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VISY
FOR A BETTER WORLD

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SUBMISSION

to the

AUSTRALIAN PARLIAMENT'S JOINT STANDING COMMITTEE on TREATIES

Concerning the Kyoto Protocol

1. Summary

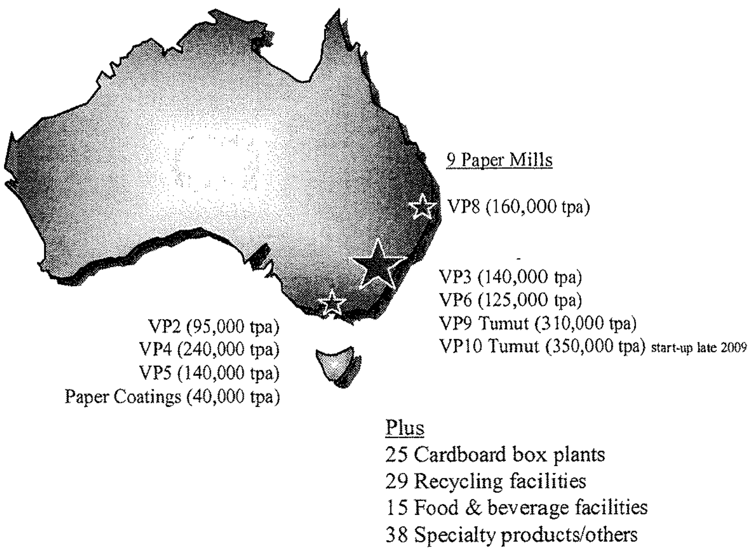
- Visy employs over 5,500 people directly across Australia, in 120 manufacturing sites. It has installed capital valued at $2.8bn, and a further $1.1bn of investments planned. The company is committed to investing within Australia with, high-tech long-term jobs, and wishes to ensure this investment track record continues into the future.
- Visy has long supported an Australian ratification of the Kyoto Protocol. The Company believes it is a significant global response to climate change which will play a part in: (1) setting greenhouse gas reduction goals and a carbon price signal; (2) encouraging innovation in technology to reduce greenhouse gases, and (3) building resilience in key national infrastructure to better withstand the impacts of climate change.
- Visy has been a very early mover in greenhouse gas abatement actions, with world's best technology, energy-conservation and carbon footprint reduction. Visy believes this early-mover status needs to be recognised, including full transition of existing NSW greenhouse gas reduction certificates to the national Carbon Pollution Reduction Scheme (CPRS) on a tonne-for-tonne CO_2(e) basis.
- While supporting the motives and need for a CPRS, Visy is concerned that the *Green Paper* proposals seriously understate trade exposure as a determinant of future Australian manufacturing jobs and investment under a cap-and-trade emissions scheme.
- Visy's key Australian manufacturing operations are significantly trade exposed. Leakage of carbon, as well as leakage of jobs and investment, will definitely occur unless Visy's trade exposure is recognised with free permits under the CPRS.
- Visy's extensive recycling activities are currently not recognised in the market/financial system as a weapon against climate change. These domestic activities need to be further incentivised under the CPRS because they avoid landfill and thus reduce CO_2(e) emissions, and stimulate local manufacturing from recyclables.

2. Introduction – about Visy

Visy is a privately owned packaging and recycling company with its headquarters in Melbourne, Australia. The Company's operations comprise some 130 sites and employ some 5,600 people across Australasia, 93% of whom are in Australia. There are 9 paper mills (see Map 1) and other recycling and value-added facilities in every major city and region.

A conservative employment multiplier of 2.0 means a total of over 11,000 people depend on these investments for their livelihoods. At Tumut, the employment multiplier has been independently verified as being approximately 4:1.

Map 1 - Visy's Australian paper manufacturing plants



In addition to its current installed investments of over $2.8 bn, Visy invests many millions each year in order to enhance its productive capacity (See Table 1).

Visy manufactures packaging products from paper, plastic, steel and aluminium and operates Australia's most extensive network of recycling facilities. It collects and reprocesses more than 1.9 million tonnes of used materials a year.

As a major Australian-based manufacturing enterprise, which consumes significant amounts of energy in its operations, Visy is a significant emitter of greenhouse gases – both directly, and indirectly, through its substantial purchased energy.

