

## Chapter 6

### Assistance for electricity users

6.1 As with the CPRS, there are plans to assist heavy users of electricity and there have been strong criticisms that such assistance is either excessive or insufficient.

6.2 Regulations will be made to provide partial exemptions under the RET for those activities that are regarded as emissions-intensive trade-exposed activities under the CPRS. The exemptions will apply to either 90 or 60 per cent of the increase in liability in moving from the 9,500 GWh target to the 20,000 GWh target.

6.3 This is a new feature. Under the MRET established by the previous government there were no exemptions or assistance.

6.4 Heavy electricity users argue that the exemption applying to the increase rather than the total gives the impression they are being giving larger subsidies than they really receive. For example, the aluminium industry claims that the '90 per cent' exemption is really only a 55 per cent exemption.

6.5 Industry groups representing electricity users generally oppose the RET. But if the RET does proceed, they want more assistance:

...an industry which is both electricity and emissions intense, aluminium should receive a true 90% exemption from both the current and expanded Renewable Energy Target.<sup>1</sup>

Specifically, if the continuation of the RET is an inevitability – AIGN supports the exemption of trade exposed industry from the effects of the RET as a whole.<sup>2</sup>

6.6 Notwithstanding their attitude of in principle supporting 'reforms aimed at "internalising" environmental costs and risks, most notably with regard to greenhouse gas emissions and the risks associated with climate change', when it comes to assistance, the Business Council say 'the exemption from the expanded RET for EITE activities should be a full exemption'.<sup>3</sup>

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1 By 'true', they mean applying to the total RET requirement, not just to the increase from the MRET. Gladstone Engineering Alliance, *Submission 3*, p 1. A similar claim is made by the Major Employers Group of Tasmania, *Submission 13*, p 4; Australian Aluminium Council, *Submission 62*, p 1; Rio Tinto, *Submission 93*, p 1; Gladstone Industry Leadership Group, *Submission 89*, p 1; A3P, *Submission 96*, p 4; and CSR, *Submission 47*, p 2.

2 Australian Industry Greenhouse Network, *Submission 59*, pp 2-3.

3 Business Council of Australia, *Submission 122*, pp 2 and 8.

6.7 This industry assistance has been criticised by most environmental groups, some renewable energy groups and some academics:

...on the proposal to exclude favoured large electricity consumers from contributing to the costs of the expanded renewable energy target, the first thing to note—as was noted in the Tambling review of the mandatory renewable energy target, where this was also on the table—is that any such exclusion would also undermine the scheme’s basic principle that mandatory renewable energy target liabilities accrue to electricity users in proportion to the quantity of their usage.<sup>4</sup>

There should be no exemptions or assistance packages to industry as a result of the Renewable Energy Target (RET) scheme. Every sector in Australia must contribute to the transition to a low carbon economy. Any exemptions or assistance packages will unevenly and unfairly shift costs from industry to households.<sup>5</sup>

It is of concern that, under the proposal for the extended RET, large energy users...have been granted exemptions on the basis that they would be disadvantaged on the international market. This raises two issues; the first that many of our trading partner countries have renewable energy targets similar to or higher than that proposed for Australia...so there is no need for exemption; and the second that the exclusion of this sector will mean the cost of the Target for the remaining electricity users will rise.<sup>6</sup>

No assistance should be provided to RATE industries on the basis that many other countries have renewable energy targets and/or a higher portion of renewables in their energy mix, assistance has not been warranted in the past, electricity customers already stand to gain economically from there being more renewable energy in the mix and assistance would contravene the polluter pays principle.<sup>7</sup>

6.8 The Australian Conservation Foundation notes that:

...in the US—it is not talked about much— there is a renewable portfolio standard proposed in the Waxman-Markey legislation and in that there are no similar exemptions for energy intensive industries.<sup>8</sup>

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4 Dr Iain MacGill, Joint Director, Centre for Energy and Environmental Markets, *Proof Committee Hansard*, 6 August 2009, p 84.

5 Australian Conservation Foundation, *Submission 61*, p 1.

6 Australian PV Association, *Submission 51*, p 4.

7 Greenpeace Australia, *Submission 43*, p 2.

8 Mr Philip Freeman, Australian Conservation Foundation, *Proof Committee Hansard*, 5 August 2009, pp 76-7.

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## Aluminium industry

6.9 The Committee held a roundtable specifically with aluminium companies as they are such large users of electricity. Indeed, aluminium has been called 'congealed electricity'. The aluminium industry pointed out that Australia's six aluminium smelters:

...are by far the biggest user of electricity within Australia, and the department's own analysis shows that aluminium smelting is an order of magnitude more electricity intensive than any other activity.<sup>9</sup>

6.10 An interesting statistic provided by the aluminium industry was that:

It is an extremely important material for future fuel efficient transport systems and is being increasingly used in cars to lightweight them while maintaining performance through its properties and its safety at low weight, therefore saving fuel. It is equally important in other mass transport systems and aircraft manufacture. I will give you an example. If you replace two kilograms of steel with one kilogram of aluminium in a car, you save about 20 kilograms of CO<sub>2</sub> over the life of that car.<sup>10</sup>

6.11 The implication of this is that placing a price on carbon and raising environmental awareness will actually increase the demand for aluminium. This provides an important offset to the increased costs.

