

The Australian Workers' Union
Senate Standing Committee on Economics'
Review of the CPRS Exposure Draft
Submission

March 2009

Executive Summary

The Australian Workers' Union (AWU) has a vital, ongoing interest in the development of the policy response to climate change and emissions trading, through the Rudd Government's Carbon Pollution Reduction Scheme (CPRS).

The AWU is continuing to engage in close dialogue with the Rudd Government and with other stakeholders with the aim to ensure that Australia achieves the most effective scheme possible at lowest cost to the environment and to the economy.

The AWU has continued to debate progress with the development policy response to climate change at its Biennial National Conference in early February 2009.

Conference recognized that over the next couple of years, the Australian economy has before it the twin challenges of dealing with Global Financial Crisis (GFC) and the introduction of an emissions trading scheme (ETS) in mid 2010. With the introduction of a carbon price, the Government will be introducing the largest policy change to the Australian economy in a generation at the same time as the fallout and recovery from the GFC is still likely to be felt.

Each of these challenges has its own features with implications for Australia's resources sector and energy intensive, trade-exposed (EITE) industries responsible for around 60 per cent of Australia's total exports and half a trillion dollars in avoided imports a year.

Conference passed a number of resolutions relevant to the policy discussion in this submission. Conference agreed to a new policy paper *Over the CPRS Horizon* which affirmed the AWU's support for the White Paper while emphasising the importance of supplementing review arrangements for EITEs contained in the White Paper in the event of adverse impacts of emissions trading on EITEs and scope for review of assistance.

Tackling head on the urgent demands of the GFC has added a new dimension to the policy debate because the commencement of trading (mid 2010) is synchronised with the expected timing of recovery - or clear signs of recovery - from the GFC. The Government is reminding us the full impacts of the GFC are yet to be felt. Strong, export led growth in Australia will depend upon the speed with which the global economy is able resume forward momentum.

In this context, it will be vital that the CPRS policy balances the needs of the economy and environment in a way which will support and reinforce sustainable growth and not result in any further deterioration in the outlook for our trading industries and employment prospects.

The overriding consideration for the AWU has been to ensure that the EITE industries most exposed to the impacts of the ETS, and least able to pass on costs associated with participation in the Scheme have the maximum level of assistance during the transition to an international framework for emissions trading (which includes both developed and developing countries) on a true burden sharing basis.

The AWU remains committed to supporting the Government's efforts in addressing climate change in a responsible and defensible manner which addresses the risk to the environment from global *business-as-usual* while promoting opportunities for EITE industries to provide the jobs of tomorrow building on the jobs of today.

Introduction

This submission responds to the Government's invitation to contribute to the deliberations of the Standing Committee on Economics on the Exposure Draft of the Carbon Pollution Reduction Scheme Bill 2009 released on 12 March 2009.

The submission addresses the major elements of interest to the AWU relevant to the Committee's considerations, including relevant aspects of previous submissions made by the AWU to the Government's green and white papers.ⁱ However, this submission builds on previous submissions and Senate appearancesⁱⁱ and makes the following key points dealt with in order.

The AWU supports an emissions trading scheme which is balanced and fair and which addresses the twin challenges of reducing the impacts of climate change while supporting and promoting the competitiveness of the EITE industries which employ the majority of AWU members.

The White Paper responded to a range of concerns raised by the AWU regarding the support arrangements for EITE industries contained in the Government's green paper and is supported by the AWU. This includes a unilateral medium term target of 5 per cent coupled with a greater and wider level of assistance for EITE industries and included a significant growth factor - up to 45 per cent - in the number of available permits to assist industry expand following the introduction of the CPRS.

The option to use alternate measures, lower thresholds in addition to the increased number of permits including from overseas will be of significant value to EITE industries.

However, there are additional aspects of support arrangements for EITE industries which the GFC has made more urgent and which the draft legislation has the capacity to address. These are discussed in this submission.

