Chapter 6

Regional Australia

Introduction

6.1 Chapter 6 provides an overview of the government's proposed carbon tax and economic modelling in the context of regional Australia. It examines the impact that the proposed carbon tax will have on rural and regional areas.

Background

6.2 Through the introduction of a carbon tax, the government will seek to change consumer behaviour, the result being a reduction in Australia's emissions:

> Pricing carbon will drive structural change in the economy, moving resources towards less emission-intensive industries. Many of Australia's industries will maintain or improve their competitiveness in a carbon constrained world.[1]

6.3 The government has modelled the impacts of the proposed carbon tax at the international, national, state, industry and household level. While that modelling assumes full employment even with a carbon price it identifies that:

> While aggregate economic costs are small, they vary across regions and sectors, reflecting changes in Australia's comparative advantage in a low-emission world. Precise impacts vary depending on the emission intensity of a state, **region** or sector, and the opportunities to diversify into low-emission goods and production processes.[2] [emphasis added]

6.4 In presenting their modelling to government, Treasury noted that:

> Regions heavily reliant on emission-intensive sectors, such as some resource processing and emission-intensive manufacturing, may be the most strongly affected over the longer term.[3]

6.5 Treasury advised the committee that modelling they have undertaken cannot accurately identify the effect that the imposition of a carbon tax will have on regional Australia.

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1 Department of the Treasury, *Strong Growth, Low Pollution – Modelling a carbon price*, Overview, 2011, p. 1.

2 Department of the Treasury, *Strong Growth, Low Pollution – Modelling a carbon price*, Overview, 2011, p. 8.

3 Department of the Treasury, *Strong Growth, Low Pollution – Modelling a carbon price*, Overview, 2011, p. 8.

> **Senator XENOPHON:** On the issue of regional effects, from what I have seen of the modelling, there does not appear to be any regional effects modelling done of the carbon price. Is that a fair assumption?
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> **Ms Quinn:** The analysis that we have put in the public domain includes analysis down to the state level... It does not go below that, except for some additional information on the electricity generation around the Latrobe Valley.
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> **Senator XENOPHON:** Why wasn't that done? You used the MMRF model—correct?
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> ... And the MMRF model does include a regional module.
>
> ... And you did not use that in this case?
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> **Ms Quinn:** It has data at a regional level but it does not have behavioural components of modelling. So it does not allow for the changes of capital, labour and technology at a sub state, regional level ...
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> It is available for people to use if they choose — ... and the Australian Treasury has chosen not to because we do not think that it is robust, and putting information in the public domain that we do not believe is robust has consequences and we do not think it would be consistent with our charter.[4]

Previous government regional modelling exercises

6.6 Treasury's claim that the regional modelling is "not robust" would appear to contradict the practice of other government agencies which conduct general equilibrium modelling of major reforms. For example, both the Productivity Commission and the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) have performed such modelling recently.

6.7 In 1999, the Productivity Commission used an earlier version of the MMRF model used by Treasury to report on the effects of National Competition Policy on rural and regional Australia. They used the MONASH-RR model to estimate the impact of National Competition Policy on 57 separate regions in Australia. Indeed, the Productivity Commission believed that the results were 'robust' enough to use them in their headline finding that 'only one of the 57 regions modelled is estimated not to benefit from NCP in terms of output.'[5] (Coincidentally, that one region was the La Trobe Valley, a region again facing the disproportionate impact of the carbon tax.)

6.8 In 2002, the Productivity Commission used an earlier version of the MMRF model to estimate the output and employment impacts of lowering assistance to the automotive industry on different regional areas. These results found that the largest

4 Ms Meghan Quinn, General Manager, Macroeconomic Modelling Division, Department of the Treasury, *Proof Committee Hansard*, 23 September 2011, p. 1.

5 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Report no. 8, 1999, AusInfo, Canberra, p. xxxix.

negative impacts would be felt in the Adelaide, Outer Adelaide, Melbourne, Geelong and Illawarra regions.[6]

6.9 In 2003, the Productivity Commission used an earlier version of the MMRF model to estimate the output and employment impacts of lowering assistance to the textiles, clothing and footwear industry on different regional areas. These results showed that the largest negative impacts would be felt in the Geelong, Wimmera, Melbourne, Ballarat, Bendigo, Albany, Albury and Gippsland regions.[7]

6.10 In 2005, the Productivity Commission used an earlier version of the MMRF to repeat the modelling of the impacts of National Competition Policy (NCP) that it performed in 1999. The results were once again reported for 57 different regions.[8]

6.11 In 2007, the Productivity Commission used the MMRF model to estimates the regional impacts of the proposed infrastructure related components of the National Reform Agenda reforms in 54 different regions. It is telling that this is the same basic model that Treasury used to estimate the effect of the carbon tax on the Australian economy. The Productivity Commission, while noting limitations, believed that conclusions could be drawn from the regional modelling:

> Subject to data limitations, it is possible to make some broad observations about the likely impacts of the competition and regulatory reform streams on regions, that is, before the impact of government spending decisions on regional activities.[9]

6.12 In 2010, the (then) Assistant Treasurer, Senator, the Hon. Nick Sherry, asked the Productivity Commission to report on the impacts and benefits of COAG reforms. In the Terms of Reference the Assistant Treasurer stated:

> The Commission will develop and maintain analytical frameworks appropriate for the quantification of the impacts and benefits of reform, and the provision to government and the community of assessments of the economy-wide, **regional** and distributional effects of COAG's reform agenda. The frameworks should be transparent, and subject to independent assessment. As far as practicable, the frameworks should be made available for wider use.[10] (emphasis added)

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6 Productivity Commission 2002, *Review of Automotive Assistance*, Report No. 25, Canberra, p. 314.

7 Productivity Commission 2003, *Review of TCF Assistance*, Report No. 26, Canberra, p. 279.

8 Productivity Commission 2005, *Review of National Competition Policy Reforms*, Report No. 33, Canberra.

9 Productivity Commission 2006, *Potential Benefits of the National Reform Agenda, Report to the Council of Australian Governments*, Canberra, p. 28.

10 Productivity Commission 2010, *Impacts and Benefits of COAG Reforms: Reporting Framework*, Research Report, Canberra, p. v.

6.13 It is notable that not only has the government not reported the regional effects of the carbon tax, it also has not subjected its modelling to "independent assessment" or ensured that its modelling frameworks are available for wider use.

6.14 In its framework report on the impacts and benefits of COAG reforms, the Productivity Commission confirmed that it would report the regional effects of its modelling:

> A common economy-wide model will be used to quantify the aggregate, regional and distributional effects of economic outcomes and those environmental and social outcomes that affect economic activity. The model will be similar to that used by the Commission on four previous occasions to illustrate the potential impacts of widely-based national reform: in 1995 for Hilmer and related reforms; in 1999 for a smaller range of NCP reforms of particular relevance to rural and regional Australia; in 2005 to report on the economic and distributional consequences of NCP reforms; and in 2006 to report on the potential benefits of COAG's embryonic National Reform Agenda.[11]

6.15 In 2011, the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) published modelling results of the economic and social effects of the proposed Murray-Darling Basin Plan. ABARES used its Water Trade Model to estimate the impacts of the Plan on 22 regional areas throughout the Murray-Darling Basin.[12]

6.16 In 2011, ABARES released modelling of the potential effects of climate change on forests and forestry in Australia, stating:

> This integrated study drawing together climate modelling, forest growth, economic analysis and community vulnerability assessments is an important step toward understanding the effects of climate change on forest industries at a regional and subregional level.[13]

Committee comment

6.17 The Committee believes there is no reasonable explanation as to why the government has refused to publish similar modelling results on the impact of the carbon tax on rural and regional Australia. If respected economic agencies, such as the Productivity Commission and ABARES, can publish regional modelling results for

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11 Productivity Commission, *Impacts and Benefits of COAG Reforms: Reporting Framework*, Research Report, Canberra, December, 2010, p. xvii.