Table 1 - Visy's installed investment and employment (Australasia)

State	Installed Investment	Direct Jobs
	($m)	
NSW	$ 1,110	1,434
Victoria	$ 800	2,512
Queensland	$ 290	655
South Australia	$ 125	395
Western Australia	$ 55	199
Other (incl. NZ)	$ 470	414
Total	**$ 2,850**	**5,609**

Investment in environmental industries and services

Visy directs its core business offering towards environmentally-aligned activities, including pursuing greenhouse gas abatement opportunities. These include:

- active materials recycling (which avoids landfill methane generation),
- domestic remanufacture from recycled inputs,
- energy-efficiency in its plants,
- renewable energy generation,
- co-generation,
- transport innovations, and
- a genuine closed-loop business philosophy.

Visy conducts routine, detailed greenhouse gas and energy measurement and reporting in its major facilities. The bulk of our energy consumption already being reported is in facilities operated by the Visy Paper Division. In addition to reporting, detailed analyses of the energy efficiency of our production plants has routinely been undertaken as a means of reducing our overall emissions profile and business costs.

Further, Visy already has significant capital in low emissions-intensity power generation and a programme of future investment in low emissions-intensity power and co-generation – see Table 2. In aggregate, the value of these proposed new investments exceeds $1.1 billion.

Table 2 – Some of Visy's proposed major investment projects[1]

Location	Plant/equipment	Status
Tumut, NSW	New recovery boiler	Under construction – 2008/09
	New multi-fuel power boiler	Planned for 2010
	Gas turbine generator	Planned for 2010
Coolaroo, Vic	Gasifier	Under construction – 2008/09
	Gas turbine generator	For later integration with gasifier – 2011
Smithfield, NSW	Gasifier	To be installed in 2010
	Expanded recycled paper mills	Feasibility underway
	Biogas recovery from liquid effluent	To be initiated based on feasibility
All States	Additional recycled paper production	Subject to available CPRS offsets
	Additional collection/recycling infrastructure to avoid landfill and produce recyclables	Feasibility study underway
	Renewable energy plants utilising biomass and other residual fibrous wastes	Feasibility studies underway in 3 locations
	Microbial decomposition technology opportunities	To be initiated via CRC collaboration

[1] Those parts of the Tumut mill expansion currently underway are included in this table.

3. Visy, the Kyoto Protocol, and the proposed Australian CPRS

Visy has long supported an Australian ratification of the Kyoto Protocol. Visy's chairman and owner, Richard Pratt, has publicly called for Australia to sign and ratify the Kyoto Protocol since 1999. The Company believes the Protocol is a significant global response to climate change and starts a collective response to reducing greenhouse gases. While the world is now developing a system beyond the Kyoto Protocol, support for the existing Protocol is still warranted and will help Australia to adapt more effectively to climate change.

In particular, Visy believes the Protocol's very existence will drive three key areas for action: (1) set greenhouse gas reduction goals and a carbon price signal; (2) encourage innovation in technology to reduce greenhouse gases and: (3) build resilience in key national infrastructure to better withstand the impacts of climate change.

Visy has publicly welcomed the Government's intention to introduce a CPRS, scheduled to commence in 2010.

However, Visy is fully aware that, in addition to providing a signal for investment in emissions-reducing activity, the Scheme *will bring profound changes* to the generation and supply of electricity and other energy sources. It is this matter that Visy believes has the potential to negatively impact on the competitiveness of the Australian manufacturing industry *unless the CPRS is carefully designed to protect Australian jobs and investment.*

These potential impacts include:

- Higher energy costs, especially for conventional stationary energy sources such as gas and electricity. On this particular impact, Visy has recommended that large energy users should be enabled to "opt-in" as parties liable for the emissions of their purchased power, to avoid their exposure to "cost-plus" pass-through by electricity generators under the future CPRS arrangements. The Scheme would thereby provide a specific means by which consumers can protect themselves against "windfall profiteering" by electricity generators.
- Loss of "early-mover" benefits accrued by environmentally-conscious companies, including the potential for loss of existing credits under State-based greenhouse gas reduction programs
- Increased competition for alternative and renewable fuels such as wood, and market displacement of other wood-using activities
- Lower relative cost of imported manufactured goods, displacing Australian suppliers' role in the domestic market
- Increasing fuel transport costs associated with supply of operational raw materials (such as virgin and recycled fibre feedstocks) and other process inputs such as chemicals and alternative fuels
- Far-reaching input cost increases throughout the domestic economy, affecting industry profitability and feasibility,
- Increased compliance and management costs through mandated measurement, auditing and permit-purchasing and trading activities, and

- Pressure on capital markets to re-assess investment priorities based on jurisdictional risk.