These build on new policy positions debated and agreed at the AWU's National Conference.ⁱⁱⁱ

The submission also reflects a range of discussions with affected industries on the exposure draft and aims to offer additional suggestions for improvements. These issues deal mainly with ensuring that the maximum level of assistance is provided to EITE industries during transition to a global carbon market and during the interim period when domestic arrangements place a price of carbon in order to address the risks of leakage of investment and jobs and in conjunction with the impacts of the GFC on industry profitability.

Reaction to the Exposure Draft

The AWU acknowledges that the main elements concerning assistance to the EITEs are consistent with the White Paper, including activities to be compensated^{iv}:

Targets, thresholds, assistance levels and decay or productivity factors (where permits are reduced by 1.3 per cent per annum) are the same as in the White Paper (see below).

However, the operative elements of the assistance will be set out in the as yet unseen regulations which are a work in progress and subject to ongoing consultation with stakeholders.

Review provisions of the level of assistance by the Expert Advisory Committee and impacts on an industry or sector by the Productivity Commission, respectively are kept relatively limited. There is no allowance for a delayed start or initial trial period and/or trigger.

There is no specific allowance evident for the impact of the GFC. Export volumes and values are falling. Many of the industries for which AWU members work have forward order books half of what they were 6-12 months ago. In terms of the likely start up carbon price it is likely to be low and not the assumed \$25 a tonne (because emissions will have fallen because production will have fallen and the demand and therefore the price of permits will be less). This will have knock-on revenue impacts for the scheme.

The position of the AWU

Every job in every enterprise is of the most vital importance and the AWU will be doing everything in its power to retain and promote these jobs and thereby maintain the living standards of our workers and the health of our communities and the health of our children.

The AWU wants Australia to keep being a best practice producer of iron and steel, aluminium, cement, plastics, glass and paper among other energy intensive industries and not lose these industries to other countries. If these products are being made anywhere in the world, we want them made here using Australian know-how and labour.

If our oil and gas resources are going to be extracted or energy products produced we want to continue to ensure that they are extracted, refined and generated in Australia.

The AWU wants to see government policy supporting further private sector investment into value-adding industries for this sector.

That means that our so-called emissions-intensive, trade-exposed (EITE) industries - accounting for 65 per cent of our exports, and half a trillion dollars of avoided imports a year - must be assisted in the transition to a global carbon market or risk losing these industries to jurisdictions which will not be bothered with a carbon trading framework for some time.

Support for White Paper and responding to the Global Financial Crisis (GFC)

The Government has been listening to calls from the AWU and others to increase assistance to affected industries and workers. The White Paper was a major advance in this direction and is welcomed by the AWU. Lifting assistance from 30 to 35 per cent of permits (including agriculture) and having this increase in line with growth in these industries is sensible and pragmatic.

The Government has recognised that carbon trading may well assist in establishing new industries and opportunities, but it is not necessary to lay waste to our existing world-class industries to achieve this. Policies that deny costs or view traditional industries as the problem - such as espoused by the Greens and their supporters in the environmental lobby - are bound to create costs for us all.

A sensible transition to carbon trading as outlined by the Government's White Paper will see traditional industries becoming sustainable and growing stronger over the long term. The world will use more aluminium, steel, cement, coal, gas, timber and paper, plastics and chemicals - not less - and more transport.

Industries such as LNG mean cleaner energy in Japan and China; aluminium can provide lighter cars. All of these jobs should be seen as part of a real green jobs solution for Australia's economy. Our members are at the core of a new green deal.

When policy settings are balanced and fair, Australia's EITE sector is automatically part of the climate change solution by applying best practice know-how and leading the world by example as part of a joint global action plan.

Targets of 5-15 per cent compare favourably with the EU's 20-30 per cent targets. Starting with a carbon reduction target of 5 per cent still means cuts in emissions in per capita terms of 27 per cent which is better than the EU (24 per cent per capita) and with scope for a more ambitious target of up to 15 per cent (34 per cent per capita; same as EU per capita) conditional on international agreement. So Australia is doing its part in leading the way in setting emission reductions and in establishing policies to balance the competing demands of industries, workers and consumers in this respect.

