

Energy White Paper 2014

Issue Paper

Submission from Wilmar Sugar Australia Pty Ltd

1. Introduction

Wilmar Sugar Australia Pty Ltd is a wholly owned subsidiary of Wilmar International Limited, Asia's largest agribusiness. Wilmar is one of the largest companies on the SGX.

This submission covers Wilmar Cane Products, with the sugar milling and renewable energy interests in north Queensland, Wilmar BioEthanol manufacture and processing, and Sugar Australia Pty Ltd, a joint venture in sugar refining with Mackay Sugar Limited. Wilmar Cane Products is the largest cane grower, sugar manufacturer and biomass generator in Australia. Wilmar BioEthanol is a leading Australian producer of ethanol, produced by fermenting molasses, a by-product of sugar production, supplying the fuel market in Australia. The Sugar Australia business primarily includes two refineries in Australia, one based at Yarraville Victoria, which uses predominantly gas for energy; and the other in Mackay which operates mainly on renewable energy but with some top up from coal.

As a significant renewable energy generator, renewable fuels producer and major energy user, Wilmar Sugar Australia seeks a cohesive set of long-term policies addressing energy security and emissions objectives, which would provide industry with clear investment signals required to drive substantive change.

Both raw sugar and refined sugar are globally traded commodities. Refined sugar in Australia has become increasingly competitive with imports, mainly from Thailand and Malaysia comprising 10% of domestic demand. Free trade agreements exposed the Australia market to product from Thailand and Malaysia, but failed to provide access for Australian refined products into those markets.

The key energy issues for these businesses are:

- Importance of the LRET program.
- Competitive gas prices
- Competitive power prices

The Thai sugar industry is strongly supported by a generous "RET" or renewable scheme that derives the bulk of its energy from renewables using cane waste (bagasse).

The Malaysian refining industry is gas based and supported with competitive gas prices.

The largest global producer and exporter of raw sugar, Brazil, also has a renewable energy program which provides an international competitive advantage for its milling industry.

1. Terms of Reference

The terms of reference should be broadened to include the impact of energy prices and supply reliability on trade exposed industries. It is not sufficient in an open economy like Australia to simply focus on the supply side without understanding the key implications that energy and energy policy has on the national interest. There has been too much focus on the energy industry as such, with an implicit assumption that the rest of Australia should restructure around the needs of the energy industry. This is no longer acceptable, particularly as judgements are being made without any data or critical analysis of the downstream impacts on the broader economy. Wilmar supports policy reform that will drive growth in the wider regional economy.

2. The Security of Energy Supplies

Sugar Australia in particular is concerned about the impact of LNG expansions and the reliability and supply of affordable gas on the business.

Sugar imports have expanded their market position rapidly in the last few years to now comprise 10% of domestic demand. Sugar consumption domestically has declined from 47kg/head or population in 2004 to 42 kg in 2011. This decline is reflected in retail sales which are dropping at about 2.5% pa.

The industry is restructuring to maintain profitability. This includes investment in energy efficiency and plant modernisation, while at the same time reducing the number of people employed.

Reliability of supply to customers is critical to the food supply chain, which faces similar pressures.

Wilmar does not accept that energy prices and in particular gas prices need to be set at the effective price of Tokyo or Beijing, without at least understanding the national interest and loss of additional competitiveness that necessarily accompanies this. We do not accept the inevitably referred to in the Issues Paper. The gas belongs to the people of Australia who have vested that interest with the Government. The nation can decide that this inevitably is not in the best interest of the nation, but Government has assumed the national interest away without any considered analysis.

The Eastern Gas Market Study provides some useful information about the gas markets, but fails to address industry needs. If international gas markets eventually rebalance as the industry predicts then just as Governments have interfered in the market to prevent full development of the industry, particularly in Victoria and New South Wales, then there is a transitional role for Government to ensure that industries that are dependent on certain and affordable supplies of gas are not disadvantaged.

While the recommendations in the Reith Gas Task Force and the discussions in the Eastern Australian Domestic Gas Market Study are somewhat aligned in

the right future direction they are not sufficient. The Federal Government must appreciate and address the urgency of the transitional issue.

