



28 April 2008

Submission to the NSW Government

Transition from the NSW Greenhouse Gas Abatement Scheme to a Australian Emissions Trading Scheme

Overview

Visy is a major investor in manufacturing in NSW, and has existing and planned developments in regional areas as well as the cities.

This submission by Visy is based on the discussion of transitional arrangements for the NSW GGAS in the Consultation Paper, and makes specific proposals on how the NSW Government should approach the transition to an Australian Emissions Trading Scheme ("AETS")¹

As at April 2008, Visy's installed assets, including the pulp and paper mill expansion at Tumut, exceeded \$1.4bn in capital value (see table below). These manufacturing assets support over 1,400 jobs directly, and many thousands of flow-on jobs.

Division	Visy's NSW Assets (\$m in 2008)	Direct Jobs (NSW operations)
Visy Paper	1,011	370
Visy Recycling	43	216
Visy Board	88	362
Visy Specialties	95	260
Visy Beverage	235	275
	1,473	1,483

Key parts of Visy's invested capital in NSW have been predicated upon a continuing, State-based greenhouse gas abatement regime. In particular, around \$100m of the existing capital devoted to biomass co-generation energy supply at the Tumut plant ("VPP9") is dependent on continuing revenue streams from the GGAS arrangements. This investment decision was premised on long term revenue not only from the Commonwealth MRET scheme but also, critically, from the NSW GGAS scheme.

At the time of investment, discussions with the NSW Government and Premier of the day indicated that the investment horizon relied on REC and NGAC revenue until 2020 to justify this capital-intensive form of power and steam generation.

Further major investments are planned by Visy for NSW. Therefore, the NSW Government must be careful, in the transition from GGAS to AETS, to protect the NSW manufacturing and jobs base from erosion of revenue stream, expectations or investment confidence.

¹ The nomenclature adopted in this submission for the forthcoming Australian scheme is "AETS", whereas, because of the previous multi-state process, the NSW Government adopts "NETS". They refer to the same proposed scheme.

Visy has already communicated its concerns regarding the transition from GGAS to AETS to the “DSA Review” (December 2007 – see Attachment 1) and to the Premier (January 2008 – see Attachment 2).

Summary of recommendations

- 1 In the transition from GGAS to the AETS, the NSW Government must ensure current NSW investments are protected, and that the investment confidence profile of the State is not jeopardised
- 2 The NSW Government’s prior commitments to maintain GGAS benefits to 2020 must be honoured because investments and business decisions have been made on this basis
- 3 The NSW Government should strongly press for the protection of its trade-exposed manufacturing industries against the financial impact of the AETS, and of the future mandatory renewable energy target imposts
- 4 The AETS must recognise “GGAS Category D generation” as an offset and/or via favourable permit allocation
- 5 There must be a ‘tonne-for-tonne’ currency exchange of greenhouse gas abatement certificates created under GGAS to permits under the AETS
- 6 Any benefits currently gained under the GGAS Generation Rule and/or the DSA Rule must be maintained under the new Commonwealth arrangements – either under AETS, via the revised MRET, or under a new national energy efficiency trading scheme
- 7 Proposals for accreditation of new developments under GGAS must be given a reasonable window of opportunity in the transition period between now and the commencement of AETS
- 8 NSW should seek provision of an AETS mechanism whereby large users can acquit their own liabilities rather than be exposed to the pass-through charges
- 9 The NSW Government should encourage the Commonwealth to recognise landfill avoidance and materials recycling benefits for credit under the AETS
- 10 Transitioning of the NGAC benefits from abatement, through generation from putrescible waste, should be in the form of Permit allocation, or of offsets
- 11 Any unused NSW greenhouse gas abatement certificates should be translated into AETS Permits – on a tonne-for-tonne basis
- 12 NSW should clearly distinguish co-generation from energy efficiency and secure recognition of co-generation benefits within the new Commonwealth AETS and MRET arrangements
- 13 The NSW Government should support and promote the introduction of a separate, national scheme, in parallel with the AETS and MRET, to recognise and incentivise investments in energy efficiency

Detailed comments and recommendations

- 1 In the transition from GGAS to the AETS, the NSW Government must ensure current NSW investments are protected, and that the investment confidence profile of the State is not jeopardised**
 - Visy strongly endorses the Consultation Paper's emphasises on:
 - the importance of protecting "... the legitimate business interests of those who have responded to the investment incentives created by GGAS as well as maintaining the environmental integrity of greenhouse policy" (p. 1), and
 - that fairness be a key aspect of transitioning and that this be provided for by: "...ensuring that investments made viable as a result of GGAS are not rendered uneconomic by the termination of GGAS and its replacement with a NETS" (p. 3).
 - This acknowledgement by the NSW Government recognises the clear need for it to protect investments which relied on the NSW GGAS, of which Visy's Tumut facility is one.

