

January 11, 2008

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Dear Professor Garnaut,

This is a brief submission to your Climate Change Review specifically dealing with water.

Currently water is not properly priced for its usage. That is, it is underpriced. Nor is it properly priced where less water is used and lower amounts of greenhouse gases are emitted. To date there is an emphasis on reducing greenhouse gas emissions without equal weight being given to a structure that recognises the efficient use of water that contributes to such a reduction.

Australia is already experiencing water shortages. **According to a recent climate change report, the CSIRO estimates that global warming will reduce Australia's average rainfall by 8% by 2020 and 20% by 2050.**<sup>1</sup>

I refer to the following examples:

1. **Natural gas-fired power generation uses 20-40 per cent of the water used for coal fired power generation according to a recent report, "Water Reform and Industry" commissioned by the previous federal government.** Natural gas-fired power generation also emits less greenhouse gases than coal fired power generation.<sup>2</sup>
2. Origin Energy is constructing a 630MW gas-fired power station near Braemar in Queensland using its coal seam gas reserves. It will emit about half the greenhouse gas emissions that a coal fired power station using current technology would create according to Origin CEO Grant King. This will save 2.5 million tonnes of greenhouse gases a year.

**King also states that as the gas-fired station is an air cooled power station, it will use less than 3 per cent of the water a conventional water cooled coal fired power station would use. That is, about 200 ML versus 8000ML a year.**<sup>3</sup>

3. Gunns Limited proposed pulp mill in Tasmania's Tamar Valley will result in annual greenhouse gas emissions of at least 10.2 Mt CO<sub>2</sub>, equivalent to 2% of Australia's total emission in 2005.<sup>4</sup>

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<sup>1</sup> "Water, GWA International, Newcrest" by Charlie Aitken – Eureka Report (June 1, 2007)

<sup>2</sup> "Let's hear it for natural gas" by Belinda Robinson, CEO of the Australian Petroleum Production and Exploration Association - The Age (June 1, 2007)

<sup>3</sup> "Origin Energy Commits to Major Power Station and Gas Field Development in Queensland"- Origin Energy ASX/Media Release (12 June 2007)

<sup>4</sup> "Gunns proposed pulpmill: greenhouse gas emissions" by Margaret Blakers - Green Institute (September 2007)

**Gunns has secured a guaranteed water supply contract with Hydro Tasmania at below cost and also without having to pay a one-off licence or entitlement fee other users have to pay.** Gunns contract is for 26 gigalitres of water annually with the ability to increase this to 40 gigalitres annually.

Gunns will pay just \$24 a year for every megalitre of water consumed by the pulp mill. Water currently costs \$35 a megalitre in the north's Meander River system and on the Cole River system in the south, farmers are paying \$100 a megalitre. The permanent water right or access charge for farmers in the north is as much as \$1,100 a megalitre and for farmers in the south, \$1,050 a megalitre.<sup>5</sup>

A related issue is Forestry Tasmania has signed a long-term agreement for the supply of wood to the pulp mill, ignoring the opportunity of selling carbon credits off the forests during the 20 year period.<sup>6</sup>

**So if the pulp mill proceeds Gunns will receive water at below cost to pulp carbon credits and emit greenhouse gases.** Such an outcome is neither good policy nor good economics.

#### CONCLUSION:

Climate Change is interwoven with the increased demand for finite resources such as energy and water. Appropriate pricing policies are required to eliminate waste and reward efficiency. The above examples show the stark contrast where alternative forms of power generation that reduce greenhouse gases and use less water are not rewarded in the existing pricing structures. On the other hand, Gunns is being rewarded under the existing pricing structure in being guaranteed water at below cost to create greenhouse gases and pulp carbon credits.

Currently water authorities are under the control of the states. To obtain a consistent water pricing policy nationally will require the Rudd Government to exert leadership in getting the states to adopt such a policy. A national carbon trading scheme cannot be implemented without addressing other resource usage such as water that also has the appropriate pricing signals.

There is a need for quick action. In the area of power generation the era of cheap coal for power generation in Australia is coming to an end. According to Queensland Gas managing director Richard Cottee, a lot of domestic coal contracts written a decade ago were at \$27 a tonne. These contracts are being renegotiated when export prices are more than \$80 a tonne. He goes on to say the whole domestic price-setting is going to change.<sup>7</sup> If what Cottee says is correct, then pricing settings need to be in place to promote cleaner forms of power generation.

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<sup>5</sup> "Gunns gets water rights" by Sue Neales - The Mercury (August 8, 2007)

<sup>6</sup> "JOB SNOBS RULE OK" by Deidre Macken - Australian Financial Review (December 8-9, 2007)

<sup>7</sup> "Gas to benefit from coal price" by Stephen Wisenthal - Australian Financial Review (December 20, 2007)

Finally, Charlie Aitken, director of Southern Cross Equities put the various issues succinctly earlier this year from an investment perspective saying “**Over the next decade being short franking credits and short carbon credits is the worst strategy of all**”.<sup>8</sup>

All the best to you and your team in coming up with policies to deal with future.

Regards

Vincent Mahon

*Our Self Managed Superannuation Fund owns shares in numerous companies including AGL, Origin Energy, Santos, Wesfarmers and Woodside Petroleum.*

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<sup>8</sup> “Water, GWA International, Newcrest” by Charlie Aitken - Eureka Report (June 1, 2007)