Townsville Enterprise organisation of direct, industrial and consumption effects, conducted in January 2009, estimated the impact of closure of Queensland Nickel and the loss of 750 direct jobs would result in 2,396 jobs lost in the Townsville community.
17. Since the purchase of the plant by Mr Palmer we have increased our workforce from, 550 direct employees to 900 direct employees and a further 200 contractors, resulting in a direct positive impact to the Townsville community and growth in the State economy.
18. The business has a turnover of over 1.1 billion dollars per year.
19. Queensland Nickel sources its ores from mines in Indonesia, the Philippines and New Caledonia and exports its entire speciality final product mixes. In short, we are a 100% importer of our raw material and export 100% of our final product.

#### ***Impact to Queensland Nickel***

20. During the past 2 years, QN has been in consultation with the Department of Climate Change in order to create a fair and equitable definition for "Nickel" in keeping with the white paper guidelines.
21. We have been arguing that a single definition for Nickel (as proposed by the Department) is not fair and equitable because that would not recognise the diverse nature of the Nickel industry.
22. Given other industries have multiple definitions for a single product, we ask - *"why not the Nickel industry?"*
23. We believe that the Department has not made reasonable judgments in proposing a single definition for Nickel.
24. If a single definition for Nickel is accepted by the Parliament, we will be hit with an impost that will subsequently transform our profitable business to a marginal business.
25. To explain this unfairness, the draft definition bundles the 3 Nickel producers in Australia into one definition, despite the fact that only QN can produce its unique type of Nickel and Cobalt products. The other 2 producers have admitted they cannot make similar products. So we will be unfairly disadvantaged if the definition is not corrected.
26. The policy intent is to direct assistance to Australian businesses. QN is the only Australian owned Nickel producer; the other 2 are multi-national companies. A single definition for Nickel would grossly under compensate QN and deliver a windfall gain to at least one of the other multi-nationals by averaging its emissions against that of Yabulu's.

27. Even at high long term Nickel prices of say US\$10 per pound, over 50 per cent of the value of our business would be eroded by carbon costs.
28. Combinations of low Nickel prices and a carbon price of A\$23 per tonne may force QNPL into negative value and losses, if the definition is not corrected.

### ***Carbon Leakage***

29. QN's international competitors produce up to two and a half times the emissions of the Yabulu Refinery per tonne of Nickel, for example, Nickel Pig Iron producers in China. We will therefore be placed at a significant trade disadvantage against our overseas high emission competitors. Limited financial capacity to invest in research and development would result, once again, in QN being under threat of closure. More emissions intensive overseas competitors would take the market share currently held by us with ease.
30. This would be in direct conflict with the objectives of Clean Energy Futures Bill because global emissions and emissions intensity would increase.

### ***Concerns***

31. Overall, QN has significant concerns with the Clean Energy Futures Bill. The Government is embarking on a massive development program and manufacturing will pay for it. Regional areas, due to increased distribution costs will be hardest hit. QN's significant contribution to regional development, investment and employment is put at risk by the proposed Bill, increasing the impact on the Townsville region.
32. Yabulu is one of the most efficient plants in the world for the ore type and output. In recent years we have focused on reducing emissions at Yabulu. We have implemented projects that have in fact reduced emissions by approximately seven per cent.
33. If a carbon price is introduced from 1 July 2012, there will be no affordable short term emissions reductions possible. We will not be able to adjust in a short timeframe to the proposed carbon constrained economy because it would take years of research and development to prove up an alternative technology for the manufacture of our Nickel.
34. For example, our roasters, which are heavy emitters and utilise heavy fuel oil as an energy source, rely on the chemical properties of the heavy fuel oil to reduce the Nickel ore to a metal. Alternative fuels such as gas etc, do not possess the required properties for our processes. Extensive (and expensive) research, over time, may achieve a viable alternative fuel source, however, actual conversion would require the plant to be shut down for months to put in place a new (and untried) fuel source. This is a large business risk without any guarantee and most normal business would not apply this practice without proven research behind it.

35. In short, because there is no current reduction opportunity that would enable QN to utilise a 3 for 1 investment scheme (as the Government has proposed under its Clean Technology Program) and in the absence of a fair and equitable definition for Nickel, the impact of a carbon price on the business will be serious in the short term, and could be catastrophic in the long term.