The White Paper will make an important contribution to UN Climate Change negotiations in December 2009. Measures contained in the package balance the demands of addressing the climate change threat through emissions targets with appropriate support for consumers, industry and the community.

The trade-offs contained in the report, following extensive consultation by the Government will be an important guide to other countries in implementing a domestic ETS scheme in future. The policy mix of targets and obligations balanced with assistance measures for industry, workers, regions and households is the kind of recipe which other countries could agree to embrace.

That is why we have argued for early in-principle support for the White Paper by the Opposition. The sooner we are able to put the spotlight on the policies of other countries and ways of ensuring fair burden sharing by them, the better it will be for Australia's EITEs in levelling the playing field allowing competition on fair terms.

Failing to progress and maintaining forward momentum will mean there is little prospect of Australia being in a position to influence an outcome at Copenhagen which is likely to be advantageous to us. That would be counterproductive to the interests of our industries and economy.

However, in the wake of the GFC the AWU is also concerned to ensure that the imminent commencement of the Scheme does not tip the scales in favour of less rather than more investment, fewer rather than additional jobs, industry rationalization rather than expansion.

By increasing the scale and scope of transitional assistance to EITEs and applying realistic targets including making future targets conditional on international progress, the White Paper has made a key contribution in avoiding leakage.

The White Paper also retains flexibility to do more as circumstances dictate in particular during the transition to a comprehensive agreement, mindful of the degree of progress at Copenhagen and the GFC on the implications for our economy.

What is required now is additional engagement with industry on the activities to be covered by the scheme and the level of assistance provided and for industry to be able to advise government on the developments in their industry. Additional protection can be given to industry through comprehensive review mechanisms which build on the White Paper.

The days ahead - The need for a balanced approach

At our recent Biennial National Conference, the AWU resolved to work cooperatively with the Government and Opposition to ensure the interests of our workers and industries are kept firmly in sight of in finalising the CPRS legislation and implementation issues.^v

The AWU is keen to see the two major parties adopt a bi-partisan position on this key issue. We believe it will strengthen Australia's position during global negotiations. That's why we accepted an invitation to put forward a submission to the Opposition's policy development process on this important issue, hoping to see, as an end result, a united national stance.

The AWU released a Policy Position Paper entitled *Over the CPRS Horizon Balancing the impacts of the global financial crisis with the introduction of the Carbon Pollution Reduction Scheme*:

That paper reiterates the AWU's support for the CPRS, and the design features including objectives and assistance measures. However, in view of the ongoing impacts of the GFC on the competitiveness of our industry, the AWU highlighted the options available to the Government through the White Paper to ensure that the circumstances of industry are fully accounted for. Workers should not be made victim for circumstances beyond their control.

No one could have predicted even a couple of months ago that the downturn looks like being far more severe than originally forecast. Current economic conditions are already adding to the financial strain for a range of companies for whom my members work.

Our concern therefore is to ensure that the imminent commencement of the Scheme does not tip the scales in favour of less rather than more investment, fewer rather than additional jobs, industry rationalization rather than expansion. The AWU however does not support abandoning the CPRS timetable.

Other policies will play their part in responding to the GFC, including the stimulus provided by the economic and jobs plan, interest rate cuts and direct support for industry to make up for cuts in spending by firms, in particular on training and investment in R&D and plant and machinery in the wake of the decline in sales.

Infrastructure spending, including on carbon capture and storage and renewable energy will play an important and complementary role.

Support for our workers, communities and regions will also be vital and that the full weight of the Climate Change Action Fund be devoted to this end. The CCAF may need to be supplemented if necessary (beyond \$200 million) to ensure adequate coverage in the context of the transition during the GFC and to share the benefits of new infrastructure investment and industry assistance measures. The May Budget is a perfect opportunity to supplement assistance measures in a way which directly addresses additional imposts and impacts.