12 ABARES, *The economic and social effects of the Murray–Darling Basin Plan: recent research and next steps*, 2011.

13 ABARES, Potential effects of climate change on forests and forestry in Australia, August, 2011, http://adl.brs.gov.au/data/warehouse/pe_abares20110824.01/CCforest_Synthesis_National_2011_HR.pdf. (accessed on 4 October 2011).

other government policy initiatives, then there is no reason that the Treasury cannot do the same for the carbon tax.

6.18 The Committee is of the view that the government does not want rural and regional Australia to know what the impact of the carbon tax would be according to Treasury modelling.

6.19 The government should of course require Treasury to conduct proper modelling of the carbon tax impact on rural and regional Australia.

Third-party modelling of the impact of the carbon tax on regional areas

6.20 Although the Commonwealth Government has not released regional modelling results of the carbon tax, state governments in Queensland, New South Wales and Victoria have done so.

6.21 In Queensland, the Labor State Government released modelling on 23 August 2011 of the carbon tax undertaken by the Queensland Government's Office of Economic and Statistical Research[14]. The results of this modelling indicate that parts of regional Queensland will be the epicentre of the carbon tax negative impact on future prosperity. The Rockhampton and Gladstone area will see economic activity fall by 8.2 per cent under a carbon tax, the Mackay area by 5.7 per cent, double to triple the impact of the carbon tax on the rest of Australia[15].

Table 6.1: Impacts of carbon pricing on statistical division activity output, across Queensland as a cumulative per cent deviation from business as usual[16]

Brisbane	-2.5
Gold Coast	-3.2
Sunshine Coast	-3.3
West Moreton	-0.4
Wide Bay Burnett	0.8
Darling Downs	1.8
South West	2.6
Fitzroy Central West	-8.2
Mackay	-5.7
Northern	1.7
Far North	1.1
North West	-2.1

14 Queensland Government, *Carbon Price Impacts for Queensland*, 2011, August.

15 Senator Barnaby Joyce, *Government must clean on carbon tax's impact on regional Australia*, Media release, 23 August 2011

16 Queensland Government, *Carbon Price Impacts for Queensland*, 2011, August, p.31

6.22 In New South Wales, the State Government released modelling of the carbon tax on 4 August 2011. That modelling, by Frontier Economics, showed that the carbon tax would cost 31,000 jobs, at least 26,500 of which would be lost in regional Australia. The Hunter region would lose 18 500, the Illawarra would have 7,000 fewer jobs and the Central West 1,000 fewer jobs.[17]

6.23 The Victorian Government released modelling on 20 September 2011. The modelling by Deloitte Access Economics showed that there would be 7,073 fewer jobs in regional Australia under the carbon tax by 2015. This included 1,574 fewer jobs in the Geelong area and 1,251 fewer jobs in the La Trobe Valley area.[18]

6.24 The Commonwealth Government has made various criticisms of State Government modelling. However, it has not released its own modelling of the regional impacts of the carbon tax to disprove the broad and consistent finding that the carbon tax will have a disproportionate impact on regional Australia. The Commonwealth Government’s criticisms would have more credibility if it made its modelling available for others to scrutinise its parameters and assumptions.

6.25 It is not surprising that the regional modelling that has been released finds a disproportionate impact on regional Australia. A disproportionate share of Australia’s power generation, mining and manufacturing industry resides in regional Australia, so the carbon tax would be expected to hit regional Australia disproportionately.

Evidence from local regional communities

6.26 Given the lack of regional modelling that has been undertaken by the Commonwealth government, the committee sought evidence from a number of organisations and stakeholders in rural and regional areas to assist its inquiry into the impact of the proposed tax and the effectiveness of the government's compensation package for this sector of the economy.

6.27 Evidence heard by the committee suggests that the effort required to meet the expectation that industries will have to 'evolve'[19] to keep pace with the government's clean energy future will be of greater consequence in rural and regional areas as local business and industry struggle to adapt. The evidence also suggests that the government's proposed compensation package has been inadequately targeted and that many rural and regional businesses will in fact be worse off than their multinational competitors.

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17 Frontier Economics, *Carbon price modelling, prepared for the NSW Government*, August, 2011.

18 Deloitte Access Economics, *Modelling the Clean Energy Future policy*, September, 2011.

19 Department of the Treasury, *Strong Growth, Low Pollution – Modelling a carbon price*, Overview, 2011, p. 9.

Regional New South Wales

6.28 Modelling was prepared on behalf of the New South Wales Government[20] to look at the impact of the proposed carbon tax not only in New South Wales, but across Australia. That modelling found the following:

- 'The most adversely affected regions (taking into account both reference case growth and the impact of the carbon price) are Hunter NSW, Gippsland Victoria, Northern SA, Illawarra NSW, Fitzroy Qld and Central West NSW. In all cases the carbon price results in slower growth in output rather than absolute declines on current levels. The loss in GRP is $820m in Hunter NSW, $250m in Illawarra NSW and $170m in each of Fitzroy Qld and Central West NSW. In dollar terms these effects are less than the impacts on Sydney and Melbourne but in relative terms these effects are generally larger.'[21]
- 'In Hunter NSW, this effect is large in absolute and relative terms, and equivalent to 18,500 jobs. The Illawarra in NSW is also negatively affected by the carbon price (approximately 7,000 jobs) though given that the reference case growth is stronger the net effect is slower growth rather than a contraction on current levels.'[22]

6.29 By 2030, when the carbon price is higher and assistance to emissions intensive trade exposed industries is reduced, the effects are greatest on:

- Hunter NSW (- 42,500, an absolute contraction relative to current levels);
- Illawarra NSW (approximately - 27,400, slower growth in future employment); and
- Fitzroy QLD (approximately 7,400, mostly slower growth in future employment, though this more than offsets projected employment growth between 2010 and 2030)[23]. Regional New South Wales

6.30 Regional New South Wales (NSW) covers 800 000 square kilometres and boasts a population of more than 2 519 000.[24] Its traditional industries include manufacturing, mining and agribusiness.[25]

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20 Frontier Economics, *Carbon Price Modelling – a report prepared for the NSW Government*, August 2011

21 Frontier Economics, *Carbon Price Modelling – a report prepared for the NSW Government*, August 2011, p.26

22 Frontier Economics, *Carbon Price Modelling – a report prepared for the NSW Government*, August 2011, p.27

23 Frontier Economics, *Carbon Price Modelling – a report prepared for the NSW Government*, August 2011, p.27

24 http://www.business.nsw.gov.au/invest-in-nsw/regional-nsw (accessed 18 August 2011).

25 http://www.business.nsw.gov.au/invest-in-nsw/regional-nsw (accessed 18 August 2011).

Tamworth – evidence of the impact of the carbon tax

6.31 The committee held a hearing in Tamworth. This is a major inland centre in New South Wales.

6.32 The committee heard from witnesses from the Tamworth Regional Council and Tamworth Business Chamber as well as the following enterprises:

- Inverell Freighters;
- Bindaree Beef;
- Namoi Valley Bricks; and
- Grain Products Australia.

