HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ENVIRONMENT, RECREATION AND THE ARTS

Reference: Trading in greenhouse gas emissions

CANBERRA

Thursday, 28 May 1998

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON THE ENVIRONMENT,
RECREATION AND THE ARTS

Members

Mr Causley (Chair)

Mr Jenkins (Deputy Chair)

Mr Anthony	Miss Jackie Kelly
Mr Billson	Mr Kerr
Mr Robert Brown	Dr Lawrence
Mr Eoin Cameron	Mr McDougall
Mr Entsch	Mr Mossfield
Mr Hockey	Dr Southcott

The committee will inquire into the regulatory arrangements that would need to be put in place to support a market in greenhouse gas emissions including:

mechanisms for measuring, verifying and monitoring emissions and the compliance with contracted arrangements;

mechanisms to integrate emissions trading with the development of carbon sinks (such as timber plantations, gas aquifer reinjection, soil rehabilitation etc), including the science, measurement and security of such arrangements;

the allocation of the right to emit greenhouse gases;

regulatory mechanisms to support a national market and potentially an international market in emissions trading;

possible emission traders, administration and transaction costs;

roles and responsibilities of governments and other stakeholders; and

the impact of emission trading on the environment and industry and the economic and social welfare of the Australian community.

WITNESSES

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ENVIRONMENT, RECREATION AND THE ARTS

Trading in greenhouse gas emissions

CANBERRA

Thursday, 28 May 1998

Present

Mr Causley (Chair)

Mr Billson	Mr Jenkins
Mr Robert Brown	Miss Jackie Kelly
Mr Entsch	Dr Lawrence
	Mr McDougall

Committee met at 8.58 a.m.

Mr Causley took the chair.

CHAIR—I declare open this public hearing by the House of Representatives Standing Committee on Environment, Recreation and the Arts which is inquiring into the regulatory arrangements for trading in greenhouse gas emissions. This inquiry was referred to the committee at the end of October last year by the Minister for the Environment, Senator Hill. There have been 66 written submissions made to date and the committee is now part way through its program of public hearings. We have held public hearings in Sydney, Brisbane and Melbourne and further hearings are planned for Canberra through July.

The committee is considering greenhouse gas emissions trading in the context of Australia's commitment under the Kyoto protocol to emissions reduction. This inquiry is focusing on the arrangement that should be put in place for the domestic trading scheme. As the committee collects information about the best sort of scheme to adopt, it will be looking for mechanisms that will ensure that emissions trading contributes to emission reduction as equitably, effectively and efficiently as possible. We will be looking for ways of providing maximum certainty at minimum cost for the environment and the emissions traders.

Before proceeding I advise the witness that committee public hearings are recognised as proceedings of the parliament and warrant the same respect that proceedings in the House of Representatives demand—as the Speaker has informed us recently. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. You will not be asked to take an oath or make an affirmation; however, you are reminded that false evidence given to a parliamentary committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public but should you at any stage wish to give evidence in private you may ask to do so and the committee will give consideration to your request.

I now call the representative of the Australian Aluminium Council. For the *Hansard* record would you please state your full name and the capacity in which you appear.

COUTTS, Mr David Lawrence, Executive Director, Australian Aluminium Council, 16 Bougainville St, Manuka, Australian Capital Territory 2603

CHAIR—Thank you. We have received a submission from you and have authorised its publication. Do you wish to make any changes to it at this stage?

Mr Coutts—No. We are quite happy for the report to be published as we submitted it.

CHAIR—Before questions would you like to make a brief opening statement?

Mr Coutts—I am quite happy to make a short statement if that is consistent with the procedures that you have been following. I would like to thank the committee very much for the chance to talk a little more about the issues that we have put forward relating to greenhouse emissions trading.

The aluminium industry endorsed a joint industry submission from the Industry Greenhouse Network which has separately been submitted, but we also provided a short submission on our own behalf, which is what I think you have got in front of you today, that highlighted the key points from the perspective of the aluminium industry.

I will just very briefly give you a couple of details about the aluminium industry. They are set out in the submission. We are actually Australia's second largest merchandise exporter at the current time when you wrap all the sections of the industry together.In 1997-98 the total value of those exports is going to be about $5.8 billion according to ABARE. I suspect that figure might be a little bit high actually, given recent events in Asia, but anyway it is something of that order. We are actually the world's largest producer of bauxite, largest producer and exporter of alumina, and fifth producer and third largest exporter of metal. We also export significant semi-fabricated products, particularly can sheet, to Asia—at least I hope we are going to continue to do that.

The industry is successful in Australia because of competitive and abundant raw material, competitive power costs and a high quality political and economic environment, particularly compared to some of the competitors.The world market is, however, very competitive. An increase in power costs, in particular, beyond those elsewhere would make future investment in the Australian industry somewhat difficult to attract.