- 2 The NSW Government's prior commitments to maintain GGAS benefits to 2020 must be honoured because investments and business decisions have been made on this basis**
 - Direct assurances by the NSW Premier that the GGAS would be extended to 2020 must be honoured because investment decisions were made, and developments are on foot, based on these assurances.
 - Visy's decision-making on new investments included the expectation of MRET and GGAS revenue as critical revenue streams until 2020.
 - This included income expectations from acquittal of at least 3.2 million NGACs, in aggregate, between 2010 and 2020.
 - Visy believes:
 - it is appropriate that such GGAS projects are transitioned into the AETS with appropriate coverage until 2020 so as not to undermine those investments, and
 - Visy should receive the equivalent of 320,000 tonnes of abated carbon, in the form of AETS Permits, per year from the time of commencement of the AETS until 2020.

- 3 The NSW Government should strongly press for the protection of its trade-exposed manufacturing industries against the financial impact of the AETS and of the future mandatory renewable energy target imposts**
 - It is essential that the NSW Government makes strong representations to the Commonwealth for it to provide for the trade-exposed pulp and paper industry in the AETS design, in the same manner as our steel and aluminium industries.
 - Permits should be provided by free allocation to this efficient, energy intensive, industry to cover its indirect as well as its direct exposure to emissions liability.
 - In its development of the NSW REC scheme, the NSW Government provided for exemptions for its trade-exposed industries, recognising their sensitivity to, and

inability to compete with, the additional costs an increased renewable energy mandate would bring. Although the NSW REC scheme is not proceeding, the same principle should be observed in the development of the new MRET by the Commonwealth.

- Accordingly, in addition to free allocation of AETS Permits, Visy believes the NSW Government should strongly support the trade-exposure protection principle in its representations with the Commonwealth Government in the design and roll-out of the expanded MRET.

4 The AETS must recognise “GGAS Category D generation” as an offset and/or via favourable permit allocation, to recognise the fact that this generation is based on emerging, low-emissions intensity technology, and has been a significant investment focus in NSW since the commencement of GGAS

- Category D generation under the GGAS Scheme represents abatement derived from the (1) newest, (2) smallest, and (3) non-fossil fuelled (renewable) generators.
- Effectively, this is the category that largely represents new and emerging technology of very low (or neutral) greenhouse intensity. It is therefore critical that this category of generation be fully and appropriately transitioned into the AETS to ensure its continued viability. Further, the GGAS Generation Rule acknowledges the significant benefit derived from co-generation.
- Visy’s Tumut facility is a Category D renewable (biomass) co-generation facility and it is critical that appropriate transition occur to ensure the continued recognition of CO_{2e} abatement from this capital-intensive plant.
- The Tumut facility currently produces approximately 170,000 to 180,000 NGACs as a Category D Generator (apart from Putrescible Waste NGACs) annually and its income expectations between 2010 and 2020 are linked to approximately 1.7 million tonnes CO_{2e} of abatement.
- For these reasons the AETS must recognise “GGAS Category D generation” as an offset and/or via favourable permit allocation.
- Visy’s submission to the Garnaut Review (18 April 2008) emphasised the importance of the AETS recognising modern generation as an important part of the nation’s greenhouse gas abatement task (A copy of Visy’s most recent Garnaut submission is included as Attachment 1).

5 There must be a ‘tonne-for-tonne’ currency exchange of greenhouse gas abatement certificates created under GGAS to permits under the AETS

- The Consultation Paper states that, in terms of the relevant metric for abatement and emissions under both schemes, an NGAC represents abatement of one tonne of CO_{2e} and that a Permit under the NETS will be a permit to emit one tonne of CO_{2e}.
- The transition must therefore be on the basis of one NGAC being equivalent to one AETS Permit (or offset). This is proposed in preference to the two alternatives in the Consultation Paper. In particular, the alternative Net Present Value approach, could create a skewed transition from abator to abator, with the test being very unclear and subject to manipulation.

- A tonne-for-tonne form of transition is in line with the Consultation Paper's criterion of effectiveness including the need to:
 - maintain "maximum consistency with the objectives prior and key design features of both GGAS and the NETS., and
 - ensure simplicity - "...the advantage of this approach is that it is relatively simple. From the investors' perspective, it replaces a per-tonne stream of NGAC revenue with a per tonne stream of NETS offset revenue." (albeit that this was stated in the context of provision for Offsets).
- Visy is concerned that certificate transition in any other fashion will create a mismatch in accounting for abatement, and will skew the transition for some abatators over others.
- Further comments on certificate transition principles are made in relation to unused NGACs in section 11 below.

