



**LATROBE VALLEY GENERATORS**  
EDISON MISSION ENERGY • ENERGY BRIX • HAZELWOOD POWER • LOY YANG POWER • YALLOURN ENERGY

15 September 2000

The Hon. A.P. Thomson MP  
Chairman  
Joint Standing Committee on Treaties  
Parliament House  
Canberra  
ACT 2600

Dear Andrew,

### **Submission to the Kyoto Protocol Inquiry**

The members of the Latrobe Valley Generators group are pleased you and your fellow committee members visited the Latrobe Valley this week to hear directly about the contribution Valley industry makes to Australia. We believe strongly that the Kyoto Protocol, if ratified, will have an impact on Australia's economic competitiveness that is not in the national interest.

Attached is the group's first submission to the committee. Greenhouse is an issue that is rapidly unfolding as the international negotiations on implementation of the Protocol reach a climax, at The Hague in November. International circumstances are changing all the time, and the economic impacts of greenhouse policy are becoming clearer.

Therefore, we intend to put before the committee further pertinent information as it becomes available over the next few months. This initial submission is presented as a general statement of attitude and an outline of what we believe to be the serious economic implications of the Protocol.

The disruption of fuel supplies in Europe over the past two weeks should be connected to greenhouse. Many of the proposed Kyoto Protocol measures are based on taxation, or the equivalent. It seems that many Europeans are not willing to accept new taxes, however compelling the motive. Will Australians?

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Noel Bushnell', written in a cursive style.

Noel Bushnell  
on behalf of the Latrobe Valley Generators



## **JOINT STANDING COMMITTEE ON TREATIES**

### **Inquiry into the Kyoto Protocol**

#### **Submission by the Latrobe Valley Generators**

September 2000

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#### **INTRODUCTION**

The Latrobe Valley Generators group is a coalition of the five power companies in the Latrobe Valley of Victoria which generate electricity from brown coal. The LVG was formed more than two years ago to address public policy issues the companies have in common, especially greenhouse.

The five companies have a total generating capacity of 6220 megawatts (MW), representing 85 per cent of Victoria's total power supply and about 19 per cent of national capacity. The five are:

Loy Yang Power	2000 MW
Hazelwood Power	1600 MW
Yallourn Energy	1450 MW
Edison Mission Energy	1000 MW
Energy Brix Australia	170 MW

These companies have invested new capital totalling \$11 billion in these assets and made a long term commitment to their efficient operation. The plants have operational lives of between 30 and 50 years.

Brown coal is a valuable State and national energy resource which produces electricity at world-competitive prices for a number of major national export industries. The LVG believes this is worth protecting, for the sake of their own businesses, their customers and the national interest.

Ratification of the Kyoto Protocol in the terms in which the treaty is presently framed would place at risk the basis of the Australian economy.

This submission addresses those issues which are relevant to LVG members. It does not attempt to cover the full range of matters listed in the inquiry's terms of reference, nor all the aspects of the broad greenhouse issue itself.

## GREENHOUSE FUNDAMENTALS

Greenhouse represents a fundamental political force at large in the world. The advocates of greenhouse action propose nothing less than the restructuring of national and world economies in the name of saving the environment. The desirability of greenhouse gas abatement on the possibility that human-created emissions of carbon dioxide might be having a detrimental effect on the climate has become the excuse for pursuing long-standing agendas designed to reduce industrialisation, ration the earth's resources and restrain international trade.

Australia enthusiastically supported the outcomes of the watershed Earth Summit of 1992, one of which was to "do something" about the indications of global warming caused by human activity. There was only a tenuous scientific theory of climate change at that time but, according to the precautionary principle, action had to be taken against a perceived threat even if scientific certainty were lacking. The result was the United Nations Framework Convention on Climate Change (FCCC), which Australia has ratified, and, under the FCCC, the Kyoto Protocol, which Australia has signed but not ratified.

## THE PROTOCOL

The Kyoto Protocol is a treaty, as is its parent. There was no inquiry into ratification of the FCCC, no debate among Australians and government made little effort to explain its implications. The key ramification of all such treaties is that they become law in Australia. They are not simply agreements that government enters into on behalf of the citizens.

It appears now that Australia has subjected itself to many treaties without submitting them to the scrutiny of the people, as is required by other kinds of lawmaking in Australia. The nation has committed itself to the examination and judgement of bureaucrats and politicians for the most part quite unknown to the people of Australia. So it is with greenhouse.