We are predicting a growth in the industry by 2010 of over 30 per cent if the parameters are right. If that investment goes to other countries they will probably be non-annex 1 countries and that will not do anything positive for the global environment. It will have cost Australia very dearly in economic terms. The sort of areas that that investment will likely go to will be India, China, Middle East, South Africa, et cetera—perhaps Latin America.

The Prime Minister's statement made clear that Australian jobs and industry would not be adversely affected, and Australian industries, particularly in the resources sector, should not be robbed of their competitive advantage. That is very important for us.

The industry is a significant emitter of greenhouse gases. In particular, we are the emitter, basically, of PFCs, which are one of the three additional gases which were put in the protocol at Kyoto, and other process emissions. We are also very significant indirect emitters because of the very heavy use of electricity, which, in Australia, is basically from coal fired power stations at the moment.

The industry is in favour of the concept of emissions trading. It, at least in economic theory, should be a mechanism to deliver abatement in the areas of highest energy cost and thus highest abatement benefit. But, unless everyone is covered—and I mean globally everyone is covered—then we could have great difficulties with the system and therefore it will have to be looked at extremely carefully.

Basically, whatever trading system emerges will need to have allowance for growth in energy intensive industries such as aluminium. The industry is already at the leading edge of world energy efficiency because, basically, that is what we do. We use a lot of energy to produce aluminium, and so if you do not do that efficiently you do not stay in business.

There is no possibility of passing on any increases in costs, due to emission permit costs or any other levies—carbon taxes or whatever else might be contemplated. And that is because aluminium is a uniform product sold on a terminal world market which is governed by the London Metal Exchange so there is really no possibility to pass any cost increases on that are not consistent with cost developments elsewhere.

We have been trying to think a bit about the system. It is early days yet. Our thoughts initially tend to the defensive and the negative because, obviously, anything that involves increases in costs is a problem for us. But we do embrace the concept and want to work with it to find a good solution. At the moment, we feel that some sort of differentiated system may have to be considered—this is really only a first thought—that would have a growth factor of some kind built into it for export industries, and possibly differential targets for other sectors that do have considerable potential to improve energy efficiency. Some of those are areas like the motor vehicle sector, commercial and residential buildings, household emissions, et cetera. If you do otherwise you will inevitably run up eventually against the Prime Minister's commitment on competitiveness and jobs.

We also feel Australia should not proceed with a domestic emissions trading system too quickly. It is very complex. I have been involved in commodity issues for a long time; attempts globally to put in place commodity arrangements have not worked at all in the past. This is, in my mind, infinitely more complex than that. It raises a whole lot

of internationally very serious issues, such as what happens with Russia and eastern Europe, and all those sorts of things. So that is going to take some time to work its way through. We certainly feel that the shape of an international regime should be known a little more clearly before we go too far down the track domestically.

There are a number of initiatives that are being worked through at the moment, coming from the Prime Minister's statement and from other areas. We feel a lot of progress can be made on those without necessarily putting in place an emissions trading system. I say 'without necessarily'; we are not ruling it out, but it is not a necessary part of achieving a whole lot of gains in those areas. We have signed on as an industry to the greenhouse challenge program. We were one of the first industries to do so. The whole industry in refining and smelting has signed on—every company, every operation. They have done that on a coordinated basis under the council. We have committed ourselves already by 2000 to reduce per tonne emissions of CO_2 equivalents by about 20 per cent per tonne of aluminium between 1990 and 2000 for metal, and about 10 per cent reduction for alumina refining, which are quite significant reductions.

A large part of that, from the smelting area, is PFCs. The reduction in emission of PFCs by 2000 will be to a level only about 20 per cent of what it was in 1990, which is a pretty good achievement. There are some economic advantages in doing that too. It is a good example of where greenhouse sometimes does come into a positive harmony with other issues. PFCs were not recognised as an environmental problem until the greenhouse issue came along, but once they were it also became clear—when they started to look at them—that there were some economic benefits in fixing them as well. That is all I would like to say at this stage. I am very happy to talk if you wish.

CHAIR—You opened up quite a few issues in that statement. Recognising that your industry is probably going to be the one that will be affected most by some of these decisions, we are very sensitive to that. Can we clarify one thing to start with. I think I understand but I would just like to make sure. The mining of the bauxite is separate from the generation of electricity and is separate from the smelter? Are they are different companies?

