

Chapter 7

Impact of the Carbon Pollution Reduction Scheme on job security, and Australia's states and regions

Introduction

7.1 As discussed in chapter 5, the proposed Carbon Pollution Reduction Scheme (CPRS) will have a significant impact on trade exposed industries. Chapter 7 explores the evidence provided to the committee regarding how this will impact on employment, including the effects of this in particular states and regions.

7.2 The majority of evidence received by the committee indicated that there will be significant job losses as a result of the CPRS if implemented in its current form, particularly in trade exposed industries. Although there may be some job opportunities in emerging 'green industries', the evidence indicates that these are unlikely to offset the jobs lost, particularly those lost in trade exposed industries.

Employment security

7.3 The Australian Workers' Union (AWU) unequivocally communicated their view on the importance of employment security:

Every job in every enterprise is important to us and the AWU will be doing everything in its power to retain these jobs for the future to maintain the living standards of our workers and the health of our communities and the future for our children.¹

7.4 The majority of evidence addressing the employment implication of the CPRS indicated that there would be significant job losses, particularly in regional areas, and they would fall most heavily in trade exposed industries. The committee also received evidence regarding opportunities for growth in employment in low emissions industries.

7.5 The modelling undertaken by the Department of the Treasury (the Treasury) indicated the share of employment will decline in the following sectors in the CPRS -5 scenario as against the reference case: coal mining, gas mining, refinery, aluminium, coal fired electricity, construction, accommodation and hotels, and other services. Sectors that increase the share of employment in the modelling are dairy cattle, grains, forestry, other food, other manufacturing, other electricity, business services and public services.²

1 Tabled Document, *Paul Howes' Opening Statement, Monday 02/02/09*, tabled by Mr Brad Crofts, Environmental Economist, Australian Workers' Union, 19 February 2009.

2 Australian Government, *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, 2008, p. 165.

7.6 However, the committee notes that given the Treasury assumed in its modelling that 'full employment' would be maintained (as noted in chapter 4), no conclusions can be drawn at all from the Treasury modelling in terms of the overall impact of the proposed CPRS on jobs.

7.7 The committee received evidence from Mr Daniel Price from Frontier Economics noting that:

...when one of these models has produced an outcome of full employment, it is a modelling assumption; it is not a modelling result...But the way the model seeks to achieve full employment is to adjust Australian industry, and the way it does that is to change, mostly, real wages.

...

So, if you want to achieve full employment in the model, real wages decline because what is happening is that our costs are going up because of an emissions trading scheme. To remain internationally competitive, something has to give.³

7.8 In the committee's view the way in which the Treasury modelling information on employment levels was presented by the government is misleading. For example, it is obvious based on the evidence that any increase in so called 'green jobs' in the Treasury modelling is merely the result of the assumption of 'full employment' being maintained. That is, if jobs are lost in all other industries, to comply with the government's forced assumption of 'full employment', 'green jobs' have to increase in the model, even if they will not grow in reality.

7.9 The committee heard evidence from a number of trade exposed industries stating that unless Australia's competitors are forced to take similar emissions reduction action, the CPRS will result in reduced production or future investment in Australia, which will lead to job losses. The industries which gave evidence to the committee include cement, coal mining, aluminium and steel.

7.10 For example, Mr Michael Hitchens from the Australian Industry Greenhouse Network stated, particularly in relation to trade exposed industries:

The proposals that are in the emissions trading scheme—in the white paper—do not, as I said, fully offset the competitive disadvantages that those Australian companies will face. That will have an impact on both jobs and investment in those industries in Australia.⁴

7.11 A similar view was expressed by Mr Ralph Hillman of the Australian Coal Association, who stated 'there will be job losses as a result of the CPRS and...they

3 Mr Daniel Price, Managing Director, Frontier Economics, *Committee Hansard*, 2 April 2009, pp 16-17.

4 Mr Michael Hitchens, Chief Executive Officer, Australian Industry Greenhouse Network (AIGN), *Committee Hansard*, 2 February 2009, p. 35.

will impact on regional areas.⁵ He continued by explaining that the jobs that are at risk include 'substantial construction jobs as well as ongoing jobs for the actual mining operation.'⁶

7.12 In addition to potential job losses in industries that are considered trade exposed, Qantas, which as discussed in chapter 3 is not considered to be strongly affected, argued that the CPRS will impact on jobs in the aviation sector: 'It is possible that, by adding a further significant deadweight cost to the business that we have to absorb, it is possible that there are further implications'.⁷

7.13 When asked about the changes to the structure of the Australian economy and resultant changes to jobs, Mr David Pearce of the Centre for International Economics explained to the committee that:

I expect that some [jobs] will appear in Australia and some will appear overseas. Also, it is of course very unlikely that it will be the same person who loses a job in the coal industry and then becomes a software engineer in some other industry. It is clearly most likely to be a different person. This really comes to my point that we do not really understand a lot about the short-term and transitional consequences of the CPRS, and the transitional effects are very, very microeconomic. They are exactly the things you are talking about. The transitional costs are experienced at the very micro level.⁸

7.14 Contrary to the view that significant job losses were inevitable, in particular in coal mining and in the steel industry, as expressed by every employer or employer group appearing before the inquiry, the committee considered the views expressed by union officials to be surprisingly optimistic.

