

# ***A Manufacturing Industry in Crisis***

***The Pulp and Paper Industry view on energy developments and the consequences for business***

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## *About the Pulp and Paper Industry (PPI)*

- ◆ **Impacts on PPI apply to other Industries**
- ◆ **The PPI can be described as:**
  - **Having well recognised products**
  - **Having many activities within Australia**
  - **Comprised of nearly 440 businesses**
  - **Employing 19,000 people, most regionally**
  - **Critical to regional economies and associated infrastructure**
  - **A \$12.6 Bn pa national industry**
  - **An exporter of over \$1 Bn pa in value**
  - **Energy Intensive and Trade Exposed Industry**

## *Manufacturing Industries are in trouble*

- ◆ **A PPI Strategy Group was formed in 2009**
  - **Comprised of Government, Unions and Industry.**
  - **Focus was to address the fact that the PPI is at a tipping point for viability and longevity.**
  - **The industry has high standards**
  - **Highlighted that energy is a key issue for the PPI**
    - **One its three main costs**
    - **The report's energy recommendations of 17a, b, c need to be addressed**
  - **The report is available at**

<http://www.innovation.gov.au/Industry/PulpandPaper/PPIC/Pages/PulpandPaperIndustryStrategyGroupFinalReport.aspx>

## *Electricity Aspirations vs Reality*

- ◆ **The 1990s energy industry had to change**
- ◆ **But concentration (fewer retailers) and re-aggregation (gentailers) have re-emerged**
- ◆ **Prices for power since 2006 have soared, especially network costs**
- ◆ **The market allows exercise of market power (PPISG 17a)**
- ◆ **Network over-investment is rampant (PPISG 17b)**
- ◆ **Generator competition enhancement by increasing interconnection (PPISG 17c)**

# Supporting evidence

- ◆ **Garnaut update 8 refers to:**
  - Network “over-investment” (PPISG 17b)
  - “Overly generous appeals process”
  - “Gold plating” of network infrastructure
  - Greater interconnectivity needed (PPISG 17c)
  - Observed reduction in competition and increased vertical integration
  - The inability of the TPA to address anti-competitive behaviour (PPISG 17a)
  - Concern about the ability of consumers to pay
- ◆ **The recent Parry-Duffy report in NSW supports the PPISG views and recommendations**

## *Investment signals*

- ◆ **The principles for prudent investment for a competitive business such as KCA are very clear**
- ◆ **The incentives for investment by networks are massive and require consumers to pay them with little option**
- ◆ **No competitive business has such freedoms as network monopolies have**
- ◆ **Capex has constraints other than the base business case but the Electricity Rules don't impose these**

## ***The challenges for Energy Market Policy and Rule Makers***

- ◆ **The energy markets are re-aggregating with less competition**
- ◆ **Rule making and regulation needs more rigour**
- ◆ **Policy framework needs coherence, consistency and transparency**
- ◆ **The 3 AEMC strategic priorities do not address any of the top issues consumers see as critical**
- ◆ **There must be a refocusing on consumer concerns, including the ability to pay**
- ◆ **The AEMC's Transmission Frameworks Review must take into account these challenges**

## *Some final observations*

- ◆ **The PPISG report identifies major concerns**
- ◆ **Increasing concentration and re-aggregation need to be addressed**
- ◆ **Government intervention and directions to government owned businesses distort the market**
- ◆ **The Rules need to focus on consumer's ability to pay**
- ◆ **Independent reviewers (Garnaut and Parry-Duffy) support the PPISG views and recommendations**
- ◆ **Industry cannot afford to fund its share of \$39 Bn investment every 5 years because offshore competition stops us passing on the cost**