Coalition dissenting report on the CPRS changes with additional comments by Senator Joyce, Leader of the Nationals in the Senate on behalf of the National Party

Foreword

Coalition Senators firstly wish to express their objection to the impossible timetable imposed by this government for this Inquiry and also to voice their strong protest at the biased list of witnesses the Government called to appear. As a result the Coalition Senators on the Senate Economics Committee regard this Inquiry as a farce.

The amended Carbon Pollution Reduction Scheme (CPRS) Bills were referred to the Legislation Committee on 14 May 2009 with a requirement to report to the Senate on 15 June 2009. The month overlapped the two-week period of Senate estimates, widely known to be the most intensively busy period of the Senate year. Furthermore, hearings were concluded on 29 May before the closing date for submissions had been reached on 4 June.

The Economics Committee could not expect to conduct a rigorous assessment of these changed Bills with these deadlines.

On the choice of witnesses to give evidence, Coalition Senators' efforts to have input into the witness list was stonewalled by the government majority on the Committee. The government appeared only reluctantly interested in balance. The Coalition submitted a list of representative groups from industries and agriculture who will be adversely affected by the introduction of the Rudd/Wong CPRS and whose input we considered essential to the deliberations of this Inquiry, but save two changes, our efforts to have this Inquiry hear a range of views were blocked.

However the Rudd government will not prevent the Coalition from continuing the robust debate on this matter of vital importance to the Australian public.

Introduction

The Coalition believes a badly designed scheme is worse than no scheme at all.

As a country producing only 1.4 per cent of the world's CO2 emissions, there is no Australian solution to climate change, there is only a global solution. The design of any Australian emissions trading scheme (ETS) must be responsive to what is happening in other countries.

Australia and the United States are countries with similar economic profiles yet there are stark differences emerging between the Rudd government and the legislation endorsed by US President Obama. This is a wake up call for Mr Rudd and Senator Wong.

Amendments made in May to the draft US emissions trading legislation, include very specific provisions providing 100 per cent protection to US export and import competing industries in any future ETS until 2025.

What is more, the draft US Bill now says that a reduction in protection of these industries will only occur after 2025 when more than 70 per cent of global output for that sector is produced or manufactured in countries that have a scheme equivalent to that operating in the US.

Australia has to look to the US proposals and any global agreement before committing our people and our industries to this monumental shift. Introduction of a flawed design will seriously damage the competitive position of many of our industries, and see Australian jobs, investment and CO_2 emissions being exported to countries where no price is being imposed on carbon.

Overview

The Coalition believes climate change is best tackled from a position of economic strength.

Mr Rudd promised before the election to introduce an ETS which would produce deep cuts in CO_2 emissions, but would not disadvantage Australia's export and import competing industries. Mr Rudd's other election promises included establishing an ETS by 2010, ratifying the Kyoto Protocol and setting a target of 60 per cent reduction by 2050 from 2000 levels.

Coalition Senators are of the opinion the government's immensely complex ETS will damage our export and import competing industries, cost thousands of jobs, stifle investment and yet not produce any meaningful reductions in CO_2 abatement.

In the opinion of Coalition senators, to rush the introduction of this scheme without knowing the outcome of the December 2009 global climate change summit in Copenhagen, without knowing what President Obama will do and without knowing the impact of the global financial meltdown on our real economy is reckless in the extreme.

With the economy in the greatest downturn since the Great Depression this is not the time to proliferate undue costs for major Australian industries.

Global industries

If Australia moves out of step with the world, any cuts in Australia's emissions will not necessarily have a global impact. There may be adverse consequences on emissions.

For example, Australian aluminium and zinc production pumps out 50 per cent to 60 per cent less CO2 than similar industries in China.

Another example is that with LNG industries alone, the proposed scheme will perversely prevent up to 180 million tonnes of CO2 (one third of Australia's emissions) being avoided each year because of gas projects that won't go ahead. For every tonne of greenhouse gas associated with the production of LNG in Australia, between 4.5 and 9 tonnes are avoided in the Asia-Pacific region when this gas is substituted for coal in generating electricity. LNG is part of the global solution, not part of the problem yet the scheme significantly penalises LNG exports.

