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SUBMISSION TO SENATE ECONOMICS LEGISLATION COMMITTEE

INQUIRY INTO RENEWABLE ENERGY TARGET SCHEME

This submission has been prepared on behalf of the plantation products and paper industry by A3P. A3P appreciates the opportunity to make a submission.

A3P's interests in the Renewable Energy Target Scheme (RET) relate to:

- the impact of increased costs associated with policies such as the Carbon Pollution Reduction Scheme (CPRS) and the RET on pulp & paper and panel board manufacturing;
- the sustainable expansion of a range of renewable energy technologies; and
- the fair treatment of all renewable energy opportunities, including heat and liquid fuel production from biomass.

A3P also has concerns regarding the transition from the Mandatory Renewable Energy Target (MRET) to the RET and the enormity of the increase in the target between the two schemes. A3P is a member of AIGN, whose submission examines some of these issues from a whole-of-industry perspective:

- The RET target of 20% renewable electricity by 2020 represents a significant expansion rather than an incremental increase on MRET. The lowest cost renewable energy options (e.g. incremental expansion of hydro electricity) have been taken up under MRET over the past five to ten years, and the level of renewable electricity generation will be required to increase considerably in a short time. The RET will involve substantial costs, while the CPRS will also push up the price of electricity by requiring permits to be purchased for greenhouse gas emissions in covered sectors.
- The CPRS and RET will both require significant energy network upgrade and expansion and system operational changes, which is expected to cause increases in network costs for end users. This aspect of the cost increase has not been evaluated within the expected cost structure of either measure.
- The RET should be designed to encourage industry development through the sustainable expansion of a range of renewable energy technologies. A market-based, temporary measure such as the RET may result in technologies which are easy to deploy quickly being favoured (primarily wind energy); these facilities may require a continuation of subsidies, or shut down, when the RET is phased out.
- The RET should provide incentives for the use of renewable energy sources for the generation of heat and the production of biofuels. The current design of the RET restricts the available incentive to renewable electricity generation. The Scheme should be broadened to address this constraint.

Introduction

A3P is the national representative body for the Australian plantation products and paper industry. A3P's 30+ member companies have sales revenues of more than $4 billion per annum and directly employ 13,500 people, predominantly in rural and regional Australia. A3P represents the largest and fastest growing sectors of the forest industry – plantation growing, sawn timber and panel board production (from plantations) and paper manufacturing (from plantations and recycled fibre). A list of A3P members and statistics on their operations is available from the A3P website: www.a3p.asn.au.

The Australian plantation products & paper industry and renewable energy

The three sectors of A3P's membership are faced with different opportunities and threats in the area of renewable energy production and energy use.

- The pulp & paper sector is a significant user of energy, particularly in mechanical pulping processes; it also faces strong competition from imported product from countries such as China, Brazil, Indonesia and Korea. The sector has a long history of producing renewable energy from processing waste, such as black liquor from chemical pulping. This renewable energy may be used on-site or exported to the grid. The pulp & paper sector used more than 50 000 TJ of energy in 2004-05, with more than 12 000 TJ produced on-site from renewable sources.
- The sawn timber and panel board sectors are energy users and producers of renewable energy from residues. This renewable energy is used primarily in the form of heat but there are opportunities for the production of electricity from sawmilling residues.
- The plantation growing sector manages a significant fibre resource. Plantation expansion is contributing to Australia's performance against our Kyoto target; there is potential for increased production of renewable energy from existing plantation resources and residues, and for the development of purpose-grown crops for energy production.

The three sectors are strongly linked through supplier/customer relationships, corporate structures and market arrangements. Positive and negative impacts on one sector inevitably flow through to other sectors.

High rates of renewable energy generation and use

Many parts of the industry, particularly the pulp & paper sector, have historically high rates of renewable energy generation and use which are proportionally higher than the long term target of the RET. Despite this, they are exposed to increases in energy costs as part of the Government's objective of improving the overall average level of renewable energy generation.

While creating market signals for investment in *new* renewable energy generation is an appropriate objective for the RET, it is important that the cost of implementing that target is not borne by industries and firms that already exceed the required national average and whose ongoing viability (and investment in further generation of renewable energy) is threatened by the costs of the scheme.

The RET should not disadvantage industries and firms with high current rates of renewable energy generation and use; on the contrary, their contribution to the renewable energy mix should be recognised in the RET.