Local business groups

6.33 These enterprises are medium sized with employee numbers ranging from 28 to 630. These witnesses expressed concern about their ability to absorb or pass on costs in rural areas. They also commented that despite the government's proposal for compensation, they remained apprehensive about their continued financial viability and the subsequent impact on employment in the region.

6.34 The Tamworth Regional Council was also of the view that given the geographical situation of the region, businesses in the region will be disproportionately affected:

> I have some serious concerns which I would like to reflect on, on behalf of the community, as to this current model that is before us here at this moment. I believe that our regional community, because of its geographical situation, will suffer disproportionately from some costs associated with the tax, particularly from 2014 when the fuel imposts will, I believe, be experienced—I would be surprised if they are not. Another area of disproportionate cost is energy, due to our climate—we have extremes of both hot and cold weather which a lot of coastal communities and larger centres do not. This exposes the great difficulty in imposing a one-size-fits-all solution to compensation from the tax.[26]

6.35 The Tamworth Business Chamber shared the concerns of the Council, particularly highlighting the strain that increased electricity prices will have:

> The impost of a carbon tax, while targeted at the top 500 emitters, will have a devastating effect on a number of small businesses according to local feedback. Since 2008, electricity prices have risen on average by 39 per cent, with a further 17.3 per cent approved from July 2011.
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> ...

26 Councillor Colin Murray, Mayor, Tamworth Regional Council, *Committee Hansard*, 3 August 2011, p. 21.

> Regional Australians have to deal with the tyranny of distance and the majority of us expect to pay a little more for products and services. However, these ever-increasing costs are pricing some local retailers and suppliers out of the market. While it can be argued that the government intends to keep the diesel fuel rebate until 2014, what happens after that? After that we believe transportation costs will go up. It will cost us more to have our product delivered to markets and more to have products we want delivered to us.
>
> ...
>
> It is naive to say that this tax is targeted at the 500 biggest emitters as the compensation the government is offering to taxpayers will not cover all increases in costs.[27]

6.36 These same concerns in relation to increased operating costs and continued economic viability were repeatedly raised by the witnesses who appeared before the committee in Tamworth. Those businesses and their views are outlined in the following pages.

Inverell Freighters

6.37 Inverell Freighters expressed concern about increases in fuel costs. Inverell Freighters operate a fleet of 25 prime movers as well as eight other trucks. The business employs 40 people[28] and has an annual turnover of $12 million.[29] The owner, Mr Keri Brown, noted that it was an already difficult operating market with many small operators going out of business.[30] The further impost of a carbon tax will make it even more difficult to remain competitive. Mr Brown stated that it would be difficult for Inverell Freighters to absorb a carbon tax and there would be little likelihood of it being passed onto customers:

> Any equitable tax or charge on industry is certainly harder to absorb in a rural area due to our cost pressures, which are also placed on our customer base. Our customer base is primarily rural, and we all know the problems that rural people have and how difficult it is for them to receive any increase in cost. In some ways, being the size of transport business that we are, we are like farmers; we are price takers. In our business, we are sometimes dictated to as to what costs have to be absorbed.[31]

6.38 Mr Brown also explained to the committee that although the imposition of the carbon tax on diesel has been deferred to enable them to prepare for the transition;

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27 Mr Timothy Coates, President, Tamworth Business Chamber, *Committee Hansard*, 3 August 2011, pp 30–31.

28 Mr Keri Brown, Managing Director, Inverell Freighters, *Committee Hansard*, 3 August 2011, p. 3.

29 Mr Keri Brown, Inverell Freighters, *Committee Hansard*, 3 August 2011, p. 1.

30 Mr Keri Brown, Inverell Freighters, *Committee Hansard*, 3 August 2011, p. 1.

31 Mr Keri Brown, Inverell Freighters, *Committee Hansard*, 3 August 2011, p. 1.

they are in fact a 'sitting duck' as there is little that they can do to further reduce their emissions:

> ... by its very nature, it [the carbon tax] is designed to inflict pain on us in order to make us change our ways and our patterns of use. This is the nub of the problem, and it is why I have a real problem with it. What can we as a company do? Absolutely nothing. If a carbon tax is imposed on us, we can do nothing. We are a sitting duck. We just pay the tax and try and pass it on. Nothing in our pattern of usage can change. We are unable to effect any changes whatsoever.[32]

6.39 Inverell Freighters anticipates that as a result of the carbon tax its fuel costs will increase by $350,000 per year. Mr Brown explained his concern to the committee that, in an industry already experiencing slim profit margins, the additional impost may be the 'straw that breaks the camel's back':

> **CHAIR:** So if you put a $350,000 additional cost on top of less than zero what does that do to you?
>
> **Mr Brown:** You ring Ritchie Brothers, the auction house, and put all your stock through that. Seriously, that is where it goes. As a typical small business one of the issues you constantly face—we have had to face this challenge over the last three years—is whether you eventually pull the pin. But you have loyal staff who have been great to you. It is their livelihood as well. You just cannot pull the plug on them. I have my son sitting at the back of the room today. This is what he wants to do for a living. Those are the sorts of pressures that you have, which are non-business pressures. You cannot tip out these people who have been loyal to you over such a number of years and say: 'Sorry, I'm pulling the pin. Send it off to Ritchies, the big auction house.' How much did we say it was?
>
> **Senator WILLIAMS:** $350,000.
>
> **Mr Brown:** With another $350,000 it is goodbye.[33]

Bindaree Beef

6.40 Bindaree Beef Pty Ltd is a privately owned and family operated company; it is one of Australia's largest beef processing and exporting businesses. The business now operates one plant at Inverell in northern NSW and is a major local employer. It employs 630 full time equivalent staff.[34] The business directly injects in excess of $64 million into the town of Inverell per annum.[35]

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32 Mr Keri Brown, Inverell Freighters, *Committee Hansard*, 3 August 2011, p. 1.

33 Mr Keri Brown, Inverell Freighters, *Committee Hansard*, 3 August 2011, p. 6.

34 Mr Phillip Kelly, Chief Financial Officer, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 13.

35 Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 13.

6.41 Bindaree Beef Pty Ltd expressed concern that the cost burden that will be introduced as a result of a carbon tax will negatively affect the long-term viability not only of Bindaree Beef but also the broader beef industry. Mr Phillip Kelly, Bindaree Beef's Chief Financial Officer, explained to the committee that under a carbon tax, although Bindaree Beef has already taken action to reduce their energy usage, electricity would remain a major cost and a cost which they expect would rise by 17 per cent – or $1.6 million per year:

> Our annual electricity cost is about $3.2 million. My projected figures over the next two years are an increase of $1.6 million, so that will take our annual electricity costs to $4.8.[36]

6.42 Mr Kelly explained that under the government's proposed compensation package, Bindaree Beef would not receive any assistance:

> **Mr Kelly:** A critical issue that everyone needs to be aware of is that because of our turnover we fall into the large business categories, so we fall outside the net of typical government funding support programs.
>
> **CHAIR:** So you do not get any compensation under the carbon tax?
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> **Mr Kelly:** No.[37]

6.43 Bindaree Beef explained that it is seeking to implement measures that will reduce its costs including their electricity usage; as a private company their ability to modernise its plant and equipment is hampered. This contrasts with the situation of its three major competitors who are likely to be included in the top 500 emitters and who are therefore likely to receive some assistance through direct government support:[38]

> **Senator WILLIAMS:** I want to take you to your competitors—Swift, Cargills, Teys Bros. I know Teys Bros are up for $2 million under the carbon tax alone, let alone their electricity and extra fuel et cetera. Are you saying that because they are amongst the top 500 they will get some compensation from the government?
>
> **Mr Kelly:** Given that they are multinational companies, some shareholder driven with one in particular backed by a government bank and another a very diverse multinational and multicommodity company, they have access to funding arrangements and so forth that we unfortunately do not. As a small family-owned business, we face issues like the banking industry in Australia not banking meat-processing businesses. We are fortunate we have got a very good relationship with our existing banker. The other impost, which I have spoken about before, is that we fall outside of the net when it comes to government funding programs because we are classed as a large business.
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> ...