6 Any benefits currently gained under the GGAS Generation Rule and/or the DSA Rule must be maintained under the new Commonwealth arrangements – either under AETS, via the revised MRET, or under a new national energy efficiency trading scheme

- Visy strongly supports the Consultation Paper's stance (p. 12) that energy efficiency should be given the appropriate signal through a new national energy efficiency trading scheme or similar mechanism.
- While it is acknowledged that DSA projects derived from energy efficiency could be argued as giving rise to a 'double-counting' of benefit if transitioned to the AETS, it is important that energy efficiency be properly recognised and accorded credit, given the increasing national imperative for energy efficiency in the context of resource efficiency and sustainability.
- A second aspect of the DSA Rule is the ability to provide credit via on-site generation and co-generation. In essence this form of abatement is identical, from a physical and engineering perspective, to "off-site" generation. It is only the *location* of the abatement that differs between: (a) DSA Rule power generation & co-generation and (b) Generation Rule power generation.
- Visy submits it is critical that DSA Rule-derived co-generation & generation is treated equally with other like-generation and is *not* treated as an energy efficiency project, for the purposes of the transition.
- In summary,
 - Visy's existing investments in NSW provide continuing opportunities for direct and indirect greenhouse gas abatement. These opportunities must be acknowledged and promoted by the NSW Government as the AETS develops.
 - Accordingly, there must be neutrality in the transition from GGAS to AETS, with respect to current relevant GGAS instruments and the creation of AETS Permits and Offsets, new MRET Certificate creation and any related energy efficiency measures.

- 7 Proposals for accreditation of new developments under GGAS must be given a reasonable window of opportunity in the transition period between now and the commencement of AETS**
- Visy agrees with the proposed cut-off date for lodgement of applications for accreditations as 1st September 2008, such that provision for transition be made for project with respect to which applications have been lodged before this date but not after.
 - As proposed, applications should be allowed until the end of the Scheme.
- 8 NSW should seek provision of a mechanism, under AETS, for large users to acquit their own liabilities rather than be exposed to the pass-through charges, and thus deal with the indirect costs of AETS themselves**
- Visy is extremely concerned at the potential for liable generator entities to pass-through to electricity consumers their liability, in the form of higher costs that include a significant profit margin. This is currently occurring in the operation of EU-ETS. The prospect of simply paying the significant pass-through charges, is not an acceptable option for Visy.
 - The availability of large user status under GGAS has been extremely beneficial, and has facilitated Visy's own greenhouse gas abatement efforts. These benefits must not be lost in the transition to the AETS.
 - Visy therefore stresses the need to have a clear transition of liability, with no overlap, from GGAS to ETS, and in particular for large user liability to be clearly transitioned.
 - Specifically, Visy proposes that the GGAS provision, which allows large users to take direct liability and avoid retailer pass-through, should be taken as a model for the design of the AETS.
- 9 Because of the significance of limiting emissions from landfills for the national greenhouse gas abatement task, the NSW Government should encourage the Commonwealth to recognise landfill avoidance and materials recycling benefits for credit under the AETS**
- Investment projects (for both infrastructure and remanufacturing) that actively capture recyclables from the waste stream, and divert degradable organic material and other valuable feedstocks from landfill, should be eligible for offsets on the basis of avoided methane generation and embodied energy in manufacturing resources.
 - The NSW Government has custodianship over the nation's largest amount of generated waste, and should seek the Commonwealth's active participation in incentivising landfill avoidance and materials recycling as part of the new AETS arrangements.
 - This recommendation is in addition to our comments regarding generation from putrescible waste (see 10 below).

10 Transitioning of the NGAC benefits from abatement through generation from putrescible waste should be in the form of Permit allocation, or of offsets

- The Consultation Paper discusses transitioning of coal mine methane generation, landfill gas generation and generation from putrescible waste (Section 4.2.2).
- Apart from its extensive waste paper recycling activity (see item 9), Visy also avoids the production of greenhouse gas by consuming external and regional wood waste classified as Putrescible Waste which would otherwise have degraded to methane – a gas with a very high GWP.
- This provision of GGAS enables Visy's Tumut facility to produce approximately 80,000 NGACs under the Putrescible Waste provisions of the Generation Rule annually. The income expectations between 2010 and 2020 are linked to approximately 800,000 tonnes of CO_{2e} abatement.
- Visy is concerned that the Consultation Paper only discusses the transitioning of these forms of abatement in the context of whether the abatement would be in a *covered* or *non-covered* sector under the AETS.
- In Visy's case however, the Company is not the emitter with respect to the putrescible waste it converts to energy, because it purchases the putrescible waste from third parties who would themselves be the emitters were it not for Visy's investment and diversion activity. Therefore Visy would not be impacted beneficially or otherwise by the coverage of a sector including putrescible waste. That is, the impact specifically on Visy would be as if putrescible waste was not covered.
- The Consultation Paper also points out that while the AETS will have an impact on the price of high emissions-intensity generation, it "would not provide an extra reward for destroying methane. This would only occur if the project were eligible to create offset credits under the NETS" (p. 7).
- Visy therefore proposes that transition be in the form of an allocation of Permits or alternatively, offsets (as suggested by the Consultation Paper).