Appropriateness of RET as Complementary Policy

Renewable energy will be a key component in addressing the challenges created by climate change. It is desirable, for security and environmental reasons, to diversify Australia's energy sources and to lessen our dependence on fossil fuel sources. To achieve these outcomes, it is necessary to implement renewable energy policies in a way that minimises the costs on energy users (particularly those that are trade-exposed and electricity-intensive), while supporting essential development in renewable energy capacity that:

- can generate base load electricity that is available at all times and not subject to fluctuations as a result of weather or other factors (highly volatile renewable energy sources will require further investment in back-up capacity, increasing investment required, cost to users, and [most likely] emissions);
- addresses emissions from, and security of, electricity, liquid fuels and other energy generation such as heat; and
- can be implemented in a reasonable timeframe at commercial scales.

The RET and CPRS will require extensive increased investment in gas and electricity networks. The Australian Energy Market Commission (AEMC) has been tasked with assessing existing market structures for gas and electricity supplies and their ability to accommodate the anticipated increased demand through the CPRS and RET policies. Initial results clearly demonstrate a need for significant gas and electricity network augmentation (essentially to back up the intermittent generation typical of many renewable sources of power such as wind, solar, wave and tidal). The costs for these increased network requirements will either be carried by the new generation (and passed through to end users), or directly allocated to end users; under either option this will lead to a higher increase in electricity costs for end users than has been forecast.

In addition, it should be acknowledged that the target under RET is orders of magnitude larger than the current MRET target. Much of the 'low-hanging fruit' has been utilised, with little incremental expansion potential remaining before significantly more costly renewable energy options will be required. This will exert a greater upward pressure on the price of electricity than the MRET may have done.

Furthermore, the design of the RET makes it unlikely to encourage industry development through the sustainable expansion of a range of renewable energy technologies. A market-based, temporary measure such as this risks favouring technologies which are easy to deploy and, perhaps, easy to remove once the measure is removed. An approach that is not dependent on increasing the cost burden on electricity users (e.g. policy incentives to reduce the cost of establishing renewable energy generation capacity) may be more effective.

A3P is also concerned about the suitability of the RET as a complementary measure to the CPRS, which is intended to be the centrepiece of Australia's climate change policy response. With an economy-wide price on emissions, additional price pressures caused by the requirement to meet a mandated renewable energy target, will increase the cost burden of electricity for all consumers, most especially in view of the scale of the renewable electricity generation target under the RET.

The CPRS intends to encourage consumers to make decisions based on the emissions profile of products and services. Over time as the cap in permits is reduced, it is hoped that more expensive (and cleaner) renewable energy options will become more competitive. While A3P understands the Government's legitimate interest in ensuring that renewable energy alternatives are deployed as early as possible, it seems inefficient to do this by

intensifying the cost pressures faced by consumers of electricity, by attaching a price to renewable as well as fossil-fuel based electricity. If/when the CPRS permit price gradually rises after implementation, the liability under RET will increase demand for renewable energy certificates, which will increase in price as renewable energy sources become less competitive. These cost pressures will be biggest for electricity-intensive sectors of the economy, whose trade exposure produces vulnerability to global pricing.

Furthermore the RET is directed exclusively at electricity generation and ignores other prospects for renewable energy. There are promising opportunities to employ increased supply from renewable sources in the generation of heat (for industrial and domestic uses) and the production of liquid fuels. Such renewable energy alternatives would also fulfil key objectives of renewable energy expansion, including reducing greenhouse gas emissions and increasing Australia's energy security. It seems unnecessary to restrict Australia's renewable energy policy framework to electricity. The Government's policy approach should provide similar incentives to the use of renewable energy sources in the generation of heat and the production of liquid fuels from biomass, rather than artificially restricting these opportunities.

Trade-exposed, electricity (or emissions)-intensive industries

The impact of increased domestic costs (a carbon cost or a renewable energy cost) on domestic energy users, where those users are exposed to strong international competition, has been well debated and explored in the development of emissions trading and renewable energy policy.

The key issues are:

- the magnitude of the cost impact;
- the ability of firms to pass on the costs to customers;
- the ability of firms to absorb costs that cannot be passed on; and
- the materiality of the resultant impact on profitability, investment and employment.

The potential financial impacts of the CPRS and RET, especially on trade-exposed industries, are serious and should be considered together. While there is a case for aligning the process for determining eligibility for assistance to trade-exposed firms under the two schemes, the direct linking of partial exemptions under the RET to the CPRS legislation, without linking the two packages completely, is illogical and flawed policy.