Mr Coutts—There is some integration. The way the process goes is that you have the bauxite mining; that ore is then put through a refinery, as we call it, to produce an intermediate product, which is alumina, aluminium oxide. About 90 per cent of that aluminium oxide, which is a white powder, goes into an electrolytic process in an aluminium smelter to make aluminium metal. The other 10 per cent goes into other uses: chemicals, ceramics, abrasives, and things like that. The companies that mine bauxite almost universally also have interests in the aluminium refineries—there is an integration between the two. Some of those companies also have an interest in aluminium smelters as well. That integration used to be very strong. It is not quite as strong as it used to be. There has been some diminution of that.

Australia has six mines, six refineries and six smelters. The mines and the

refineries tend to be together because it makes sense to have your bauxite mine close to your refinery. There is only one exception to that, and that is in the case of Weipa bauxite. There is not a refinery there, at least at the moment. That refinery is basically at Gladstone in Queensland.

CHAIR—You have heard that Australia has committed itself to not increasing its gases by more than eight per cent under the protocol. From what you said I think you have an intuitive feeling that the best way to go is a trading scheme to try and achieve that.

Mr Coutts—I do not think I would go quite that far at this stage. What I was saying was that, in principle, a trading scheme ought to be able to deliver energy efficiency at least cost because it ought to give incentive for the people who can get the most advantage out of emissions to be able to pay the most, and so that would lead to greater efficiency.

But, for a scheme to work, it has got to be able to do certain things, and we do not see clearly yet how it will necessarily be able to do that. It has got to have, in our view, global coverage and, certainly in the international sense, that is not the case because you do not have the non-annex 1 countries involved. That is mostly our competitors.

CHAIR—Most of your competitors are outside annexure 1, are they?

Mr Coutts—Currently no. There is a lot of production in Europe and North America, but any future investment, apart from Canada, is going to be in non-annex 1 countries or Australia. And I put that 'or' in big letters, because it is very sensitive. We have some potential for that investment, but it will not happen if, for some reason, energy costs rise dramatically and do not rise in the same way in other countries. It is that tight. They have just announced new investment in Mozambique and in the Middle East, and there is a lot of interest in Venezuela. That is what we are competing with. They are all outside annex 1. Some of those are hydro, admittedly—Venezuela—but certainly South Africa and the Middle East are not.

CHAIR—We have had quite a bit of evidence to suggest that some of the industrialised nations are already pre-empting such a world trading scheme and are moving in certain directions—such as the US and Japan, et cetera, pre-empting that we may go down that track. There is quite a bit of evidence from companies in Australia saying that we should not be left behind. There is other evidence saying we should not rush in too, which I have just mentioned.

It has been put to us by, I think, a number of the generating areas, the big emitters, that they would probably favour starting a scheme in that area where it is easy to manage and to gauge at this particular stage, and then gradually work their way through the more difficult areas. Would you have a comment on that?

Mr Coutts—There is some attraction to that, particularly from their point of view, because it is easier to put a scheme in place where you are dealing with those sectors. It is relatively easy to identify the emissions, and we have got a relatively small number of players and some processes of marketing and all that that are moving forward. But the problem for us in that is that if you do it that way it is tending to focus on one particular sector, and what they are going to do, of course, is pass any additional costs through to people like us. It is as simple as that. That is why we are saying that if that happens there is not a lot we can do more than we are already doing to improve energy efficiency. When I say energy efficiency, I mean to improve efficiency of use of that electricity. So, to the extent I see it, that is going to lead to increases in electricity costs, which I presume it will—

CHAIR—They are saying it will not, but whether it will or not—

Mr Coutts—If it does not then we do not particularly have a problem, but I think you are, by concentrating on that first, missing a lot of the areas where you have got your potentially biggest gains. The biggest further gains in efficiency are not with us, because, as I said, that is what we do.

CHAIR—Where would you see the biggest areas still growing?

Mr Coutts—It is probably not for me to say, but we are involved in some of these things, and we see the biggest potential in areas like motor vehicle efficiency, and particularly building—residential and commercial building particularly. I was at a meeting earlier this week where we were trying to set up a building energy council to try and address that part of the Prime Minister's commitment. A lot of people at that meeting were quite openly saying there is huge potential in looking at commercial buildings and getting greater efficiency, both in design and particularly in operation.

CHAIR—This is for airconditioning, heating and things like that.

Mr Coutts—All those sorts of things. Both design—the way the building is designed, the use of the light and all that sort of thing—and in operation. There are stories of going to the basement in a lovely new building and finding 30-year-old airconditioning—oil-fired airconditioning units clunking away down there—things like that.All I am saying is that you will miss a lot of that if you concentrate just on the regulatory issue.

CHAIR—I am not suggesting that we concentrate on that. What was said was that that is probably the easiest area to start because it can be measured.

Mr Coutts—It certainly is.

CHAIR—Some of these areas are not easy to measure.

Mr Coutts—No, they are not.

CHAIR—So they are fairly complicated.

