1. About CSR Limited

CSR Limited has been operating in Australia for 153 years. The company is a leading diversified manufacturing company with operations throughout Australia, New Zealand, China and South East Asia and employs over 6000 people. In 2008 trading revenues were $3.2b with capital expenditure of $394m. The company essentially operates three manufacturing divisions, comprising Building Products, Aluminium smelting, through our shareholding in the Tomago aluminium smelter, and Sugar.

Our Building Products' Division is a leading supplier to the residential and commercial construction industry - supported by a nationwide distribution network. It manufactures well known brands such as Bradford ™ Gold glasswool insulation, Viridian™ flat glass and downstream products, Gyprock™ plasterboard, Cemintel™ cement sheeting, Monier™ and Wunderlich™roof tiles, PGH™bricks through 35 wholly-owned or majority owned manufacturing plants in Australia and operations in New Zealand and Asia.

CSR Sugar is the 6th largest sugar company in the world and the largest raw sugar producer in Australia, operating 7 mills in northern Queensland. Australia exports 85% of the raw sugar produced and CSR through its joint venture with Mackay Sugar Limited exports about 30% of the refined sugar production. The company is the sixth largest generator of RECS under MRET. CSR Ethanol is centred on production in Sarina, Queensland and mainly produces fuel grade bio-ethanol for the Australian market.

The Tomago Aluminium smelter, of which CSR has an effective interest of 25%, is the second largest employer in the Hunter Valley with 1200 direct employees and generates $1.5b pa in sales of which 85% are exported. It is the 10th largest smelter in the world. The facility consumes around 900MW of power supplied by Macquarie generation

2. Introduction

CSR is a member of the Australian Industry Greenhouse Network and in general supports the AIGN Climate Change Policy Principles. We also support most comments contained within the AIGN submission to this committee, with the exception of complementary measures. The company believes that while there is considerable scope for rationalisation of some existing state and federal measures, some also need to be strengthened.

CSR has consistently supported a preference for a broad-based emissions trading scheme, with an early introduction to provide business certainty surrounding future investment decisions.

CSR has also supported the Government's policy that trade exposed industry's international competitiveness should not be compromised by the introduction of emissions trading. While the Government has addressed this in part, the measures do not go far enough. If this issue can be adequately addressed, then the proposed scheme should proceed.

Entities in CSR are undergoing both the pre and formal assessment process for transitional assistance. Uncertainty about the outcome remains for trade exposed sectors as there is no close out mechanism with industry, until regulations are published. Furthermore there is no appeal mechanism should the outcome be unsatisfactory. These are issues which could be addressed in CPRS and must be addressed in any alternative scheme.

If these issues cannot be addressed in the CPRS then it would be timely to review an alternative scheme which can simply provide an equivalent mitigation outcome, but maintains the competitiveness of Australian import competing and export industries. Depending on the form of scheme, these settings would be kept in place until such time as competing nations introduced comparable measures.

The implementation time frame of any scheme should be based on ensuring that the design is based on sound principles, is workable, effective and efficient. The current schedule for the CPRS does not provide sufficient time for discussion, debate and discovery and resolution of the unintended consequences of such complex legislation. Much of the legislation will be contained in regulation which is so far not available for review at the time the bills will be presented to the Parliament.

CSR's preference is that the Government move forward with the legislation by resolving the serious outstanding trade issues and other complexities.

3. Key issues impacting CSR's business which are not satisfactorily addressed in the current scheme.

a) In some cases treatment of Energy Intensive Trade Exposed (EITE) under the scheme is satisfactory and at other extremes it is entirely unsatisfactory. The Government has decided to allocate free transitionary permits primarily on the basis of energy intensive measures and not on a trade exposure basis. The real issue for manufacturing companies is retaining international trade competitiveness. The series of hurdles used for qualification may disadvantage many firms who miss the cut point or fall below the bar for assistance. Given the very high cost and complexity of applying for assessment, many firms at the small end of trade exposed industry may decide not to undertake assessment. However if they fall below the bar under current settings they have no choice – they are unable to gain assistance. While this might lower the administrative burden for Government it disadvantages businesses and puts employment at risk.