11 Any unused NSW greenhouse gas abatement certificates should be translated into AETS Permits – on a tonne-for-tonne basis

- The Consultation Paper canvasses the concept that "one transitional option is to swap unused NGACs into AETS permits on a tonne-for-tonne basis at the start of the NETS" (p. 12).
- Visy strongly supports a tonne-for-tonne conversion basis (see point 5 above).
- The Paper rightly points out that the transitional arrangements should "not create incentives to create more NGACs than would otherwise have been supplied up to the start of the NETS, in order to take advantage of transition options" (p. 12).
- Visy acknowledges this point and proposes that the Scheme Administrator scrutinises abatement creation in the lead-up to transition to discourage any of the exploitative behaviour suggested above.
- The Paper also suggests there may be incentives for banking and non-compliance (p. 13) and Visy accepts the suggestion that existing NGACs be treated as offset credits, but that these be stamped with a sunset date. A reasonable date could be the suggestion of 2012, *or later* if NETS commencement is later than 2012. The

suggestion that these credits be taken into account in setting annual caps also seems a sensible approach.

12 NSW should clearly distinguish co-generation from energy efficiency and secure recognition of co-generation benefits within the new Commonwealth AETS and MRET arrangements

- Appropriate recognition should be given to the clear benefits of co-generation beyond greenhouse. These benefits include (a) improved resource efficiency due to the lift in fuel efficiency from ~30% for a typical base-load coal-fired power station to up to 80% for co-generation, and (b) the deferral of asset investment in the electricity network that comes with embedded generation.
- Under the AETS, incentives should be afforded co-generation in the form of offsets, notwithstanding that co-generation sits within the liable “stationary energy” sector.
- In particular, co-generation from renewable fuel sources should attract so-called “Heat RECs” or “Thermal RECs”, as is provided under the UK Renewable Obligation Scheme, as a matter of urgency.

13 The NSW Government should support and promote the introduction of a separate, national scheme, in parallel with the AETS and MRET, to recognise and incentivise investments in energy efficiency

- While it is true that additional savings may be accrue for energy efficiency projects due to the inevitable increase in power prices the AETS will bring, such increase may be insufficient in some cases to drive energy efficiency investments.
- Therefore, as for co-generation, energy efficiency should be accorded high priority for incentivisation, given its clear benefits for resource efficiency and sustainability. Such incentives could be in the form of offsets under the AETS, or through a dedicated energy efficiency trading scheme, to operate in parallel with the AETS.

Further consultation and information

Visy is available and prepared to meet further with representatives of the NSW Government to expand upon the contents of this submission, in order to ensure there is a smooth and predictable transition from GGAS to the AETS, and to protect the valuable aspects of the GGAS in that transition.

Contacts

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Mr. Royce De Sousa – 0419 217 085
Dr Bill Hurditch – 0403 067 776

Attachments

1. Copy of letter to NSW-DSA Working Group (14 December 2007)
2. Copy of letter to Premier lemma (17 January 2008)
3. Copy of Visy’s submission to the Garnaut Review (18 April 2008)

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Martijn Wilder
Chair, Demand Side Abatement Transition Working Group

14th December 2007

Dear Martijn,

Re: Letter to Visy inviting input to DSA Transition Working Group

Thank you for your recent letter which we received on 28th November regarding the transitioning issues for Demand Side Abatement ("DSA") and other activities accredited under the NSW Greenhouse Gas Abatement Scheme ("NSW GGAS").

We welcome your invitation to comment on the potential impact of closure of the NSW GGAS and on the transition to a national emissions trading scheme.

Specifically you have asked for our input on:

1. our expectation of the impact on your Demand Side Abatement activities of the closure of GGAS when a national emissions trading scheme is established;
2. the opportunities to continue these or initiate new demand side abatement activities once a national emissions trading scheme is established; and
3. the conditions which would make it viable for us to continue our demand side abatement activities or initiate new ones once a national emissions trading scheme is established.

By way of context, Visy has been, and remains a major participant in the GGAS and has structured its investments and operations to minimise its greenhouse gas impact and maximise its energy efficiency, consistent with the GGAS objectives and rules.

Table 1 shows the extent of Visy's recent investments in NSW and its major accomplishments under GGAS. It demonstrates that our NSW facilities are currently responsible for the audited abatement of over 250,000 tonnes of CO_{2e}/yr arising through GGAS alone with further abatement occurring under other schemes.

Visy has already invested over \$500m in new, environmentally-friendly manufacturing facilities here since 2000, and plans to invest a further \$850m in NSW subject to appropriate investment security conditions, including future greenhouse gas and climate change response measures.