The FCCC is basically a statement of principles, a framework as its name states, relying on goodwill and voluntary action. Australia is one of the few countries that has taken its obligations seriously, and has committed large resources and political power to the goal of reducing greenhouse gas emissions.

The Kyoto Protocol, however, is designed to be the instrument that forces action. It sets targets and timetables; it specifies policies and measures; and it sets out compliance policing and sanctions. It is a coercive document which transcends national sovereignty, and carries the threat of doing so even if a particular country does not agree to it.

## KEY SECTIONS OF THE PROTOCOL

- **Australia's target**

The Protocol sets Australia a target of restraining greenhouse gas emissions to 108 per cent of 1990 emissions, averaged over the five years 2008-2012. As of the latest National Greenhouse Inventory, Australia was at 117 per cent of 1990 emissions.

Greenhouse gas emissions – defined as carbon dioxide and five other carbon-based gases – are the direct result of economic activity. Australia’s economy is energy-intensive and its population is one of the fastest growing in the world. In the simplest of terms, that means Australia burns a lot of coal and petroleum and disturbs a lot of land in making its living from mining, resource value-adding (refining, smelting and manufacturing) and agriculture.

There is no hope that Australia can reach its target without severely curtailing economic growth. Likewise, there is no hope that the other Annex 1 (developed) countries will meet theirs, either. Which leads to the “flexibility mechanisms” and the so-called Australian clause in the Protocol.

- **Flexibility mechanisms**

The flex-mex, as they have been dubbed, are designed to allow countries to reach their targets by, in broad terms, offsetting their emissions against below-target emissions in other countries – principally developing countries and the countries of the former Soviet Union and its satellites, which have undergone a savage de-industrialisation.

There are three flex-mex: emissions trading, Joint Implementation and the Clean Development Mechanism. JI and the CDM are essentially methods of transferring technology and money from the developed world to the developing. Emissions trading, however, has been embraced by developed countries and powerful commercial forces as the method by which targets might be met without necessarily reducing economic growth and, along the way, make some tidy profits.

The European Union generally opposes the wide use of flex-mex and carbon sinks (see below) in order to meet targets. EU countries can see how these measures help their major trade rivals, the United States and Japan, and their emerging rivals, the developing country powerhouses of China, Korea, India and south-east Asia. Ostensibly, however, EU opposition is based on an undeniable fact: flex-mex do not directly help the atmosphere.

The problem with the flex-mex, if you seriously believe in greenhouse gas abatement, is that they could allow the major industrialised countries to meet their targets without reducing emissions by any significant amount. That is true, too, for the other key mechanism in the Protocol, the creation of carbon sinks and the generation of tradable credits from them. This is the Australian legacy to the world from Kyoto.

- **Carbon sinks**

Vegetation takes in carbon dioxide from the atmosphere, gives back oxygen and fixes the carbon in its cells (known as sequestration). In theory, if you could plant enough trees, you could remove all the excess carbon dioxide from the air and eliminate the enhanced greenhouse effect.

The “Australian clause” in the Kyoto Protocol, famously read into the document at 3am on the final morning of negotiations in 1997, recognises the contribution land use, land-use change and forestry (known in UN-speak as LULUCF) can make to greenhouse gas abatement and the ability of countries to reach their targets, especially Australia which argued that land-use change since 1990 had rendered the 1990 baseline too low.

There are formidable technical difficulties in measuring carbon sinks, not least of which is that they are perishable. As soon as, for example, a tree burns down in a bushfire it gives back its carbon to the atmosphere. Not only that but, when a tree reaches maturity, it ceases to absorb carbon and even starts to give it up again. One body of argument insists that in net terms carbon sinks are a fiction because they are not permanent, which means, importantly, credits cannot be measured, valued and traded.

The recent withdrawal of the Sydney Futures Exchange from an attempt to create an emissions/carbon credits market highlights the difficulties of definition, verification and compliance that accompany the proposal. However, the Latrobe Valley Generators believe LULUCF credits to be essential to any emissions trading system and the member companies all have interests in landcare or forestry plantation activities designed to find and test the parameters.

- **Economic instruments**

The framers of the FCCC, the Kyoto Protocol and the advocates for their urgent adoption are all enthusiastic supporters of economic instruments for creating behavioural changes that lead to reduced emissions. Simply put this means taxes on emissions and subsidies for alternative energy and possibly carbon sinks.