36 Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 12.

37 Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 12.

38 Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 13.

> **Senator WILLIAMS:** Have you had any indication whatsoever that there may be some financial assistance from the government when they collect this carbon tax money to help you through your transition or to help you to compete?
>
> **Mr Kelly:** There is nothing that I have seen so far in the information I have been given which indicates that Bindaree Beef will qualify for any support.[39]

6.44 Mr Kelly expressed to the committee the difficulty of the industry as price takers. He indicated that Bindaree Beef would try to absorb as much of the impact of a carbon tax but ultimately they would need to pass on the costs to their customers, the cattle producers:

> As a business we try to absorb as much of any cost increase we can. Ultimately, that gets passed on to our customers. Our customers of livestock are cattle producers. Cattle producers are facing enough problems in the Australian industry at this point in time. They can ill afford to suffer any decrease in income. It is an absolute furphy that agriculture will be exempt from any carbon tax. Primary producers, as the ultimate price takers, are at the end of the line and primary producers will take on board increased costs in their business, either through direct increased costs or lower prices for their commodities.[40]

6.45 Like Inverell Freighters, Bindaree Beef also suggested that the added impost of a carbon tax may be the 'backbreaker' for their business:

> **Mr Kelly:** The impact of the carbon tax on Bindaree Beef could possibly be the backbreaker.
>
> **Senator CAMERON:** Are you serious about that?
>
> **Mr Kelly:** I am deadly serious. I am very passionate about it because I protect 630 employees, I protect the viability and economic long-term viability of the township of Inverell, I protect the cattle producers who provide us with cattle and I protect the beef industry.[41]

Namoi Valley Bricks

6.46 Namoi Valley Bricks (NVB) is a family owned company that has operated since 1959. At present, NVB employs 28 staff, 26 in Gunnedah and two in Sydney. The company also engages several transport contractors. NVB has an annual turnover of $4.5 million and operates on thin profit margins, of approximately three per cent.[42]

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39 Senator John Williams, Senate Select Committee on New Taxes and Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 16.

40 Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 17.

41 Mr Phillip Kelly, Bindaree Beef Pty Ltd, *Committee Hansard*, 3 August 2011, p. 19.

42 Mr Michael Broekman, Owner, Namoi Valley Bricks, *Committee Hansard*, 3 August 2011, p. 39.

6.47 Mr Michael Broekman, owner of NVB, explained to the committee the steps that his family business has taken over the past few years in an effort to meet their carbon responsibilities. He explained their involvement in biodiversity and their commitment to running a clean and efficient organisation which had resulted in their business having emission levels 20 per cent below the national average for brick manufacturing.[43] Mr Broekman, however, voiced his concern that the carbon tax, in its current format, is too complicated and does not support businesses in renewable technology:[44]

> Over the last few years, as the carbon debate has come to the forefront, we have ... tried to look at ways for our organisation to meet our carbon responsibilities. We have done so by getting involved in biodiversity. We have 400 acres of native bushland locked up for biodiversity needs. We have a policy on using ethanol fuels, looking at trying to get into biodiesel. We have also done an audit on our emissions—an emissions study—and found that our organisation runs at about 20 per cent below the national average in relation to brick manufacturing. We have done that because (1) we have a responsibility and (2) running a clean and efficient organisation means that it should be more profitable.
>
> In recent times we have been looking at solar as an offset against power cost. Our organisation would need to run something like a 200-kilowatt system to be power efficient or power neutral. A 200-kilowatt system would cost us in the vicinity of $750,000 to implement, which was unaffordable. The repayments on that sort of program would outweigh the cost. So we looked at other options, or other avenues, and ended up coming back down to a 150-kilowatt system, at about $450,000 worth of infrastructure costs. Again, we cannot get the numbers to add up; we cannot get it to work. But the cost of that renewable energy technology does not allow us to offset against our power.
>
> It is disappointing, because those are the sorts of things we should be doing as a business, and that is what I was hoping to see out of a carbon tax: that businesses like ours could be supported in renewable objectives. So far in the package—which, I admit, I have not had a lot of time to look through to the nth degree—I do not see a lot of incentives for businesses like ourselves to be able to change our ways of doing things with some sort of government support.
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> ...
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> from what I can see so far, the model that has been put up is full of waste and is not directed at the real cause.[45]

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43 Mr Michael Broekman, Namoi Valley Bricks, *Committee Hansard*, 3 August 2011, p. 39.

44 Mr Michael Broekman, Namoi Valley Bricks, *Committee Hansard*, 3 August 2011, p. 39.

45 Mr Michael Broekman, Namoi Valley Bricks, *Committee Hansard*, 3 August 2011, pp 39 – 40.

6.48 Mr Broekman explained that as his business's main competitors are large multinationals, the introduction of the carbon tax will further undermine his company's competitiveness:

> **Mr Broekman:** Our competitors are the multinationals in the building products game—Boral, Austral, CSR, PGH and the like. At the moment, there are only three independent brick makers left in New South Wales...
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> **CHAIR:** To the extent that imposing a carbon tax further undermines the competitive position in Australia and makes overseas emitters, often emitting more for the same product, more competitive and helps them take market share, we are not actually resolving the issue, are we? We are not actually reducing global emissions; we are just shifting emissions from Australia to other parts of the world.
>
> **Mr Broekman:** That is right.
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> **CHAIR:** So why would we do that? Why would that be a sensible thing to do?
>
> **Mr Broekman:** I am not in government, so I do not know why we want to go down this path. That is the argument. My view is that there must be a simpler way of doing this that gives us clear direction and a clear result.[46]

6.49 Mr Broekman, like Inverell Freighters and Bindaree Beef, also expressed a concern about the ability of his business to pass on the cost of price increases to consumers and the effect that will have on his business's profitability:

> **Senator CAMERON:** And when the carbon tax is implemented there is an opportunity then to pass those price rises through, is there not?
>
> **Mr Broekman:** There is if you have a robust economy, but our business is very much affected by the two-tier economy. The building sector in New South Wales is in a very depressed state and we work in a very competitive environment. At times, over the history of our business, yes, it has happened, but at this stage, with the nature of our industry and the way the economics is running, there would be no chance of passing that on.
>
> **Senator CAMERON:** All of the analysis that I have seen would lead me to believe that you can pass it on. In fact, one of the things the government has had to do is to provide powers to the ACCC to make sure people do not pass too much on.
>
> **Mr Broekman:** Again, it is great that the ACCC will get those powers, but I can assure you that, due to the nature of our business and our industry, trying to bring in price increases will be detrimental to our turnover.
>
> **Senator CAMERON:** What specific increase for 1,000 bricks would be caused by the carbon tax?
>
> **Mr Broekman:** Again, I am only a small-business owner. I just do not have the resources to work that out. We are a small business in rural New

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46 Senator Mathias Cormann, Chair, Senate Select Committee on the Scrutiny of New Taxes and Mr Michael Broekman, Namoi Valley Bricks, *Committee Hansard*, 3 August 2011, pp 39 – 40.