Coalition Senators recognise these outcomes make no sense and urge the Rudd government not to legislate an Australian ETS out of step with the global objective.

Flaws in government CPRS

Treasury Modelling

The Treasury modelling was months overdue, did not factor in the global financial crisis, and made the critical assumption that the entire world would sign up to be part of any scheme.

The Treasury was not permitted to model any alternative scenarios or methods. The exercise has been self-serving, misleading and irresponsible.

The design of the Rudd government scheme assumes that our major competitors will move to put in place a major new tax on carbon across their economies, including their export and import competing industries, in the early years. The government assumed the US would begin an equivalent scheme by 2010, China by 2015 and finally India by 2020.

In the opinion of Coalition Senators this is extremely unlikely to eventuate.

Costs

The Rudd Scheme involves generating permit revenue of nearly $13 billion from year one – a massive increase in taxation.

This will see a huge administration set up to churn these billions of dollars back through the economy, with the government picking who gets compensation and who doesn't.

In the years ahead no new resource projects in Australia will get off the ground without companies coming cap-in-hand to get a quota of free permits from the government to make their investment competitive. It will foster a nanny State, mendicant attitude.

In many cases the best placed companies to develop and fund the migration to cleaner energy processes, including renewables, are the big emitting companies. The CPRS, by putting a hole in the balance sheets of these companies, will stifle this activity.

On top of this the Government has made little or no attempt to allow for the impact of the global financial meltdown on the capacity of companies – either administratively or competitively – to cope with the transition to one of the biggest structural changes in our history.

Even the ability of companies to source the finance to buy $13 billion worth of permits is highly problematic in the middle of the worst credit crunch in 80 years.

The Coalition believes the community has been given a totally false and misleading impression on the real costs of the CPRS by the government's misleading presentation of the Treasury modelling.

Regional Impacts

Research commissioned by the NSW Government into the regional impacts of the Government's scheme found that regional centres across Australia, such as Gippsland, Geelong, central-west Queensland, the Hunter Valley, central Western Australia, the Kimberley region and Whyalla / Port Pirie, would shrink by over 20 per cent under the Rudd government's scheme.

Work presented at the recent Farm Institute Conference showed that the average dairy farm will face a new annual indirect tax impost of $6,000 to $9,000, with no capacity to offset this cost.

Similarly, the beef and sugar industries will each see a $60 million tax passed back in the price they receive for their cattle and sugar cane.

The grains industry, a very low emitter, will face annual indirect costs of $ 500 million. This emissions tax would sit on top of tariffs faced by our grains industry.

The latest proposed US legislation, explicitly excludes agriculture from the cap but explicitly includes agriculture in the opportunities to develop offsets, as a means of creating a revenue stream for farmers.

This is a clear indication that the US is heading towards the development of a market-based scheme, in concert with voluntary, regulatory and incentive-based measures. Such possibilities have been totally ignored here in Australia in the frantic rush to get legislation before the Parliament.

Critical areas such as agriculture and Australia's huge commercial building sector are not in the scheme and are effectively ignored as sources of abatement.

The Rudd scheme involves a tax that indirectly and significantly hits the bottom line of these sectors, with no incentive to abate or achieve offsets.

Certainty

Providing “certainty to business” is one of the Rudd government’s most repeated reasons for the passing of the legislation.

However, businesses have said they don’t want the certainty of not being able to compete. They want a scheme which preserves their international competitive position.

Anglo Coal Australia CEO Seamus French has said that certainty was not preferable to getting the design right for business. "We don't want the certainty of a bullet," he said.

Nothing undermines certainty more than the bullying tactics that have been on display from the Rudd government in recent weeks when it has threatened business with the removal of any assistance under an ETS and attempted intimidation to get support for its badly designed model.

The government’s arguments that its emissions trading legislation needs to be rushed through Parliament have been undermined by the Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC), Yvo de Boer, who revealed that the UN does not require countries to have legislation in place before the Copenhagen meeting.

The Opposition has recognised the imperative is that Australia goes to this conference with a united position on targets, not a flawed scheme.

Changes to the CPRS announced 4 May 2009

The changes announced by the Rudd government on 4 May 2009 are nothing more than tinkering, largely arbitrary, with a flawed ETS likely to damage the economy. There is still no credible demonstration that the government’s scheme is the most cost-efficient or effective way to reduce carbon emissions.