Flexibility in the exposure draft legislation must be highlighted to react to future circumstances such that our valuable industries, employing tens of thousands of Australian are not jeopardized following the commencement of the Scheme and before other nations adopt similarly responsible environmental policies as Australia.

In particular, the AWU identified ways the Government can adopt a flexible approach without totally rewriting the White Paper or legislation. However, this will require a proactive stance to do a couple of things which are set out in the White Paper through amendment where required:

A) Once the Scheme has commenced, firms may request that the Government commission the Productivity Commission to undertake an assessment of the Scheme impact on their Industry; and

B) The EITE industry assistance program will be reviewed by an Independent Expert Advisory Committee at each five-year review point, or at another date at the request of the Minister for Climate Change and Water.

We also believe it essential the Government continue to provide guidance to EITEs on eligibility for assistance as quickly as possible, monitor the situation facing our industries and retain flexibility in how we respond to their circumstances in the wake of the international economic downturn.

In this regard it will be vital the Government provide guidance on the criteria to be used by the Productivity Commission in the assessment of the profitability of EITE industries firms and industries accounting for the impact of the economic slowdown. Criteria in addition to exchange rate movements, capital and labour costs, and commodity price movements may be required to measure the impact of the financial crisis and the capacity to participate in the CPRS.

The AWU would insist on an open and transparent consultation process with industry and unions on the criteria to be used by the Productivity Commission in addition to the transparent conduct of any future review in consultation with stakeholders. Review decisions should also be open to challenge through an appeals process heard by a panel of independent experts.

The Minister should, ultimately also retain powers to defer or suspend the application of the Scheme if circumstances warrant it on advice from the Australian Climate Change Regulatory Authority (ACCRA) or other relevant body such as the independent expert advisory group, or appeals panel referred to above. There may also be a role for the stakeholder committee charged with the oversight of ACCRA and for an independent Ombudsman. The AWU is keen to be a member of such a stakeholder committee.

Additional compensation in the form of extending extra emissions permits including lending credits for a defined period may also be justified in addition to funding through the CCAF for a defined period in response to the GFC.

Additional work to account for the GFC

Conversations with industry indicate that the GFC is hitting EBIT, but along with it from next year will be the CPRS.

The Government must ensure it is listening to industry and where required adjust the transition assistance accordingly. This includes ensuring effective levels of assistance are adequate and fully reflect the intent of government policy and whether the decay factor for the withdrawal of permits is too punitive in the absence of international burden sharing.

The point is that the Government must think about the GFC and the CPRS together. We have past the point where the issues can be divided by the timetable. In fact, it looks more likely that our economy will start to recover just at the point of the CPRS commencing.

The concern of the AWU is to see permits issued but still not being enough to prevent redundancy. That would be a complete travesty of the intent of assistance. It can be prevented on the same grounds as qualifying for assistance in the first place. The risk of dead weight losses resulting from the absence of an international carbon price and market exacerbated by the GFC justifies greater assistance.

The GFC is only adding to costs and needs to be addressed through clear a government policy response through the CPRS assistance package including through additional permits, capped prices and for our workers and regions and communities through substantially more CCAF assistance (currently capped at \$200 million).

The transition plan for the CPRS must acknowledge the cost effects on individual businesses and to regions:

- Ensure that the CPRS has sufficient protection and assistance measures hardwired into the legislation such that the financial circumstances of our EITE industries can be taken fully into account (by for example the opportunity for a review by an independent statutory (appointed) body such as an appeals panel which could hear disputes concerning ACCRA and the Productivity Commission which will have powers to review assistance levels);
- Ensure that the Government is aware that the impact of the scheme across industrial regions, including central Queensland, the Hunter and Illawarra in NSW and Victoria's Gippsland region, which would be "very high" and "very severe" according to recent findings on a disproportionate impact on regions compared to the economy as a whole.^{vi} (This again implies the need for a gentle transition path and substantially higher assistance under the CCAF than has currently been allowed for).

Conclusion

The AWU confirms its general support for the Government's CPRS and in particular the Government's commitment to assist and protect EITE industries. Review mechanisms have become even more vital in view of the impacts of the GFC and economic downturn.