6.12 Concerning the reasons for smelting aluminium in Australia, the Committee was told by the industry that:

The reason we are in this country is because we have distinct competitive advantages: we have the natural resources; we have the integrated supply chain; we have a skilled workforce in operating, trades, leadership and science; and we have competitive energy supplies.<sup>11</sup>

## *Annual Reports*

6.13 An indication that the impact of the RET is sometimes being exaggerated by companies is the apparent inconsistency between comments by companies concerning likely impacts of the RET and CPRS, and communications to shareholders.

6.14 For example, Dr Xiaoling Liu, President, Primary Metals, Pacific, Rio Tinto Alcan, provided evidence to the committee that the combined cost of the RET and

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9 Mr Alan Cransberg, Managing Director, Alcoa of Australia and Deputy Chairman, Australian Aluminium Council, *Proof Committee Hansard*, 6 August 2009, p 10.

10 Mr Alan Cransberg, Managing Director, Alcoa of Australia and Deputy Chairman, Australian Aluminium Council, *Proof Committee Hansard*, 6 August 2009, p 11.

11 Mr Alan Cransberg, Managing Director, Alcoa of Australia and Deputy Chairman, Australian Aluminium Council, *Proof Committee Hansard*, 6 August 2009, p 11.

CPRS to the company's operations would be \$1.3 billion by 2020, and would harm employment opportunities in regional areas.<sup>12</sup>

6.15 By contrast, the committee heard that the Rio Tinto Alcan annual report for 2008, published early in 2009, noted that production had fallen by 450,000 tonnes per annum, attributable largely to impact of the economic downturn. Despite this, the report contained the following assessment by Mr Tom Albanese, Chief Executive:

The fundamentals of the aluminium industry nevertheless remain strong.

and:

Higher energy costs are raising the aluminium cost curve, particularly in China, to the advantage of lower cost producers like Rio Tinto Alcan.<sup>13</sup>

6.16 This report was published at a time when the government's policies on emissions trading and renewable energy were well known.

6.17 Dr Liu explained that the annual report refers to Rio Tinto Alcan's global operations, (including Canadian assets using hydropower) whilst the evidence to the committee referred to the company's Australian operations.<sup>14</sup>

6.18 Similarly, the committee heard that the 2008 Annual Report from Alcoa makes only general comments relating to risks posed by climate change regulations, and does not foreshadow facility closures or job losses in Australia.<sup>15</sup>

6.19 This information appears inconsistent with evidence provided to the committee by the aluminium industry seeking further compensation under the scheme.

### ***Committee view***

6.20 The Committee notes that the RET will not change most of the factors the industry gives as reasons for operating in Australia. In terms of competitive energy supplies, it notes that other major producers of aluminium such as Canada, China and the United States either have or are introducing comparable renewable energy targets. It therefore regards the currently proposed assistance to the industry as adequate.

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12 Dr Xiaoling Liu, President, Primary Metals, Pacific, Rio Tinto Alcan, *Proof Committee Hansard*, 6 August 2009, pp 11-12.

13 *Proof Committee Hansard*, 6 August 2009, pp 19-20.

14 Dr Xiaoling Liu, President, Primary Metals, Pacific, Rio Tinto Alcan, *Proof Committee Hansard*, 6 August 2009, p. 20.

15 *Proof Committee Hansard*, 6 August 2009, p. 35.

