Notes of LETAG Meeting with Prime Minister Howard May 6, 2004

Attendees:

Government
Prime Minister Howard;
Minister Ian Macfarlane;
Hellen Georgopolous (PM's office);
Stephen Galilee (Ian Macfarlane's office);
Peter Poggioli (David Kemp's office);
Peter Shergold;
David Borthwick (EA);
Mark Patterson (DITR);
Russell Higgins (Energy Task Force)

For LETAG Companies
Sam Walsh (Rio Tinto) Acting Chairman;
Wayne Osborne (Alcoa);
Bob Driscoll (Edison Mission Energy);
Greg Maddock (Energex);
Grant King (Origin Energy);
Mike Oppenheimer (BHPBilliton);
Rod Pearce (Boral);
Graham Liebert (Orica).

The Prime Minister opened the meeting, which had been convened at his request, by referring to the August 7, 2003 meeting with a group of CEO's in Sydney on Greenhouse issues. (Brian Horwood and I attended).

The PM commented that his conclusion from this meeting was that technology would be the long-term solution to Greenhouse issues and that his focus should be on looking for ways to accelerate the introduction of technology aimed specifically at reducing GHG.

He commented on the Tambling Review of the Mandatory Renewable Energy Targets (MRET) and said that he was looking for another way of improving Australia's GHG rather than by extending the MRET scheme.

He said that he had concerns at the economic impact of MRET2 and concern that its implementation would have the effect of reducing economic progress in Australia.

He advised that he had interest in Government and Companies addressing the issues together in the establishment of a Low Emission Energy Fund. This would be focused on accelerating Super Dooper (his words) technology progress aimed at significantly reducing emissions.

His ideas were by no means concrete and he was looking for a discussion with a group of CEOs of companies Is the search for alternatives to extending MRET.

He commented that it is likely that under the current MRET scheme by 2007 we would have seen all of the projects in place. He went on to add that 108% of 1990 emissions was in touch but he wanted to look beyond this.

He saw two initiatives in this regard:

(a) A technology fund with contribution by Government and significant contribution by Industry.

(b) Energy Efficiency Monitoring of the 250 major energy users with assessment every 5 years.

I then thanked the PM for calling the meeting, described the LETAG process, members and apologies, referred to the August 2003 meeting and our belief that technology would provide the long-term response to Greenhouse reductions.

I mentioned that each of the Companies present had major projects underway aimed at reducing GHG (and that each would discuss these), that a level playing field with our international competitors was essential, that certainty was important for investment and growth, which in turn is the means by which companies introduce new technologies and spend money of R&D.

I mentioned that levies (or taxes) were difficult for maintaining competitiveness, prejudiced companies who had already introduced leading edge technology, would push marginal business past the brink (eg Orica's Fertilizer business), and could be inequitable to some companies for example in the case of MRET Comalco's Bell Bay Smelter has to purchase Renewable Energy Certificates that despite its use of renewable energy.

I indicated that voluntary investment with Government support in this technology would be a far better outcome, as it was likely to foster the least cost best projects in the way that GGAP had delivered.

I commented that rolling the PM's two initiatives into one and establishing a scheme of Negotiated Greenhouse Agreements with major emitters based on their use of world's best practice technology for their generation of equipment, with these organisations then being in consideration for the awarding of Federal Government financial support based on assessment of the best projects tendered for support.

Minister Macfarlane then elaborated on their ideas.

He said that the Government was seeking a scheme with a set outcome.

I said that MRET was flawed, it was not least cost, and whilst the promoters of the scheme had indicated that it would bring new technology, it was market skewed to Wind Power.

He said that the Government was looking for certainty of outcome in whatever alternative was pursued.

He said that the fund would be levied across all users, across the broader community.

The fund idea was based on A$1.5B contributed by all electricity users and A$0.5B from Government.

Government and Business and not a group of Scientists would run the scheme.

He went on to comment about the MRET review which basically found that the scheme worked too well and investment in renewables was running ahead of the originally planning and that it was generating RECS ahead of original projections.

He commented on the election ahead and the need for GHG initiatives covering the long term.

Grant King of Origin commented that there are three types of investment in GHG reduction.

(i) where the technology is already known
(ii) where R&D is required to develop or modify technology
(iii) overseas collaboration

He indicated that it is the R&D segment that requires the support.

The PM commented that he understood the points and that the Government proposal should be more attractive to Industry as extension to MRET would cost Industry A$1.7B whereas the Low Emission Energy Fund would only cost A$1.5B.

Wayne Osborn of Alcoa commented that the scheme that the Minister was suggesting was very similar to the Department of Energy scheme in the USA, which Alcoa strongly supports so he is comfortable with the model that Minister Macfarlane is proposing. He commented that technology will be the answer to GHG.