Australian governments have stated “no carbon taxes” but are nonetheless actively introducing greenhouse measures such as the “2% renewables” policy which will have a similar effect. Proposals for a domestic emissions trading systems have been put aside because of industry protests that they amounted to little more than a carbon tax in disguise.

Carbon taxes, in one guise or another, are already a fact of life in Europe. They are one factor in the price of petrol being three to five times the Australian price. The September fuel strike in France, with loud echoes in Australia, illustrated in the plainest possible way that people are at breaking point on taxes on essential commodities.

It must be questioned, however, whether using the tax system to change behaviour is effective. Around the world, the period of high taxes on motor fuel since 1975 has coincided with a surge of road-building and greater demand for road transport than ever.

## THE IMPLICATIONS

It is essential that, if the Kyoto Protocol is to be put into force, that the targets be abandoned, the timeline lengthened, and the flex-mex and LULUCF measures adopted in terms that do not disrupt the world economy and trade. That is not to say “do nothing”. It is to say to the climate change negotiators and to governments: wait, understand properly what it is you are proposing and then see how you can move ahead.

The discussion above of flex-mex and LULUCF is a highly simplified summary of complex political and scientific processes but is offered to highlight the difficulty – not to say impossibility – of giving the Kyoto Protocol real meaning.

If this treaty really is about reducing emissions of greenhouse gases in the atmosphere, it most likely will not succeed in this objective. The Annex 1 countries, on which the whole burden falls, are already well behind schedule and even those countries, such as the UK and Germany, which have undergone economic restructuring since 1990 are not likely to catch up if they continue at current economic growth rates.

Australia contributes less than 1.5 per cent of estimated global greenhouse gas emissions. Australia cannot make a difference.

Nevertheless, Australia recognises its international responsibility and is implementing a wide-ranging National Greenhouse Strategy. More than \$1 billion has been committed to the cause and a new bureaucracy, the Australian Greenhouse Office, is administering NGS programs. The private sector has created new businesses and new industry in anticipation of an even larger greenhouse effort forced by the Kyoto Protocol.

But all this may go for nought. Ratification of the Kyoto Protocol, as it now stands, will commit Australia to a target that is futile in its overall worth and that can be met only by reducing economic growth, by buying carbon credits or a combination of both. Whatever Australia does under current proposals, it will be the poorer for it.

## WHAT'S AT STAKE

At present coal-fired electricity generators are the focus of the NGS, undoubtedly because they produce about a third of Australia's emissions. This policy focus is mistaken.

The recent Allen Report to the Victorian Government on the impact of a domestic emissions trading system priced emissions permits under the scenario most favoured by the AGO at \$44 a tonne of carbon dioxide equivalent. Recent emissions trading trials in Europe have confirmed permit prices of this order.

The Allen Report said a permit price or carbon tax of \$30 a tonne would translate to a 75 per cent rise in electricity pool prices and noted that greenhouse measures that "raise the price of electricity can be expected to have a substantial impact on the competitiveness of a wide range of Australian industries."

Allen's modelling of emissions trading scenarios predicted a significant fall in gross domestic product and retrenchment in the loser industries – coal-fired power generation, aluminium, cement, petroleum, motor vehicles and agriculture.

Almost without exception the major losers are based in regional Australia – the Latrobe Valley, Geelong and Portland in Victoria; the Hunter Valley and the Illawarra in New South Wales; Gladstone in Queensland; Elizabeth in South Australia and Kwinana-Bunbury in Western Australia.

The following estimates have been prepared by the Latrobe Valley Generators group. They are indicative figures only but they illustrate what is at stake in Victoria alone.