7.15 The Construction, Forestry, Mining and Energy Union (CFMEU) was one of only a few witnesses who maintained that the union does 'not think there will be job losses in coalmining due to the CPRS'.⁹

7.16 Mr Paul Howes, National Secretary of the Australian Workers' Union, stated 'I do not believe that a single member of mine needs to lose their job because of the

5 Mr Ralph Hillman, Executive Director, Australian Coal Association (ACA), *Committee Hansard*, 2 April 2009, p. 8.

6 Mr Hillman, ACA, *Committee Hansard*, 2 April 2009, p. 8.

7 Mr Peter Broschovsky, Group General Manager, Environment and Fuel Conservation, Qantas Airways, *Committee Hansard*, 19 November 2008, p. 45.

8 Mr David Pearce, Executive Director, Centre for International Economics (CIE), *Committee Hansard*, 2 April 2009, p. 32.

9 Mr Peter Colley, National Research Director, Mining and Energy Division, Construction, Forestry, Mining and Energy Union (CFMEU), *Committee Hansard*, 19 November 2008, p. 117.

advent of the CPRS.¹⁰ Mr Howes, however argued that the effects of the global financial crisis need to be taken into consideration and companies provided assistance to protect businesses and jobs:

I think it is important that during the Senate's deliberations on the legislation that thought is given to how we best assist companies that are in severe financial distress at the moment, regardless of the carbon price once the ETS is introduced...¹¹

7.17 Further, Mr Howes argued that there may need to be:

...a strong mechanism to allow companies who are severely affected by the global financial crisis to possibly have a quarantine or an additional application just for the period of the financial crisis...¹²

7.18 A number of witnesses discussed the possibility of new 'green jobs', some of whom argued that Australia should take up the opportunity to develop new industries and gain from this new area of growth.

7.19 The Commonwealth Scientific and Industrial Research Organisation (CSIRO) argued that:

...achieving a rapid transition to sustainability via emission trading and related mechanisms would have little or no impact on national employment...achieving the transition will require a massive mobilisation of skills and training – both to equip new workers and to enable appropriate changes in practices.¹³

7.20 Mr Howes stated 'you can see there is potential for the expansion of new jobs in new industries, such as alternative fuel sources, carbon capture and storage and so on'.¹⁴

7.21 The Australian Conservation Foundation agreed enthusiastically that 'there is a major potential in green industries, renewable energy and recycling'.¹⁵

7.22 Pacific Hydro argued that an increase in renewable energy will create:

...tens of thousands of jobs...they are not some kinds of devalued jobs in the economy. The jobs that we talk about are the same sorts of jobs that you

10 Mr Paul Howes, National Secretary, Australian Workers' Union, *Committee Hansard*, 2 February 2009, p. 72.

11 Mr Howes, AWU, *Committee Hansard*, 2 February 2009, p. 71.

12 Mr Howes, AWU, *Committee Hansard*, 2 February 2009, p. 72.

13 Commonwealth Scientific and Industrial Research Organisation (CSIRO), *Submission 25*, p. 10.

14 Mr Howes, AWU, *Committee Hansard*, 2 February 2009, p. 74.

15 Mr Owen Pascoe, Climate Change Campaigner, Australian Conservation Foundation, *Committee Hansard*, 2 February 2009, p. 92.

would have in a coalmine—electrical engineers, steel fitters, concreters and things like that.¹⁶

7.23 The Queensland Resources Council agreed that job opportunities are likely to emerge in the renewable energy sector, however raised the issue of the need to consider the full impact of different types of jobs:

I think probably the modelling that needs to be done...is the multiplier effects of those jobs. Do we get the equivalent multiplication of mining from 50,000 to 216,000 jobs as in Queensland?...That would be an important piece of analysis to be able to compare like with like.¹⁷

7.24 Mr Hillman also raised the issue of a job in one industry not necessarily being of equivalent value to the economy as a job in another industry, arguing that the loss of coal mining jobs will be particularly costly:

...coalmining is globally competitive and a totally competitive industry. It can stand on its own feet without any government assistance, and we are constantly irritated to see references in the press to coalmining receiving assistance. The only assistance it receives is the fuel rebate that every other operation in Australia receives. So what you are going to do is replace globally competitive jobs, something Australia does better than anybody else in the world, with jobs which are probably going to have a substantial element of subsidy—such as wind farms that are based on a substantial element of subsidy provided by the proposed renewables target. So in a way they are second-rate jobs in that respect.¹⁸