Making assistance for trade-exposed industries under the RET dependent on the passage of the CPRS legislation is a half-way point between two independent schemes and a fully integrated package. The RET and CPRS should either be completely linked or completely separate. If they are linked then they must both be agreed by Parliament in order to be implemented; if they are not linked, then each Scheme requires a stand-alone program to address trade competitiveness.

The proposed exemptions are limited to the additional liability between the MRET and the RET, and to a partial amount of an entity's liability. Highly emissions-intensive operations, such as newsprint manufacturing, would still bear a significant cost increase under this approach, and the assistance may be insufficient to prevent operations from being rendered uncompetitive in global markets. A3P calls on the Government to consider establishing an assistance threshold for highly electricity-intensive operations that provides a 90% exemption (if this aspect of the EITE program is adopted) for the entire RET, including the current MRET target.

The exposure draft legislation is also unclear on a number of vital aspects of the application of the EITE program to the RET. The CPRS EITE process will be used to determine eligibility for exemptions under RET, but how this will be administered is not specified. For example, it is not clear whether industries will be assessed on electricity intensity thresholds based on data provided for the EITE process, or if all entities that qualify for EITE assistance will also qualify for RET exemptions. The levels of partial exemption offered are also ambiguous (e.g. will the EITE threshold levels and the global recession buffer apply? Are exemptions intended to "decay" in the same way as CPRS permit allocations?).

It is very difficult to provide considered comment on the sufficiency of the proposed partial exemptions without more detailed information. In the current financial climate, many industries are already seeing an erosion of their competitive position, due, in part, to electricity and gas market structures and massive increases in network charges due to recent regulatory decisions (e.g. in NSW and SA). Given these price pressures, it will be vital to understand the additional impacts of the CPRS and RET. A3P urges the Government to make detailed information on the proposed partial exemptions for trade-exposed industries under the RET available before the debate on the legislation, to allow entities to assess the combined cost impact of the CPRS and the RET on their operations. This is especially important because it is clear that entities will be required to bear some cost increases through partial exposure to both Schemes.

Treatment of forest biomass

Over the last two decades, the Commonwealth Government has overseen the implementation of sustainable management practices across Australia's public and private forest resources. This has included the Regional Forest Agreement process, assessment of State Codes of Forest Practice with respect to plantation management, assessment of forest management against principles of ecologically sustainable development and encouragement of forest certification schemes such as the Australian Forestry Standard and Forest Stewardship Council.

In this context, and with the sound intention to reduce red tape and avoid inefficient regulation, the logical approach to the treatment of forest biomass and forest residues under the RET is to utilise the existing processes and criteria. Australia's forest growers and wood processors are well placed to contribute reliable, sustainable quantities of woody biomass for the generation of renewable energy.

The opportunities presented by forest biomass and wood fibre processing residues warrant targeted assistance to allow deployment of recent advancements and development of new technology. Therefore targeted (though not necessarily market based) renewable energy policies are appropriate to encourage an industry such as ours that is historically a major contributor to Australia's renewable energy generation levels; and, with continued investment, could make a greater contribution to future renewable energy generation.

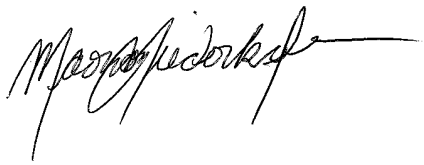
In developing a vibrant market for forest biomass for renewable energy in Australia, much can be learned from European countries such as Sweden, Finland and Denmark, where a well-developed, successful bioenergy industry has been encouraged through sympathetic policies. Biomass is the largest contributor to renewable energy (heat and electricity), totalling 65% of total renewable energy sources[1].

[1] Parikka, M., *Biomass Potential in Europe*., Department of Bioenergy, Swedish University of Agricultural Sciences., 2006.

Forest biomass and forest residues in Australia are carbon neutral, and therefore should be eligible as a source of renewable energy. No further requirements should be imposed (e.g. regarding alternative uses of the biomass). The use of the biomass should be determined through commercial forces and these should be left to work unencumbered; this approach will encourage greater investment in plantation (and forest) growing and management.

Thank you for accepting our comments on the RET. A3P would welcome the opportunity to participate in further consultations and discussions. If you have any questions please contact Marion Niederkofler on 02 6273 8111 or at marion.niederkofler@a3p.asn.au

Yours sincerely



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