   In the case of the CPRS policy, an arbitrary allocation of assistance is based almost entirely on energy intensiveness, rather than competitive neutrality. It is clear, that if a company is exporting, then the emissions attributed to those exports should be allocated free. If a company is import competing, then a case needs to be made to demonstrate the degree to which this occurs and an appropriate level of permits should be allocated to that entity. CSR would prefer that this occur through a Productivity Commission process and that use of energy should not be a criterion. As a result all the complexities with emissions hurdles and value add versus revenue, who misses out and who is on the cut point, are avoided.

b) Elements of the trade exposed treatment dealing with value add provisions (if carried to regulation) are inequitable with those energy intensive trade exposed facilities treated on a revenue basis. The shift in methodology from the setting of hurdles, to qualification under those hurdles, effectively and unrealistically discounts emissions intensity by up to 30 to 40% in our experience. A trade based test will eliminate this difficulty as well as the faulty methodology adopted by Government.

c) The impact on small and regional trade exposed industry has not been investigated. The Climate Change Adjustment Fund is not necessarily a solution for these businesses, although it may help re-equip business in some cases. However it is not an adequate measure to hold companies even on trade exposure. CCAF grants are likely to be taxable and so the full benefit does not flow through to recipients. It is likely to be in the form of capital grants which do not necessarily resolve the trade competitiveness dilemma. It is not a satisfactory solution for trade exposed companies. There is a case for such a scheme to help restructure the economy, but it is not a substitute or a tool to deal with trade competitiveness. The draft legislation for this component is not yet available for consideration.

d) The Productivity tax of 1.3% serves no function other than a tax transfer to government. Industry is still incentivised to act regardless of this decay factor and it should be removed from the CPRS.

e) The CPRS does not adequately deal with agriculture and a huge amount of data and methodologies need to be developed to allow farmers to mitigate their emissions. It is not clear how farmers (and importantly downstream food processors who are often trade exposed, but fall below the arbitrarily adopted energy intensity hurdles) will be treated. On the surface, it appears that another of Australia's natural competitive advantages as a trusted food source could be substantially at risk. However, the data for certain sectors such as sugar are not extensively available and research programs have only just been announced. Due to crop cycles it can take years to obtain these data. Agriculture can't claim trade exposed status if it is not covered, and yet farming will in part bear the costs of the scheme immediately. There are limited mitigation strategies available for agriculture and R&D programs need to be accelerated to find options for farmers. Any consideration of scheme design must deal with the very different issues faced by farmers and food processors.

4. Complementary Measures

a) The present scheme offers no incentive to develop a biofuels industry because of the liquid fuel exemptions for motorists. Under regulations still to be developed, the cent for cent offset basis applies for the initial three years and can be continued on. The scheme was premised on maximum coverage and all liquid petroleum fuels for motorists should be included in any scheme proposed.
Even if fuel were fully liable there is a case to be made that a separate policy should be developed for bio ethanol. Policy measures should take into account the carbon footprint of the fuel. Excise would be applied in bands according to carbon intensity. CSR bio ethanol has 50% less carbon emissions than gasoline. Additional measures to the CPRS or an ETS, which truly value the carbon savings beyond that captured by

CPRS, could lead to bio–ethanol from new pathway renewable technologies and new investment in regional areas. This could be coincident with new engine technologies. For example, GMH recently announced it which would make locally produced E85 fuel (85% fuel ethanol, 15% unleaded petrol) flexible vehicles available in the Australian market place within two years.

b) CSR supports the extension of the Renewable Energy Target (RET) scheme provided that electricity intensive industry as described in the RATE paper, and as already provided for in the Victorian and proposed NSW scheme are exempted.
It is not clear whether or when the CPRS legislation will be passed. It is CSR's view that a significant contribution to reduced carbon emissions can be made by the early extension of the RET scheme. This is easy to do, the regulator is in place and the amending legislation is straightforward. Essentially the RET advances what may otherwise occur under the CPRS or an alternative scheme and sets Australia on a reduced emissions pathway ahead of the curve. Given the uncertainty over the commencement and form of the CPRS, RET provides a higher degree of certainty on emission reductions and new power capacity in the market place. The RET legislation should proceed as soon as possible regardless of CPRS or any alternative scheme.

Recently, CSR Sugar extended its interest in power cogeneration using bagasse with an investment of $160m in the Pioneer mill. The project was made possible through the MRET scheme. CSR is the sixth largest generator of RECS under MRET and the Pioneer facility is the third largest in capacity installed under the scheme. As the MRET target was not extended at the time, further investment in other CSR mills was suspended. This was brought about by the inclusion of solar hot water in the scheme. Given recent announcements by governments regarding solar hot water it is likely that this will also put downward pressure on REC prices, again curtailing any significant scale investment in renewable power generation. CSR contends that solar hot water should be carved out of the RET policy and dealt with through the state white certificate schemes. An additional capacity of 300MW of sugar cogeneration could be installed depending on default pricing and the forward curve estimates under the 20% renewables by 2020 policy of the Rudd Government.