Dr LAWRENCE—They are also much more long term. Redesigning buildings and building them takes decades more, and I am not sure that we have got that kind of time, either to apply or to solve the problem.

Mr Coutts—It takes a long time to build a new aluminium smelter.

CHAIR—Getting back to that cost area, given the commitment we have at this stage, if you went the other way, which is probably the other obvious way, through regulation and saying to people, 'Thou shalt', that adds a cost too, doesn't it?

Mr Coutts—It probably would. I am not sure in a lot of areas that we are convinced that you need to go down the regulation track. As I said, under the greenhouse challenge program, we have already committed ourselves—just our industry—to delivering a reduction of about 20 per cent on emissions between 1990 and 2000, per tonne of aluminium. Our problem, of course, is that industry wants to grow, and I think for Australia's economic future it should grow. The per tonne emission is overtaken to some extent by the extra tonnes.

CHAIR—Because you use a lot of electricity, don't you?

Mr Coutts—Yes. The general figure we quote is that in New South Wales and Victoria the aluminium industry uses 18 per cent of all electricity generated. It is a pretty big user. The industry is basically here in Australia, as I said, because we have world competitive electricity.

If the electricity industry can deliver the sort of efficiency gains, both environmentally and economically, to continue generating power at lower emission levels, by fuel switching, new investment, or whatever else they want to do, at no additional cost, or relatively little additional cost we do not have a problem. We would be delighted if somebody could come up with a competitive solar fired power station.

Mr BILLSON—As long as it would deliver our electricity, we would be very happy.

CHAIR—I think they are looking at sinks and things like that, which is the other side of the story.

Mr Coutts—Of course, that is right, but sinks carry a cost, of course. We support all that, but ultimately, when it comes down to it, if you are going to pass a cost through—a large cost—to our industry for power, then you have a problem; we have a

problem anyway.

When we look at emissions trading, it is very hard to see how somehow or other there is not going to be some sort of reasonably significant cost to buy a permit. It has got to cost something. If it costs something, then we cannot pass that cost on.

It may generate efficiency savings of some kind and there are offsetting gains, but that is why we say we should not proceed too fast, because that is not all clearly understood yet.

Mr BILLSON—In greenhouse impact terms, what is the CO_2 equivalent value of the PFCs?

Mr Coutts—With global warming—there is a bit of a debate going on about this methodology at the moment—the normal figure that you give is that a tonne of PFCs is 6,000 times the global warming potential of CO_2. This because it is a very inert gas and it stays for a very long time in the atmosphere. Even though relatively small quantities of it are generated, it accumulates over a long period.

Mr BILLSON—In terms of your total greenhouse gas emissions, what is the proportionality between PFCs and CO_2, either secondary or primary?

Mr Coutts—In terms of direct emissions, PFCs are by far the largest. I meant to bring the figures and I did not. It is 80 to 90 per cent of direct emissions. When you bring the electricity into it as well, then that is the largest impact. Just going from memory, I think the electricity part of that is about 60 to 70 per cent; PFCs are about 10 to 15 per cent.

Mr BILLSON—With the improvements that you say have been made, if a trading arrangement was introduced, the timing of those improvements may well generate some substantial gains for your industry. Is that something that the industry has considered?

Mr Coutts—The improvements in the PFCs?

Mr BILLSON—Yes, in terms of when the initial permits were allocated, if you made those gains—

Mr Coutts—The basis of allocation, certainly if you do go down the emissions trading track, is absolutely the critical issue. We would argue very strongly—and we have done this in the context of the Kyoto protocol—that 1990 needs to be the base year, because if you do not do that a lot of those gains have been made by now, and there will not be a lot left after the year 2000 to make, because if you have reduced it by 80 per cent, obviously there is not much more to be made.

Mr BILLSON—There would be substantial gains though in terms of possibility to lay off those gains from the energy related impact. Have you done a back of the envelope calculation about whether you are net advantaged, or net disadvantaged in that arrangement?

Mr Coutts—If you have an allocation and it is based on 1990 levels, there would certainly be some stock of permits that would be there to allow for growth due to the savings you really made. It would not be enough to allow for the 30 per cent growth that we would like to see in the industry, but it would certainly help, yes.

Mr BILLSON—Where are your major markets?

Mr Coutts—For bauxite it is all over the place. For alumina, it is all over the place. We supply about 35 per cent of the world's alumina. Pretty well everyone buys that from us. For metal, the major market is Asia. There has been a certain redirection of metal into North America and Europe in recent times, but the major market is Asia. One of the reasons for that is that the Asians, particularly the Japanese in the late 1970s and early 1980s, when the oil shocks came along, basically moved a substantial proportion of their aluminium metal industry to Australia.