> South Wales that struggles to survive on a day-to-day basis. To spend resources to try to work that out is impossible.
>
> **Senator CAMERON:** The Treasury estimates the overall impact on the economy is 0.7 percent. Do you agree with that?
>
> **Mr Broekman:** That is right. I have said here earlier that I do not think the carbon tax in its current structure will break our business but it could have a detrimental effect on our bottom line. A one per cent increase in costs could affect our bottom line by at least a third.
>
> **Senator CAMERON:** But if the public are aware that they are being recompensed for any increase in the cost of bricks then you would be in a position to pass through your increases, would you not?
>
> **Mr Broekman:** If the industry were not so competitive then yes, you could. But, even with the last wages increase that has just come through, we tried to pass on those costs to our consumers and that has already affected our sales.[47]

Grain Products Australia

6.50 Grain Products Australia (GPA) is a small starch manufacturing plant in Tamworth. It employs 67 permanent full-time employees and 14 casual staff. GPA has annual revenue of $50 million; one third of that revenue is derived from exports. GPA's annual wheat requirement of 60 000 tonnes is sourced from the region – from farms in the area north-west of Tamworth. GPA uses a local flour mill, which employs 38 staff, to mill its wheat.[48]

6.51 GPA explained that the proposed carbon tax will threaten the future viability of the plant which, following recent upgrades to equipment has remained unprofitable for a number of years.[49]

6.52 Mr Henry Segerius, the Director and General Manager of Operations, Grain Products Australia, identified a number of concerns with the carbon tax, all of which will threaten the business's ongoing viability including an inability to pass on higher costs because of intense competition; the direct cost impact that will result from the imposition of the tax without a consequential benefit to the business; and the fact that GPA's overseas competitors have no equivalent cost impost on their electricity expense. Mr Segerius explained that the cost of natural gas to GPA's main competitor is just one-third of the cost that they pay in Tamworth.[50] In addition, Mr Segerius

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47 Senator Doug Cameron, Senate Select Committee on the Scrutiny of New Taxes and Mr Michael Broekman, Owner, Namoi Valley Bricks, *Committee Hansard*, 3 August 2011, p. 42.

48 Mr Henry Segerius, Director and General Manager, Grain Products Australia, *Committee Hansard*, 3 August 2011, p. 47.

49 Mr Henry Segerius, Grain Products Australia, *Committee Hansard*, 3 August 2011, p. 47.

50 Mr Henry Segerius, Grain Products Australia, *Committee Hansard*, 3 August 2011, p. 47.

voiced concern that the costs of reporting and compliance following introduction of a carbon tax will be high and detract from running a business:

> ... it is clear that the tax and its administration will impose added costs which will reduce our competitiveness and threaten the viability of the business. At the same time the tax will not provide any more incentive to reduce our emissions than is already the case through high and increasing electricity and coal costs.[51]

6.53 It is GPA's concern that Australia is going to pay a very high price to try and influence the rest of the world to take action against carbon emissions.[52] Mr Segerius went on to say:

> **Senator MADIGAN:** We have heard today about the so-called level playing field and the free market. Under what is proposed by the government your company—an Australian company—will pay the carbon dioxide tax and your competitors exporting to Australia will not.
>
> **Mr Segerius:** Correct.
>
> **Senator MADIGAN:** Would it be fair to say that that will put you at an even further disadvantage under a so-called level playing field?
>
> **Mr Segerius:** Yes.
>
> **Senator MADIGAN:** How much bang for your buck do you think your company is going to get from this proposed tax in reducing emissions?
>
> **Mr Segerius:** None.[53]

Regional Queensland

6.54 Queensland's population is more geographically dispersed than any other mainland state; just 45.7 per cent of the Queensland population live within the capital city compared to an average of 63.8 per cent in the other Australian states.[54] The economy of the state owes its relative strength to the industries of mining, agriculture and tourism.

Mackay – evidence of the impact of the carbon tax

6.55 The committee held a public hearing in Mackay. At that hearing the committee heard from a number of industry groups – the Chamber of Commerce and Industry Queensland, the Mackay Whitsunday Regional Development Corporation,

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51 Mr Henry Segerius, Director and General Manager, Grain Products Australia, *Committee Hansard*, 3 August 2011, p. 48.

52 Mr Henry Segerius, Grain Products Australia, *Committee Hansard*, 3 August 2011, p. 50.

53 Senator John Madigan and Mr Henry Segerius, Grain Products Australia, *Committee Hansard*, 3 August 2011, p. 54.

54 http://www.oesr.qld.gov.au/products/tables/historical-tables-demography/index.php (accessed 9 September 2011).

the Mackay Area Industry Network, and Tourism Whitsundays as well as the following businesses:

- Mackay Canegrowers;
- Queensland Nickel;
- Mackay Sugar; and
- CQ Rescue.

Local business groups

6.56 The Mackay region's economy is largely driven by mining, farming and tourism.[55] These industries all stand to be negatively affected by the added impost of a carbon tax. Witnesses from the Mackay region identified that the existing additional challenges faced in regional areas would be compounded under a carbon tax.

6.57 According to the Mackay Policy Council of the Queensland Chamber of Commerce and Industry:

> ... in regional areas, the cost of transport is more significant than it is in metropolitan areas. Most consumables and business inputs have a big transport component in them. Regional businesses and consumers will be disadvantaged compared to their counterparts in the capitals by any increase in transport costs.
>
> ...
>
> There is a bigger transport component in our regional way of life because most goods are produced or circled through the capitals. Food, building materials, medical supplies and inputs for just about everything have a bigger transport component when you are in the regions than they do in the metropolitan areas. For that reason, the regions will be more impacted by the carbon tax.[56]

6.58 Speaking on behalf of their 300 members, Mr Peter Grant, Chair of the Regional Policy Council of the Chamber of Commerce and Industry Queensland, voiced the concerns of local businesses:

> As residents of a regional area and as representatives of business in a regional area, we are greatly concerned about anything that disadvantages our businesses and communities in regional areas compared to the metropolitan areas. We are very strong advocates for decentralisation. Queensland already is quite decentralised, but there are always pressures to centralise. People who live in the regions do so for many and varied reasons. Even from an environmental point of view there are certain

55 Mr Peter Grant, Chair, Regional Policy Council, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 1.

56 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 1.

advantages in having a decentralised country and not being concentrated in large metropolitan areas.[57]

6.59 Mr Grant explained that business confidence in the region, which has remained weak since the global financial crisis, has fallen further in the three months since the announcement of the carbon tax.[58] Mr Grant identified that the concern of businesses is that the carbon tax will stifle growth, which will in turn damage their viability in the region:

> Business confidence has been poor since the GFC. Alarmingly, it has fallen further in the last three months as highlighted by a recent Pulse Survey we did of business conditions in Queensland. Even in Mackay, which should be the epicentre of the resources boom, business conditions are less than buoyant in most sectors and have fallen in the last three months. Business confidence is essential for employment and investment in business. The proposed carbon tax along with other factors is something [sic] the confidence of business owners. Businesses are concerned that the carbon tax will put the brakes on mine development and the flow-on effect will be felt by all those almost supporting businesses in this region.[59]

6.60 Mr Grant also raised concerns with the government's proposed compensation package:

> Businesses are also concerned that the tax seems to be a business tax. Households will be compensated with businesses left to pay. Many are just hanging on with profitability and capital investment levels already poor and they fear that the added cost will push some of them over the edge.[60]

6.61 Mr Grant did explain to the committee that household compensation is necessary, however, to ensure that demand and consumer spending is not further suppressed. The concern of businesses is that the proposed tax and compensation package will be inefficient:

> I am not going to argue against compensating households because that will suppress demand even further. We are in a situation already where household demand is at very low levels. We can see that retailers are struggling to entice customers into their stores. Retailing is a very large employer so we certainly would not want to see household demand stifled any further. If you take the position that you have to have a carbon tax, I am not going to argue against household compensation. However, one of the

57 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 2.