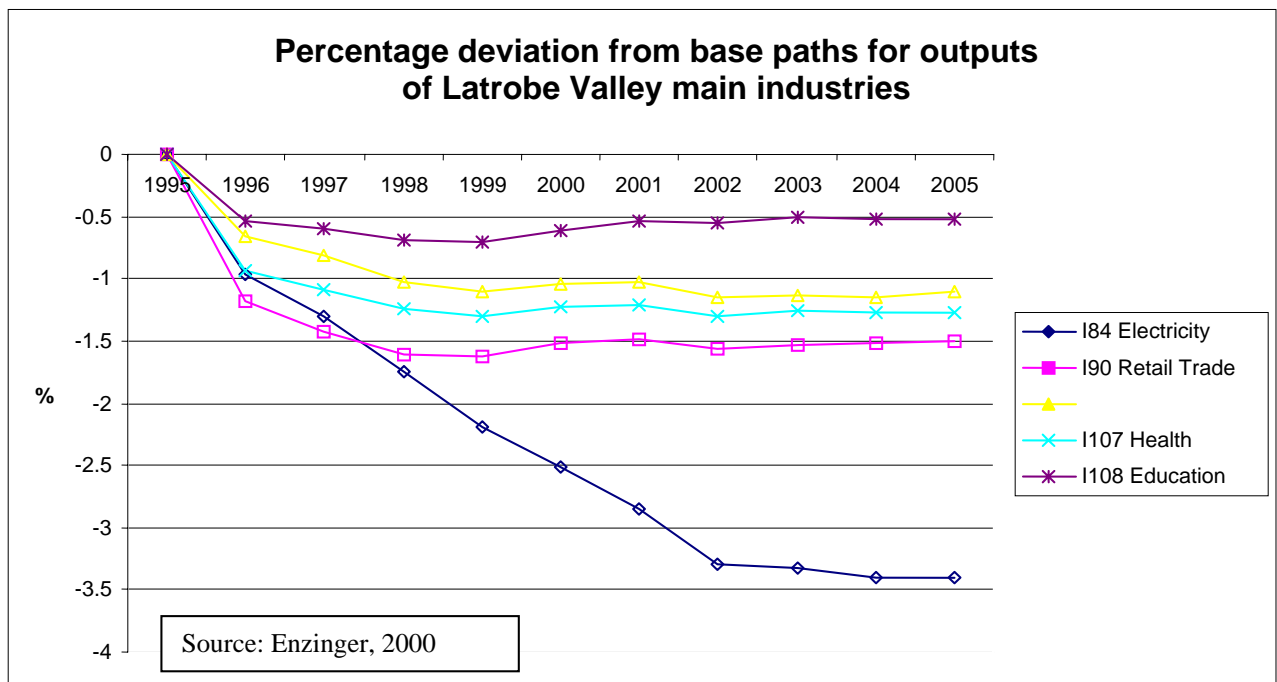
**Income and Employment in Key Victorian Industries**

INDUSTRY	SALES (p.a.)	EMPLOYMENT	
		Direct	Indirect
Aluminium smelting and manufacturing	\$1.5 billion	2000	4000
Motor vehicle manufacture and assembly	\$4.5 billion	12,000	30,000
Motor vehicle component manufacturing	\$1.8 billion	11,000	26,000
Paper and paper products	\$2 billion	6000	15,000
Petrochemicals	\$4 billion	11,000	26,000
Steel and steel products	\$2 billion	5500	12,000
<b>TOTAL</b>	<b>\$15.8 billion</b>	<b>47,500</b>	<b>113,000</b>

The aluminium smelter at Portland in Victoria is a good example of what could happen. The smelter exists primarily because of the supply of brown coal electricity from the Latrobe Valley at world competitive prices. It employs about 800 people, including contractors, out of a regional population of 15,000 and is probably indirectly responsible for a further 2400 jobs in the Portland district.

Higher electricity prices flowing from greenhouse measures will erode Portland’s competitiveness against smelters in Asia, Africa and South America, which will not be affected by the Kyoto Protocol or its outworkings. In fact, they might be advantaged by it.

At the same time, a vast energy resource would be sterilised. Brown coal resources in Victoria total 200,000 million tonnes, of which 33,000 million are classified as economic by today’s technical and market criteria. Usage is now about 65 million tonnes a year – which means there are enough economic resources to last 500 years at current consumption rates.



Victorian brown coal can supply the energy needs of Australian industry and households at growth rates far above those achieved at any time in the past, or indeed forecast for the future. Brown coal has also proven potential as a source of synthetic liquid fuels. Conversion is not economic now but sometime in the future it could very well be so.

It is not in the national interest for Australia to ratify a treaty, the Kyoto Protocol, which threatens legitimate economic activity underpinning the very fabric of national life.

## THE ALTERNATIVES

Australia has given a commitment under the FCCC to reduce greenhouse gas emissions. Non-ratification of the Kyoto Protocol will not remove that obligation, and Australia is busy meeting it.

Can Australia actually reduce emissions without squeezing the economy? The Latrobe Valley Generators believe so, and offer their own fuel source as a telling example.

