



Plastics and Chemicals Industries Association

**Submission to Senate Standing Committee
on
Environment, Communications, Information Technology and the Arts
in relation to its inquiry into the
Kyoto Protocol Ratification Bill 2003 (No 2)**

January, 2004

Executive Summary

The Plastics and Chemicals Industries Association (PACIA) welcomes the opportunity to make a submission to this inquiry by the Senate Standing Committee on Environment, Communications, Information Technology and the Arts (ECITA).

The plastics and chemical s sectors are important parts of Australian manufacturing production and employment, and PACIA is committed on behalf of the industry to achievable greenhouse gas emission and abatement targets in line with the Kyoto Convention.

If the Convention is ratified by Australia, aspect of the Convention, particularly the selective compliance with emission reduction targets by Annex 1 countries only and the introduction of trading in and/or taxing of emission units, thee impact on industry will be significant and adverse, particularly for energy intensive industries which are import competing or compete in export markets.

Introduction

PACIA is the peak national body for the Australian plastics and chemicals industries sectors. The plastics and chemicals sectors have a combined turnover of \$A23 billion annually and directly employ about 73,000 Australians. Apart from producing a broad range of final consumer products, these sectors provide raw materials and intermediate goods to numerous other Australian industry sectors including packaging, health, food, building and construction, automotive and agriculture.

Internationally these sectors, particularly the chemicals sector, have seen an ongoing progression towards fewer, larger plants, and multinational firms adopting market strategies, with much of the new investment in Asia and developing countries in other parts of the world. Chemicals and plastics production is energy intensive, and these sectors are highly sensitive to changes to energy prices whether brought about by market influences or intervention by government.

PACIA takes very seriously its role as a responsible corporate citizen and a contributor to Australia's economic, social, and environmental well being. The Association and its

members view climate change as a global issue requiring action now, and acknowledge that industries, governments and communities will all have to adapt to the effects of climate change.

The Australian Plastics & Chemicals Sectors

The chemicals and plastics sectors represent about 10 percent of all manufacturing output and employment. While tariffs of 5 percent apply to plastic products and some chemicals, most imports to the sector are free, and local production competes directly with import competition.

As sectors which are energy intensive, access to reasonably priced energy has been vital to their competitiveness. Changes to the cost of energy, and costs associated with emission controls, will affect competitiveness. Many competing suppliers are based in Asia and other developing countries where there has been substantial investment in recent years in larger plants which achieve scale economies not realisable in a market the size of Australia. A loss of competitiveness, even due to shorter term market changes, can result in long term loss of market share. While the domestic market for chemicals and plastics has grown at about 3.3% per annum in recent years, imports have grown at about 8.6% per annum.

These sectors, through the Chemicals and Plastics Action Agenda in commitment with the Minister for Industry, Tourism and Resources, have signalled that they will pursue growth in local production with the target of doubling 1998-99 output by 2010. PACIA recognises that increased production will produce increased emissions and as such will pursue strategies that reduce the emissions intensity (level of greenhouse gas emissions produced per unit of output) of its production processes.

PACIA has undertaken two specific projects under the Greenhouse Challenge program. and five PACIA members have signed individual Greenhouse Challenge Agreements. The savings noted in the table are based on the companies operations at the time of undertaking the program and as such should be considered only indicators. Savings on a year-by-year basis will vary due to changing production schedules, plant shutdowns, plant and equipment replacement and staff changes. Studies by PACIA indicate that companies are generally achieving 20-30% of these reductions by the second year following completion of the program.

Program	Coys.	Sites	CO ₂ emissions (tonnes per annum)*	Est. CO ₂ savings (tonnes per annum)	CO ₂ savings as a % of total emissions
Managing Energy For Profits	9	23	494,790	64,938	13.1%
Third Party Recruiting	25	31	605,636	53,711	8.9%
Total – PACIA Operated	34	54	1,100,426	118,650	10.8%
Individual	5	na	4,260,000	290,000	7%
Total PACIA	39	na	5,360,426	508,650	9%

* includes both direct and indirect emissions from energy consumption

Voluntary Programs – State and Sectoral Based

	Cos.	Est. CO2 savings tpa	Est. Energy savings A\$/yr
PACIA / SEAV Energy Smart Leaders Program	10	38,000	2,000,000
PACIA Energy Management in Practice	8	10,500	568,000