58 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 1.

59 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 1.

60 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 2.

> things that concerns business is that too much of the tax take will not be tied up in administering whatever scheme is brought in. It will be very counterproductive for our economy if we collect $10 and give $5 to households and $3 to renewable projects, and spend $2 administering the whole shebang because we have already reduced our efficiency by 20 per cent.[61]

6.62 He explained that the inability of businesses to pass on any increased costs that result from the carbon tax may lead to the failure of some businesses:

> In some cases, passing on costs will be imperative because the businesses are running very, very close to the wind already. If they are unable to pass the costs on, it could mean the failure of those businesses. If they do pass the costs on, then the consumers of those services and businesses will be paying more. Businesses will fall into various categories. In this area we have some smallish businesses that do export, and generally they will not be able to pass on any of those costs, so those costs will have to be absorbed by their customers.[62]

6.63 Like the Chamber of Commerce and Industry, representatives from the Mackay Whitsunday Regional Development Corporation and the Mackay Area Industry Network, identified that the lack of information about how the tax will work is creating uncertainty, thereby damaging business confidence and driving investment and jobs offshore:[63]

> We have already seen examples of the effect on the market of rising business costs. Industries under threat include the cement industry and we saw the recent closure of Cement Australia's facility at Kandos. This is a good example of potential supply threats to our domestic market. As the number of suppliers declines input costs will rise because competition will decrease or it will go offshore.[64]

6.64 These witnesses also voiced strong concerns in relation to: the cost of living, including housing affordability; exports, as a result of the dollar's high value; tourism which is also suffering; and the unknown costs of administering the tax.[65]

61 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 9.

62 Mr Peter Grant, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 5 August 2011, p. 2.

63 Ms Narelle Pearse, Chief Executive Officer and Managing Director, Mackay Whitsunday Regional Development Corporation, *Committee Hansard*, 5 August 2011, p. 10.

64 Ms Narelle Pearse, Mackay Whitsunday Regional Development Corporation, *Committee Hansard*, 5 August 2011, p. 11.

65 Ms Narelle Pearse, Mackay Whitsunday Regional Development Corporation, *Committee Hansard*, 5 August 2011, p. 11.

Mackay Canegrowers

6.65 Mackay Canegrowers provides representation, advice and services to growers in the Central Queensland region on a wide range of issues including advocacy, marketing, water, workplace health and safety, transport, environment, training and business management.[66] Approximately 4,000 farmers within the Queensland sugar industry produce approximately 30 million tonnes of sugar cane annually. This cane is then processed into four million tonnes of sugar; one million tonnes for consumption in Australia and New Zealand, and the remainder exported.[67]

6.66 Mackay Canegrowers explained to the committee that despite the exclusion of agriculture's direct emissions from the carbon tax, as their key inputs will be affected, their main concern with the tax is the potential it has to lessen the industry's international competitiveness:[68]

> Our principal complaint about a carbon tax is that it lessens our international competitiveness. We are a trade-exposed industry; over 80 per cent of our production is exported. When you hear about the world's sugar-producing countries, what comes to your mind is Brazil, India and Thailand. You have all heard about them being major sugar-producing countries, but they all have a significant domestic market. I am saying that, of all the major sugar-producing countries, we are the most trade exposed by a country mile. Even our domestic sales—that is, what we sell into Australia and New Zealand—have their price discovery anchored to the world price. The world price is the economic engine of our industry. Over 80 per cent of world sugar production never crosses international borders. The international commodity of sugar has been characterised for decades by high levels of government support and market interventions. Certainly the resultant world price that we access as producers in Australia is not necessarily a reflection of the costs of efficient producers within Australia. Hence, it is impossible for Australian cane producers to pass on our costs to any other consumers or any other economic sector. I guess at the end of the day we are the end of the rail line. There is no one else that we can pass our costs on to.
>
> It is our view that a carbon tax simply falls on to our cost bottom line. It makes us less competitive and less profitable. We do not believe our principal competitors, of whom I have articulated a few—Thailand, Brazil, South Africa, Guatemala and India—are exposed, at this juncture, to any trading scheme or any carbon tax. So given that circumstance we believe that a carbon tax will make Australian cane farmers less competitive, whilst conferring a competitive advantage to our competitors.[69]

66 http://www.mackaycanegrowers.com.au/ (accessed 19 August 2011).

67 Mr Paul Schembri, Chairman of the Board, Mackay Canegrowers Ltd, *Committee Hansard*, 5 August 2011, p. 19.

68 Mr Paul Schembri, Mackay Canegrowers Ltd, *Committee Hansard*, 5 August 2011, p. 19.

69 Mr Paul Schembri, Mackay Canegrowers Ltd, *Committee Hansard*, 5 August 2011, pp 19 –2 0.

Tourism Whitsundays

6.67 Tourism Whitsundays voiced concern that the government's proposed carbon tax package will damage their industry through increased operating costs. Tourism Whitsundays represents the tourism industry in the Whitsundays; it is a part of the Great Barrier Reef tourism industry. The industry employs approximately 63,000 people along Queensland's east coast, making it the state's largest employer, and generates $5.8 billion in revenue.[70] Tourism Whitsundays estimates that the tourism industry provides direct employment for 3,400 people in their shire.[71]

6.68 Tourism Whitsundays' concern over increased operating costs is the result of their reliance on barges and ferries and the impact that the wind-back in the diesel fuel rebate will have for them.[72] As a result of this change to the diesel fuel rebate, one ferry company alone will face increased fuel costs of $124,000 in the first year, $255,000 in the second year and $392,000 in the third year, assuming no increase in diesel use.[73] These increased costs will be felt independent of any other costs or factors that impact their business:

> **Mr O'Reilly:** We are an unusual sector of the industry in that we are so reliant on marine and aviation tourism. Whilst it is going to have a drastic impact on tourism across Australia and make us more expensive—we have already become one of the most expensive destinations in the world—I can see nowhere where that impact is going to be more severe than on us. In [the carbon tax's] current form, I would not like you to pass it.
>
> **CHAIR:** In the current form, you would not like us to pass it. We are all in favour of doing the right thing by the environment. The question is whether what is being done is actually going to make a difference. That is the concern we have. Will most of your cost increases come when the carbon tax hits fuel? What is driving the biggest cost impacts of the carbon tax?
>
> **Mr O'Reilly:** The one that will be incredibly immediate in the marine tourism area is the marine fuel rebate. That is going to have 6.21c taken off it next year—2012-13—and then in the following year there will be an additional 6.521c off, and in the following year 6.85c. In total, 19.59c per litre will go onto their costs. These people are using about two million litres of diesel a year so at the end of that third year it is $771,000.[74]

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70 Mr Peter O'Reilly, Chief Executive Officer, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, p. 27.

71 Mr Peter O'Reilly, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, p. 27.

72 Mr Peter O'Reilly, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, p. 27.

73 Mr Peter O'Reilly, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, p. 27.

74 Senator Mathias Cormann, Chair, Senate Select Committee on the Scrutiny of New Taxes and Mr Peter O'Reilly, Chief Executive Officer, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, pp 28 – 29.

