Vestas Australian Wind Technology Pty Ltd

24 July 2009

The Secretary
Senate Economics Legislation Committee
PO Box 600
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Sir/Madam

Submission to the Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009

Vestas - Australian Wind Technology Pty Ltd (**Vestas**) has supplied more than half of all the wind turbines installed in Australia. While our parent company in Denmark is the world's largest manufacturer of wind turbines, Australia is the home of our Pacific regional headquarters and employs more than 200 people.

Vestas welcomes the opportunity to make a submission to the Senate Economics Legislation Committee (the **Committee**) to inform its deliberations on the *Renewable Energy (Electricity) Amendment Bill* 2009.

Background

The Australian Government has a policy commitment that 20% of Australia’s electricity supplies by the year 2020 will come from renewable energy.

The Government’s Renewable Energy Target (**20% RET**) scheme is an essential part of delivering this policy outcome. And the key enabling legislation, the *Renewable Energy (Electricity) Amendment Bill* 2009 must be passed before the 20% RET scheme can begin operation.

As a member of the Clean Energy Council, Vestas is one of almost 400 businesses of all shapes and sizes, from start-ups to ASX 200 companies. But the one thing all these companies have in common despite their many other diverse interests is they are all ready to invest in clean technology projects in Australia.

All of these companies want to unlock the huge renewable energy resources in Australia and help play our part in the global effort to respond to climate change.

Delivering the entire 20% target will deliver at least 10,000 megawatts (MW) of new renewable energy projects, and around $25 billion of total investment.

Address: Vestas Australia · Level 4, 312 St. Kilda Road · Melbourne, Victoria 3004 · Australia
Tel: +61 3 8698 7300 · **Fax:** +61 3 9645 0111 · **E-mail:** vestas-australia@vestas.com · **Homepage:** www.vestas.com
Company reg. no.: Australian Business Number (A.B.N.) 80089653878
Company reg. name: Vestas - Australian Wind Technology Pty. Ltd. · Communication name: Vestas Australia

Global developments

Australia competes in a global market for investment funds against countries such as the USA, China, Spain, and Germany that are sending out loud and clear signals in order to secure capital for clean technology projects. Australia has to do the same.

Those countries that have been the most successful in attracting these investments have been successful primarily because of positive policies and other regulatory changes to encourage them.

Late last year the European Union agreed on a 20% renewable energy target of its own. To reduce his nation's dependence on fossil fuels, US President Obama has pledged US$3 billion of investment in new renewable energy projects. China recently revised its target for wind energy capacity to 120 gigawatts by the year 2020. Numerous other nations in Asia, South America and Africa have been developing policy measures to attract investment in renewable energy too.

When investors consider where to make financial commitments for renewable energy projects, Australia's policies will be measured against those of other countries around the world. It is crucial for Australia's policies to "measure up" if the 20% target is to be achieved by 2020.

Future energy investment

For Australia to move from its existing level of renewable energy (currently around 7%) up to the Government's target of 20% will require a concerted effort to attract the necessary investment in new renewable energy capacity – starting now.

The current global financial crisis is one obstacle to this investment attraction effort.

But the delay in passing the 20% RET legislation is another obstacle for investment and jobs.

The longer that Australia waits before it provides a legislative signal via the 20% RET scheme, the more difficult it will be for Australia to successfully compete with countries all across the globe to attract investment in energy projects.

With the right policies in place, clean technology projects like renewable energy are an attractive proposition for investors, in part because renewable energy investments are not affected by fuel price volatility or the uncertainties associated with the future price of carbon.

Wind energy investments entail no carbon pollution and have no ongoing fuel costs – good investments in a carbon-constrained world. Even better, wind energy uses barely any water to produce this carbon-free energy.

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Vestas is a long-term global investor in this industry and we can see a solid pipeline of clean energy projects that will result in significant reductions in carbon pollution as well as more jobs in regional Australia.

The projects Vestas wants to build in Australia will deliver more than 5,000 gigawatt hours of clean energy every year; over 10% of the additional renewable energy needed to deliver the Government's election promise. Building these projects will create long-term direct and indirect employment for more than 2,000 people in regional Australia – jobs that are sorely needed.

We are excited about the potential for renewable energy in Australia, and we are ready to build the projects needed to reach Australia's policy targets in this area.

To make this a reality, we need the Parliament to take decisive action and send a clear message to investors that Australia is serious about growing its renewable energy capacity to a level that will deliver jobs and sustainable growth over the long term - not another boom and bust cycle.

Possible amendments to the 20% RET legislation

There will always have suggestions as to how the legislation could be improved, but after waiting this long for the Parliament to consider it, we have only one: pass the legislation as soon as possible.

In earlier submissions to Government, Vestas has argued against aspects of the 20% RET scheme design that we felt added complexity or otherwise damaged the business case for new large-scale renewable energy investments in Australia.

In many cases, the Government has listened to our concerns and has made changes before presenting the final design to the Council of Australian Governments (**COAG**) in April this year.

Despite that COAG decision, there will always be stakeholders who view the 20% RET scheme as a "magic pudding", arguing for extra technologies to be eligible for certificates at inflated values.

There will be other stakeholders who want all the benefits of the 20% RET but none of the responsibilities. They would rather see other Australian families and businesses take that responsibility.

Finally, there will be stakeholders who want to micro-manage the energy market in an attempt to gain some advantage for the most fashionable and exciting form of power generation, even though it might be many years away from being ready for commercial-scale deployment. Their proposal – known as "banding" – is a recipe for endless government involvement in a market that performs best without it.

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In a democracy, stakeholders are entitled to attempt to re-litigate to suit their own interests, but without a true public policy benefit their arguments have little merit.

However, given the length of time this legislation has taken to get to this stage, there seems to be very little public interest in prolonging this discussion any more.

The cost of delay

Since the legislation was referred to this Committee in late June, the market price of a Renewable Energy Certificate (**REC**) has dropped from around $52 to around $38. That price impact is not only damaging the business case of every proposed renewable energy investment in Australia, but it is also being felt in the revenue streams of companies that have made existing renewable energy investments.

One estimate puts the dollar value of this most recent delay at $165 million, with much more damage to be felt unless the legislation is passed soon.

Volatility in the REC price reduces investor confidence and reduces Australia's attractiveness as a destination for overseas capital funds.

The market for solar photovoltaic panels has been stopped in its tracks, and households cannot gain access to the "solar credits" that the Government first announced in December 2008.

Companies in the renewable energy sector are paying wages for employees and consultants who were originally hired to meet the extra work that the 20% RET legislation would create. These capacity costs continue to mount up, as these companies do not want to make these employees redundant due to the lack of work, only to hire extra staff again when the legislation is finally passed.

Further questions

Vestas would be pleased to meet with Committee members or staff, or indeed appear before the Committee hearing, to discuss our submission and answer any other questions. Contact details are on the covering email for this submission.

Yours sincerely,

[signed]

Ken McAlpine
Government Relations Manager, Pacific Hub
VESTAS - AUSTRALIAN WIND TECHNOLOGY PTY LTD