In our view the proposed changes make the government’s scheme even more complicated and fail to address several of the key objections levelled by business and community groups, namely:

There is still no forecast of the near-term impact of the ETS on jobs and economic growth.

Australia’s trade-exposed industries are at a disadvantage to their competitors, (although the disadvantage is less severe than in the original scheme).

There is still no assurance that overall emissions will be reduced by investment in complementary abatement measures such energy efficiency. The energy efficiency measures that the government has proposed are largely tokenism.

Australia’s largest export earner, the coal industry, is still treated anomalously.

Productivity Commission

Coalition Senators believe the start date is less important than getting the scheme right.

Delaying the passage of the legislation through the parliament provides the Rudd government the opportunity to refer the design of their scheme to the Productivity Commission to assess whether it meets the nation's economic and environmental objectives.

Such an assessment would provide an objective external assessment, free of political bias, of the proposed Rudd/Wong CPRS on the Australian economy.

Coalition Senators urge the government to refer the CPRS legislation to the Productivity Commission for an independent assessment.

Pearce Review

The Coalition has evaluated the Government's legislation, and its impact on jobs and emissions.

To assist our policy review the Coalition commissioned an independent review of the government's White Paper by the Centre for International Economics, a review which received nearly 50 submissions from industry and organisations.

The CIE report (Pearce Review) was released on 30 April 2009 and backs the Coalition assessment that the Government is rushing ahead with a scheme that will tax Australia's largest exporters and employers, damage their competitiveness and put jobs at risk, without any analysis of the immediate costs, without any analysis of alternative approaches, without considering the impact of the global financial crisis and without considering the actions or inactions of major competing countries.

The Pearce Review findings included:

- The proposition that the CPRS generates abatement at lowest possible cost has not yet been demonstrated;
- There is no clear understanding of the transitional costs of the CPRS and there is a risk that, if these are not properly understood, unexpected transitional costs may derail the policy;
- The non-trade neutrality of the CPRS poses a major challenge for a number of important industries — this non-neutrality brings no environmental benefit;
- The scheme potentially threatens the balance sheets in a number of key industries;
- It is not clear that the proposed CPRS will produce higher net benefits than will other available alternatives;

- At the very least, more consideration should be given to complementary energy efficiency measures; and
- Many of the major aspects of the CPRS have not been modelled and, therefore, neither have the tradeoffs inherent in particular design choices.

The Pearce Review also recommended that a Regulatory Impact Statement (RIS) should be prepared for the CPRS legislation. A RIS is required by the Australian government when a regulatory proposal is likely to have significant impact on business, individuals and the economy. Coalition Senators are surprised a RIS has not been carried out on the government's CPRS and consider it is essential that this be undertaken as soon as possible.

Senate Select Committee on Fuel and Energy

The Senate Select Committee on Fuel and Energy released its interim report on 7 May 2009 entitled 'The CPRS: Economic cost without environmental benefit." The report assessed the impact of higher petroleum, diesel and gas prices across the economy. In particular the report found:

- The proposed CPRS will be ineffective in reducing global emissions;
- The government has not addressed the concerns raised about the short and medium term impact of the CPRS on the economy and jobs;
- Australia's trade exposed industries will continue to be disadvantaged compared with their competitors (unlike in the much cited European ETS); and
- Many other flaws explored in some detail in the Select Committee's report have not been addressed.

Similarly, the Coalition Senators on the Senate Economics Committee had grave misgivings about the appropriateness of the extravagant Rudd/Wong CPRS model and recommended that the government go back to the drawing board and consider alternative models more appropriate for Australia's needs as a small nation generating only 1 per cent of world GDP and emitting a mere 1.4 per cent of global emissions.

The Rudd government has said Australia should play its "fair share" in this global endeavour. This raises the question of what is a "fair share" for Australia.

The Coalition Senators believe that a "fair share" for Australia should match the reality that Australia produces a very low proportion of world emissions and any Australian carbon emissions reduction scheme should be balanced and not zealously overcompensate for Australia's contribution to global carbon emissions at great cost to our economy and people's welfare.

