



25 March 2009

Ref: EXE/ari011/ari

The Secretary
Senate Standing Committee of Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

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

ABB Grain Ltd appreciates the opportunity to submit our comments to Senate Committee on the exposure draft and the Carbon Pollution Reduction Scheme (CPRS). ABB Grain fully supports the need to address climate change challenge in an equitable, environmentally and economically responsible manner.

Background

ABB Grain is ASX100 listed and a leading Australian agribusiness providing storage, processing, logistics and marketing services for all grains, as well as being a significant handler of non-grain commodities. The company also operates a rural services division that provides wool and livestock exports, agchem, fertiliser and financial services to growers. Internationally, ABB Grain has an office in China, is very prominent in New Zealand and has established a joint venture in Ukraine, called New World Grain, with French agri-industrial company, Soufflet.

Joe White Maltings Pty Ltd (JWM), a wholly owned subsidiary of ABB Grain, is Australia's largest and oldest malting company. Joe White Maltings produces malt in all Australian states making a significant contribution to the Australian economy and regional employment. Joe White Maltings accounts for approximately 90 per cent of all of ABB Grain's energy use and associated emissions.

The Australian malting industry provides a value adding service to Australia's grain industry, ensuring a large percentage of Australia's malt barley production is value-added in Australia before export. Joe White Maltings exports 80 per cent of its production to major Asian Brewers. The company directly employs approximately 150 staff across Australia, as well as receiving support from ABB Grain staff for activities such as grain accumulation, freight, logistics and container services.

The low-margin nature of the malt industry, which relies on scale and efficiency to remain viable, forces successful participants to adopt energy efficient practices. For example, as part of the expansion of Joe White Maltings Perth malthouse, completed in 2005 and now the largest malthouse in the southern hemisphere, a state-of-the-art water recovery facility was installed, saving approximately 300 mega-litres annually, along with the implementation of other energy efficient practices requiring significant capital investment.

Assistance for emissions-intensive trade-exposed activities

ABB Grain's comments and concerns are predominately in relation to the emissions-intensive trade-exposed (EITE) assistance detailed in the Carbon Pollution Reduction Scheme White Paper. We understand the intention is to include these provisions in the CPRS Regulations.

The proposed EITE assistance risks long term damage to the Australian malting industry. Under the current proposal the malt industry may not be a recipient of EITE assistance despite the industry being heavily trade-exposed. If assistance is not provided, it is likely malt production in Australia will close down over a period and be replaced with increased production in China and other locations offshore. The global emissions from the malt industry may not reduce and may even increase through use of less energy efficient practices.

ABB Grain's concerns

We have concerns with the emissions intensity and trade exposure tests which are the key elements used to determine eligibility for the EITE assistance program. Our concerns are as follows:-

1. The emissions intensity thresholds fail to recognise and reward environmentally responsible behaviour. The emissions intensity thresholds have the potential to reward industries that may not have acted environmentally responsibly in the past, by providing the largest emitters with the greatest number of free permits. Industries which have reduced their emissions in the past by undertaking abatement opportunities may fail to reach the emissions intensity thresholds due to their abatement action and be "penalised" for this action. Industries that have already taken steps to reduce their emissions may require greater assistance as they could find it far more difficult to adapt if they are already close to best practice.
2. The trade exposure test only requires a trade share of greater than 10 per cent in any one of the past 4 years. The concerns with this approach is that the assistance does not target entities that are genuinely trade exposed and has the potential to provide windfall gains to emission intensive activities with limited trade exposure. JWM's export trade percentage is 80% of production year in year out.
3. The inequity of EITE assistance being restricted to facilities with a direct CPRS liability. If an entity has a single facility with emissions exceeding 25,000t CO_{2-e} and another entity has two facilities with emissions of say 13,000t CO_{2-e} each, only the facility with emissions in excess of 25,000t CO_{2-e} will be entitled to EITE assistance. Not only is this inequitable, it provides no incentive for entities close to the threshold to reduce emissions. In fact, the converse is more likely to occur. Entities on the borderline may increase their emissions to secure free permits.

ABB Grain's proposal

We propose the following changes to the EITE assistance program:-

1. Ideally, activity benchmarks should be established based on world's best practice and assistance provided to the extent entities are below this benchmark. This would require global benchmarking and would accurately identify and support trade exposed companies who have invested in energy efficient technologies, and promote faster compliance for those companies that have maintained traditional practices that emit higher greenhouse gas emissions.

Alternatively (or additionally) the minimum emissions intensity thresholds should be reduced to 1000t CO_{2-e} /\$m revenue and 2000t CO_{2-e} /\$m value-added where it can be demonstrated that energy saving measures voluntarily adopted in the past account for an industry not reaching the proposed thresholds.

These modifications would demonstrate that the CPRS promotes and rewards environmentally responsible behaviour.

2. Increase the trade exposure test to an average trade share of more than 25 per cent over the past 4 years and introduce several bands with free permit percentage allocations that reflect actual trade exposure.

In addition, reduce the minimum emissions intensity threshold for activities that are highly trade exposed. For example, where the average trade share is more than 50 percent the thresholds should be reduced to 1000t CO_{2-e} /\$m revenue and 2000t CO_{2-e} /\$m value-added.

Compensation should emulate actual trade exposure as closely as possible and additional safeguards should be added to ensure that entities which are genuinely impacted are assisted appropriately. The benefits of this approach is that assistance is provided to entities that are genuinely export exposed and there is potential to extend coverage to a broader range of export exposed activities by limiting assistance to, activities with actual trade-exposure.

3. Remove the requirement to have a direct CPRS liability. Where an activity is determined to qualify for the EITE assistance program, assistance should be allocated to entities based on production irrespective of whether the CPRS liability is being incurred directly or indirectly. EITE assistance should be equitable and not dependant on the configuration of an entity's activities. This merit of this proposal is that it promotes equity and encourages entities to reduce their emissions below the 25,000t CO_{2-e} threshold.

Joe White Maltings' continued viability will be at risk without appropriate EITE assistance. It is essential for assistance to cover all of Joe White Maltings' operations for as long as the company is trade-exposed.

In addition to the EITE issues discussed above, we are concerned that there are no provisions in the CPRS to encourage water conservation and to recognise the conflicts that occur between reducing emissions and treating wastewater in order to reuse.

ABB Grain is happy to meet with the Senate Committee to discuss our concerns. If you require any further information regarding this submission please contact our General Manager of Operations, Gary Hughes on 08 8385 8016.

Yours faithfully



Ashley Roff
Company Secretary