

# Consultations on Clean Energy Finance Corporation

**The Australian Workers' Union Submission**

**December 2011**

## Executive Summary

Australian manufacturing is currently experiencing its greatest crisis since the Great Depression.

The crisis in manufacturing is acute and is a demand side phenomenon.

This demand crisis is a product of the side effects of the mining boom, which is driving up the exchange rate, increasing the cost of inputs and increasing the price of wages through labour market competition.

The mining boom is placing Australia at risk of developing Dutch Disease, as well as risking the near 1 million manufacturing jobs that Australian workers and families rely upon for their livelihoods.

The Carbon Price Mechanism and Clean Energy Finance Corporation have an opportunity to reinvigorate the Australian Manufacturing sector in the short run by acting as an effective stimulus to domestic production and smooth out the negative effects of the mining boom in the economy.

There is also an opportunity for a long run restructuring of Australia's manufacturing capacity to produce the new clean technology manufactures that will service Australia's shift into a carbon neutral economy, as well as create new export opportunities for the country that will underpin Australian prosperity long after the mining boom has ended.

The CEFC program should focus on the following as part of its considerations when investing in clean technology programs and innovations:

1. Creating Demand
2. Providing Access
3. Diversify Australia's Manufacturing Base
4. Reinvigorate Regions

## **1. Creating Demand – Clean Energy Investment as a Stimulus**

Australia's manufacturing sector is currently facing enormous demand side pressures as a result of the side effects of the Mining boom and the resulting loss of competitiveness and access to export and domestic markets.

Manufacturers have been cut off from export markets due to the inflated Terms of Trade and commodity prices driving Australia's exchange rate to post-float highs.

Furthermore Australian manufacturers are being undercut in domestic markets due to an import substitution effect of a high exchange rate.

The large investment fund that the CEFC will oversee presents an excellent opportunity to provide stimulus funding to the Australian manufacturing sector.

By providing income to manufacturers in the short-term as they adjust to a persistently high exchange rate in the likely medium term, the Government can ensure the long-term viability of the sector.

A strong, vibrant and exporting manufacturing sector is vital to protect jobs and Australia's long-term economic prosperity. Australia should aim to retain a diverse economy that is not heavily weighted to the resources sector. This will reduce the effect of external shocks, as well as ensure that Australia does not become overly dependent on commodity prices, which historically have a declining price in real terms. Failure to do so will leave Australia as a 'price taking' economy.

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## **2. Providing Access – Australian Industry Participation Plans (AIPPs)**

Recent Government announcements regarding AIPPs have noted that projects that receive \$20 million in funding or more will be subject to compulsory AIPPs.

Having regard to the enormous restructure of the economy that will result in the future as a result of the Carbon Price Mechanism (CPM) it is prudent that Australia's current industries have a role in assisting the construction of Australia's new industries.

Given the likely complex nature of the financial transactions and opportunities that will be available to the CEFC the AWU considers that the operating scope of AIPPs should apply to any financial transactions of the CEFC. This should include, but should not be limited to tenders, grants, loans, direct investment and any other financial undertaking that is valued at \$20 million or more.

The AWU notes the historic issues regarding the solar flagship program, which was excluded from the requirement to have an AIPP as part of its operating parameters due to an exclusion of 'grants' from the original AIPP guidelines operating at the time. On that occasion the Government had to redraft the policy to ensure that future grants of \$20 million or more would be subject to AIPPs in that space. It would be highly prejudicial to local manufacturers if this were allowed to occur once again.

There is a clear intent on the part of Government to ensure that Australia manufacturers and proponents are able to receive fair access to projects that involve Government funding. This is clear through the recent AIPP announcements along with the changes to the Enhanced By-Laws Product Scheme and other Government statements and announcements.

As a result the AWU favours a broad definition of financial dealing that will incorporate AIPP. This is a definition that should be pre-emptive of the likely complexities that will be undertaken by the CEFC. This will ensure that the integrity of the Government's AIPP policy remains and that the core purpose – providing access to local manufacturers – is not undermined by financial semantics.

The AWU notes the activities of other nations such as the United States in the facilitation of local content use in clean energy programs. The US has an extensive clean energy strategy under the *Loan Guarantee Program* that is overseen by the US Department of Energy. This program is subject to the *Buy American Act*, which has provisions regarding local content usage.

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### 3. Diversifying Australia Manufacturing

Many of the technologies that will result out of a shift to a carbon neutral economy under CPM will be new to Australia and perhaps world-leading and pioneering innovations.

As a result it can only be assumed that the manufacturing capacity to produce many new innovations does not yet exist, or is at best emerging.

The CEFC should aim to promote Australian innovation and scientific breakthroughs where possible, and act in accordance with the aims of institutions such as Commercialisation Australia – which aims to ensure that Australian intellectual property is retained domestically and developed into a viability commercial product.

These aims should be extended to create a domestic manufacturing capacity in clean technology.

By allowing Australian manufacturers to integrate into the early stages of the transition to a clean technology economy via access to CEFC funded projects, the Government will allow manufacturers to best position themselves to diversify their capacities of production into these emerging areas.

Furthermore Australia already has the capacity to produce many clean technology manufacturers, such as wind turbines. This capacity should be cultivated through the application of AIPP in CEFC projects.

Australia has the potential to become a world-leader in clean technology manufactures that can be exported to the world. This will secure and underpin Australian jobs and prosperity into the future.

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#### **4. Regional Linkages**

Where possible the AWU considers that CEFC funding should be linked to regional areas that are experiencing high levels of unemployment as a consequence of the multi-speed economy.

Many areas that are experiencing poor growth are areas that have been previously reliant on now struggling, and in many cases closing, manufacturing industries.

From a pragmatic policy position it would be prudent to link CEFC funding to areas that have excess manufacturing capacity in capital, plant, labour and infrastructure. These factors of production could be refitted, retooled and redeployed to assist in Australia's clean technology revolution.

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## Conclusion

Australia has the opportunity through the CEFC program to protect the manufacturing sector in the near term and reinvigorate and reorient the sector as a clean energy production powerhouse that exports products to the world.

This approach will assist industries to cope with the side effects of the mining boom, protect the jobs of Australians and ensure the long term economic prosperity of the country does not end with the extraction of finite resources.

Australia has an opportunity to reposition itself as a supplier of the worlds emerging clean technology needs and create the jobs, industries and export products of the future. This should be actively facilitated through the CEFC program.