



Submission to Senate Inquiry

Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme

Geelong Manufacturing Council

March 2009

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Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Email: economics.sen@aph.gov.au

Dear Sir/Madam,

Re: Submission by Geelong Manufacturing Council

The Geelong Manufacturing Council welcomes the opportunity to present a response to this Senate Inquiry in relation to the Carbon Pollution Reduction Scheme (CPRS).

We support the government's desire to introduce a system, which does not reduce the competitiveness of Australian industry. Concerns exist that currently the scheme will have an adverse impact on important regional industry, which is clearly contrary to the Government's stated intention.

We support government's policy direction of reducing carbon emissions by putting a cap on emissions through the introduction of a Carbon Pollution Reduction Scheme (CPRS), under the three pillars approach of reducing Australia's greenhouse gas emissions, adapting to change and shaping a global solution. We firmly believe that a solution must involve success on all three fronts simultaneously.

The Geelong Region has some of the most EITE industries in Australia. As one of most carbon dependant regions Geelong has a range of significant industries such as aluminium- smelting and rolling, petroleum production, cement manufacture, fertiliser manufacture, chemicals, automotive and carpets. These sectors collectively account for many thousands of workers and are vital to the regional economy and to the State of Victoria.

With the multiplier effect industry in Geelong accounts for up to half of the regions' economy and half of employment. The potential negative consequences of an inappropriate CPRS could impact on tens of thousands of people.

Geelong industry supports an Australian emissions trading scheme, provided it is done in a way that addresses the environmental challenge while strengthening the Australian economy and preserving the jobs and social benefits that accrue from Australian manufacturing and export industries.

As these major industries have also been reducing greenhouse gas emissions and increasing energy efficiency since the 1990s, we also believe that a well-designed CPRS will continue to provide these large energy users with the incentive to continue this. A poorly designed scheme will lead to adverse environmental outcomes (Carbon leakage) in other countries.

Recent feedback from industry indicates a high level of concern in relation to the CPRS. This includes aspects in relation to the scheme design and interpretation of the legislation. Several industries are concerned that the scheme may make them uncompetitive.

Geelong has a range of nationally significant industries such as Alcoa Australia (Smelter and Rolling), Shell Geelong Refinery, Blue Circle Southern Cement, Incitec Pivot, Ford Motor Company, Godfrey Hirst Australia and Basell Australia. However we are also concerned that not all such manufacturing will come within the Scheme's definition of EITE, including manufacture of Superphosphate, and therefore will not receive any assistance. Blue Circle Southern Cement would like the EITE classification to include the entire cement manufacturing process not just part of it.

The Geelong Region has a long and proud history as a leading manufacturing and processing centre in the Australian context and as such has a significant stake in ensuring that any system introduced, is both realistic and consistent with maintaining a viable manufacturing base in the region. To this end we have participated in previous inquiries in relation to the CPRS.

Geelong is a major regional population and business centre. With a population of over 240,000, it is Victoria's largest regional centre. The City's existing competitive strengths include a diverse range of manufacturing sectors, research and development, education and training, biotechnology, tourism and health.

The key manufacturing sectors of the region are automotive and components, textiles, metals, food, cement, timber, engineering and chemicals and petroleum. Currently, the region has around 14,000 people employed in the manufacturing sector across some 450 companies.

It is essential that these key industries are not unfairly disadvantaged with the legislative and operational aspects of the CPRS. If this is not achieved we believe the government's intentions will not be met and economic and social dislocation may result.

With respect to the Electricity Allocation Factor, concern exists that the very large user clause may not apply to new power contracts. This is important to assist overcome the impact of the Electricity Allocation Factor that large energy users, such as Alcoa, face.

We believe that only a balanced approach of moving in concert with a key trading partners and competitors will ensure that industry is supported in line

with the governments' objectives. To proceed in any other manner would expose industry and the community to risks which may result in adverse impacts on the regional economy.

The Geelong region is home to a number of companies which may be categorised under a description of 'emissions-intensive trade-exposed industries', but which may not be included under the transitional assistance permits. Thus the Geelong community is particularly vulnerable to inappropriate treatment of emissions-intensive trade exposed (EITE) industries in the trading scheme, particularly treatment that would lead to a significant reduction in production or closure of EITE industries on the basis of their trade exposure. This classification exposes a number of Geelong regional companies to the risk of becoming unviable.

We believe that this situation would adversely impact on a number of industries with operations in the Geelong region. It would be untenable if Australian companies were forced to pass on higher costs because of the inclusion of carbon costs in their products thereby competing with imported products not subject to carbon costs.

Manufacturing is also a major generator of research and development activity and a number of organisations are working to grow this important work in the Geelong region. This includes the Geelong Technology Precinct at Deakin University and the Gordon Institute of Tafe.

The loss of industries would have a significant adverse impact on the regional community when the impacts of the flow on effects are taken into account. For these reasons we advocate a very cautious and measured approach to the introduction of a Carbon Pollution Reduction Scheme.

Geelong has traditionally been a manufacturing region. In the 1970's over 30% of the workforce were employed in this sector. The drop to below 20% has been largely driven by increased levels of international competition as a result of reduced tariffs and has led to advances in technology and increases in capital intensity, in an effort to compete.

It would be necessary to have transitional measures in place until major competitors had similar approaches to emissions trading.

We understand that some industries may assess financial viability on a 20-25 year timeframe and this would need to be considered when implementing the CPRS.

Some regional industries operate on low margins and at present are not included in the EITE assistance category. Without this inclusion, the future viability of these industries would be seriously threatened and the prospect of carbon leakage would be likely.

Also, we acknowledge that industry accounts for less than 5% of greenhouse gas emissions and therefore should not be seen to bear the brunt of reduction targets.

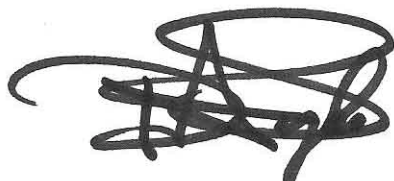
It is vital for the future of Australia as a value-adding economy that Australia's attractiveness as a country for trade exposed activities is not diminished. We believe that a number of steps should be taken to ensure that the region does not suffer economic and social dislocation as a result of the introduction of a carbon pollution reduction scheme.

The following we believe are key requirements of a CPRS:

1. The introduction of a Carbon Pollution Reduction Scheme should be done in a cautious and measured approach consistent with efforts made by key competitor countries.
2. A Carbon Pollution Reduction Scheme should be based on a method of value-adding to ensure that trade exposed industries are not forced offshore.
3. EITE activities need to receive a minimum of 90% assistance to protect international competitiveness.
4. EITE Industry should remain exempt from the Renewable Energy Target. A well-designed scheme will support the intended outcomes of the RET and not negatively impact on industry competitiveness. Additionally, the government must recognise that renewable energy is not competitively-priced at present for large-energy users and more realistic transitional measures to reduce reliance on carbon fuels need to be introduced.
5. Transition times should be such that industry has sufficient time to plan for future investment decisions.
6. Australia's carbon emissions are small by world standards and the introduction of a carbon pollution reduction scheme should not result in carbon leakage. Therefore its timing and impact must be in accordance with that of the rest of the world's largest emitters. EITE permit allocation erosion should only start when international competitors adopt a comparable cost base
7. Scheme transition measures should encourage industry to adopt new technology and innovation to reduce reliance on carbon fuels.

We trust that you will carefully consider the above position. Please advise if you require clarification or elaboration of any of the issues raised above.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'David Sykes', with a large, stylized flourish above the name.

**David Sykes
Chairman
Geelong Manufacturing Council**