7.25 The committee understood the issue of potential job losses to be of particular importance because of the impact of the global financial crisis (GFC) on employment. For example, Mr Hillman, Executive Director of the Australian Coal Association informed the committee that the GFC 'has had an enormous impact on the coal industry...We have 3000 redundancies already declared. There is the prospect of more'.¹⁹

7.26 The committee, on assessing the evidence provided regarding employment, was concerned that the 'green jobs' that may be created as a result of the change to a lower emissions economy would not offset the jobs that are likely to be lost as a result of the implementation of the CPRS. Further, the committee was particularly concerned by the evidence indicating that those who lose their jobs are not likely to be the same people who will be employed in emerging industries, therefore potentially

16 Mr Andrew Richards, Executive Manager, Government and Corporate Affairs, Pacific Hydro, *Committee Hansard*, 2 April 2009, p. 38.

17 Mr David Rynne, Principal Adviser, Industry Policy, Queensland Resources Council, *Committee Hansard*, 20 February 2009, p. 37.

18 Mr Hillman, ACA, *Committee Hansard*, 2 April 2009, p. 9.

19 Mr Hillman, ACA, *Committee Hansard*, 2 April 2009, p. 3.

leaving those who lose their jobs with very few options. This is of particular concern given the current economic circumstances.

Impact on Australian states

7.27 The committee received evidence about the impact of the CPRS on Australian states, particularly Queensland and Western Australia, which have a high number of trade exposed industries.

7.28 The Department of the Treasury modelling examined the impact of emission pricing across states:

Real gross state product (GSP) falls in most states/territories (Chart 6.17 and 6.18). Generally, the faster growing states, Queensland and Western Australia, face the greatest impacts from emission pricing...

The impact of emission pricing on GSP is heavily influenced by differences in industry composition and the degree of export orientation across states.²⁰

Queensland

7.29 The Department of the Treasury informed the committee that 'Queensland is the most affected state of Australia, with South Australia being the least affected state.'²¹ However:

While Queensland is the most emissions intensive state and it is expected to be most affected relative to the reference scenario, the Queensland economy in absolute terms under the CPRS minus five scenario by 2050 is expected in the modelling to have the strongest growth over that period of any state...the modelling is that Queensland will still experience the highest economic growth over the next 40 years even though it is the most affected state as a result of the CPRS minus five scenario.²²

7.30 The Australian Coal Association explained to the committee that 2700 of the redundancies in the coal industry which were as a result of the GFC were in Queensland.²³

7.31 The Queensland Resources Council explained the importance of the coal industry and mining more broadly to Queensland:

Coal is the most significant export commodity produced in Queensland and accounts for approximately half of the mining sector's economic and employment contribution. As at November 2008, the coal sector had in

20 Australian Government, *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, 2008, p. 159.

21 Ms Meghan Quinn, Manager, Climate Change Modelling Division, Department of the Treasury, *Committee Hansard*, 2 April 2009, p. 68.

22 Ms Quinn, Department of the Treasury, *Committee Hansard*, 2 April 2009, p. 83.

23 Mr Hillman, ACA, *Committee Hansard*, 2 April 2009, p. 3.

excess of 22,000 fulltime equivalent employees. It goes without saying that mining is critical to the prosperity of regional Queensland.

...

The broader resources sector in Queensland employs directly about 50,000 people, but with the multiplier effects you are talking about another 216,000 people.

...

We are talking about 12 per cent of Queensland employment that is in the resources sector.²⁴

7.32 The Queensland Resources Council also argued that Queensland is receiving insufficient compensation through the Electricity Sector Adjustment Scheme (ESAS):

Despite estimations that the CPRS will impose a \$3 billion direct asset loss on Queensland's black coal fired generation fleet over their remaining lives, it is not clear why they will only receive two per cent, or \$60 million, of the proposed assistance measures during the first five years of operation of the CPRS under the Electricity Sector Adjustment Scheme. By contrast, and despite having very high emissions intensities, Victorian brown coal fired generation assets are expected to receive \$3.4 billion in direct assistance, representing approximately 75 per cent of asset losses associated with the introduction of the CPRS.²⁵

Western Australia

7.33 The committee also heard evidence about the impact of the CPRS on Western Australia.

7.34 The Western Australia Department of Treasury and Finance argued:

Western Australia is the most trade-exposed state in the country. About 45 per cent of our income in 2006-07 was derived from exports compared to 20 per cent nationally. The final scheme design and how it treats trade-exposed emissions-intensive industries is what will drive how Western Australia fares under the emissions-trading scheme...²⁶

7.35 The Chamber of Commerce and Industry of Western Australia argued that the people of Western Australia will experience the greatest impact:

Mr Canion—Clearly, WA is an isolated location. We rely on freight to get products in and out of the country, and it is long-distance freight at every turn. This adds a cost impost right through the economy, so we are very

24 Mr Michael Roche, Chief Executive, Queensland Resources Council, *Committee Hansard*, 20 February 2009, pp 25, 35 and 36.

