



FOR A BETTER WORLD

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Ms Gillian Broadbent,
Chair, CEFC Expert Review Panel

via email: cefc@treasury.gov.au

Dear Ms Broadbent,

Thank you for the opportunity to participate in the Panel's thinking about the design of the CEFC, by way of this brief submission.

About Visy: Visy has a vital interest in the further evolution of clean technology in Australia. As one of the nation's largest manufacturing companies, employing 5,500 people directly in its Australian and New Zealand businesses, Visy is already investing in technology and products that save energy and conserve and recycle resources. For example, Visy is investing in:

- Renewable energy systems for manufacturing process power
- Water-recycling, including the world most water-efficient pulp & paper mill
- Efficient transport and logistics systems
- Advanced papermaking technology to maximise heat and electrical energy conservation, and use of renewables
- Materials conservation in product design and customer education, and
- Advanced materials recycling/sorting systems

Visy strongly supports the development of accessible and flexible financing mechanisms to facilitate further investment in clean energy and related technologies.

There are a number of different and valuable ways that the CEFC can facilitate investment in clean energy, as set out in the following sections.

Government-backed Credit Enhancement or Guarantee: The CEFC could facilitate investment by providing access to the Government's credit rating for a portion of the project debt in a similar manner to Export Credit Agency (ECA) credit support.

Visy has experience with ECA debt as it formed part of the financial packages supporting both stages of our \$1bn Tumut mill. If this is one of the planned credit support mechanisms, we note that one of the challenges is the need to separately negotiate terms and provide due diligence to the provider of the guarantee. In our experience, these separately negotiated terms are costly, duplicative and unnecessary.

We believe that the CEFC has the opportunity to invest time and resources upfront to understand and pre-approve the due diligence, financing, credit processes and probity approaches of the major banks.

It would be a significant benefit to borrowers if the CEFC were to be prepared to “piggy back” and not separately negotiate or undertake due diligence on a project, rather stand behind a bank/banks and trust that the “market is the market” and that will drive acceptable terms.

Underwriting key driver/s: Another of the challenges of financing clean energy projects is forecasting the rate and price of key drivers (such as electricity, gas, landfill rates, tipping fees, fuels, carbon tax, etc). In many instances, while the long term *trends* are certain (e.g. electricity and landfill prices are trending up), the timing of price movements in the short term is more uncertain.

Debt financiers value certainty over the term and/or repayment profile of the debt which, in Australia, is relatively short term (i.e. ~5 years). Because these underlying drivers are difficult to predict, the uncertainty reduces the debt capacity of a project.

Credit enhancement could be provided by the CEFC to borrowers in the form of underwritten pricing arrangements which would operate like “take-and-pay” offtake contracts to underpin a level of viability in the plant. That is, should the price fall below a certain level, the CEFC would step in to fund the difference.

Direct Investment in senior (or as subordinated debt): The CEFC could operate as a direct lender at the senior or subordinated debt level.

Green bonds: Tenor is a significant constraint on project financing in Australia. As noted above, the CEFC could issue long term green bonds similar to the tax-effective municipal bonds in the US which offer tenor in excess for 20 years.

While the senior bank market in Australia lends on terms of 5-7 years, our clean energy projects have a forecast life of many decades and are more appropriately matched with long term funding. Pratt Industries USA has funded its mills for many years through this market. Over time, these early investments could form the cornerstone basis for the development of a green bond market which Visy has been advocating for some time.

Selection Criteria: Track record is really important. The existence and profile of the CEFC will tend to draw a lot of unqualified and inexperienced players into the market.

Safety considerations, processes and procedures are of critical importance. There should therefore be a requirement on finance applicants to show not only their *technical* capabilities, but also their experience and application of those technologies and capabilities within Australia.

Visy has had considerable experience bringing offshore technologies into Australia where processes and technologies need to be adapted to our harsh and variable climate, local composition of general waste streams, and widely-spread potential fuel sources which impact project economies.

Governance: In relation to governance and selection process, Visy strongly believes that participants with *current* clean energy project experience need to somehow be involved with the selection and evaluation of project applicants.

Our clean energy sector continues to rapidly evolve and a robust evaluation process of candidates would serve us well. It should include bankers and financiers currently evaluating projects, as well as corporates and engineering companies currently building clean energy plants.

Clearly this suggestion raises a potentially difficult conflict of interest issue, which would need to be managed carefully, but there have been many instances where this has been effectively done (for example, with the operation of the Future Fund).

Visy would welcome the opportunity to engage further with the CEFC as it develops its systems and capacity to facilitate new clean energy investments in Australia.

Please don't hesitate to contact me if you feel this idea has merit.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Bill Hurditch', with a stylized flourish at the end.

Bill Hurditch

for *Visy Clean Energy Project Team*

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