More supply is welcome from a security perspective, however it will not of itself generate lower prices. An insatiable demand for LNG will ensure that prices remain high for years to come.

Wilmar supports a domestic gas reserve policy that aligns our competitive advantage in cheap energy sources to support and develop the investment into new industries and technologies in their own right, and to assist the transition of existing industries to compete in uneven global markets

Government must:

- act to reserve gas for a functioning domestic market;
- introduce 'use it or lose it' provisions for reserves;
- develop a transitional program to support trade exposed, gas based industry where a clear need is demonstrated;
- Rapidly develop recommendations and policy from the Eastern Gas Market study and implement them; and
- Build on the Reith Task Force recommendations to deal with the barriers identified in that report to develop more supply, but targeted at a domestic market.

3. Regulatory Reform and Role of Government Tariff structures, including fixed network costs.

COAG is a slow process of change. In the context of the transitional issues facing gas users the COAG process will not deliver timely results. Government needs to find accelerated pathways to remedy the situation which will most likely become acute from 2014 to 2020.

RET Review

The LRET scheme has been invaluable to the sugar industry with major upgrades and plant replacement projects across our business made possible by the LRET. For example, recent cogeneration upgrades with our joint venture partner at our refinery in Mackay and at our sugar mill in Ingham (Victoria Mill) were based on increased capacity through bagasse firing. Investments such as this spur the opportunity to transfer bagasse from other locations to maximise the total power generated in a region.

Also crucial to the success of these projects is the ability to connect easily, timely and cost effectively to the grid and to have sufficient wholesale competition to enable Power Purchase Agreements (PPA's) to be signed.

The frequent reviews of the RET scheme are unhelpful to the industry. They create uncertainty in the minds of investors and escalate project risk. The

company has several potential projects which could proceed if conditions were favourable. The Government should ensure consistency between its energy and emissions policies. The Emission Reduction Fund (ERF) is the major pillar in emission reduction policy with the function of purchasing emission abatement. The Government's energy policy goals include the development of longer term energy security in Australia. Renewable energy is a key element in achieving both sets of objectives. Wilmar would be concerned if the RET were to be curtailed.

In contrast, Thailand has a very attractive renewable energy target. The Thai industry has expanded rapidly over the last 3 to 4 years. Thailand has a target of 25% of consumption to be renewable by 2021. This includes a biomass target of 3630 MW of generation capacity, the majority of which will be sugar cane based. This compares with Australia's capacity of 400MW. Furthermore the price is guaranteed at a premium.

The Government should ensure that policies like Free Trade Agreements with our competitors and the RET provide both fair access and investment certainty to our business and industry. In regards to the RET, reviews should be longer than 2 years – at least 4 and targets based on a fixed number, rather than a percentage of a forecast number.

Biofuels

As outlined above consistency between energy and emission policies is required to support and grow Australia's energy manufacturing sector. Transport emissions make up over 16% of Australia's emissions profile, with transport emissions increasing more than 50% since 1990¹. Domestic transport accounts for over 70% of liquid fuels consumed in Australia. To meet its 5 emission reduction commitment, and adopt a stable long-term approach to energy security the Government should provide continued policy support to the Australian biofuels industry.

Education of consumers is also a critical issue for the biofuels industry. Providing policy support to the industry will assist in sending a clear message to the general public about the benefits of renewable fuels.

For more detailed information on any of the matters raised above in relation to biofuels, please see the submission on the Energy White Paper Issues Paper from the Biofuels Association of Australia.

Network costs

Wilmar is deeply concerned that unprecedented increases in network costs are being imposed on businesses that have no ability to pass these costs on. Furthermore inconsistency of government policy, and recent implementation of new costing mechanisms has made business operational direction and investment decisions difficult.

¹ Australian Government Department of the Environment, 'Quarterly Update of Australia's National Greenhouse Gas Inventory: September 2013', pages 7 and 8

Wilmar supports policies that promote greater price transparency, network cost efficiencies and effectiveness. Mechanisms for developing smarter use of infrastructure need to be allowed to flourish. Hence Wilmar supports a more decentralised generation policy and a framework to be able to work with the regional networks to provide more cost effective and efficient solutions in the regions where we operate.