6.69 Tourism Whitsundays voiced concern that their industry is not being treated with the same level of importance as those of mining and agriculture:

> I had the pleasure of chatting with the Minister for Regional Australia, Regional Development and Local Government, Mr Crean, last week and it seemed that the impact had not been considered at all.
>
> ...
>
> The impact of climate change could be quite significant. I think the immediate impact of the proposed taxation regime will be far more swift and far more devastating.
>
> ...
>
> I am suggesting that there will not be anybody there to be inundated if we apply this tax and this town dries up and blows away. I want to make sure that we are treated equitably. I am not suggesting that we should not be taking steps for climate change. I question whether this is the correct step. Most importantly, when you are applying new taxes like this, we really demand to see tourism treated with the same respect as mining, agriculture, forestry and all of those other industries that seem to have got a pat on the head when we have been ignored.[75]

6.70 Tourism Whitsundays informed the committee that the increased operating costs that result from the imposition of a carbon tax will have a negative effect on the international competitiveness of Queensland's tourism industry; as costs increase tourists will be driven to overseas destinations.[76]

Mackay Sugar Ltd

6.71 Mackay Sugar gave evidence to the committee that their preliminary assessment of the carbon tax has identified that, in the long run, the introduction of a carbon tax will provide some opportunities, whilst in the short term, there will be some costs that cannot be passed onto customers given that a large proportion of their product is exported.[77] Mackay Sugar, a public unlisted company, is a raw sugar producer. The business employs over 800 people during the crushing season and 550 people in the non-crushing season. It supplies approximately 20 per cent of Australia's raw sugar.[78]

6.72 Mackay Sugar has been identified by government as one of the top 500 emitters; however the company has informed the committee that they are unlikely to qualify for assistance as an emissions-intensive trade-exposed industry and that as an

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75 Mr Peter O'Reilly, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, pp 28 – 29.

76 Mr Peter O'Reilly, Tourism Whitsundays, *Committee Hansard*, 5 August 2011, p. 31.

77 Mr John Hodgson, Business Development Manager, Mackay Sugar Ltd, *Committee Hansard*, 5 August 2011, p. 45.

78 Mr John Hodgson, Business Development Manager, Mackay Sugar Ltd, *Committee Hansard*, 5 August 2011, p. 45.

alternative they will be looking to determine their eligibility for assistance as a food processor.[79] The witnesses also explained their business's involvement in renewable energy:

> As a large sugar manufacturer, Mackay Sugar generates considerable quantities of renewable energy using by-products of the annual cane crop. The 20 petajoules of renewable energy produced and consumed each year in our three factories is equivalent to the energy contained in about 700,000 tonnes of coal. If Mackay Sugar derived its energy from fossil based fuels, like most businesses do, we would generate an extra 1.7 million tonnes of CO2 each year. We receive no recognition for this effective carbon abatement. However, under the proposed carbon tax Mackay Sugar will be largely exempt from direct greenhouse gas emission liabilities. Also, a carbon price will drive our business to improve overall energy efficiencies and reduce the use of supplementary coal fuel at our factories.[80]

6.73 Although Mackay Sugar will be largely exempt from a carbon tax, their liability will be $1.5 million per annum:

> **CHAIR:** And you said you were not getting any emissions-intensive trade-exposed assistance.
>
> **Mr Hodgson:** No, we do not.
>
> **CHAIR:** Why is that?
>
> **Mr Hodgson:** The definition for that is emissions per million dollars of export product.
>
> **CHAIR:** It is because your emissions are too low.
>
> **Mr Hodgson:** Yes.
>
> **CHAIR:** You are in the top 500, so you get captured by the carbon tax.
>
> **Mr Hodgson:** We do... It is a little complex on our site. The refinery is owned by a joint venture, CSR and us, or Sucrogen as they are now. We have a liability because we emit the carbon emissions from burning coal in the off-season to supply steam and electricity to the joint venture.
>
> **CHAIR:** So you are in the top 500 emitters. Are you trade exposed?
>
> **Mr Hodgson:** Yes. Our raw sugar is effectively 100 per cent trade exposed, even though only 80 per cent is exported. But even what we sell domestically is sold at world export prices.
>
> **CHAIR:** So that $1.3 million is a net cost, then?
>
> **Mr Hodgson:** It is.
>
> **CHAIR:** What does that represent as part of your margin?

79 Mr John Hodgson, Mackay Sugar Ltd, *Committee Hansard*, 5 August 2011, p. 45.

80 Mr John Hodgson, Mackay Sugar Ltd, *Committee Hansard*, 5 August 2011, p. 45.

Mr Hodgson: As part of our margin it is quite significant. As far as our total revenue goes it is about 0.3 per cent of our total annual revenue.[81]

Queensland Nickel

6.74 Queensland Nickel raised concerns that the implementation of the proposed carbon tax as it now stands will place them at a significant trade disadvantage to their overseas competitors.[82] Queensland Nickel is a 100 per cent value-add manufacturing/processing plant with a turnover of $1.1 billion per year.[83] Queensland Nickel is one of the top 500 emitters – it is number 48 on the government's list.[84] Its operations, located in Townsville, provide a large amount of private employment in North Queensland, as well as significant regional benefits through payments to government, Queensland Rail, Townsville port operation and a number of local businesses and community sponsorships:[85]

> An independent assessment of direct industrial and consumption effects, commissioned by the Townsville Enterprise group and conducted in January 2009, estimated the impact of closure of Queensland Nickel and the loss of then 750 direct jobs would result in approximately 2,396 jobs lost within the Townsville community. Since the purchase of the plant by Mr Palmer we have increased our workforce from 550 when he took over to 900 direct employees now and a further 200 contractors, resulting in a direct positive impact and no doubt a bigger financial impact if we were to change at the moment.[86]

6.75 Queensland Nickel's concern is that the clean energy bills, as they stand, will force them into a loss situation with serious impacts on their operations and the region while at the same time providing an advantage to their high emitting overseas competitors:[87]

> The policy intent is to direct assistance to Australian businesses and Queensland Nickel is the only Australian owned nickel producer. The other two are multinational companies. A single definition for nickel would grossly under compensate Queensland nickel and deliver a windfall gain to at least one of the multinationals because they would average all the emissions across them, divide them by 3 and lift one out of an area where they are not compensated.

81 Senator Mathias Cormann, Chair, Senate Select Committee on the Scrutiny of New Taxes and Mr John Hodgson, Mackay Sugar Ltd, *Committee Hansard*, 5 August 2011, p. 46.

82 Mr Trefor Flood, General Manager, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 35.

83 Mr Trefor Flood, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 35.

84 Mr Trefor Flood, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 37

85 Mr Trefor Flood, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 35.

86 Mr Trefor Flood, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 35.

87 Mr Trefor Flood, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 36.

...

> Overall Queensland Nickel has significant concerns about the clean energy future bill. The government is embarking on a massive development program and obviously manufacturing will pay for it. Regional areas, due to increased distribution costs, will be hardest hit, and we are in a regional area. Queensland Nickel's significant contribution to regional development, investment and employment is put at risk by the proposed bill, increasing the impact in the Townsville region.

...

> In short, because there is no current reduction opportunity that would enable Queensland Nickel to utilise, say, the three-for-one offer that is currently out there in the proposed clean technology program, and in the absence of a fair and equitable definition for nickel, the impact of the carbon price on the business will be serious in the short term and could be catastrophic in the long term.[88]

6.76 The witness explained that the fact that the carbon tax would result in an unlevel playing field would lead to these potentially negative outcomes.

Coal

6.77 The coal industry is the backbone of many regional towns across Australia resulting in direct and indirect employment and substantially contributing to the economic viability of the towns in the areas they have operations.