Table 1: Visy's NSW Greenhouse Gas Performance

Scheme/Rule	Mechanism	Tonnes CO _{2e} /yr	Relevant Plants	Investment in \$m (current/proposed)	
GGAS - DSA	Energy Efficiency	2,000		Visy Pulp & Paper, Tumut	\$450m / \$480m
GGAS - DSA (Co-Gen)	Co-Gen	170,000		Visy Paper, Smithfield	\$60m / \$350m
	Putrescible	80,000			
GGAS - Generation	Co-Gen	400	Visy Recycling	\$18m / \$30m	
	Putrescible	200			
Total		252,600			

With respect to all three queries posed and with respect to GGAS transitioning generally, Visy has the following points to make.

Existing investments premised on NSW GGAS

Visy has installed a steam and power generating plant and equipment at Visy Pulp and Paper Tumut whose profile is based on the premise that the NSW GGAS would be in place for a minimum of one decade (from the Scheme's commencement in 2003) and has also relied in part on the extension of the NSW GGAS until 2020 as recently confirmed and announced by the NSW Government.

Visy has expended in the order of \$100 million of capital in steam and power generating equipment at its Tumut facility which financially relies on revenue from the sale of NGACs amongst other things. If NGAC revenue is suddenly to be withdrawn, for example with respect to Visy's DSA and Generation Rule accredited Tumut Cogeneration Plant, significant investments driven by the NSW GGAS scheme will be less viable.

The consequence of this for Visy and other entities investing based on GGAS is a significant and sudden loss in revenue threatening the continuing profitability of the investment. Visy is already suffering high wholesale electricity and natural gas prices stemming from the drought and other factors, and in this context loss of significant greenhouse revenue will threaten the profitability of Visy's entire Pulp and Paper processes at Tumut. Visy directly employs 190 people at its Tumut facility which also indirectly employs some 300 to 400 further individuals.

In the transition to an AETS, the NSW Government must continue to recognise its legislated commitments to existing NSW abatement projects. Without it, Visy will be disadvantaged because it has taken early action, and argues that such action should be specifically recognised by the NSW Government in its negotiation with the Commonwealth.

Future investments premised on NSW GGAS

Based on revenue opportunities from emission reductions, Visy is actioning the installation of further cogenerating equipment at its Tumut facility, which would create additional greenhouse

gas abatement in NSW. This abatement will fall under the DSA and Generation Rule umbrellas. Should the GGAS benefits be withdrawn or denied without any compensatory mechanisms, the returns from this additional investment would be significantly diminished.

The construction and operation of potential new facilities would give rise to a large increase in direct and indirect employment at Tumut, as well as other environmental and socio-economic benefits.

Distinguishing different types of DSA projects

We note the statement in your letter that DSA projects would be unlikely to be eligible as Offset projects under a national emissions trading scheme.

With reference to this statement, Visy believes it is important to distinguish DSA projects which relate purely to energy efficiency (Visy is currently accredited for one such project) from DSA projects which relate to on-site generation and co-generation (per above Visy is currently accredited for one project under both the DSA and Generation Rules giving rise to significant greenhouse gas abatement in NSW) and which conceptually fall under the Generation umbrella.

Credit for projects under the Energy Efficiency umbrella

Visy accepts that there is potential for double-counting to occur with respect to DSA Energy Efficiency activities being transitioned to a national emissions trading scheme.

However, we are concerned that if the greenhouse and other benefits of energy efficiency are not properly recognised, energy efficiency may not occur to a desirable extent – Visy believes that energy efficiency should form part of the core of sustainable and resource-efficient industry and incentives should be available to give effect to the high priority of energy efficiency.

We would support the development of a separate scheme designed to provide incentive to energy efficiency equivalent to GGAS greenhouse credit (in terms of tonnes of abatement as valued by the future emissions trading scheme) but which would run in parallel with a national emissions trading scheme. This would avoid the potential for double-counting inherent in granting Offset eligibility but would still lead to an appropriate incentive for energy efficiency.

Credit for projects under the Generation umbrella

With respect to Generation related projects (accredited under either the Generation or DSA Rules) Visy believes the crediting of genuine Generation projects need not be considered as double-counting under a national emissions trading scheme.

Our belief is that entities generating with low relative emissions-intensity must be credited, at least on *relative terms* with entities generating with average or high-emissions intensity.

If low emissions-intensity generation is not credited in relative terms, either in the form of Offsets or in the form of a Permit Allocation which recognises the relative greenhouse merit of the project, the signal to investors will be that there is no greenhouse and therefore financial justification for investment in low greenhouse-intensity.

Visy believes that Generation projects credited under the Generation or DSA Rules must either be eligible for an equivalent Permit Allocation or for Offsets. The term equivalent Permit Allocation refers to an allocation that would leave the investor in low-emissions generation in a position where his allocated emissions certificates or Permits were of a quantity greater, on a per unit electrical output basis, than those allocated to an average or high-emissions generator and reflective of the relative greenhouse benefit of the low-emissions technology. Without such a Permit or Offset allocation, the low greenhouse-emitting generator will be disadvantaged in greenhouse terms.