Proposed amendments to the CPRS legislation

Given that the Coalition Senators' view is that the structure of any Australian carbon reduction scheme should be informed by the outcome of the Copenhagen conference, there is little point in detailed discussion of the government's proposed amendments. However, it should be noted that the Coalition does support recognition of voluntary action and encouragement of the development of renewable energy sources, including solar power. This is because solar is one renewable energy source Australia is blessed with in abundance. Coalition Senators accepted the case made to limit the eligibility for inclusion of greenhouse gases emanating from landfill.

Coalition Senators are surprised that the government did not heed the amendments proposed by Griffith Coal to correct a disadvantage the legislation imposes on the Western Electricity Market (WEM). The WEM is largely gas dependent in comparison with the Eastern Electricity Market (the so called "National Electricity Market" in the parlance of Treasury). Coalition Senators recommend that the government instruct Treasury to reconsider Griffith Coal proposed amendments to avoid WA producers being selectively disadvantaged.

Coalition Senators regard the evidence given by the Minerals Council of Australia at the hearings conducted in Canberra on May 29 as sending serious warning signals to Australia about the potentially devastating impact of the Rudd/Wong CPRS on the Australian economy.

The Minerals Council raised a number of issues about the impact of the proposed CPRS in the Australian economy which require answers, as is shown in the Hansard record of the May 29 hearings of questions put to Mr Hooke:

> Senator EGGLESTON—You also mention that China, Japan, our regional trading partners, and India are unlikely to introduce an emissions trading scheme, yet that is one of the fundamental predications on which this proposal by the government is based. For that reason, if these other countries do not come on board, it seems obvious that Australia will be bearing a higher cost from the Emissions Trading Scheme and the price of carbon if it cannot be traded off. Given that scenario, what do you think will be the impact on investment in Australia?
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> Mr Hooke—We are operating in a global economy, the minerals sector globally is probably one of the most globally integrated sectors and there is no shortage of global resources; therefore, Australia has to be very careful that it does not get carried away by its own rhetoric about our comparative advantage in the endowment of natural resources. In addition, we have seen significant rationalisation and consolidation of the minerals industry globally over the last decade—so much so that the top five companies in any of the product sectors is doing somewhere between 40 and 80 per cent of the business and probably more of the inventory. That means that these guys will strategically deploy capital where there is the best opportunity to realise it.
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> What Australia is doing, wittingly or unwittingly, is increasing the sovereign risk associated with those investment decisions. If we impose a tax or a price on carbon that, in effect, becomes a tax, because we do not have the technologies to adjust, if our competitors are not facing the same kinds of costs and if we saddle our industry with costs they cannot either adjust to or absorb, you do not need to be either a Philadelphia lawyer or an

> economist to know that they will move their activities to where they do not have those costs. That is known as carbon leakage. That may well be, in an economic sense, a most efficient way to go; but essentially, to correct one externality, we are intervening with another that goes straight to the bottom line if we do not have the technologies to adjust and if we do not have the profit to adjust. The day before yesterday, one of our member companies at the Minerals Week seminar put on the record that, had this scheme existed in the preceding five years, it would have knocked 65 per cent of their pre-tax profit and he made the statement that his headquarters in London would have shut down their operations here in Australia.
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> Senator EGGLESTON— Are there any other specific examples of industries where you think companies might reconsider their future in Australia if this scheme is introduced as is?
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> Mr Hooke—Across the minerals sector, there has been a lot of attention and focus on coal. But this is not just a coal story; this is across the board. The gold industry will be looking at a $700 million hit to the bottom line over five years. Then there is anybody who is in the business of smelting and refining across all of the minerals, which are emissions intensive activities. Much is made of the assistance to ‘big polluters’, but I would make the point that 90 per cent of Australia’s minerals exports—and we are predominating exporting, as you know—will receive no shielding from the full impact of this scheme, while their competitors will face no impacts.

The Minerals Council presented a report by Dr Fisher of Concept Economics which suggested that the introduction of the CPRS could result in serious job losses in the mining sector of some 24,000 direct job losses and another 100,000 indirect job losses.