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## Assistance for other organisations

6.21 There were also calls for assistance to other organisations:

... all not-for-profit bodies should be supported in their efforts to meet the energy cost increases that will arise as a result of the Carbon Pollution Reduction Scheme and the Renewable Energy Target Scheme.<sup>16</sup>

## Linkage between CPRS and RET assistance

6.22 The bill states as the commencement date for the industry assistance under the RET 'the same time as section 3 of the CPRS commences'.<sup>17</sup> This implies that while the RET could still operate in the absence of the CPRS, there would be no exemptions or assistance to large polluters.<sup>18</sup>

6.23 The rationale for this linkage was explained by the Department as reflecting arguments from industry:

... a number of firms and industry associations put in a submission to say, 'You should take account of the cumulative impact of the CPRS and the RET,' and ... if you are eligible for emissions-intensive trade-exposed assistance under the CPRS, you would also be eligible for assistance on basically the same rates of assistance as you would for the Renewable Energy Target, representing the cumulative impact of those two policies. One way of thinking about it is that, if you have a dollar of additional cost that comes through either the CPRS or the RET, you get the same rate of assistance for that.<sup>19</sup>

6.24 There was also doubt about whether the impacts of the RET itself were sufficiently large to warrant a compensation package if it were implemented without the CPRS.<sup>20</sup>

6.25 There will be no industry assistance under the RET if the CPRS is rejected, and this has been strongly criticised by a range of witnesses, either because they want

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16 Catholic Health Australia, *Submission 18*, p 3.

17 Renewable Energy (Electricity) Amendment Bill 2009, p 2.

18 Mr Blair Comley, Department of Climate Change, *Proof Committee Hansard*, 5 August 2009, p 16.

19 Mr Blair Comley, Department of Climate Change, *Proof Committee Hansard*, 5 August 2009, p 22.

20 Mr Blair Comley, Department of Climate Change, *Proof Committee Hansard*, 5 August 2009, p 22. (See the discussion of modelling results in Chapter 3.)

the assistance for themselves or they fear the linkage may lead to the deferral or defeat of the RET bills:<sup>21</sup>

The intention in the bill to link any exemption from this bill for ET activities to the commencement of the CPRS should not be pursued.<sup>22</sup>

There seems to be no reason why they should be linked at all.<sup>23</sup>

The linkage between the bills...has been a poor policy outcome and has detracted from the focus of the bill...<sup>24</sup>

The RET legislation, from our perspective, is a separate piece of legislation and should be considered separately. What we do not want to see is RET held up as a result of concerns or further debate around the CPRS legislation.<sup>25</sup>

We would hate to see the renewable energy target legislation held up based on the CPRS legislation timetable.<sup>26</sup>

### ***Committee view***

6.26 The Committee understands why emissions intensive businesses would like to be paid assistance if the RET bill passes, and therefore would prefer this not be delayed until after the CPRS bills are passed.

6.27 However, if the concern is about business uncertainty delaying or deterring investment, then just decoupling assistance arrangements under the RET from those under the CPRS may not help, as there will still be a large degree of uncertainty about costs and returns for emissions-intensive industries until legislation for an emissions trading scheme is passed. Rejecting the CPRS bill in August would not resolve this uncertainty as the bills would be represented in November. Even if the current CPRS is decisively rejected then, the uncertainty will remain as Labor, the Coalition and Family First all promised at the 2007 election to introduce some form of emissions

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21 In addition to those cited below, this point was made by; BP Solar, *Submission 63*, p 7; Australian Industry Group, *Submission 64*, p 4; Kyocera Solar, *Submission 105*, p 1.; Tomago Aluminium, *Submission 10*, p 1; Business Council of Australia, *Submission 122*, p 8; Bureau of Steel Manufacturers of Australia, *Submission 17*, p 2; AGL Energy, *Submission 39*, p 2 and CSR, *Submission 47*, p 3; Origin Energy, *Submission 53*, p 2; Clean Energy Council, *Submission 112*, p 2; Greenpeace Australia, *Submission 43*, p 3; a number of renewable energy producers at their roundtable, *Proof Committee Hansard*, 6 August 2009, p 53.

22 Ms Maria Tarrant, Director of Policy, Business Council of Australia, *Proof Committee Hansard*, 5 August 2009, p 28.

23 Mr Michael Hitchens, Chief Executive Officer, Australian Industry Greenhouse Network, *Proof Committee Hansard*, 5 August 2009, p 43.

24 Professor Ray Wills, CEO, Western Australian Sustainable Energy Association, *Committee Hansard*, 2 July 2009, p 2.

25 Mr Dominic Nolan, Chief Executive Officer, Australian Sugar Milling Council, *Proof Committee Hansard*, 6 August 2009, p 41.

26 Ms Andrea Gaffney, BP Solar, *Proof Committee Hansard*, 6 August 2009, p 53.

trading scheme<sup>27</sup> but differ in the targets and compensation arrangements they would include.

#### **Recommendation 4**

**6.28 The Committee recommends that the Senate pass the bills.**

**Senator Annette Hurley**

**Chair**

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27 Parliamentary Library,  
<http://www.aph.gov.au/library/pubs/ClimateChange/governance/domestic/national/party.htm>  
(accessed 8 August 2009).