Existing GGAS accredited projects should be eligible for either Offsets or a favourable allocation of Permits until 2020 so that applicable investments are not jeopardised or stranded.

We note that the current Kyoto arrangements for Joint Implementation recognise emissions reductions in covered sectors by converting permits (AAUs) to offsets (ERUs).

Non-liable entities investing in Generation projects under a national trading scheme

Visy may not be a liable entity for electricity under a national emissions trading scheme if it falls below the liability threshold for generators. In this case, Visy and other similar entities would not necessarily be eligible for a Permit Allocation in respect of its electricity generation, since it will not be directly liable for its emissions. Therefore the suggestion above of an equivalent Permit Allocation may not be appropriate in this case.

Thus, in the case of a non-liable GGAS accredited generator or a person looking to invest in low greenhouse-emitting generation, an Offsets arrangement must be implemented. Such Offsets may be provided by converting Permits.

As highlighted above, if Offsets are not provided in this case, the outcome is that no clear signal is given for potential low emissions generation projects and that existing investments delivering genuine greenhouse abatement are jeopardised.

Generation abatement and Putrescible Waste recognition

Not only do conventionally recognised low greenhouse-impact generation projects need to be credited in the form of Offset or favourable Permit Allocation, but in particular the important Putrescible Waste avoidance form of abatement now recognised in the NSW Generation Rule should also be eligible for similar credit. Without this recognition, significant abatement stemming from avoided landfilling of material otherwise degrading to methane in a landfill.

In a similar vein, Visy sees it as critical that landfill methane avoidance projects generally (not just Generation-related) be eligible for Offset credit under a new emissions trading scheme.

NGAC and Offset/Permit Equivalence

Visy strongly believes that NGACs (or projects giving rise to NGACs) transitioned to a national emissions trading scheme be equivalent in quantum to an Offset/Permit. That is, since an NGAC represents 1 Tonne of CO₂e, it should represent exactly the same quantum of abatement as an Offset/Permit which, it is our understanding, would also be referenced to 1 Tonne of CO₂e abatement.

Summary

Visy proposes:

1. Investments made or contemplated on the basis of the NSW Government's GGAS legislation should be protected
2. The principle of tonne-for-tonne of abatement should apply in the transition from GGAS to AETS.
3. Energy efficiency should be protected, at least in the interim, by a parallel incentives scheme to avoid double-counting
4. Both liable and non-liable entities under an AETS should receive Permits, Offsets or Permits converted to Offsets, for greenhouse gas abatement actions associated with electricity generation (whether occurring on-site or off-site) under the GGAS.

Yours sincerely,



(Royce DeSousa)
Manager – Utilities & Sustainability
Visy Pulp & Paper



17th January, 2008

The Hon. Morris Iemma,
Premier of NSW,
Level 40, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Mr. Iemma,

**Re: Transition to a National Emissions Trading Scheme –
NSW Position**

Following my meeting with you last year, with Richard Pratt, I am pleased to report that Visy has since approved the expenditure of \$470 million for the expansion of our Tumut pulp & paper mill. Work on the expansion is now underway. Also, as discussed, we are nearing completion of a major (20-year, 600 million litre per annum) recycled water agreement with Sydney Water, and also will shortly install a new \$8.5 million water effluent treatment plant at our Smithfield facility.

I am now writing to seek your support, in the transition to a national Emissions Trading Scheme (ETS), for the retention of important provisions and benefits available under the NSW Greenhouse Gas Abatement Scheme (GGAS). Visy also seeks the inclusion of additional measures that will encourage greater waste capture and recycling, limit greenhouse gases from decomposing waste, and further encourage carbon sequestration through plantation forestry.

As you may be aware, Visy has been, and remains a major participant in the GGAS. We have structured our investments and operations to minimise our greenhouse gas impact and maximise energy efficiency, consistent with the GGAS objectives and rules. Today, Visy's greenhouse gas reduction accomplishments within our NSW facilities are impressive. We are currently achieving abatement of over 250,000 tonnes of CO_{2e}/yr. This is due, in no small part, to the GGAS provisions. We are also achieving additional abatement of around 150,000 tonnes under the Commonwealth MRET Scheme.

The Company's recent investments in NSW have included steam and power generating equipment whose profile is premised on the NSW GGAS being in place for a minimum of ten years from the Scheme's commencement (2003).

Your announcement of an extension of the NSW GGAS to 2020 added significantly to this investment confidence.

Currently, Visy is building another \$470 million worth of projects in NSW, with a further \$400 million on the drawing board. The long-term viability and approval for further expansion is subject to appropriate investment security conditions which include future greenhouse gas and climate change response measures. Clearly, the shape of the proposed ETS will be a key factor in that decision-making.