Wilmar would like to see better clarity in the Qld government's conflicting long term position for the uniform tariff policy & centralised generation that is in direct contrast to the current push for cost reflectivity for regional businesses.

Wilmar supports a less burdensome regulatory framework for smaller generators in the national electricity market. Further consideration for smaller generators is required to lessen the "red tape" & high financial burden of connecting to the national electricity grid. The AER can do this by reducing its connection performance standard requirements for smaller generators (e.g. <100MW).

Policy that supports new Technologies and Smart Network Management

Wilmar supports government policies (such as a domestic gas reserve) that will support and develop new technologies and smarter energy operations (and value adding flexibility). In contrast, policies such as the proposed ERF's five year investment time frame do not foster an effective environment for new technology investment, investments that typically require longer term horizons. Instead the policy is at risk of promoting short term opportunism.

4. Growth and Investment

Wilmar is supportive of growth in the supply of energy, in particular gas. It recognises that Australia can be well served by the development of the LNG industry.

We can serve both the interests of a sustainable and internationally competitive domestic gas market and a domestic manufacturing sector by adopting sensible and cohesive policies. This means efficient transparent markets and efficient use of transport infrastructure. Development processes need to be streamlined and bans such as those imposed in Victoria should be removed.

Wilmar is also supportive of growth in a secure and decentralised energy supply portfolio that incorporates new technologies with wide ranging sources such as renewables. Policies such as the RET has been highly successful in dovetailing with other policy to provide cost effective and positive outcomes.

Wilmar supports a policy environment that provides greater flexibility for networks, markets and businesses to negotiate and develop smarter and cost effective pathways to manage their energy loads.

5. Trade and International Relations

No comments

Wilmar supports government policies that reduce international barriers to our markets and remove unreasonable competitive restraints. Free Trade Agreements with our major competitors and trading partners are supported providing they give Australian industry access commensurate with that afforded competitors.

6. Workforce Productivity

No comments

7. Driving Energy Productivity

The Government could remove the burden of the Energy Efficiency Opportunities (EEO) legislation. This legislation imposes significant administrative costs, with a conflicting commercial outcome due to the nature of our business. For example, energy efficiency is what liberates bagasse for co-generation in a sugar mill. Making mills more efficient means less bagasse is consumed to run the mills and an increase in surplus bagasse for other purposes (such as co-generation). However, there is little point conducting studies under EEO for projects which would generate more surplus bagasse that could not be consumed profitably by our business e.g., through cogeneration or other such investments.

Given the competitive pressures on the refining industry, the Yarraville refinery has invested close to \$200m in modernisation and energy efficiency projects. Importantly, this was driven by market conditions and not EEO.

In summary, the EEO program introduces an additional cost pressure to business, where significant market pressures already drive energy efficiency. As such, this policy has not created value for Wilmar and is largely a red tape compliance exercise.

8. Alternative and Emerging Energy Sources and Technology

Wilmar supports Government initiatives to encourage the deployment of renewable energy, new technologies and the need for smarter supply and demand side participation.

Wilmar supports more efficient and flexible tariff mechanisms such as time-in-use mechanisms and an increased openness in which to discuss with networks supply and demand load management practices aimed at reducing costs, managing peak loads and increasing network efficiencies.

Long-term policy settings that support the biofuels industry are also critical to unlocking new project investment in renewables. This would assist the Government in meeting several of its goals including regional development, economic prosperity and employment.

Conclusion

Wilmar welcomes the opportunity to provide comments on the ERF Green Paper and is enthusiastic to expand on any matters raised in this submission. Wilmar supports the Government goals of increasing long-term energy security, meeting emission reduction obligations and driving efficiency of investment and market operation in the Australian energy market. A policy environment is required that will provide greater flexibility for networks and businesses to work together to develop more efficient mechanisms for delivery to market. Wilmar strongly believes a consistent suit of policies in the energy and emission areas will drive these outcomes, and support employment, regional and economic development.