He commented that he was appreciative of the Government's leadership in the Greenhouse debate and that this had allowed Alcoa to announce a A$1.5B alumina brown field expansion of Wagerup yesterday. He went on to discuss a number of Alcoa projects aimed at reducing GHG, including oxidization of red mud dams, cogeneration of electricity with Alinta Gas and the A$100'sM that the Industry is spending on Inert Anodes.

He mentioned that collaboration with overseas technology projects was also an important focus in this discussion.

Bob Driscoll of Edison Mission commented that certainty in these matters was essential. He commented on available Lignite Technology, which requires to be tailored to Victorian Coal.

He said that the Minister's proposal makes sense as it is along similar lines to the US model, which had worked.

At this stage I asked Wayne and Bob to clarify exactly how the USA fund operated. Was it based on a levy of users or funded in some other way? Bob commented that it is funded out of general revenue from taxes.

The PM commented that he was not pushing any particular model, that he was looking for a credible scheme to reduce emissions (one that would pass the "Pub Test") and that extension of MRET did not appear to be the most attractive option.

Mike Oppenheimer of BHPB commented on the COAL21 project and that its concept fitted the discussion well. He indicated that in developing new technologies there are IP issues, but that technology will provide the solutions to GHG. The key is to get the most bang for your dollar.

He said that should a fund be established that it was paramount that the fund has coherent rules and that a broad based fund could go a long way to achieve acceleration of technology particularly in relation to coal, which is a key part of Australia's energy generation.

Grant King of Origin commented that MRET had not been lowest cost with GGAP generating projects around A$10t of carbon.

He said that key focus should be a GGAP for 2020 and 2025 and tendering of projects would clearly show the cost curve for abatement
Costs.

He said that the key question was how much to fund.

He said that mechanisms to operate the fund were already available and that a fund generated from the community at large was the right thing to do.

Mike Oppenheimer BHPB commented that we should not ignore that part of the solution will be a global solution and the key is to leverage the Australian expenditure into this work.

Graham Liebert Orica commented that all of this need to be looked at from the view of small companies. There are many businesses out there have old plants where technology could be used to update if the business had sound prospects. He mentioned Orica's Altona plant, which could close and be replaced by a methane plant and another of their plants, which could be upgraded with a 15% improvement in GHG generation. He said that the technology answer is both in Australia and offshore. He commented that Orica's Fertilizer business in Australia is marginal and it would not take much to force these businesses offshore with the consequent loss of jibs etc.

Greg Maddox of Energex commented that the key if the focussing of the expenditure to projects which will have the most benefit.

Rod Pearse Boral commented that it was difficult to make any commitments on the spot and the meeting was called on short notice and the Agenda not really known.

He went on to comment that the success of the fund would depend how the money was spent. He said that houses generate 20% of Australia's emissions and whilst a lot of work is being done in housing and appliance standards to reduce emissions a broad based levy would have more attraction than hitting particular segments.

The PM commented that it was true that MRET had been a burden on Industry, however it was not credible to ignore the Tambling Report unactioned (it was tabled in January) and that there was a real need to propose alternatives to extending MRET.

He commented on the Energy Efficiency Assessment every 5 years in response to Rod's comments about broader GHG emissions, but that he was looking for a sign that Government was exploring GHG reduction and Accelerating investment in reducing GHG.

He said that there will be a need for further dialogue and Russell Higgins would be the focal point in Government for this. He said that the Government had had the Tambling Report since January and that it could not sit on its hands forever.

The PM said that he was keen however to protect Industry.

He recognized that there was a limit to what Australia could do alone.

In closing I thanked the PM for calling the meeting. Indicated that we would give the matter further thought and revert to Russell Higgins as he had suggested.

This part of the meeting went for an hour exactly.

The PM and his advisers then left the meeting and Minister Macfarlane indicated that he had some additional time to discuss the matter further.

Minister Macfarlane commented that there had been a "roaring silence" from Industry when the result of the Tambling Review into MRET was announced in January.

He said that the Renewables Industry had been very vocal and in some ways the Agenda had got away from us.

He commented that the Sydney Morning Herald and the media had created a problem for Government and it there was a need to convince the SMH as well as the PM's "Pub Test" as the matter had become very political.

The Minister said that there was a real need to have the answer regarding alternatives to extending MRET by July/August 2004.

MRET1 is estimated to have cost Industry A$5.7m. The Tambling Report recommendations would however add a further A$3 to A$12B with its proposals.

He said that his idea would be a A$1.5B levy on all consumers of electricity and it was his view that this would be charged over 10 to 15 years. He said that Treasury had a different view that this should be charged over 5 years.