Visy has signaled its concerns regarding the current design of the CPRS with respect to the future viability of its business. Most of this concern focuses on the way the CPRS Green Paper proposes treating so-called emission-intensive trade-exposed (EITE) industries. This matter is covered further in the following sections of this submission.

4. Concerns regarding trade exposure and unintended impacts of the CPRS

In the above context, and notwithstanding the need for and merits of swift action, Visy is concerned about maintaining the viability and competitiveness of its business following commencement of a CPRS – *according to the design is presently proposed by the Government.*

For its part, Visy has been proactive within its business facilities to reduce emissions and its overall environmental footprint. It sees this activity as a corporate obligation and responsibility. It has been a distinctive mark of Visy's business approach for many decades, putting it well ahead of most other Australian manufacturing industries.

However, there are multiple factors outside of Visy's control which, under the CPRS, will have a profound impact on the Company's ongoing viability as an Australian manufacturing enterprise. As noted above, these include:

- Externally-purchased electricity costs
- Gas supplies and costs
- Fuel cost increases
- Increased competition for wood fibre (biomass for energy vs pulpwood),
- Knock-on effects to the cost structure securing recycled feedstock for local remanufacture into commodity products, and
- The cost of capital due to changes in Australia's future investment attractiveness.

The *Green Paper* pays far too little attention to the trade exposure of certain critical Australian manufacturing industries, as a fundamental driver of future domestic jobs and investment growth under a carbon-regulated system. The following sections explain the particular trade exposure position of Visy as part of the Australian pulp and paper sector.

5. Trade-exposed industries warrant special assistance measures

Visy is concerned that the CPRS *Green Paper* does not adequately recognise the trade exposure impact, and consequent carbon-leaking (and carbon *magnification*[2]) implications, of the scheme as currently proposed.

It is clear that Visy operates in a highly trade-exposed sector. The two countries that dominate the world pulp and paper industry, which is a commodity-based sector, are

[2] "Carbon magnification" refers to the potential for industries in non-regulated jurisdictions to emit *more* carbon than Australian industries for the *equivalent unit of production*. Thus, as well as leakage of manufacturing jobs and investments, the net impact on global emissions may be higher than had the industries remain in Australia

the United States and China. Neither of these countries is a signatory to the Kyoto Protocol.

China has by far the fastest-growing paper industry in the world, spurred on by the advantage of lower production costs, large government-backed capital investment in new plant and machinery, and the absence of any rigorous or systematic requirement to address climate change and reduce carbon emissions.

In addition, China's reliance on coal as a primary source of energy is reflected in the fact that coal makes up 69 percent of China's total primary energy consumption, making China one of the largest consumer and producer of coal in the world. Two new coal-fired power stations are opened in China every week on average[3].

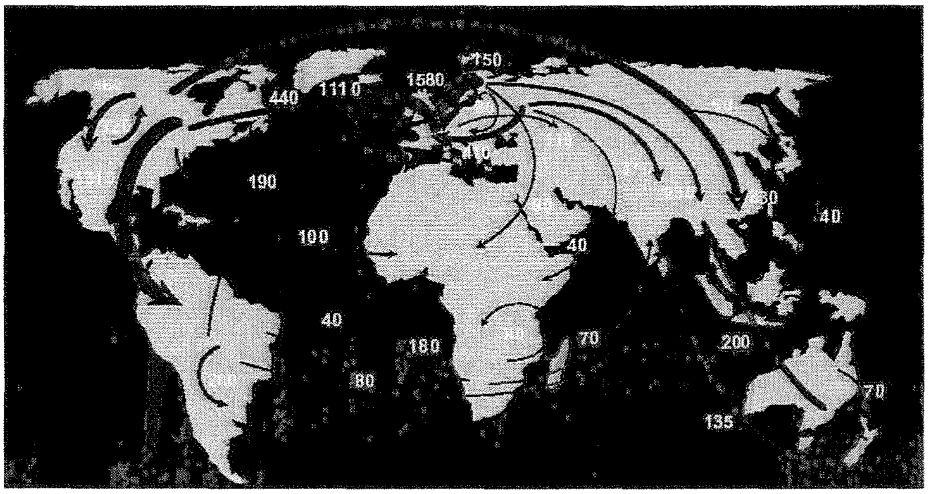
More widely, on every measure, the Australian pulp and paper industry qualifies for EITE status. This is evidenced by the following:

- Pulp and paper are **global commodities**, rather than specialty products, and an individual company's outputs are highly substitutable by competitors'
- Our prices are set on global markets, and Australian firms are **price-takers**
- Most of our market competitors are in **carbon-unconstrained jurisdictions**
- Our manufacturing processes are highly **energy- and emissions-intensive**
- A large percentage of Australia's **consumption is imported**, and
- There is strong global competition for our industry's **primary inputs** – wood, chemicals and waste paper.