Mr BILLSON—That being the case though, again, looking at parameters that have been laid out in Kyoto, if export product into non-annex 1 countries were emissions free, again, surely, the picture is not perhaps as grim as your opening remarks might suggest?

Mr Coutts—Sorry, could you clarify that, please?

Mr BILLSON—If you are exporting out of Australia, depending again on where the emissions liability landed, and where the destination of your product is, is there not an argument that says the emissions land in a non-annex 1 country and therefore you can have an argument about counting it or not counting it?

Mr Coutts—Sure. We have said all along that we are very troubled by the non-inclusion of non-annex 1 countries in all this. We have been looking very closely at the joint implementation and the clean development mechanisms and those sorts of things. Certainly, we fully supported the government's argument on differentiation, because that is part of the same thing. You do the making of the metal here because you can do it more efficiently than anywhere else, but the benefits in emission terms go to Japan or other places. That is right.

CHAIR—So would your company be tempted to build a smelter in a non-annex 1 company at a later date?

Mr Coutts—It is not our company, obviously; we are the industry body. The companies involved in running and investing in the smelters would certainly have to look

at that, yes. To be honest, they are largely global companies. Some of them are Australian.

Dr LAWRENCE—So they are all pretty much multinationals, are they not?

Mr Coutts—Not all, but a lot of them are, yes.

Mr BILLSON—Just before we close off on that theme, what if those non-annex 1 countries had to make their product Kyoto compliant, bringing it into the marketplace as an annex 1 country whilst trying to get a feel for what your market was like? How much of the product would never see an annex 1 country from bauxite mining operation to it being a product in its final use.

Mr Coutts—If I understand that correctly, globally, by far the largest proportion of metal goes into annex 1 countries for use—into Europe and to Japan and North America. There is a significant amount of metal produced in non-annex 1 countries already, and that is growing, but that is almost entirely exported into annex 1 countries.

Mr BILLSON—What I am getting at is understanding your concerns. I am suggesting some potential design features of a trading arrangement that would largely address your concerns. For example, finished product coming out of a non-annex 1 country into an annex 1 marketplace may need to have some Kyoto compliance factor attributed to it so that it is satisfactory to enter those climate control marketplaces.

Mr Coutts—All I can say, Senator, is that that is why we have said all along that if you have an international system it has to be global to be effective. What you are suggesting is perhaps an intermediate step, and yes, that would be a much better route from our point of view. At least where we are competing there is a level playing field. But you may have a little bit of difficulty with the non-annex 1 countries.

Mr BILLSON—They might all choose to opt in under that arrangement?

Mr Coutts—There is some chance that they might not.

CHAIR—There is an academic theory here and whether it works or not will remain to be seen. It seems to me what Kyoto was saying was that the non-annexure 1 countries were not going to come down this track. Their economies are fairly low. They are probably going to say to us, 'We want to be an industrial country too.' So you were not going to get them, and the theory behind this is that the people who are trying to reduce the emissions can gain credits by putting better technology into these non-annexure 1 countries: that is the incentive to go out—

Mr Coutts—That is the clean development mechanism at the moment.

CHAIR—Do you think that that can work?

Mr Coutts—We would hope that it can work. We certainly support the concept of moving down the track of sharing the costs and benefits of choosing where you invest in these sorts of projects and recognising that a lot of the investment in very large-scale projects and a lot of the capital from high-technology projects are going to come from annex 1 countries. An even playing field for deciding where you do have investments ought to be encouraged, because if everyone is serious about the global greenhouse problem, it really is not very effective to look only at part of the world. Yes, that has to go forward. I do not see yet quite how it is going to work but we are very supportive of the government being involved.

CHAIR—On the flip side, if it does not work and everyone rushes off to non-annexure 1 countries, it will be the reverse, will it not?

Mr Coutts—If it did not work at all and you just had this little fence around the annex 1 countries and everyone else could do as they liked, I do not think it would work very well in economic terms or in environmental terms; it would be a nonsense. Just take our industry as an example, a bit of an extreme sort of example. We, Australia, export a lot of black coal to Asia. One of the countries that is most keen—and has something of a case—to increase investment in aluminium is India. India has pretty poor quality coal and does have to use coal fired electricity for its power for its smelters. The likelihood is that if India did expand aluminium investment it would import Australian coal to do that, and you would build the smelter there instead of Australia because of the costs that would be involved in doing it here. It does not seem to me to make much sense to export Australian coal to India and at the same time export our aluminium industry. It is all very nice for the Indians but it is not very sensible.

Dr LAWRENCE—Just a couple of things, because I think in your larger submission, as well as the material that we have, you have covered a lot of it. It is very clear from the tenor of your material that you are reluctant participants in this, apart from the greenhouse challenge. That seems to be the one thing that you are happy to be part of.