He was looking to establish a credible fund. The details to not have to be established by the July/August time frame he would see the scheme rolling out over 3 years,

He said that there were a number of technical solutions such as the aluminium anodes, which would be credible as GHG reduction projects.

The Minister said that the election would be in the August/October/November time frames and it was important politically that a solution to post 2012 GHG reduction is announced.

He acknowledged that the technological developments would include overseas collaboration.

There was a need for the Government to defend themselves from Mark Latham's thrust to sign Kyoto and implement a 5% MRET scheme by 2010.

He said that the Treasurer is looking at putting up A$500m from Government over 5 years. The administration would be simple arms length from Government with an Industry/Government Committee to administer the fund.

He said that the Green Movement had been shouting that NSW Households would be willing to pay a surcharge if A$0.03 per KWH (??) for GHG reducing projects and his idea of the scheme would deliver this.

Bob Driscoll of Edison Mission commented that it was important to have the States aligned as if they continued to go their own way it would be a disaster. Likewise he said that a carbon tax would be a disaster.

I asked if the Minister was equating GHG to power generation and he said that it was the major contributor and that they had considered fuel taxes a number of times but it simply was not on. He was treating power usage as a substitute for GHG despite the anomalies of Hydro and Wind power generation.

He saw that with the establishment of the fund coal projects would be an important element as would cement, paper, aluminium and the other high energy users where the maximum leverage could be achieved.

He emphasised that the levy would be applied to all users of power with no discrimination, it was not possible to take into account existing R&D and that it would generate A$1.5B over 15 years.

Peter Shergold commented that the Government had not formulated a view on the model as to how all of this would operate. He said that there was a real urgency to act and there was (with all due respect to the incumbent Government) that in 6 month's time there could be a different Government with different policies.

He saw that the development of the approach would be in the hands of Russell Higgins, Mark Patterson and himself (Peter Shergold) and that the scheme needed to be clear, concrete and credible.

He was not looking for establishment of Public Policy.

The administration would be handles sensitively with an effective joint Industry/Government body.

The aim was to accelerate investment and that it should not be seen as a subsidy of existing investment.

This would not work if individual companies came to Government with projects.

It has to be new, different and urgent.

Russell Higgins commented that the Government was looking at the timeframe 2020+.

They were looking for big reduction projects.

He commented that electricity generation has the major impact of GHG generation and that currently power generation produced on average 1000kg of GHG per MWH, there was a need to reduce this to 250kg of GHG per MWH. BY 2020 energy demand will double. Currently best practice for power generation (excluding Hydro and Wind) was 800kg per MWH,

He saw the scheme as a partnership with the requirement for A$1,5B to A$2B over 15 years.

The Minister commented that MRET had been disappointing. It had not delivered any new technology just a subsidy for the Renewables Industry.

Bob Driscoll of Edison Mission commented on the Italian Government scheme, which had ploughed in enormous subsidies and created power at A$0.13KWH.

I asked when was it envisaged that the scheme would start and the Minister commented that the funding would commence in 2005 with first allocation to projects in 2007/8. It was intended to leave the current MRET scheme exactly where it was.

The Minister commented that the scheme was focused on low emission incentives not low renewables incentives.

He went on to wrap up with the comments that the intention was that the scheme would be broad based.

I indicated that the devil would be in the detail and did they have a view of the cost to user on a per KWH basis or cost per CO2t. I emphasised that there was need to ensure that our Industry remained internationally competitive and that a number of segments were very sensitive to additional imposts and this could be the straw that broke the camel's back. There were also other segments of Industry, which had already achieved World's Best Practice and invested in GHG reduction and these would be paying twice.

Mark Patterson commented that there was no detailed working of how the scheme might operate merely the notion of 4 or 5 large projects requiring A$300m each to accelerate implementation. The establishment of proto-type or pilot plants to prove technology. He said that it was important that Industry actively engaged in the development of the ideas whilst remembering that the alternative could well be Kyoto signed and MRET running at 5%.

Russell Higgins indicated that an announcement could be in a month.

The Minister stressed the need for absolute confidentiality. he said that if the Renewables Industry found out there would be a huge outcry.

I advised that we would report back to Malcolm Broomhead as Chairman of LETAG and the other members and work on a response during the next couple of weeks. We understood the confidentiality issue.

Sam Walsh
Rio Tinto
May 9, 2004.