Australian pulp and paper are global commodities

All Australian pulp and paper producers trade globally. The trade flows shown in Map 2, for Kraft paper ("linerboard"), demonstrate that in this 9m t/yr global trade for that product alone, Australia produces and trades just 3% of the volume.

Map 2 - The 9mt/yr global trade in Kraft paper[4]



[3] US Energy Information Administration, 2007a

[4] Data for 2006 (source: Jaakko Pöyry)

Australian producers are price-takers

Because Australian-produced pulp and paper sells in the global market, our producers are price-takers and must compete on price to remain in business. Spikes in cost of production cannot be easily absorbed because customers can source essentially the same commodity products from competitors. Developing countries – particularly China and in South America – are entering the global pulp and paper market aggressively, and first-world companies are increasingly looking to invest offshore to remain competitive[5].

Since emissions trading began in Europe, its pulp and paper sector has highlighted the difficulty of its companies to pass on the extra costs of the EU-ETS to final consumers, because they are price-takers and cannot influence world prices.

Manufacturing costs are already considered high by world standards, and "...the profits and success of European companies is therefore very dependent on their local, European, manufacturing ... any additional costs from ETS will further weaken the profitability of the EU industry, especially as global competitors do not face these extra costs."[6].

Our market competitors are mostly in carbon-unconstrained jurisdictions

In addition to our absolute trade exposure, most of Australia's imports and all of our exports of pulp and paper products involve countries and jurisdictions not subject to CO_2(e) emission costs such as China and the United States.

Table 3 – Paper and paperboard trade by carbon constraint[7]

Australian trade in ...	Paper	Paperboard	**Total**
Imports from ...			
Carbon-priced Countries#	25.1%	35.4%	30.3%
Non-scheme countries*	74.9%	64.6%	**69.7%**
Exports to ...			
Carbon-priced Countries#	3.7%	0.0%	0.5%
Non-scheme countries*	96.3%	100.0%	**99.5%**

"Carbon-priced" countries include: Finland; France; Germany; Italy; United Kingdom; Belgium; Sweden; Spain; Czech Republic; Luxembourg; Netherlands; Hungary

* "Non-scheme" countries include: Brazil; Canada; Chile; New Zealand; Thailand; Malaysia; United States; China; Rep. of Korea; Norway; Japan; Norway; South Africa; Singapore; Hong Kong; Philippines.

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[5] Note, for example, the recent trend for companies such as Stora Enso, Botnia and International Paper, to investigate investing in South America. "...with high costs and other constraints in traditional Northern Hemisphere producing regions, and with a fibre shortage expected to continue in Asia, more of the largest pulp and paper companies should consider investing in pulp production in South America to remain competitive...." (PWC 2007 Report - *Risks and Rewards: Forest, paper and packaging in South America*, cited in www.newswire.ca/en/releases/archive/July2007/05/c3844.html - accessed 9 June 2008)

[6] Confederation of European Paper Industries *Fact sheet* http://www.cepi.org/Objects/1/Files/072703ClimateChange.pdf (accessed 9 June 2008)

[7] Source: ABARE - *Australian forest and wood products statistics*. September and December quarters 2007. Canberra.

Over the period 2001 – 2006, the export of wood and paper products from Australia to China increased by 106%. Over the same period, the imports of wood and paper products from China to Australia increased by 213%.

In 2006-07, Australia's imports and exports of paper products were heavily skewed towards countries with no effective carbon-price constraint (see Table 3), and this trend is expected to continue as South America (as a producer) and Asia (as a consumer) increase their dominance in the future.

6. There are strong precedents for a specific trade-exposure recognition

In all places where emissions trading is in place, or contemplated, the case of EITEs and the risk of "carbon leakage", are highlighted. For example:

- the designers of the **European Union Emissions Trading Scheme** (EU-ETS) recognise that, even with the introduction of permit auctioning under Phase III, free allocations will be made to "...installations in sectors judged to be at significant risk of 'carbon leakage,' meaning that they could be forced by international competitive pressures to relocate production to countries outside the EU that did not impose comparable constraints on emissions...".