PACIA is proud of its achievements in the reduction of emissions through both the Greenhouse Challenge Program (which covers 80% of member emissions) and state based energy efficiency programs. These programs have produced a culture shift in the industry in respect to greenhouse gas abatement which PACIA intends to continue driving through:

1. Encouraging and assisting PACIA members to adopt equipment and process change aimed at reducing greenhouse gas emissions intensity. This will include an education program on the opportunities for greenhouse gas emission abatement through:
 - regular workshops on greenhouse gas abatement, adaptation and climate change;
 - a regular greenhouse newsletter and bulletin board;
 - a dedicated greenhouse section on the PACIA web site; and
 - actively displaying the gains and savings achieved by PACIA members.
2. Operating its energy management program – ‘Energy Management in Practice’ - with the aim of covering all PACIA members by 2008.
3. Supporting the continuation of the Greenhouse Challenge Program.
4. Investigating options to reduce greenhouse gas emissions intensity including, but not restricted to:
 - negotiated agreements between PACIA members and the Federal Government;
 - new materials and production processes; and
 - working with the Federal Government to encourage the uptake of lower emissions intensity plant.
5. Continuing its participation in the Federal Government Climate Change Dialogue.
6. Working to ensure that successive Federal Governments implement policies that maintain the competitiveness of Australian export and import competing industries and encourage their continued growth.
7. Maintaining its push for national consistency in Federal, State and Territory Government approaches to greenhouse gas abatement, energy policy and other environmental related policies, and
8. Reviewing this statement annually with its members and the National Community Advisory Panel
9. Placing Greenhouse on the agenda of each Board meeting.

The Kyoto Convention

PACIA endorses the principles of the Kyoto Convention. It notes that Australia has met many of the commitments of the Convention, is on target to meet the critical greenhouse gas emission target for 2010 and is committed to targets for 2020.

PACIA does, however, have concern in respect to two features of the Convention

- the fact that the commitment to greenhouse reductions extends only to Annex1 parties (OECD members and East European countries), and
- that while mechanisms aimed at providing for targets to be achieved have not been resolved, the emphasis on emission trading and banking, possibly involving a carbon tax of some sort, this will inevitably involve costs increases.

Initiatives in this regard need to be effective, transparent and efficient and cover the majority of global emissions.

PACIA notes with concern that the draft Bill specifically requires that the Minister develop a mechanism transfer of emission reduction units.

PACIA believes that climate change can only be effectively addressed through a shared commitment by all nation states, industry, all levels of government and the wider community, and that any global response must allow for differentiated national approaches. It supports the intent of the United Nations Framework Convention on Climate Change (UNFCCC) to facilitate an equitable and effective multilateral approach to stabilising atmospheric greenhouse gas concentration and as such supports Australia's participation in such approaches.

Greenhouse gas emissions from developing countries are forecast to overtake those of developed countries in the next decade. Were these economies not to be included in international efforts to reduce or abate emissions, the reality of the market would accelerate the trend toward investment and production growth in these economies. The longer term outcome would then be not only that Australian industry would reduce or cease production, but that replacement products would come from economies which are not emission constrained. Indeed, any comparative advantage deriving from the lack of commitment to greenhouse gas emission standards may encourage production techniques which have higher emission levels than those of Australian industry or at least, of the levels realisable within the Greenhouse Challenge and other current programs in Australian.

On this basis, the impact on Australia would be the loss on industries, and employment, in industry sectors which were efficient and have growth potential, and no reduction – or even increases in – global greenhouse gas emissions.

Meaningful emission abatement commitments by developing nations, at the earliest practicable opportunity, must be an integral part of an international scheme. Mandatory targets by industry sector are completely unworkable.

Any carbon emission trading scheme or levy will have an uneven impact, at least in the short and medium term, on industry. Production of import competing goods and for export markets exposed to global competition are likely to be among the more exposed to an adverse impact. If there is to be such a scheme or levy, their introduction must be phased so that industry can adjust, with negotiated industry agreements and support provided to address the distortions of the non-uniform international application of emission obligations and costs.

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