While the details of the emerging ETS remain unclear, we would urge the NSW Government to press, during its bilateral and multilateral consultations, for:

1. Recognition of the NSW legislated commitments to existing NSW abatement projects, without which Visy would be disadvantaged because we have taken early action and expended significant capital premised on GGAS continuing. Such recognition should be on the basis of tonne-for-tonne of CO_{2e} abatement applying in the transition, with existing GGAS-accredited projects eligible for either Offsets or a favourable allocation of Permits until 2020, so that applicable investments are not jeopardised or stranded;
2. The continuation of provisions that specifically reward generation and co-generation activities whether falling under the GGAS Demand Side Abatement Rule or the Generation Rule;
3. Provision for further activities that positively reduce greenhouse gas emissions, but which may not currently fall within a strict emissions trading setting. These could be dealt with as Offsets under an ETS. Important examples are:
 - a) landfill avoidance activities which encourage recycling and thereby avert the generation of harmful landfill gases from decomposing paper and other organics. Landfill avoidance is already partly recognised under GGAS via the Generation Rule. In addition, recycling *for consequent remanufacturing* also lowers the energy profile of the manufactured goods,
 - b) carbon sequestration in plantation forestry investments; and

4. Non-liable generating entities under the ETS (i.e. entities falling below the chosen ETS liability threshold) which invest in low-emissions generation and co-generation projects to be credited under the ETS to receive Permits, Offsets (or Permits converted to Offsets). This measure would ensure that both liable *and* non-liable entities delivering genuine generation and co-generation greenhouse benefits are equally recognised under the new ETS.

Should, for some reason, the Commonwealth resist the inclusion in the ETS of demand side abatement relating purely to energy efficiency, we would support the development of a separate, parallel national scheme designed to provide further incentives for investment in energy-efficiency.

The GGAS has introduced an electricity price margin to NSW consumers to pay for the Scheme's identified greenhouse benefits, based on population. It is vital, in the transition to an ETS, for the NSW Government to ensure the equivalent ETS price effect is of the same order as under GGAS.

Premier, the importance of retaining the benefits from the GGAS arrangements cannot be overstated. Visy is already suffering high wholesale electricity and natural gas prices stemming from the drought and other factors, and in this context loss of significant revenue from greenhouse-friendly investments will further threaten the profitability of Visy's Pulp and Paper and associated facilities. Visy has invested over \$2 billion in NSW and employs over 2,000 people here, with indirect flow-on jobs of at least another 6,000. These are long-term investments and long-term jobs for this State.

We believe Visy's first-hand experience as GGAS market practitioners can provide the Government with helpful input. We would be happy to discuss these matters further with you or your nominated officials to assist you in framing the appropriate arguments for NSW's position with the ETS consultations.

I would appreciate it if you could facilitate the appropriate meetings between Visy and your officials to advance these matters as soon as possible.

Yours sincerely,



GUS CARFI
Director
Visy Pulp & Paper



18 April 2008

Submission on the Garnaut Climate Change Review's Emissions Trading Scheme Discussion Paper – April 2008

Overview

Visy has been a leader in Australia's enlightened corporate response to climate change, and strongly supports the Government's intention to set up a national, fully-functioning and comprehensive emissions trading scheme (AETS).

As a major Australian-based manufacturing enterprise, which consumes significant amounts of energy in its operations, Visy is a significant emitter of greenhouse gases – both directly, and indirectly, through its substantial purchased energy. However the Company directs its core business offering towards environmentally-aligned activities, including pursuing greenhouse gas abatement opportunities. These include active materials recycling (which avoids landfill methane generation), domestic remanufacture from recycled inputs, energy-efficiency in its plants, renewable energy generation, co-generation, transport innovations and a genuine closed-loop business philosophy.

As part of its preparation for the introduction of formal emissions trading in Australia, Visy has recently examined, first-hand, the operation of the EU-ETS and other emissions trading schemes, as they affect industry in general, and the paper/packaging industry in particular. It is in the light of this examination, and of its own internal data and operational analysis, that Visy has examined the Garnaut Discussion Paper (March 2008) and makes six key recommendations on the design of an AETS, viz:

- 1 Full and transparent transitioning of measures and benefits from existing genuine greenhouse gas related schemes such as the NSW GGAS
- 2 Permits provided by free allocation to efficient energy intensive, trade-exposed (which includes the Australian pulp and paper industry) to cover their indirect as well as direct exposure to emissions liability
- 3 Offsets afforded a significant role in the scheme to encourage innovative carbon abatement in uncovered sections of the economy
- 4 Strong incentives provided for genuine abatement actions in liable sectors which may not be feasible in the absence of any additional incentive. Key opportunities are co-generation and energy efficiency
- 5 Large energy users enabled to opt-in as parties liable for the emissions of their purchased power, to avoid exposure to "cost-plus" pass-through by electricity generators
- 6 Coverage under the scheme limited to sectors where there is a clear relationship between that sector's activity and greenhouse gas emission, and the costs of compliance are low per unit of CO_{2e} abated. The waste sector and the forestry sector should remain uncovered, at least until methodologies for assessing emissions can be agreed.