It was held by other witnesses that jobs lost in the minerals sector would be compensated for by the creation of so-called green jobs. However it was stated that such compensatory green jobs would be relatively lower paid that those in the mining sector. Senator Fisher questioned Dr Fisher of Concept Economics on this matter:

> Senator FISHER—Dr Fisher, drawing on your extensive experience in matters economic and indeed beyond our really important mining sector, given the prediction about job losses in the mining sector and the consequent damage to the mining sector, together with the views by others that there will be an increase in jobs in the green sector and a beneficial impact on the green sector as a result of the CPRS legislation, what is your view as to whether or not the economic benefits in terms of predicted jobs and so on to the green sector, should it eventuate, will compensate for the economic damage done by the CPRS across the rest of the economy?
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> Dr Fisher—The answer to that can be short, but it is also long in the sense that what we have done in the modelling and what the Treasury has done is to make an assumption that, if we take the full economy, for every job that is lost in one place there will be another job of some description elsewhere. The high paid workers in the minerals industry, for example, will be displaced and that is what we have been talking about today, and in the long term there will be a job somewhere else in the economy. That is the way the

> modelling has been set up. But to make that work what both the Treasury and I have done in the national modelling is to allow the real wages of workers to fall. We have held total employment constant, but to allow that to occur we have allowed real wages to fall.
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> What is happening here is that real wages have to be lower than they otherwise would have been to maintain everybody in a job. Nobody is being very forthcoming about that particular assumption. In the debate everywhere it has been dressed up as what is called model closure.
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> Model closure is a technical term for the way in which you make these models work effectively.
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> Senator FISHER—Both you and Treasury are saying that in order to stop job losses you are going to have to incur pay loss?
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> Dr Fisher—Yes, reduce real wages.
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> Senator FISHER—Keep your job by reducing your take home pay?
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> Dr Fisher—That is correct.

At the hearings on 29 May 2009, Senator Joyce questioned Mr Price from Frontier Economics about the impact of the proposed CPRS on regional Australia:

> Senator JOYCE—I just want to talk about the regional issue there. The model still assumes full employment; therefore it assumes the transferability of the employment workforce from Mackay to building wind chimes in Nimbin.
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> Mr Price—That is not to suggest, though, that these models do not actually indicate regional effects. Some studies that we did before were widely reported in terms of the regional effects of these types of schemes. Even if you have the modelling that I think was reported by the Minerals Council in the paper today, which talks about there being an aggregate effect and which talks about a loss of jobs, you have to understand that that does not necessarily imply that employment and absolute value are going down; it is just that the growth of employment is lower than it would have otherwise been. So, on the one hand, you have the government saying, 'Our modelling shows that employment will grow,' and, on the other hand, you have the Minerals Council saying that employment will shrink. They are actually saying the same thing but reporting different numbers, so you have to understand that. But, even if our aggregate employment stays the same under an emissions trading scheme, there will be regions which involve very carbon intensive activity which will be in significant decline.
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> Senator JOYCE—Where are those regions?
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> Mr Price—It is not hard to imagine: wherever there is major industrial activity.
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> Senator JOYCE—Such as?
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> Mr Price—Central Queensland, the Latrobe Valley, the Hunter Valley, the Kimberleys—anywhere that you have major energy using, particularly industry. Coalmining is an example. Of course—and I have said this before in this forum—if you did not have an adverse effect on those regions, the

> scheme would not work. You have to actually cause a reduction in those industries to achieve a reduction in emissions. It depends on what the government's policy objective is. That may make sense if they can manage the structural adjustment from one industry through to another and manage the flow of resources from, say, Central Queensland to South-East Queensland, where new jobs are found for the green industry.

Low income groups

Coalition Senators were concerned that low income groups would be subject to increasing costs of electricity and consumer goods on lower relative wages. Coalition Senators believe the organisations representing the low income sector of the community should reflect more deeply about the implications of the CPRS for the groups they represent. It is clear that those at the lower end of income scales in our society who will be most disadvantaged by the impact of Labor's CPRS.

Sadly, while compensation may be planned all too often it is those relatively powerless people at the bottom end of the income scale whose interests are compromised when conditions change.

Conclusion

The Coalition will offer bipartisan support to the government for the carbon abatement targets Australia takes to the Copenhagen climate change conference in December.