From: Howard, Lyall (RTS) [mailto:Lyall.Howard@riotinto.com]
Sent: Friday, 4 June 2004 4:21 PM
To: Lloyd, Andy (RTS); Wood, Tony; Blanch, Steve (RTS); Col Sutherland (E-mail); David Brookes (E-mail); David Byers (E-mail); Eyles, John (E-mail); Green, Laurel (CALBRIS); Holly R Lindsay (E-mail); Kathryn Turner (E-mail); Mark Gell (E-mail); TURNER Michael; samantha Read; Sheehan, Catherine (E-mail); Stewart Murrihy (E-mail); O'Neill, Mark (Aus Coal) via Internet
Subject: Draft Communication Plan

Please review and advise any changes.
Thanks
Lyall

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Industry communication on greenhouse policy in the PM's Energy Statement

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Basic elements of the policy

- Integration of energy and greenhouse policies
- Confirmation of the "technology pathway" as the key to greenhouse gas (GHG) abatement
- Acceptance of a joint industry-Government greenhouse program
- Establishment of the Low Emissions Technology Fund (LETF)
- Introduction of energy efficiency assessments for the top 250 energy users
- Retention of MRET on existing basis

Commentary

- Industry has consistently argued for the integration of energy and greenhouse policies and the program starts down this track.
- The key elements of the program – LETF, energy efficiency and MRET – are the result of consultations over several months between the senior government representatives and industry and are drawn together in the Energy Statement.
- The LETF will be $300 million-$500 million and available on a $1 for $2 of industry investment in LET projects. Technologies currently part of MRET will be eligible for LETF assistance. Management will be on a joint industry-Government basis.
- Supervision of energy efficiency in industry is seen as the key to public acceptance of the policy direction. Monitoring and reporting will be tighter than under existing programs (e.g. Greenhouse Challenge) and may need to be compulsory.
- The Government needs to have MRET technologies and companies under the LETF umbrella to deflect criticism of the decision not to extend MRET, as recommended by the Tambling panel.
- Opposition policy is to embrace Kyoto, emissions trading and extension of MRET.

- Victoria and NSW are pressing ahead with the development of some form of States-based emissions trading.

Industry position

- Industry welcomes the joint greenhouse program on the basis of the national policy certainty it provides.

- LETF management should be lodged in the Department of Industry, Technology and Resources. However, we are informed that joint DITR/EA administration is likely for political reasons.

- Alternative policy approaches are against the national interest in that their high cost and fragmented nature would impact adversely on the Australian economy, investment and employment.
    - Industry does not support mandatory GHG emission targets or standards for industrial processes, fuel or electricity use.
    - Within the current limited international coverage of abatement commitments, carbon taxes or emissions trading are detrimental economically and not required for the development of technologies.
    - The focus on renewable energy sources should move from MRET to building consumer demand for green power and new opportunities for low cost renewables. MRET was devised to stimulate alternative energy, not subsidise it perpetually.
    - State-based approaches to GHG abatement tend to layer costs and imposts on industry and are therefore inefficient and expensive in addressing GHG abatement. The outcome is detrimental to state and international competitiveness

Key messages specific to the program

- Industry believes the joint industry-Government program is a win-win approach that will:
    - encourage investment, economic growth, jobs and the technological solutions to GHG abatement in a way that does not erode international competitiveness of Australian export and import-competing industries;
    - increase the capacity of Australian industry to reinvest and make new investments that will incorporate more efficient technologies as they become commercial in Australia;
    - retain energy-intensive industry in Australia, instead of forcing relocation to countries where the cost penalties of greenhouse measures such as emissions trading or carbon taxes do not apply.

- Industry supports the cost-effective improvement of energy efficiency as good business sense. The measure should:
    - take account of different business circumstances among companies and the availability of capital and technical resources;
    - be integrated into each business's existing energy and cost-efficiency programs.

- The program is a strongly positive step forward, encouraging:
    - technology development for the medium and long term;
    - investment in technological improvements in existing operations and in technological step-changes in industrial processes.

Key messages on general issues

- Economic growth is essential to meet national social and environmental objectives.

- Growth is critical to providing the wealth and opportunity to enable development, demonstration and introduction of new technology as early as possible.

- Energy policy is fundamental to economic growth. It needs to provide a framework for other related policies, including greenhouse, that recognise Australia's resource endowments, competitive strengths and trade base.

- GHG emission abatement from new technologies will phase-in according to the time needed for commercialisation in Australia's circumstances and the time in different industries to allow for capital stock turnover.

- Technology uptake needs to be driven by incentives not penalties in order to maintain competitiveness of Australian industry and economic growth.

Way forward/timeline

10 June — PM foreshadows energy policy in speech to the WA Chamber of Minerals and Energy

15 June — PM makes formal announcement in National Press Club speech, Canberra

Pre-announcement

Briefings for LETAG CEOs and industry association executive directors from Russell Higgins (?)(ACA – O'Neill; AAC – Knapp; MCA –Hooke; APPEA – Jones; BCA – Morgan; ACCI – Hendy; AIG – Ridout; ESAA – Page –

Preparation of supporting statements (oral or written)

Post-announcement

Briefings on industry position for key Opposition shadows (Crean, McMullan, Fitzgibbon;