Mr Coutts—In the emissions trade?

Dr LAWRENCE—Yes. There is a certain grudging 'Well, if you are going to do this, let's be part of it.' It does not seem to be a very enthusiastic embrace. I will just make that point. I ask you, I guess on that basis, whether it is partly because you do not actually think there is a serious problem confronting us in the short to medium term. I get the impression almost that it is a case of 'If you are going to insist that there is a greenhouse problem, we will play the game too.' But there is a lack of sense of urgency and commitment about the submission from your industry, I would have to say. It is almost as if it is an imposition rather than recognising the serious problem. It is not true in your glossy but true in your written submission.

Mr Coutts—I am sorry if it gives that impression. It is not really the position the

industry has got. We do not take a view on the scientific debate. We have accepted the conclusions of the IPCC. It is quite clear there is a global rising CO_2 problem, and the industry is not trying to deny that. We as an industry feel that needs to be addressed as urgently and as effectively as possible. It is really a matter of how you do that and what we could contribute to that.

Dr LAWRENCE—Do you think voluntary means will work?

Mr Coutts—Yes, we do.

Dr LAWRENCE—You think we can leave it entirely to the 'Let's sign up and be good fellows' sort of protocols? I am not saying that the greenhouse challenge is not a good idea, but if you extend that notion globally into every sector, it is quite clear that after the last meeting on the subject most nations did not get anywhere near achieving movement toward the targets they had set themselves, which is why of course nations are now looking at things like greenhouse trading emissions, because there needs to be some mechanism, either regulatory or market driven, that gives an incentive for all—not just companies of your size, but smaller operators as well—to come to the party. That is what seems not clear in your position. It seems to be that the mechanism that you prefer is one that has been shown not to work.

Mr Coutts—With respect, I do not think I quite agree with the last point. I think the jury is still out on that. Our view, as I said, is that there is a problem, there is an issue, and it needs to be addressed. But it is a very long-term problem. All our industry can do is do everything possible to be as efficient as we can in terms of greenhouse gas emissions, and we are doing everything we can to address that. We feel that there is very little more we can do without affecting competitiveness to deliver all that. That is not a lack of enthusiasm for addressing the issue. It is just—we think anyway—a realistic recognition of where our part in this whole thing is.

One of the reasons why I was a little troubled with what you said before about starting with the power stations and all that is that it tends to focus on us again, and there is just not a lot more that we can deliver without putting ourselves out of business.

CHAIR—Because energy is critical to you.

Mr Coutts—That is what we do. If we could do it more efficiently, we would, because we would make more money. But coming back to your question, if we have given the impression that we are reluctant participants in all this, no, we do not want to be seen that way. But if we look at emissions trading—and I do not think anyone could deny it—there are a lot of complexities and a lot of issues that you cannot quite see how they are going to be worked out yet. For example, if you go to emissions trade, it has to be real, and that means proper information, proper monitoring and some compliance mechanism.

I have had a lot to do with Russia. I chair the International Aluminium Institute's statistics committee. We have been working for years to try and get production and inventory data for aluminium out of the Russians, and we have not got that fixed yet. So it is a rather large step from there for me to be confident that, if you are buying CO_2 permits from them, that is going to work. So that is our worry.

I said at the start that the industry feels that the concept is okay but that somehow all these things have to fall into place. I really would not like you to think that we are reluctant participants in this. However, we do feel that there is a lot to be got out of the voluntary approach—not just in greenhouse challenge, but in some of these other things that are coming forward, such as building, particularly commercial building, energy efficiency and quite a lot of things—some of the sink initiatives. I think a lot of those can proceed on a voluntary basis. I do not think in the short term they necessarily need an emissions trading system to deliver some advantages. Maybe in the medium to long term that can help deliver the most efficient mechanisms, but you have to get it right or it is not going to help.

Let me give just one last example of some of the figures that are floating around on what the cost of the permit might be. There are some saying $30 per tonne of carbon and those sorts of figures. If you translate that into what it means for us, if we had to buy permits to cover our full CO_2 emissions, you are looking at a minimum of $100 and maybe as much as $300 per tonne of aluminium, in a price of, at the moment, under $1,400.

CHAIR—No-one has suggested that to us yet.

Dr LAWRENCE—Not anything like that, you would be pleased to know.

Mr Coutts—Okay, but I am just doing some scary figures, which are sometimes useful.

Mr McDOUGALL—Rather than do scary figures, we have had quite a bit of evidence that permits should be free—particularly grandfathered for those who are already in the industry.

Mr Coutts—We would certainly agree with that as an initial allocation.