25 Mr Roche, Queensland Resources Council, *Committee Hansard*, 20 February 2009, p. 28.

26 Ms Amy Lomas, Assistant Director, Emissions Trading Unit, Department of Treasury and Finance, Western Australia, *Committee Hansard*, 17 November 2008, p. 117.

vulnerable to changes and fluctuations in fuel pricing. That gets passed right through the supply chain down to the end user or consumer of that product.

CHAIR—More so than in any other state?

Mr Canion—We believe so, based on our geographic isolation and, also, a lot of our heavy industry is in the north-west of the state, which is one step further again from Perth, and you are talking thousands of kilometres potentially to travel.²⁷

7.36 The Western Australia Department of Treasury and Finance argued that Western Australian consumers will be paying higher prices for energy to benefit Eastern Australia:

...the community pays for an emissions-trading scheme in the form of higher energy prices, but in Western Australia the major structural adjustment will be observed on the east coast, so a consumer paying more for energy in Western Australia does not necessarily see a large number of new gas-fired projects or renewables coming onstream. They are paying for that to happen on the east coast, which is really the point of an emissions-trading scheme: where it is cheapest for these things to happen is where you will see it happen first.²⁸

7.37 The issue of the distribution of the ESAS compensation was also raised in regard to Western Australia by Griffin Energy:

Mr Trumble—...90 per cent is going to approximately four very large brown-coal-fired plants in Victoria and South Australia.

CHAIR—How much of it is going to Western Australia?

Mr Trumble—\$24 million of the \$3.9 billion is returning to Western Australia to two plants owned by the state owned generator, Verve Energy.²⁹

7.38 The Western Australia Department of Treasury and Finance argued that as a result of the CPRS:

We will see a shift away from the intermediate processing, particularly in the resource industries. So where we have, say, gold refining or processing base metals up into concentrates, the emissions-trading scheme will distort the activity away from that value-adding process and push it back towards

27 Mr Andrew Canion, Senior Advisor, Industry Policy, Chamber of Commerce and Industry of Western Australia, and Senator Mathias Cormann, Chair of the Senate Select Committee on Fuel and Energy, *Committee Hansard*, 17 November 2008, pp 6-7.

28 Ms Lomas, Department of Treasury and Finance, Western Australia, *Committee Hansard*, 17 November 2008, p. 115.

29 Mr Wayne Trumble, Executive General Manager, Power Generation, Griffin Energy, and Senator Mathias Cormann, Chair of the Senate Select Committee on Fuel and Energy, *Committee Hansard*, 18 February 2009, p. 6.

more the raw materials. That would be contrary to perhaps how state governments have wanted to develop the Western Australian economy away from a 'dig it up and ship it off' economy into a more value-added economy. This will provide a driver back towards digging it up.³⁰

7.39 The committee is concerned about the impact of the CPRS on Western Australia, given the economy of Western Australia is resource and energy intensive and relatively less diversified and mature than the economies of the eastern states.

7.40 The committee is of the view that the CPRS as proposed will constrain Western Australia's ability to diversify and mature its economic base by developing value adding economic activities.

7.41 As discussed in chapter 6, the committee also received evidence about the energy security issues facing Western Australia.

Impact on regional areas

7.42 Mr Price confirmed to the committee that the New South Wales (NSW) Government commissioned Frontier Economics to undertake modelling of the impact on regional areas of the CPRS as proposed in the Green Paper.³¹ The Frontier Economics report provided to the NSW Government was released to News Limited following a Freedom of Information request.³²

7.43 The Frontier Economics modelling reportedly found that the effect of the CPRS would be 'much more severe' in the states and regions where the economy is based on emissions intensive industries.

The modelling found the impact on coal prices would mean the economies of Gippsland and central-west Queensland contracting by more than 20 per cent.

The gross regional product of the Hunter Valley in NSW and central Western Australia would fall by about 20 per cent...³³

7.44 The modelling also reportedly found that the economy of the Kimberley region would contract by over 25 per cent.³⁴ The committee notes the evidence provided by Mr Price that given the changes to the treatment of liquid natural gas

30 Ms Lomas, Department of Treasury and Finance, Western Australia, *Committee Hansard*, 17 November 2008, p. 118.

31 See evidence from Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, pp 13-15.

32 See evidence from Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, p. 15.

33 Lenore Taylor and Imre Salusinsky, 'ETS "to shrink regional growth"', *The Australian*, 26 March 2009, p. 1.

34 Lenore Taylor and Imre Salusinsky, 'ETS "to shrink regional growth"', *The Australian*, 26 March 2009, p. 1.

(LNG) in the White Paper, the impact on the Kimberley region will not be this severe.³⁵

7.45 On 2 April 2009, the committee requested that the NSW Government provide the report as prepared by Frontier Economics to the committee. At the date of publishing no response has been received by the committee.