Further details are set out on the following pages.

Recommendations

- 1 **The design and introduction strategy for AETS must allow for a full and transparent transitioning of measures and benefits from existing genuine greenhouse gas related schemes such as the NSW GGAS**
 - Genuine abatement credited under NSW GGAS should receive AETS permits on a tonne-for-tonne CO_{2e} conversion basis until 2020
 - Visy is making a detailed submission to the NSW Government on this matter and will provide the Review with details
- 2 **Permits should be provided by free allocation to efficient energy intensive, trade-exposed (which includes the Australian pulp and paper industry) to cover their indirect as well as direct exposure to emissions liability**
 - Australian industries that cannot competitively pass carbon costs through in their goods and services should be assisted with free permits, at least until equivalent carbon costs are included in competitor countries.
 - The Australian pulp and paper industry is highly trade exposed, as evidenced by its treatment in other jurisdictions (especially the EU). The pulp and paper industry here is relatively small in relation to our total trade in pulp and paper products, with imports totalling around \$3bn in 2006¹. Further, this industry is regionally-dispersed, with a particular exposure to large transport costs.
 - Visy stresses that the trade-exposure of the Australian pulp and paper industry needs to be recognised by the Review in the same manner as our steel and aluminium industries.
 - The Review should consider the New Zealand Government's model of free allocation of permits to energy *customer* industries (as distinct from the *generation* sector), with such permits able to be used to offset the impact of increased electricity costs that flow from the introduction of the ETS.
- 3 **Offsets should be afforded a significant role in the scheme to encourage innovative carbon abatement in uncovered sections of the economy**
 - Projects that actively capture recyclables from the waste stream, and divert degradable organic material and other valuable feedstocks from landfill should be eligible for offsets on the basis of avoided methane generation and embodied energy in manufacturing resources
 - The scheme should provide incentives, via offsets, for the expansion of plantation forestry as a genuine carbon sequestration solution
 - The test of environmental additionality should be applied to these and other relevant offset projects to ensure that genuine greenhouse abatement activities are not thwarted by the application of an onerous financial additionality test
 - Rules for creating offsets from activities in uncovered sectors should be designed to facilitate genuine CO_{2e} abatement in uncovered sectors, with no limit on the amount of offsets available

¹ ABARE data for 2006 show the Australian forest and wood products trade balance to comprise \$2.35 bn of exports and \$4.28 bn of imports.

- The Review should consider introducing opportunities for domestic Joint Implementation through a “domestic offset projects” system, as is being implemented in France (consistent with article 6 of the Kyoto Protocol). There, the system is aimed at generating emission reductions in those segments not covered by the EU-ETS.
- 4 Strong incentives should be provided for genuine abatement actions in liable sectors which may not be feasible in the absence of any additional incentive. Key opportunities are co-generation and energy efficiency**
- **Co-generation:** Appropriate recognition should be given to the clear benefits of co-generation *beyond* greenhouse. These benefits include (a) improved resource efficiency due to the lift in fuel efficiency from ~30% for a typical base-load coal-fired power station to up to 80% for co-generation, and (b) the deferral of asset investment in the electricity network that comes with embedded generation.
 - Under the AETS, incentives should be afforded co-generation in the form of Offsets, notwithstanding that co-generation sits within the liable “stationary energy” sector.
 - Further, co-generation from renewable fuel sources should attract so-called “Heat RECs” or “Thermal RECs” as is provided under the UK Renewable Obligation Scheme
 - **Energy efficiency:** While it is true that additional savings may be accrued for energy efficiency projects due to the inevitable increase in power prices the AETS will bring, such increase may be insufficient in some cases to drive energy efficiency investments. Therefore, as for co-generation, energy efficiency should be accorded high priority for incentivisation, given its clear benefits for resource efficiency and sustainability. Such incentives could be in the form of Offsets under the AETS, or through a dedicated Energy Efficiency Trading Scheme, to operate in parallel with the AETS.
- 5 Large energy users should be enabled to opt-in as parties liable for the emissions of their purchased power, to avoid these industries’ exposure to “cost-plus” pass-through by electricity generators**
- The scheme should provide specific means by which consumers can protect themselves against windfall profiteering by electricity generators
 - The Government should scrutinise the pricing behaviour of electricity generators to guard against price gouging
- 6 Coverage under the scheme should be limited to sectors where:**
- there is a clear relationship between that sector’s activity and greenhouse gas emission, and
 - the costs of compliance are low per unit of CO_{2e} abated
 - The waste sector and the forestry sector should remain uncovered, at least until methodologies for assessing emissions can be agreed.

Further consultation and information

Further information and data to support the above recommendations is available to inform discussion with the Review team and others as the scheme design is firmed up.

In this, Visy intends to engage further with the Review team, other government stakeholders and kindred industries to assist in the development of an AETS that will ensure effective greenhouse gas abatement while supporting appropriate industry investment.

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