These include review provisions by the Productivity Commission, and powers which the Minister should retain or accede to review assistance or amend the application of the emissions trading scheme as required on advice from a relevant authority or appeal panel. We believe these kinds of provisions retain flexibility in responding to emerging trends coinciding with the CPRS, not least the impacts of the GFC and its impacts on jobs. The duration of the GFC - likely to extend into calendar 2010 before recovery is evident in a meaningful way - is now synchronized with the start date for emissions trading.

Close consultation is vital with affected EITE industries on the activities which are likely to be covered by the scheme and the level of assistance available during the transition to a global carbon market. Statutory review mechanisms must adequately capture and consider industry concerns.

The regulations are likely to be of paramount importance in determining the degree to which the EITE industries are able to retain competitiveness during the transition period. EITE earnings are currently under significant strain as a consequence of the GFC. The AWU thinks it essential therefore in implementing the CPRS that the Government gives the EITEs the maximum level of assistance which is available to their activities in a flexible and responsive way directly supporting activity and jobs.

The AWU is currently not convinced of the merits of passing the legislation but not having it come into force for some time. Delay itself promotes uncertainty and becomes hostage to its own vagaries and timing issues which may or may not coincide with global recovery.

However, the AWU would support consideration of a transparent mechanism or trigger which could be used to signal commencement, such as following consecutive quarters of solid economic growth or some other relevant measure of industry's capacity to absorb the unavoidable costs of the scheme.

Such a trigger could account for the impacts of the GFC without abandoning or delaying the scheme and allow for a predictable and transparent implementation process. This could also be calibrated to international progress in steps towards a more comprehensive scheme on the basis that Australia is moving to a scheme before other countries.

In addition, there may be other options to ameliorate potential revenue impacts such as cutting the price cap significantly from \$40 a tonne (reducing the scale of the effective increase in the carbon price if actual prices are much lower than anticipated in the short term), reducing or removing the decay factor in the number of permits issues every year to EITEs, and increasing the aggregate levels of assistance by taking a global rather than selective view of EITE activities eligible for assistance as noted above. A substantial boost in funding to the CCAF may also be required supplementing assistance for workers and regions. The May Federal Budget provides an important opportunity in this regard.

The AWU reiterates its commitment to remaining a constructive participant in this debate and to ensure the range of issues to be considered in the lead up to implementation are fully addressed. The AWU is continuing to work with EITE industries to this end and looks forward to making further submissions including on the EITE assistance package by the independent expert advisory group.

References:

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http://www.awu.net.au/emissions_trading_scheme_a1_22_july_2008.pdf

AWU Submission to the Opposition's review of the CPRS, January 2009

Testimony before Senate Select Committee on Fuels and Energy, 2 February and 19 February 2009

Endnotes

ⁱ See list of submissions above

ⁱⁱ Select Committee on Fuels and Energy, 19 February 2009

ⁱⁱⁱ *Over the CPRS Horizon Balancing the impacts of the global financial crisis with the introduction of the Carbon Pollution Reduction Scheme:*

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- (the direct emissions associated with an activity for which a Carbon Pollution Reduction Scheme (the Scheme) obligation will be incurred
- the emissions associated with the use of steam by an activity
- the cost increase associated with the use of electricity by an activity, which is assessed as resulting from the introduction of the Scheme
- the cost increase related to the upstream emissions from the extraction, processing and transportation of natural gas and its components, such as ethane and methane, used as feedstock by an activity.

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- [*Climate Change - Creating a sustainable future for Australian industry \(PDF file\)*](#)
- [*Climate Change - The importance of sustainable energy supplies \(PDF file\)*](#)
- [*Climate Change - modelling the impacts on aluminium \(PDF file\)*](#)
- [*Climate Change and the ETS - the impact on Regional Australia \(PDF file\)*](#)

^{vi} Labor heartland turns on ETS as modelling shows greater regional impact, Lenore Taylor, the Australian, 17 March 2009