7.46 The *State of the Regions 2008-09* report concluded:

The cost of climate change (enhanced water security, loss of production and carbon prices) will fall disproportionately on non-metropolitan regions. Non-metropolitan region households will have up to double the cost of climate change, compared to metropolitan regions, with only a quarter to half the capacity of metropolitan regions, in terms of income and wealth, to absorb the additional costs of climate change.³⁶

7.47 The committee received a considerable amount of evidence regarding the impact of the CPRS on regional areas. The disproportionate impact is largely due to the location of many trade exposed industries in regional areas. Mr Price of Frontier Economics put the view: 'If carbon intensive regions were not adversely affected, the whole scheme would not work.'³⁷

7.48 Mr Price explained to the committee that Frontier Economics has undertaken modelling which shows that regional economies will contract by 20 per cent compared to the reference case, in which there is no emission trading scheme (ETS).³⁸ He stated that modelling showed the following regions will most likely be affected by the introduction of an ETS:

Central Queensland, South-West Queensland, the Hunter-Illawarra, Gippsland, which is the Latrobe Valley, pockets of South Australia—very severe effects on South Australia because they have so little industry. The Kimberleys before—they will still be affected but not as badly as our initial results.³⁹

7.49 Consistent with the view put to the committee by a number of organisations from regional areas, the Gladstone Chamber of Commerce and Industry expressed concern that there is no publicly available government modelling that shows the impact of the CPRS on regional areas.⁴⁰

35 Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, p. 14.

36 National Economics/Australian Local Government Association, *State of the Regions 2008-09*, [p. 1] preface.

37 Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, p. 18.

38 Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, p. 14.

39 Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, p. 19.

40 Mr Rocky Donovan, Vice President and Mr James Robertson, President, Gladstone Chamber of Commerce and Industry, *Committee Hansard*, 7 April 2009, p. 20.

7.50 The National Institute of Economic and Industry Research informed the committee that their research indicated the areas that will be hardest hit by the CPRS are those that have significant emissions intensive industries:

Because the resource industries—that is, mining and smelting and so forth—are emissions intensive, you end up with the non-coastal Queensland, plus parts of the Queensland coast—places like Townsville—remote Western Australia, South Australia north of Port Augusta. You also end up, fairly obviously, with the areas where heavy industry is still quite important—places like Wollongong and the western suburbs of Melbourne. So it is not entirely a remote area hit. It is simply a reflection of where the carbon-intensive industries are.⁴¹

7.51 The CFMEU explained that:

...the mining and power generation industries take place primarily in regional areas rather than in major urban areas and that because of that they tend to have a significant multiplier effect on jobs at the regional level.⁴²

7.52 The Australian Coal Association pointed out that in addition to employing a large number of people in regional areas, it contributes 'to the social fabric of the nation, including through the underwriting of significant rail and port infrastructure as well as social infrastructure in regional and more remote communities.'⁴³

7.53 The National Farmers Federation also argued that the CPRS may have a disproportionate impact on regional areas:

The other issue is the potential for a disproportionate impact on regional communities. We must remember that regional communities have limited access to public transport works and also are more exposed to fuel for transportation over greater distance. Therefore they have greater exposure to fuel use, which means that potentially they could be disproportionately affected by any emissions trading scheme implemented on the domestic market.⁴⁴

7.54 Virgin Blue argued that aviation:

...is the key to the viability of many Australian regional economies.

...

When we go to a regional centre, us taking an aircraft there is far more than us providing air travel. The reason that regions like us to go there is because

41 Dr Ian Manning, Deputy Executive Director, National Institute of Economic and Industry Research, *Committee Hansard*, 17 February 2009, p. 24.

42 Mr Colley, CFMEU, *Committee Hansard*, 19 November 2008, p. 109.

43 Mr Burt Beasley, Acting Executive Director, Australian Coal Association, *Committee Hansard*, 2 February 2009, p. 58.

44 Mr Charles McElhone, Economics Manager, National Farmers Federation, *Committee Hansard*, 19 November 2008, p. 2.

of the ongoing economic impact that we have. You need it to sustain those regional environments.

...

When we go into a new market, by providing reduced fares in that market, we stimulate activity. That activity is not just the airfare; it is the hotels and the taxi fares and all the other things that go with stimulating a local regional economy.⁴⁵

7.55 The Australian Council of Social Service stated:

We have real concern for those communities likely to be adversely affected by change, but we think also that much of this change will be a while in coming and that arrangements can be put in place for transition.⁴⁶

7.56 The Australian Council of Social Service also pointed out that despite the difficulties faced by some communities, new opportunities are likely to arise:

There are going to be some particular communities that suffer extremely adverse effects and some categories of workers and some industries. But on the other hand—and I think we have worked very hard to look at the other hand in recent times—there ought to be industries and opportunities that spring up in those opportunities in place.⁴⁷