6.78 The Australian Coal Association (ACA) in its public submission to the Joint Select Committee on Australian Clean Energy Future Legislation stated that the Government’s scheme represents an $18 billion tax take from their industry in the first 10 years.[89]

6.79 In addition, the ACA has stated that the tax undermines Australia’s international competitiveness. The Government fails to accept that Australia competes on a world scale for investment in the resources sector competing against such regions as Africa and South America which have a lower tax impost compared to Australia.

6.80 The ACA has said that the impacts of the proposed scheme includes:

- a permanent reduction in margins across the commodity cycle risking premature mine closures and job losses in regional areas;

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88 Mr Trefor Flood, Queensland Nickel Pty Ltd, *Committee Hansard*, 5 August 2011, p. 36.

89 Australian Coal Association, *Submission to the Joint Select Committee on Australian Clean Energy Future Legislation*, p.2

- a competitive disadvantage relative to producers in Indonesia, Columbia, USA, Canada, Russia and South Africa and emerging competitors such as Mozambique and Mongolia;
- reduced new project investment certainty; and
- uncertainty about committing sustaining investment at existing operations; and
- impacts on project valuation and business decisions forcing companies to re-order the ranking of Australian projects in their investment pipelines.[90]

6.81 The ACA has also stated that ACIL Tasman's preliminary advice also suggests new mining development job opportunities will be reduced by 27%. This reduction also represents over $25 billion in lost revenue for Australia over the next ten years.[91]

Regional Victoria

6.82 Victoria has a population of around 5 million people, 70 per cent of whom live within the capital city, Melbourne.[92] Victoria's regional centres are all within a relatively short distance from the state's capital.[93] The regional areas of Victoria are characterised by a variety of different economic opportunities including: agriculture (dairy, beef, sheep and wool, pigs, poultry, fruit and vegetables, viticulture); commercial fishing; food processing; tourism; automotive manufacturing; aluminium smelting; tourism; timber processing and paper product manufacturing.[94]

6.83 Victorian Government modelling, conducted by Deloitte Access Economics,[95] shows that the regions experiencing the greatest negative impacts are those specialising in electricity generation or mining, oil and gas, and commercial services. The La Trobe LGA experiences the strongest negative impact on output and employment as a result of the national carbon price. This is largely due to the region's dependency on electricity generation. By 2020, output in Latrobe is set to decline by

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90 Australian Coal Association, *Submission to the Joint Select Committee on Australian Clean Energy Future Legislation*.

91 Australian Coal Association, *Submission to the Joint Select Committee on Australian Clean Energy Future Legislation*, p.3

92 http://www.liveinvictoria.vic.gov.au/living-in-victoria/melbourne-and-regional-victoria (accessed 12 September 2011).

93 http://www.liveinvictoria.vic.gov.au/living-in-victoria/melbourne-and-regional-victoria (accessed 12 September 2011).

94 http://www.liveinvictoria.vic.gov.au/living-in-victoria/melbourne-and-regional-victoria (accessed 12 September 2011).

95 Deloitte Access Economics, *Modelling the Clean Energy Future Policy*, 2011

3% and there will be an estimated drop in employment of 552 jobs relative to the reference case.

Geelong

6.84 The committee held a public hearing in Geelong to hear the views of some of these regional stakeholders.

6.85 Mr David Chaston, Managing Director of Geelong Galvanizing, and the current Vice Chairman of the Galvanizers Association of Australia, appeared before the committee. He told the committee that the industry employs over 3,000, a large proportion of which is classified as unskilled workers. In appearing before the committee, Mr Chaston voiced the concerns of the industry explaining that the introduction of a carbon tax will threaten the industry's international competitiveness:

> It goes without saying that the GAA and the industry it represents is most concerned about the implications of a carbon tax on its business, especially if such a cost burden makes it less able to compete again pre-galvanised steel imports that are not exposed to the same carbon tax costs.[96]

6.86 Mr Chaston explained that further damaging the industry's international competitiveness through the introduction of a carbon tax will have dire consequences for the Australian industry, which is becoming increasingly trade exposed:

> Such an outcome would obviously no doubt be wealth destroying to the business owners and cause massive job losses throughout the industry.[97]

6.87 Mr Chaston advised the committee that his business has estimated that the introduction of a carbon tax will have an impact of 5 per cent across all of their costs, the issue being that that increase will not be felt by their international competitors.[98]

6.88 The Geelong Chamber of Commerce, one of Australia's oldest continuing chambers with over 550 members,[99] who also appeared before the committee, raised similar concerns to Geelong Galvanizing:

> If it is a negative shared by our competitors globally, then we can live with that, but, when we see an impost applied locally and not being applied to our competitors, that disadvantages us and we are opposed to it. I think we would acknowledge that the carbon tax, relative to the high Australian dollar and relative to many other increases in prices, is just one more

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96 Mr David Chaston, General Manager, Geelong Galvanizing, *Committee Hansard*, 1 September 2011, p. 10.

97 Mr David Chaston, Geelong Galvanizing, *Committee Hansard*, 1 September 2011, p. 10. Note: Nationally, the galvanizing industry employs a workforce of over 3,000 people, a large proportion of which are unskilled.

98 Mr David Chaston, Geelong Galvanizing, *Committee Hansard*, 1 September 2011, p. 16.

99 Mr James Walsh, President, Geelong Chamber of Commerce, *Committee Hansard*, 1 September 2011, p. 31.

element. It is not decisive in itself, but it is an impost in the wrong direction.[100]

6.89 The Chamber identified that the many jobs provided to locals by the Geelong region's manufacturing base could be put at risk by the introduction of a carbon tax and outlined that they favour more of a 'carrot and less of a stick' in encouraging emissions reduction:

> The high Australian dollar is having a significantly detrimental effect on Australian manufacturers; the carbon tax is likely to exacerbate this situation. A plan that is likely to result in manufacturing jobs simply moving offshore to countries such as China, which does not have a carbon tax, makes no sense. [101]

> Over the years, as you know, there have been a lot of downturns in the manufacturing sector and Geelong has been pretty hard hit over the years. A lot of the traditional workforce–we are talking about second and third generation families–of manufacturing positions have really had their positions pretty much decimated. It has led to some fairly high unemployment in certain sectors of the community... for this sector to be hit even further is going to impact most definitely on this vulnerable sector...[102]

Committee comment

6.90 The committee considers that the evidence clearly reflects that the introduction of a carbon tax will have a disproportionate negative impact on regional Australia. Furthermore, the government has not accurately or adequately modelled the possible affects citing difficulties with modelling at a sub-state level.

6.91 The committee considers that neglecting to model the impact of such a major policy change as the introduction of a carbon tax on regional Australia is irresponsible and offensive and flies in the face of established practices by state governments.

6.92 Throughout its inquiry the committee heard the concerns of regional Australia and considers that, to date, these stakeholders, who play an important role in Australia's economy, have been overlooked. Foremost in the minds of these businesses is the concern that the impost of yet another tax will cause further erosion of their already slim profit margins, thereby putting their long term financial viability, and the jobs and livelihoods of families in regional Australia, in jeopardy.

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100 Mr James Walsh, Geelong Chamber of Commerce, *Committee Hansard*, 1 September 2011, p. 31.

101 Mr James Walsh, Geelong Chamber of Commerce, *Committee Hansard*, 1 September 2011, p. 31.

102 Ms Bernadette Uzelac, Executive Officer, Geelong Chamber of Commerce, *Committee Hansard*, 1 September 2011, p. 36.