Mr McDOUGALL—You seem reticent on a permit trading scheme. From the evidence that has come before us, as far as I am concerned, it is going to happen anyway, so I would be a bit reluctant to be reticent on it and try to stand back away from it. You talk about 'Well, if it is going to be then, it should be in harmony with and not ahead of an international scheme.' The 'not ahead' worries me a bit.

If we are going to have a trading scheme and it is going to be international as well

as domestic, and you have told us of your organisation, or what it is in the world market, why would you not want to be ahead of the scheme on an international level and helping develop a national scheme that may influence an international scheme and be working on setting up some sort of test case that might put in place a trading scheme that would then be advantageous to you, which may even include some internal trading within the companies of your organisation?

Mr Coutts—Possibly we have been giving the wrong impression. I am sorry for that. We are not against emission trading as a concept. We have said that Australia, and indeed the industry, should be involved and part of that—we do agree with that. What we tried to say is that as we look at it we see the complexities and the problems and we do not clearly see where we are going to finish up with all that, so we have to proceed carefully to solve those, rather than rush into a scheme, as quite a lot of people out there are saying. I have been to conferences recently where people have got up and said, 'Oh, we could start a scheme tomorrow, no worries.'

Mr McDOUGALL—And dip your toe in the water.

Mr Coutts—That is what we are worried about—not that Australia and the industry should not be positive about developing the scheme. If there is any lack of clarity on that, I would like to put it to rest. We are positive about that, and we have been thinking about it. It is not a submission for this group, but I have been thinking of papers that I am putting to the industry about what we should try and see in the scheme that comes forward.

That is why I mentioned the differentiation point before. By that I meant that if you are going to have a scheme you have to have some cognisance of where the export growth potential for Australia is and what a scheme might mean for that—and we do want to be a part of that. We reckon—we quite agree with you—that it is going to happen. I cannot see how it is not going to happen. I have a problem in that I think it is going to happen because it has been decreed it will happen. I cannot quite see how it is going to happen yet, but I guess that is what has to be worked through.

Mr McDOUGALL—As a major emitter—and you have said yourself you have got a major problem in that your efficiencies have brought you to a certain level and there is very little more improvement you can see technologically at the moment as far as—

Mr Coutts—Without a major technological breakthrough, yes.

Mr McDOUGALL—So on that basis I would imagine that the industry would therefore be very interested in any trading scheme on the basis that that would be one of the mechanisms they could use in a beneficial way towards their industry. Is the industry interested in putting forward a model to the committee or looking at a model. I am not saying that it is something we would take in carte blanche, but we are all out here trying

to find something together.There are other major emitters, a little bit bigger than you, who are working on just that—

Mr Coutts—And other industries in Australia, yes.

Mr McDOUGALL—Yes. Now what is the point in stepping back and allowing somebody else to put out a model that may eventually get adopted that may not really suit you, but if you have got a finger in the pie of developing a model it may be advantageous towards you rather than you sitting back.

Mr Coutts—I would like to think we have. We are working with other industry groups on that. We are not, unfortunately, in a position where we can give you our model at this stage: I wish we could.

CHAIR—It was suggested to us that in fact this particular issue was so important that we should try and facilitate very quickly a committee of governments, state and federal, and of the industry officials to sit down and start to think through some of this because it is a complicated area. Would you agree on that?

Mr Coutts—Absolutely. I think to bring the governments and the stakeholders—it is not even necessarily just the emitters—together to work on something like that—

CHAIR—Because we have two ad hoc meetings, I think, before Buenos Aires in November. It is rather critical that we start to develop some positions on this because things are moving fairly quickly.

Mr Coutts—There is a meeting starting, I think, next week in Bonn which is quite important.

Mr JENKINS—This glossy is obviously part of pre-Kyoto propaganda, is it?

Mr Coutts—Well, I suppose propaganda. Seeking to increase understanding.

Mr JENKINS—What probably would be helpful now is to have some of the figures update based on the Kyoto outcome?

Mr Coutts—Yes, we are doing that right now. We have not quite got them ready yet, but in the next week or two we will have those. We are happy to supply those if you like.

Mr JENKINS—I think that would be helpful so we can get it into context about what the real position is now based on the Kyoto outcome.

Mr Coutts—We are updating our challenge figures, bringing them forward with

1997 figures and updating the 2000 figures. We have been looking at beyond 2000. The challenge program is not asking for those predictions at this stage, which I basically think they should be. But we are looking at that as well, so I will do my best to supply everything.

Mr JENKINS—Thank you for that. Just to get clarity about the greenhouse challenge, the targets that have been set under that are on the basis of per tonne emission? It is not in toto?

Mr Coutts—No, we have given total figures as well, and what they show you is, as I said before, that for smelters, for example, you have a reduction of a bit under 20 per cent in total CO_2 equivalent emissions between 1990 and 2000 per tonne. Total emissions go up, I think, by about eight to nine per cent. That is because you had a major expansion in production in Boyne Island smelter in Gladstone. That is the total reason for that.