7.57 Pacific Hydro explained that employment in the renewable energy industry is based in regional areas.⁴⁸ Similarly, the Biofuels Association of Australia informed the committee that the majority of jobs in the biofuels industry are in regional areas.⁴⁹ Therefore if these industries grow, this is likely to have a positive affect on employment in regional areas. The Biofuels Association of Australia argued that:

If the biofuels industry in Australia was provided with the right policy environment then the Biofuels Association of Australia believes...This would create 3,000 green jobs in regional Australia and when indirect employment flow on effects are taken into account, a further 1,280 green jobs in regional Australia. In total regional Australia would benefit by 4,280 green jobs.⁵⁰

45 Mr Simon Thorpe, General Manager, Safety Systems, Virgin Blue Airlines, *Committee Hansard*, 20 February 2009, pp 12, 14 and 15.

46 Mr Tony Westmore, Senior Policy Officer (Electricity), Australian Council of Social Service (ACOSS), *Committee Hansard*, 19 February 2009, p. 3.

47 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 11.

48 Mr Bernard Wheelihan, Chair, Pacific Hydro, *Committee Hansard*, 2 April 2009, p. 38.

49 Mr Ross Beames, Member, Biofuels Association of Australia, *Committee Hansard*, 20 February 2009, p. 47.

50 Biofuels Association of Australia, answer to questions on notice, 20 February 2009 (received 20 March 2009).

7.58 The committee considered the issue of the impact of the transition from jobs in one industry, for example coal, to jobs in another industry, for example renewable energy. Mr Price informed the committee that:

...the actual transitional pain that we see from any structural change in industry is in fact completely assumed away in these models [used by Treasury].

...

The cost of all the friction that causes the economy not to adjust as seamlessly and costlessly is not included. None of the actual social costs of dislocating communities are included. I think that is going to be pretty severe. It is unlike any other policy in that it comes along and almost overnight changes the relative economics of industry.⁵¹

7.59 One of the main themes of the evidence received by the committee in regional areas was highlighted by Mr Glenn Churchill representing Gladstone Area Promotion and Development Limited who explained that:

...there needs to be a balanced community awareness program so that everybody can be aware of what this truly means from the industrial giants right down to Mr and Mrs Smith.⁵²

7.60 The Australian Chamber of Commerce and Industry also argued for an educative initiative to inform small business of the impact of the CPRS on their operations.⁵³

Assistance for people in regional areas

7.61 The Department of Climate Change explained that while the assistance for emissions intensive trade exposed (EITE) industries is designed nationally, those areas with more EITE exposure will receive more compensation.⁵⁴

7.62 The Western Australia Department of Treasury and Finance argued for more assistance to be allocated to regional communities, rather than to coal fired power generators:

That assistance, instead of being provided to a coal-fired power generator, may actually be better off being provided directly to the community or the regions that will be experiencing that structural adjustment more acutely, because that adjustment will occur regardless of the provision of that

51 Mr Price, Frontier Economics, *Committee Hansard*, 2 April 2009, pp 19 and 21.

52 Mr Glenn Churchill, Chief Executive Officer, Gladstone Area Promotion and Development Limited, *Committee Hansard*, 7 April 2009, p. 39.

53 Mr Greg Evans, Director Economics, Australian Chamber of Commerce and Industry, *Committee Hansard*, 8 December 2008, p. 61.

54 Mr Barry Sterland, First Assistant Secretary, Emissions Trading Division, Department of Climate Change, *Committee Hansard*, 19 November 2008, p. 73.

assistance, so those communities will experience the impacts of that regardless of the provision of assistance to the generator.⁵⁵

7.63 Further, the department argued:

...there may really be a case for regional and remote households to receive additional assistance to help them adjust to the Carbon Pollution Reduction Scheme above and beyond the standard level of assistance that is proposed to be provided to households in the Commonwealth's green paper.⁵⁶

7.64 The Australian Workers' Union argued that any assistance should be designed to support ongoing employment:

My primary concern would be to ensure that the assistance that will be made available will actually support our industries and workers—that workers maintain their jobs and industries remain profitable—that it is a key contribution that the assistance could be making to the economy.⁵⁷

7.65 The committee sought information from regional areas considered likely to be impacted by the CPRS, and held public hearings in Wollongong, Mackay and Gladstone. The report now considers the evidence regarding specific regional areas.

Regional Queensland

7.66 The committee heard evidence on the impact the CPRS is likely to have on the regional economy and future investment in regional Queensland.