This means the government can go to the conference with a united Australian position in seeking a global commitment to addressing climate change. That united position is for an unconditional reduction in emissions of five per cent from 2000 levels by 2020, and a reduction of up to 25 per cent in the event of a comprehensive global agreement.

In light of the fact that the Copenhagen conference is only six months away, and the Obama Administration and US Congress are well advanced in finalising US legislation for an ETS, the Coalition believes that it would be premature to lock Australia into an ETS that is out of step with the rest of the world.

The Coalition therefore will move in the parliament to defer a final vote on the government's proposed ETS until after the Copenhagen meeting.

In order to enable immediate action on climate change, the Coalition proposes the establishment of a Government-authorised voluntary carbon market from 1 January 2010 based on the Chicago Climate Exchange. This would enable the immediate involvement of individuals and communities, agriculture and bio-sequestration, the commercial building sector, energy efficiencies by business, and other complementary measures in creating bankable offsets.

These voluntary measures will enable immediate action on achieving Australia's 2020 targets and will create an opportunity for individuals, communities and firms to help Australia deliver larger abatement than the government targets once a full scheme is in place.

The Australian Climate Exchange predicts that "at least five per cent additional reduction by 2020 could very easily and conservatively be achieved through voluntary measures."

The government has already chosen to delay the effective start date of its own ETS to 2012. This is an appropriate acknowledgement of the current economic climate, and offers Australia a window to get our scheme right and ensure it does not export jobs, investment or emissions.

In particular, it is clear that the emerging Obama plan will offer 100 per cent protection for US export and import-competing industries until 2025. The Government's current plan would therefore leave many of Australia's most successful industries (and largest employers and taxpayers) at a crippling competitive disadvantage.

It is critical for Australia's treatment of these industries to align with the treatment received by their competitors.

The deferral in start date also offers an opportunity for the government to allow the Productivity Commission to assess the efficacy of its proposed scheme, and its impact on jobs, regions and agriculture if competing economies adopt comparable measures many years later than expected.

The Coalition will augment its support for emissions reduction targets with a significant renewable energy support package in the near future.

The Coalition's overall approach will allow Australia to take a unified commitment to emissions reduction to Copenhagen. It also enables an earlier start to emissions abatement and the potential to build on 2020 targets, via voluntary action. In the meantime it allows Australia to get its ETS right – saving tens of thousands of jobs and billions of dollars in investment by ensuring our scheme is in step with the rest of the world.

Additional Comments by Senator Barnaby Joyce, Leader of the Nationals in the Senate

My additional comments must be seen as a caveat on the concluding comments of the report.

The National Party believes that any agreement that Australia should sign up for must be fully assessed against the ramifications to our major exports which are based in regional Australia. Therefore, the support for a 5 per cent reduction would be conditional upon this effect, and support for any global agreement would have to be genuinely global, in a mechanism that was not disproportionately detrimental to Australia's economic position.

Our belief is that decisions regarding a CPRS go beyond sole focus on an ETS, as we see an ETS as one of a whole range of solutions encompassed as carbon pollution reduction schemes.

The current further investigations into the economic effect of carbon pollution reduction schemes, and the premise of their accountability as spelt out by such as Lord Monckton should be fully examined in the devising of future schemes.

All schemes should take into account the capacity of further science and further analysis being able to change the aspects of delivery of any package. It should absolutely be acknowledged that those who don't have the capacity to pass costs on will be the ones who have to pay the cost. After all subsidies are finished, the questions all Australian citizens have to ask themselves is "am I in a position to pass this cost on or do I have to pay the costs, and am I prepared to pay these costs in the long term, and does my nation have the capacity to carry these costs with its desires for other expenditure alternatives?"

The creation of an overhead is never a stimulant and the ETS in its current form is a definite overhead.

It also must be acknowledged that the current scheme regardless of what may be the public belief will do absolutely nothing to reduce global carbon emissions.

It is a political gesture and there is an imperative that the political house must be extremely sceptical of voting for poll-driven gestures. Otherwise we put our nation on a slippery slope of a whole range of possibly popular but not completely well founded ideas.

Senator Alan Eggleston
Deputy Chair

Senator Barnaby Joyce
Member

Senator David Bushby
Participating Member