



Environment a mainstream economic issue

Environment Business Australia submission to Treasury

21 October 2003

(To be read in tandem with the Technology Development submission sent to Prime Minister and Cabinet Ministers on 21 October)

Environment Business Australia (EBA) has created a Financial Services Working Group to assist EBA, and its member companies, provide intelligence about the long-term benefits of sustainability to industry and to all levels of Government.

International market trends; investment in R&D and infrastructure; new business opportunities; energy in a carbon-constrained future; and helping Australia become a Sustainability Superpower, are amongst the issues this group is investigating. There is a focus on water (rural and urban), energy supplies, sustainable cities, and sustainable production and consumption in the group's work.

Production status quo versus Australia's next wave of competitiveness

EBA applauds the work done to date by the Australian Government to ensure our healthy economy and competitiveness. However, on behalf of our members, we voice our concern that the debate about developing emerging industries is being cornered by traditional industry sectors who appear to have a focus on maintaining production status quo. We are of the opinion that it is Australia's emerging industries which will lead the country's development and competitiveness in 15 to 20 years' time.

EBA recommends that equal weighting should be given now to emerging industries, and we believe this is of growing importance in the face of new market trends favouring sustainable production and consumption.

While market forces eventually recognise new leaders, there is a considerable time lag in providing relevant intelligence to the market. Australia is behind both the EU and North America in intelligence gathering, interpretation, dissemination, understanding and acceptance (this was evidenced by recent work carried out by Innovest in Europe and America and by BT Trust in Australia).

Current risk assessment models are not fully capable of identifying new assets, liabilities, or opportunities, and Government therefore has an important role in providing the underlying framework that encourages innovation which offers national, and international, benefit.

There are a number of issues which we request the Department of Treasury to consider in formulating the budget:

- The current absence of data regarding the cost of negative externalities to consolidated revenue, and therefore the inability to provide necessary cost signals to the market, or to factor real costs into the supply chain to the end consumer. EBA recommends a study by the Productivity Commission assisted by CSIRO
- The exponential growth curve of cost relating to externalities from generations of past poor performance and the implications this has for intergenerational equity

- The need for new drivers for Australia's next wave of competitiveness by all industry sectors. The development of a transitional framework should be considered, especially in light of growing international market assessment of carbon assets and liabilities. Current carbon litigation may reach Australia with ramifications for company directors
- Investment in future development to shore up current GDP activity across most industries, and the need to focus on generating 'positive GDP'. Investment in social and environmental infrastructure
- Government incentives that can leverage private sector investment (such as superannuation funds). For example, using 10% of Telstra funds to invest in sustainability infrastructure to allay greater longer term costs and to drive new efficiencies and new levels of competitiveness
- That there should be a portfolio approach to drivers for innovation including emissions reduction, energy efficiency, energy generation, and energy storage technologies
- Greater use of market mechanisms to achieve change. Revisit the potential of carbon emissions trading
- Provide re-investment tax concessions for high priority development technology sectors. Treasury should evaluate the potential for re-investment tax concessions as opposed to shorter term R&D tax rebates
- Close attention to current 'environmental spend' to ensure holistic, long-term outcomes that benefit resource integrity and ongoing viability (from an environmental, productivity, and economic perspective)
- Investigation of current subsidies and preferential contracts especially related to energy supply
- That Australia should pursue a course of action which encourages Australian innovation and the growth of new industry sectors while at the same time encouraging the continued development of competitiveness by mainstream industry. This point is implicit throughout the report as we believe that it is important to keep pace with changing international markets where sustainable production and consumption is increasingly demanded

EBA is concerned at the focus on production status quo within certain sectors of industry and the competitive forces that this creates against investment in, and support for, the next generation of industries such as renewable energy.

EBA is also concerned that investment in and purchase of technologies developed overseas may take precedence over home-grown technologies that develop industry growth, employment, export development, longer term efficiency and competitiveness, domestic security, and prevent 'brain drain'. While Australia is a good adaptor of technologies this cannot replace the broader benefits of Australian innovation commercialisation and export.

Addressing the exponential growth curve of cost that is associated with externalities – as demonstrated by dryland salinity. EBA most strongly recommends that the Productivity Commission be engaged to undertake a study of these externalities and their impact on consolidated revenue. We are particularly concerned about the impacts on productivity of dryland salinity, acid sulphate soils, soil erosion, river system and groundwater degradation, and the impact of climate change. We believe that better knowledge will enable Australia to provide a framework for public sector funding that is increasingly capable of leveraging private sector investment in water, energy, agriculture, sustainable cities, health, quality of life, productivity and security.

In spite of Government's deferral of carbon trading, EBA recommends that the significant potential funds from emissions trading or a carbon tax, be measured alongside the existing subsidies and preferential contracts awarded to the resources and manufacturing sectors. These available funds should be evaluated as to their possible role in helping to forge a 'framework of transition'. Hypothecation of funds for a limited but highly focused period of time would assist accelerated depreciation, R&D into energy efficiency, emissions reductions, pollution prevention, and the uptake of alternative technologies. This funding could partially allay the exponential cost curve of externalities.

EBA believes that Australia should focus on:

- Niche areas of development such as environment industry, biotechnology and food
- Investing in developing future areas of specialisation where we can better value-add, and in exploration for future development of our traditional resource sectors
- Education in areas indicated by international market trends – for example sustainable production and consumption
- Health protection and enhancement as well as treatment of disease (which other countries are increasingly excelling at)

EBA believes that the economic surge underway in China will drive low cost manufacturing in that country for many decades. The growth of China's manufacturing capacity will, in all likelihood, lead that country to become a core competitor with Australia in the next 8 to 10 years - and this in spite of Australia's supply of resources and minerals to China. We particularly note China's extensive investment into potential sources of renewable energy especially geo-thermal and hydrogen.

Australia is not well placed to compete at this level of mass production. Our strengths in the medium to short term will come from tapping into our vast resources sector and supplying fuel and raw materials – such as iron ore – to China. However, the longevity of this strength is questionable especially in the absence of meaningful investment in exploration into future resource extraction.

The other major resource and minerals supply countries, Brazil and South Africa, may both overcome political/economical instability in the next decade and their larger populations and lower labour costs would likely make them more competitive with Australia.

Fiona Wain
Chief Executive Officer
Environment Business Australia
National Press Club
8/16 National Circuit
Barton
ACT 2600
Tel 02 6270 1333 email eba@environmentbusiness.com.au

Addendum

Environment Business Australia requests that the budget deliberations include investigation into our recommendation that sustainability criteria be a focus of all Commonwealth Government procurement and investment. And further, that incentives be put in place to encourage the other levels of Government to do likewise.

The potential benefits are:

- Provides incentives for suppliers to engage in research and development
- Stimulates investment
- Reduces exponential cost curve of negative externalities (lesser drain on consolidated revenue)
- Creates a market of scope and scale for new technologies and better infrastructure
- Reduces unit costs for consumers
- Demonstration of technologies leads to increased exports
- Assists with objective to harmonise legislation and tender processes across States
- Helps meet growing international market demand for sustainable production and consumption