7.67 The Queensland Resources Council informed the committee that 'in the central and north-west regions...mining accounts for approximately 90 per cent of those regions' economies.⁵⁸

7.68 As discussed in chapter 5, Cement Australia has put on hold a possible expansion to their Gladstone plant, pending the outcome of the CPRS, putting at risk 50 ongoing jobs and hundreds of construction jobs.⁵⁹

7.69 The Gladstone Chamber of Commerce and Industry argued that they are 'concerned that the only real burden from a carbon trading scheme will be imposed on citizens and small business and large industry will be exempt.'⁶⁰

55 Ms Lomas, Department of Treasury and Finance, Western Australia, *Committee Hansard*, 17 November 2008, p. 115.

56 Ms Lomas, Department of Treasury and Finance, Western Australia, *Committee Hansard*, 17 November 2008, p. 116.

57 Mr Bradley Crofts, Economist, Australian Workers' Union, *Committee Hansard*, 19 February 2009, p. 52.

58 Mr Roche, Queensland Resources Council, *Committee Hansard*, 20 February 2009, p. 25.

59 Mr Stuart Ritchie, National Sustainability Manager, and Mr Matthew Lawson, Commercial Manager, Gladstone Plant, Cement Australia, *Committee Hansard*, 7 April 2009, pp 9-10.

7.70 The Mackay Regional Council explained to the committee the impact of the CPRS on local councils, including the cost of emissions from landfill and increased costs for fuel and energy. The council informed the committee that the only method of funding the increased costs was by increasing rates, which they estimated may need to rise by as much as 10 per cent.⁶¹

7.71 On the issue of green jobs, the Gladstone Area Promotion and Development Limited argued that green jobs 'are the way of the future', however 'not to the detriment of current jobs and the potential for jobs especially in the Surat basin with the future of the coal industry.'⁶²

7.72 However, the Gladstone Regional Council stated that it is unlikely that sufficient green jobs would be created in the region to off-set the possible job losses.⁶³

7.73 Mr David Phillips, the General Manager of Mackay Tourism highlighted the importance of the tourism industry to the area, employing 6000 full-time people in the region. Mr Phillips explained that most of the tourism operators 'are acutely aware of the need to protect and sustain our environmental performance in this region.'⁶⁴ Mr Phillips also explained that the coal industry is critical to the tourism industry in the area as 'It is through the coal industry that Mackay airport...enjoys the airline frequency and the number of seats that it does.'⁶⁵

Wollongong

7.74 Mr Arthur Rorris, Secretary of South Coast Labour Council (the Labour Council), explained that the Wollongong area has 'a significant base of heavy industry' which 'employs...thousands of workers locally and makes up what we call the backbone of the regional economy.'⁶⁶

7.75 Mr Rorris further explained that the Labour Council:

...wants to explore the options for the region to create the so-called green jobs, or sustainable jobs...It is something that our region needs to pursue in

60 Mr Robertson, Gladstone Chamber of Commerce and Industry, *Committee Hansard*, 7 April 2009, p. 16.

61 Councillor Darryl Camilleri, Deputy Mayor and Mr Barry Omundson, Director, Commercial Services, Mackay Regional Council, *Committee Hansard*, 6 April 2007, pp 31-34.

62 Mr Churchill, Gladstone Area Promotion and Development Limited, *Committee Hansard*, 7 April 2009, p. 36.

63 Councillor George Creed, Mayor, Gladstone Regional Council, *Committee Hansard*, 7 April 2009, p. 27.

64 Mr David Phillips, General Manager, Mackay Tourism, *Committee Hansard*, 6 April 2009, p. 23.

65 Mr Phillips, Mackay Tourism, *Committee Hansard*, 6 April 2009, p. 27.

66 Mr Arthur Rorris, Secretary, South Coast Labour Council, *Committee Hansard*, 1 April 2009, p. 16.

order to be relevant in the post-climate-change world...our ability to plug into that new green economy...will depend on our ability to retain our heavy industry and our heavy industry infrastructure. We see our manufacturing and our related base as the key to actually being competitive in the new green economy...What we are saying, therefore, is that the new green economy is one that will be built on the back of our existing industrial base.⁶⁷

7.76 Mr Noel Cornish, the Chief Executive of BlueScope Steel, explained that:

Currently in the Illawarra we employ 4,700 people. A study that was undertaken in 2006 by an independent research organisation showed that our multiplier effect of indirect jobs is somewhere between 12,000 and 16,000 additional jobs in the Illawarra.⁶⁸

7.77 Describing what he foresees as the impact of the CPRS on BlueScope Steel, Mr Cornish stated:

These are very, very difficult times for most businesses in Australia today...I do not believe that we have any capacity from next year to take on a tax that would not apply to all our competitors in the global marketplace...The tax would be of such a nature that I am not aware of any other steel maker in the world that is going to bear this carbon tax. Even the Europeans, who are in phase 2 of their emissions trading carbon reduction activities, are not talking about imposing taxes on their steel industry until at least 2012...it is tens and tens of millions of dollars of impact from the first year of operation. Of course, it increases at 1.3 per cent per annum...What it means is that if our business becomes unviable in the global marketplace, then the whole Port Kembla steelworks is threatened.⁶⁹

