

Secretariat to the Task Group on Energy Efficiency  
c/- Department of Climate Change and Energy Efficiency  
GPO Box 854  
CANBERRA ACT 2601  
[energyefficiency@climatechange.gov.au](mailto:energyefficiency@climatechange.gov.au)



29 Torrens Street  
BRADDON ACT 2612  
AUSTRALIA

3 May 2010

## PRIME MINISTER'S TASK GROUP ON ENERGY EFFICIENCY

### SUBMISSION TO ISSUES PAPER (MAY 2010)

T +61 2 6273 8111  
F +61 2 6273 8011  
W [www.a3p.asn.au](http://www.a3p.asn.au)

#### Background

A3P represents the plantation products and paper industry in Australia. Our members operate in the areas of plantation growing, solid wood and wood fibre processing, and pulp & paper manufacturing. These enterprises are linked together in a finely balanced supply chain, and integral activities embedded within production processes include fibre recycling and the use of waste and residue material for renewable energy generation and use. The commercial viability of all parts of the plantation products and paper industry supply chain are co-dependent. The demand for both high and low grade timber drives investment decisions in the plantation growing sector, while commercial returns from pulp logs for paper and panels manufacturing help to moderate the price of higher, structural grade logs for solid wood processors. In turn, these can sell their sawmill residues and offcuts to panel boards manufacturers to bolster their profitability. Our members generate combined sales revenue of around \$4 billion annually and directly employ 13,500 people, predominately in rural and regional Australia.

A3P is a member of the Australian Industry Greenhouse Network (AIGN). Its submission to the Task Group presents a whole-of-industry view on energy efficiency. A3P supports AIGN's submission, which includes direct responses to the questions in the issues paper. The following remarks should be read in the context of the overarching comments put forward by AIGN.

#### Pulp & Paper and Wood Panels Industries and Energy Efficiency

As in many manufacturing industries, pulp & paper and wood panels manufacturers have long seen energy efficiency improvements as integral to their business. Reducing energy use lowers the costs of production and improves international competitiveness; it is one of a number of drivers that manufacturers respond to. Other drivers may include product quality, market opportunities, production efficiencies and emissions reductions. Sometimes all drivers may not align and compromises must be made – for example, to reduce greenhouse gas emissions

and purchased electricity costs, bioenergy may be used and this could have a negative impact on a facility's energy efficiency.

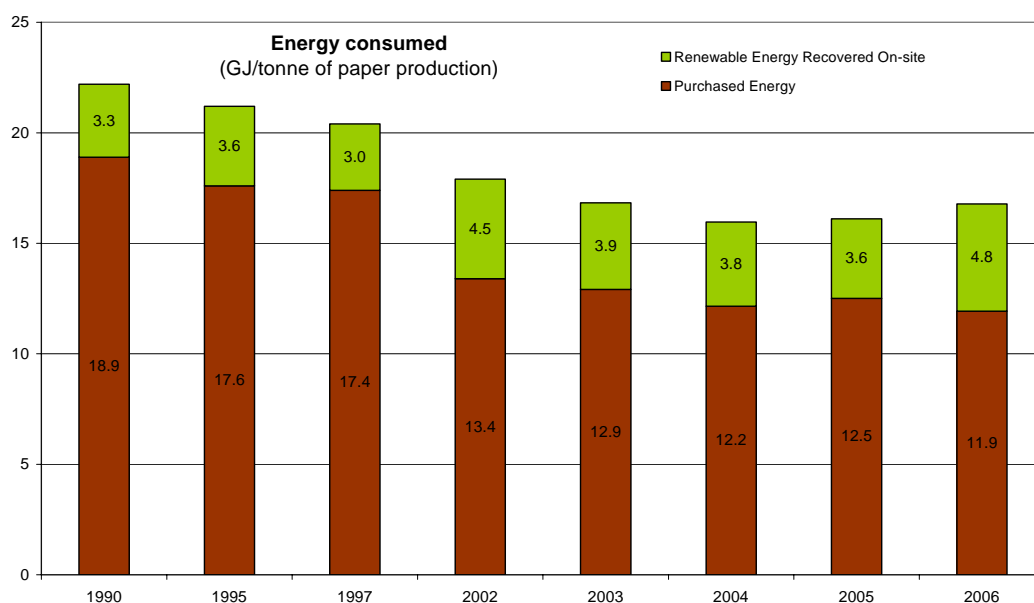
The below graph illustrates the long-term downward trend of energy use per tonne of paper produced in Australia. It shows that the amount of energy purchased from the grid per unit of production has been gradually decreasing as energy efficiency improvements are realised. Interestingly, in 2006 the amount of energy purchased from the grid declined slightly from the previous year, while overall energy consumption per tonne of production increased along with on-site renewable energy recovery.



29 Torrens Street  
BRADDON ACT 2612  
AUSTRALIA

T +61 2 6273 8111  
F +61 2 6273 8011  
W [www.a3p.asn.au](http://www.a3p.asn.au)

**Energy Consumption per Tonne in the Australian Pulp & Paper Industry**



Another important point for pulp & paper and panels manufacturing, especially with reference to renewable energy production and use, is that much of this energy is in the form of heat – an energy source not considered in the Issues Paper, and often overlooked in general energy policy. In 2005/2006, more than 33% of the pulp & paper industry's energy came from renewable sources. The majority of this was generated on-site from biomass (wood waste and black liquor).