Mr JENKINS—You have been emphasising that your real problem is that the growth in the industry will lead to the total emissions?

Mr Coutts—Less emissions per tonne, but more tonnes.

Mr JENKINS—Mr Billson has made the point that you have some advantage if the allocations are based on the 1990 emissions. Would you look for aspects of a tradeable emissions system where for instance you were given credit on the basis—if we were to believe your 'propaganda'—that the aluminium is an environmentally friendly product? That is a serious question. I will retract the 'propaganda' part. That is because your products would be substituting for others—

Mr Coutts—This is end use you are talking about?

Mr JENKINS—Yes.

Mr Coutts—You get into a whole lot of additional quite complex issues there. This is material selection and design of projects—

CHAIR—It depends whether it is for Coca-Cola or not.

Mr Coutts—Whether it is for cans, for buildings or transport. There are some very important issues there as to what material you should select. In the case of aluminium, if you make that measure on the basis of embodied energy content, then aluminium does not look terribly good. If you make it on the basis of whole of life cycle analysis which includes all the emissions in making and disposing, then in many uses we come out rather well, actually. But that does raise some very complex questions.

Mr JENKINS—I appreciate the complexity, but I raise it in fairness in relation to

carbon sinks. One of the valid points that is promoted about the use of reforestation, plantations, et cetera, is that outside of the carbon fixing there are obvious environmental benefits tied into land degradation work and the like. If we are to have aspects of a system being promoted on environmental grounds, perhaps we need to be fair and do that across the board?

Mr Coutts—I agree. We do not have a problem with that. In terms of sinks, our only real contribution can be if we choose to invest in some bush for greenhouse, and we do that. Alcoa, particularly in Western Australia, has done a lot of that. Once you get into the wider issues of—if this is what you are saying—whether you should use aluminium in a car, rather than steel, plastic or something else, then, yes, we agree that should be taken into account. But the emissions burden is not just the embodied energy used in that; it is what you need to recycle and dispose, and with cars in particular it is what it means for fuel consumption over the life of the vehicle. At least in cars, we know we are on a winner: we have done a lot of work on that. It is not quite so clear for beverage and for building and construction. But certainly it is for cars. I agree with that, but you have got to take the whole of life issues into account.

CHAIR—I have got another question. You mention in your submission a warning, I suppose, about the possible unintended distortions and impacts from an emission trading regime, if it does not include all gases, sinks and sources. We have probably touched on some of this, but could you elaborate a bit on that?

Mr Coutts—If it does not include all gases, sinks and sources, I have already commented on that, and that is why we are particularly pleased to see the—

CHAIR—What caused you to think that we would not be considering all of these issues?

Mr Coutts—I am pleased to hear that the committee has got that locked in. It has not been the case in all the debate over the past years, particularly from some other countries where they are less interested in some of the other gases. It is not only the minor ones of PFC, HFC and SF6, but also things like methane. They are harder to measure, they are difficult to deal with, and it really loops back to the points you made earlier, that maybe you start with the easy stuff from the power station, because you can measure it and it is easier to do things, and you leave the others until later. That argument has been pretty high profile in the international debate, partly because it is more in the interests of some other countries to do that. They do not care about PFCs and things, whereas we do. That was the only reason for raising that. If that is not an issue for the committee, that is good.

CHAIR—It is certainly an issue for us. We have to take into consideration those gases, because the finger has been pointed at Australia on methane.

Dr LAWRENCE—Absolutely. We have made the commitment that requires us to do it.

CHAIR—It has been pointed straight at Australia on methane, so we cannot ignore it.

Mr Coutts—The only reason we underlined that was that in the international debate it has been quite a difficult issue. I do not personally believe it has completely gone away yet. As this international regime comes forward, there will be those arguments 'Let's concentrate on the direct CO_2 emissions and bring the other stuff along later.' I think that is certainly not in Australia's interest to do that and probably not in the global interest either. But it is easier to do.That was the only reason for raising that.

CHAIR—All right. Thank you very much for your attendance. As we have said to other witnesses, we may very well be coming back to you on certain issues from time to time, because it is a complicated matter.

Mr Coutts—We would be delighted, because it is of critical importance, as I understand. If Australia is going to have an aluminium industry for the long term, all these things have got to fall into place.

CHAIR—I think the whole issue is critical for Australia.

Mr Coutts—Absolutely.

Resolved (on motion by **Mr Jenkins**):

That, pursuant to the power conferred by paragraph (o) of standing order 28B, this committee authorises publication of the evidence given before it at public hearings this day.

Committee adjourned at 9.49 a.m.