Hunter Valley

7.78 Hydro Aluminium Kurri Kurri, which is based in the Hunter Valley, explained that the 'smelter is the largest employer in the local area, generating jobs for approximately 2,500 workers in the area, including 500 direct employees.'⁷⁰

7.79 The company is evaluating a:

AU\$4 billion investment in the Kurri smelter to secure its long term viability...would generate approximately an additional 3,000 new long-term jobs in the area, as well as approximately 15,000 jobs during an anticipated three year construction period.⁷¹

67 Mr Rorris, South Coast Labour Council, *Committee Hansard*, 1 April 2009, p. 16.

68 Mr Noel Cornish, Chief Executive, BlueScope Steel, *Committee Hansard*, 1 April 2009, p. 30.

69 Mr Cornish, BlueScope Steel, *Committee Hansard*, 1 April 2009, pp 30-31.

70 Hydro Aluminium Kurri Kurri, *Submission 78*, [p. 2].

71 Hydro Aluminium Kurri Kurri, *Submission 78*, [p. 2].

7.80 However, the company argued that 'the combined impact of the RET and the CPRS costs will effectively destroy the economic viability of the smelter.'⁷²

Collie

7.81 The Collie Chamber of Commerce provided information to the committee regarding what they see as the potentially significant impact of the CPRS on their community:

The potential for job losses, migration of residents to other towns as a result of heavy job losses and a loss of community as a result of this process is significant. Towns like Collie, whose economic viability has been closely linked to a strong commitment by successive Federal and State governments to encourage the use and expansion of coal fired power stations puts the town in a precarious position. If the move to the CPRS places any of our major industry entities in a position where operating becomes unprofitable and they choose to close operations...the residents of Collie, its economy and social fabric will be altered forever.

...

The White Paper proposals for the CPRS do not assist the Collie district in any meaningful way. It places the black coal mining industry in a perilous situation and the flow on effect of this in the community is immeasurable at this stage, but likely to be economically and socially disastrous for the town.⁷³

Gippsland

7.82 The Gippsland Area Consultative Committee argued that:

...Gippsland, and especially the Latrobe Valley, is a region likely to be affected by the proposed CPRS in several contexts. The region's key industries...are both emissions intensive and trade exposed and Gippsland is therefore likely to sustain an impact unlike any other region in Australia.⁷⁴

7.83 International Power provided the following information to the committee regarding the impact of the CPRS on the Latrobe Valley:

As currently designed, the Carbon Pollution Reduction Scheme will adversely impact IPRA Latrobe Valley generators – Hazelwood and Loy Yang B Power Stations. As a major employer in the Latrobe Valley district, the impact on the district will also be adverse...With the commercial viability of the two stations being compromised, the ability to maintain

72 Hydro Aluminium Kurri Kurri, *Submission 78*, [p. 7].

73 Collie Chamber of Commerce and Industry, answer to written question on notice, 22 January 2009 (received 9 February 2009).

74 Gippsland Area Consultative Committee, answer to written question on notice, 18 March 2009 (received 16 April 2009).

current workforces (540 at Hazelwood and 140 at Loy Yang B together with the use of full-time contractors of more than 300) is threatened...In summary, the potential impact of the CPRS, as it is currently designed, on the Latrobe Valley district will be immediate, long lasting, immense and adverse.

...

I acknowledge the Government has allocated support through another transitional scheme (Climate Change Action Fund) of which some funds may be directed to the Latrobe Valley but this fund is dwarfed by the potential impairment which would ensue if the CPRS policy remains unchanged.⁷⁵

7.84 The Gippsland Resources Group expressed a different view to the committee:

In its current format, (5-15 percent reduction in carbon emissions, free carbon permits for major polluters) we do not believe there will be major impacts in the short to medium term arising out of the Federal government's carbon pollution reduction scheme (CPRS).⁷⁶

Committee comment

7.85 The committee considers that the current design of the CPRS is flawed. The scheme as currently designed will lead to significant job losses, particularly in trade exposed industries, and will devastate some regional communities. The committee is concerned about the impact of the CPRS on these individuals and communities, particularly given the impact of the GFC.

Recommendation 11

7.86 The committee recommends that the government conduct a proper assessment of the impact of its proposed CPRS on levels of employment, to assess levels of employment as a 'modelling result' rather than including employment levels as a 'modelling assumption'.

Recommendation 12

7.87 The committee recommends that before legislation to introduce the proposed Carbon Pollution Reduction Scheme is passed, the government conduct a more comprehensive assessment of the impact of the proposed CPRS on individual states and regional economies to ensure the scheme, including

75 International Power, answer to written question on notice, 18 March 2009 (received 1 April 2009).

76 Gippsland Resources Group, answer to written question on notice, 18 March 2009 (received 4 April 2009).

compensation arrangements, is structured so that particular states and regions are not disproportionately and unfairly impacted.

Recommendation 14

7.88 The committee recommends that the government properly inform the community how the scheme will impact them and advise of actions they can take to reduce the cost impost of the scheme.