  Such a perverse outcome would "...simply increase global emissions without any environmental benefit ...". Accordingly, the EU Commission will, by 2010, determine "... which sectors are concerned, taking into account the extent to which the sector concerned is able to pass on the cost of the required allowances in product prices without significant loss of market share to less carbon efficient installations outside the EU. In this respect, the Commission will assess ... the cost of allowances compared to production cost and the exposure to international competition. Installations in these sectors will receive up to 100% of their allowances for free..." [8];
- the North American **Regional Greenhouse Gas Initiative** (RGGI), while initially only covering electricity generation, recognises the imperative of preventing 'emissions leakage" from jurisdictions outside the Scheme[9];
- the **Garnaut Review** team recognises that "...some industries rely significantly on emissions-intensive production processes, and are substantially unable to pass costs of emissions through to customers because price of commodity or good is determined on international markets...". Garnaut recognises that "...transitional financial assistance (possibly in the form of free permits) should be provided to account for distortions arising from major trading competitors not adopting emissions limits (or pricing)...."[10].
- the Australian multi-State **National Emissions Trading Taskforce** (NETT) has proposed that a national ETS should include an "...annual free allocation of permits to trade-exposed, emissions intensive industries ... until their competitors

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[8] European Union – Emissions Trading Scheme Q&A on Phase III – www.europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/35 - accessed 6 June 2008)

[9] See, for example, *Initial Report of the RGGI Emissions Leakage Multi-State Staff Working Group to the RGGI Agency Heads*. March 14, 2007 (www.rggi.org/docs/il_report_final_3_14_07.pdf - accessed 6 June 2008)

[10] Garnaut Climate Change Review. 2008. *Emissions Trading Scheme Discussion Paper* – March, p. 8

in other nations face commensurate emissions constraints…" The NETT proposals advocate an allocation that would vary according to the firm's output[11];

- The **Task Group on Emissions Trading**[12] proposed free permits to EITEs (termed "TEEIIs" under that proposal) calculated according to 'best practice' technology (for their direct emissions), to avoid the problem of simply incentivising outmoded industrial processes and behaviour. The scheme would recognise existing and new investments differently, viz free permits allocated:
  - to *existing* investments in TEEIIs equivalent to the carbon costs flowing from their direct (industrial process) and indirect (energy and embodied production inputs) post-tax costs; and
  - for *new* investments in TEEIIs to offset direct emissions 'as if' the investments were using world's best practice low-emissions technology, and provided free permits equivalent to the post-tax costs of their *actual* indirect emissions.

Visy believes the Commonwealth Government can confidently include trade-exposure recognition under the CPRS on the basis of precedent.

More importantly, Visy's recognition as an EITE industry under the CPRS is crucial in order for Visy to realise its ongoing investment in Australia. This recognition must be accompanied by the allocation of free emissions permits, to not only assist Visy in meeting its obligations under the CPRS, but also to support the retention of highly skilled and well paid manufacturing jobs in Australia.

7. Recommendations

Visy welcomes the opportunity to assist the Joint Standing Committee on Treaties in its inquiry into our opportunities and obligations arising from ratification of the Kyoto Protocol, including Australia's development of an emissions trading scheme.

Visy recommends the Commonwealth takes urgent policy that results in:

- a sufficient flow of freely allocated permits being provided to efficient energy intensive, trade-exposed industries, which includes the Australian pulp and paper industry, to cover their indirect and direct exposure to emissions liability. The specific policy objectives of this recommendation are:
  (a) to retain skilled manufacturing jobs, and future investment within Australia in the face of strong competition from non-ETS jurisdictions, and
  (b) to avoid carbon leakage (and potential carbon "magnification") to non-ETS jurisdications
- incentive structures and benefits associated with the NSW GGAS being retained at least until 2020 (the date expectation upon which Visy's GGAS projects were

[11] National Emissions Trading Taskforce. *Possible design for a national greenhouse gas emissions trading scheme: Final framework report on scheme design.* December 2007. p. 49

[12] Prime Ministerial Task Group on Emissions Trading. 2007. *Report of the Task Group on Emissions Trading.* Canberra

based), and for effective transitioning of the GGAS instruments into the national CPRS on a "tonne-for-tonne" CO_2(e) basis,

- large energy users being empowered to avoid exposure to "cost-plus" pass-through by electricity generators (achieved by those large users being able to opt-in as parties liable for the carbon emissions from their purchased power),
- implementation of an effective materials recycling incentives program for Australia, with an emphasis on domestic remanufacture of goods within Australia from recyclables, and
- practical acknowledgement, in policy and practice, of the importance of landfill avoidance as a greenhouse gas abatement measure, including treatment of landfill avoidance as a specific greenhouse gas abatement weapon under the CPRS.

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