In addition to issues associated with energy use in manufacturing, A3P and its members in the timber sector are also interested in energy efficiency measures related to the construction and operation of buildings, particularly residential buildings and houses. A3P is currently preparing a detailed submission on the Public Discussion Paper on National Building Energy Standard-setting, Assessment and Rating Framework. A3P urges the Task Group to take into account the substantial experience and expertise participating in this pre-existing process and not to duplicate or contradict them.

## Energy Efficiency Improvements

Where the expense of energy efficiency improvements is borne by companies, the costs of making such improvements must be commercially beneficial. Therefore, energy efficiency opportunities may exist but remain untapped because the aggregate price of making the improvement (including direct expenses, lost investment in replaced equipment, and perhaps adverse effects on output) is unacceptable because it is greater than the benefits of reduced energy costs over a reasonable payback period. In pulp & paper and wood panels industries in particular, major energy efficiency improvements are very often the result of significant capital investment (large mill upgrades or greenfields development). This is because it is logical to purchase the most efficient equipment and machinery at the time the capital investment is made. Capital investments in pulp & paper and panel mills have pay-back periods that extend over decades. Energy efficiency opportunities may exist that would require premature capital investment to realise. In such cases, energy efficiency mechanisms will only be effective if they address this problem.

## Task Group's Terms of Reference

A3P notes that the Task Group's Terms of Reference assume that it will recommend "energy efficiency mechanisms". This seems to imply that an acceptance of the current policy measures will not be deemed as sufficient action by the Task Group, as it is bound by its Terms of Reference to recommend mechanisms, whether they are appropriate or not.

## Framework for Energy Efficiency Policy Development

Also of importance is the assumption in the Task Group's mandate that a carbon price already exists. Therefore, any mechanisms that could be considered suitable would need to address a different market failure to climate change, which would be dealt with through an emissions trading scheme. What is especially important is that energy efficiency policies do not send signals that undermine an emissions price; this could occur because energy efficiency and greenhouse gas reduction objectives do not always align. In the pulp & paper and panel boards industries, energy efficiency may be compromised to achieve a reduction in emissions in cases where wood and process residues are burned for heat or power instead of purchasing electricity from the grid.

Given the current policy landscape, and in particular the delay of the CPRS until after 2012, the requirement to develop mechanisms complementary to the CPRS has become an interesting problem – it means that mechanisms recommended by the Task Group could not be effectively implemented until 2013 or later (provided it is possible to develop them at this point, given the inherent problems of determining what market failures will remain to be redressed after the introduction of a carbon price).



29 Torrens Street  
BRADDON ACT 2612  
AUSTRALIA

T +61 2 6273 8111  
F +61 2 6273 8011  
W [www.a3p.asn.au](http://www.a3p.asn.au)

### **Federal and State/Territory Energy Efficiency Programs**

The Task Group's reporting timeframe is disproportionate to its complicated directive. It must report by the middle of this year, despite its large and convoluted workload. The Task Group might contribute more value to the energy efficiency debate by taking stock of the National Strategy on Energy Efficiency and identifying gaps in implementation, rather than trying to recommend 'mechanisms' that complement a CPRS that will not exist for some years and cover such a vast range of sectors across the Australian economy. Another useful task could be to address the findings of the Wilkins Review of Commonwealth Programs; its focus was climate change policy, however the Review found that uncoordinated Federal, State and regional programs in areas such as energy efficiency have a decidedly negative impact on the ability of such policies to deliver considerable economic benefits. Furthermore, in light of the fluid climate change policy landscape and the profusion of energy efficiency measures and strategy already in existence, the place, status and potential for implementation of the Task Group's recommendations within this landscape are a mystery.



29 Torrens Street  
BRADDON ACT 2612  
AUSTRALIA

T +61 2 6273 8111  
F +61 2 6273 8011  
W [www.a3p.asn.au](http://www.a3p.asn.au)

### **Task Group's Energy Efficiency Advisory Panel**

A3P notes the lack of representation of energy users on the Task Group's Advisory Panel. While the Panel has no actual decision making role, A3P hoped that the Government would nevertheless endeavour to assemble a balanced group to provide counsel throughout this process. Given the composition of the group, A3P is disappointed that stronger representation for significant energy users was considered unnecessary to complete the mix of stakeholders in the energy market. Energy use is a fundamental driver for the growth of the energy market, and users often bear significant proportions of the costs of programs enforced in the name of energy efficiency. A3P urges the Government, and the Task Group, to place equal value on the views and needs of energy users as energy producers and retailers.

Thank you for accepting our comments. A3P would appreciate the opportunity to participate in further consultations and discussions on energy efficiency. If you have any questions please contact me on 02 6273 8111 or at [marion.niederkofler@a3p.asn.au](mailto:marion.niederkofler@a3p.asn.au).

Yours sincerely

**Marion Niederkofler**

Manager Climate Change Policy