Brown coal is a major producer of carbon dioxide. There is no escaping that fact and, if greenhouse gas emissions are to be reduced, the consumers of brown coal will have to do something about it.

At present, the Latrobe Valley Generators are concentrating on operating their plants at maximum efficiency – the premise being that the greater the efficiency, the lower the emissions. But efficiency measures applied to current plant can go only so far. Sooner or later, brown coal electricity plants will have to introduce new technologies to make emissions reductions of the size the Kyoto Protocol envisages.

The Co-operative Research Centre for Clean Power from Lignite is studying the range of emission-reducing technologies, including circulating fluid bed combustion (CFBC), supercritical pulverised coal-fired boilers (SCPC), pressurised fluid bed combustion (PFBC), integrated gasification combined cycle (IGCC) and advanced pressurised fluid bed combustion (APFBC).

Under a scenario of 1.5 per cent load growth in Victoria, the CRC estimates that at 2040 the application of APFBC technology would reduce annual CO<sub>2</sub> emissions by 36 per cent compared with continued use of current technology. Load growth of 2 per cent would cut emissions at 2040 by 40 per cent.

The CRC believes the price of brown coal power from APFBC technology would be competitive with that from advanced technologies fuelled by high-rank coals and natural gas, something around \$35 a megawatt-hour (MWh).

The key to introduction of new technology will be economic viability. The technology will require significant investment but will significantly increase the efficiency of brown coal generation: no responsible owner can ignore it. Introduction becomes feasible when timed to coincide with the eventual need for basic plant upgrading and refurbishment.



This scenario is similar for a whole range of industrial technologies being developed in Australia and around the world that will achieve the desired reductions in greenhouse gas emissions and maintain economic growth at the same time.

However, governments must realise that none of these technology advances can be achieved in the short term, that is by 2008-2012. Like greenhouse itself, the timeline is long. Patience and a long term view are required for achievement of the maximum result – a continuation of competitive energy supply to Australian industry and large reductions in greenhouse gas emissions.

## THE NATIONAL INTEREST

The Latrobe Valley Generators expect the JSCoT to produce a National Interest Analysis for presentation to Parliament canvassing all the issues, environmental and economic, connected with the Kyoto Protocol. It will give the Australian people a chance to decide that what is being proposed in their name is actually in their interest.

The committee report should also take some of the manufactured panic out of the greenhouse issue. If climate change because of human activity is a reality, it needs to be approached calmly in the realisation that it is a long term problem for which there are only long term solutions.

The obvious response is to encourage technology development and application and not become entangled in the politics of deadlines. A rush to ratification would do the opposite.

## NEXT STEPS

As this submission was being compiled, Parties to the FCCC were meeting in Lyon, France, to consider Kyoto Protocol mechanisms to take forward to the Sixth Conference of the Parties (COP6) in The Hague in November, only a mere 10 weeks ahead. Very little, if anything, is settled about the implementation of the Protocol, yet there is a strong political drive to announce it as complete at COP6.

Australia's policy response to this COP6 pressure is crucial to the future. Australia should carve out its own course, as it did at COP2 when it stood out against the United States and the European Union to argue for Australia's national interest and along the way changed the overall direction of the climate change negotiations.

The Latrobe Valley Generators have put a consistent view to government and to the community. Australia's greenhouse policy should:

- protect industry competitiveness
- recognise the value coal-fired electricity delivers to Australia
- provide market-based measures in a non-discriminatory regulatory framework
- share costs equitably across the economy

Many other sectors of the Australian economy share the LVG position and recent Government statements recognising these concerns are welcomed by industry. Australia in its

international negotiations should stick to the principles the Government has now articulated. The objective is to ensure that economic change, if that is what is required, is evolutionary rather than disruptive.

In particular, the Australian Government should seek from the Kyoto Protocol negotiations:

- extension of the assigned targets and the timeline
- emissions trading and LULUCF credits on the broadest, free market terms
- participation of developing countries
- compliance mechanisms that recognise national sovereignty

## CONCLUSION

Greenhouse is an economic issue. The Kyoto Protocol is a major economic treaty. It commits Australia to economic restructuring under the oversight of the United Nations and subject to international sanctions.

Australia should not ratify the Protocol until the Government is satisfied legitimate national concerns are met and until the people of Australia have had a chance to understand fully the implications of what is being signed into Australian law.