

Senate Finance and Public Administration Legislation Committee
ANSWER TO QUESTION ON NOTICE
Prime Minister and Cabinet Portfolio
Department of Climate Change
Budget Estimates Hearing–May 2009

Written question reference: CC60a-f

Outcome/Output: Outcome 1, Output Group 1.1 – Response to climate change

Topic: Minerals Council of Australia Report

Hansard Page: Not relevant for written QoN

Question: (Senator Cash)

- a) Minister are you aware of a recent study - prepared for the Minerals Council of Australia by former Australian Bureau of Agricultural and Resource Economics head Mr Brian Fisher - which quantifies the Government's proposed scheme impact on the mining sector, and predicts the mining industry will shed 23,510 jobs by 2020 under the Government's minimum unilateral target of reducing emissions by 5 per cent of 2000 levels.
- b) Minister are you aware that the same study predicts that over the next two decades total job losses from mining would almost treble to 66,480 by 2030.
- c) Minister are you aware that the modelling in the Fisher study broadly supports a recent ACIL Tasman study commissioned by the coal industry, which predicted 16 mine closures and 10,000 job losses by 2020?
- d) How do you reconcile Treasury's modelling that suggests that the ETS would have only a small net effect on total employment over a decade and the findings of the study prepared by the Minerals Council of Australia.
- e) How do you justify destroying our mining industry, which is a key generator of Australian wealth, by adding an extra \$10 billion of costs in the first five years, a cost other international competitors don't have.
- f) Will you explain how the destruction of the Australian mining industry help Australia recover from the global recession?

Answer:

I am aware of the two reports referred to and that they contain similar results.

The report prepared for the Minerals Council of Australia (MCA) by Concept Economics is likely to be unreliable, is not transparent, and if not interpreted carefully, is likely to be misleading.

That report states that 'first round employment effects' of the Carbon Pollution Reduction Scheme (CPRS) on the mining industry are obtained. These results are likely to overstate the possible regional employment impacts as the methodology employed is not robust.

- No reliable models exist for the analysis of regional impacts in Australia.
- In particular, the regional level analysis does not allow for the adoption of abatement technologies at a regional level, nor does it allow for movement of employment and capital between industries at a regional level over time.

- Further, I note that the Australian Bureau of Statistics does not provide or support state level or sub-state regional level input-output tables due to concerns about small sample sizes and poor statistical accuracy.

The modelling is not transparent. The report notes that the mining and smelting industries have been adjusted off-model to take account of ‘the lumpy nature of the long lived assets in these industries’ but there are no further details on what these adjustments are, or how important they are for the results.

The MCA report is potentially misleading in two respects. First, the report refers to ‘jobs lost’ and ‘falls in employment’. In reality the bulk of these figures represent jobs that are not created in the particular sectors, rather than reductions from current levels in those sectors. The reference case and modelling are not well documented, and so it is difficult to assess changes in employment relative to today.

Secondly, the report focuses entirely on output and employment changes relative to an unspecified reference scenario. Reporting results in this way can provide a misleading impression of the implications of the CPRS for the economy.

- An aggregate whole economy impact assessment is not included in the report, making it hard to compare against other modelling reports.

A further limitation of the MCA report is that it does not factor in the Government’s announcements of 4 May 2009, including the one year delay, \$10 fixed price permits in 2011-12 and the additional transition assistance to emission-intensive trade-exposed industries.

- The report states that these announced changes would not materially alter the CPRS impact on the mining industry. This view is not shared by other industry associations who have welcomed the measures.

In contrast, the government’s modelling of the CPRS, published as *Australia’s Low Pollution Future*, reports impacts at sector, state and national levels to provide a comprehensive picture.

- It projects the value of output to increase by more than 50 per cent by 2050 in coal mining, gas extraction, metal products, and sheep and cattle industries, and by more than 100 per cent in transport, construction, cement, and grains and other agricultural sectors.
- Over the medium to long term, it suggests that global action on climate change would see Australian coal secure a larger share of the world coal trade because Australian coal has relatively low emissions.
- From an employment perspective, it projects that output from all major sectors will grow over the years to 2020, delivering substantial increases in national employment from today's levels.

These results indicate that the proposed CPRS will not destroy the Australian mining industry.