State renewable energy schemes should be transitioned to the national scheme as part of the RET extension.

c) Energy Efficiency measures are a complementary measure which should also be rationalised nationally.

Energy efficiency measures in Australian housing are extremely low by any measure in the developed world. Although 5 star energy efficiency was adopted under the Australian Building Codes three years ago, it is yet to be fully implemented nationally. Its impact was diluted by some states so that Queenslanders can continue with 3.5 star rating by including a deck in a new house design. In New South Wales, based on our own understanding, BASIX contributes a 3.5 star to 4 star rating. It is possible to build a house in NSW without insulation in certain climate zones, where insulation would be warranted.

Residential buildings account for about 28% of all electricity consumption in Australia. Any improvement in energy conservation would greatly benefit Australia's emissions profile, particularly where that power is sourced from coal.

As noted earlier, CSR has interests in both insulation and energy efficient glass. There has been considerable focus on insulation in ceilings as a retrofit through the Nation Building Program and new houses through the Building Codes of Australia (BCA). From an energy perspective, Australia's windows are the worst in the developed world. In general, the standard Australian 3mm windows typically represent 8% of the total house envelope, but account for 87% of the heat gain and 49% of the heat loss in an otherwise well insulated house, according to research conducted by Arup.

According to a study undertaken in Victoria by the Glass and Glazing Association of Australia in 2006, homes with standard glazing in windows require 60% more energy to heat and cool than do homes with energy efficient glazing.

The results show that based on second generation NatHERS assumptions, an improvement of 2 to 3 stars can be expected along with emissions reductions of 4 tonnes pa in the case of a large (237 m2) house. Another report (Horne et al, 2005) on behalf of the Australian Greenhouse Office demonstrated that well insulated homes (whether in Australia, North America or the UK) cannot generally attain more than 6.5 stars unless they have high performance windows. Performance windows are the standard in California – the cost of single glazing is higher than double glazing as single glazing is regarded as a "special". The reverse is true in Australia.

Less than 10% of residential buildings constructed in Australia use energy efficient windows and doors. Yet in high rise, double glazing and coated windows are standard treatment. The poor take-up rate of energy efficient windows is increasing the stock of housing which although code compliant, perpetuate a sizeable and avoidable loss of energy. Windows must be seen as integral to insulating the building envelope. Conventional single glazed windows are simply "holes" in an insulated wall. Given the structure and nature of the building industry the only way to move forward with significant improvements in residential and commercial buildings is for further energy efficiency regulation. While occupiers will see lower power bills from these measures, CPRS will not be sufficient to drive change in this sector.

Government should progress with the national adoption of 6 star building codes with no water down provisions. Further research into pathways to 10 star housing, i.e. accommodation which requires no net energy input should be progressed as a separate inquiry by Government.

d) Other measures such as the Energy Efficiency Opportunities program and similar state schemes, such as Environment and Resource Efficiency Plans in Victoria, are clearly no longer required in a CPRS or ETS environment, and should be immediately repealed. There is a strong case for streamlining and this should be considered along with any new policy measures dealing with emissions nationally.

5. Summary

While substantial progress has been made quickly with CPRS, the legislation retains considerable shortcomings in relation to sections of trade exposed industry. These shortcomings can be easily addressed without reducing the integrity of the scheme or reducing the reduction targets. Industry will retain the same motivation to reduce emissions. The legislation itself still has many issues which can also be fixed with sufficient time and discussion. It is CSR's preference that CPRS be introduced, providing these matters are resolved.

If the Government is unable to move on these measures, then consideration to alternative schemes should be considered. The carbon tax methodology suggested by Geoff Carmody and Associates (Effective Climate Change Policy: The Seven C's, policy notes 1, 2, 3) seems to be an appropriate method to deal with the trade exposed industries. The carbon data are available as a result of the CPRS assessment processes and proxies could be used for a large part of the economy. While the scheme appears to have merit, CSR has not had sufficient time to thoroughly consider the impact such a proposal would have on all its businesses. However, it does appear that much of the machinery for such a scheme is in place through the GST system and the Draft Act could be modified quickly to avoid a delay to the introduction of a scheme. Global implications, issues for agriculture, re-forestation and offset measures combined with the notion of a tax and trajectories all need further discussion and debate before such a pathway is implemented.

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